UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

FREDERICK P. WHIDDON ADMINISTRATION BUILDING
SUITE 130, BOARD ROOM

STANDING COMMITTEES (Consecutive Meetings)

DECEMBER 3, 2015
1:30 P.M.

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE Jim Yance, Chair
Roll Call
Approve: Minutes
3 Reports: Gerber/Taylor ** Commonfund ** Douglas C. Lane and Associates ** Endowment Investment Performance
4 Recommendation to Approve: Evaluation of USA's Endowment and Non-Endowment Investment Policies
5 Report: Development and Alumni Relations

AUDIT COMMITTEE John Peek, Chair
Roll Call
Approve: Minutes
6 Report: KPMG Audit Reports, Year Ended September 30, 2015
KPMG Presentation to the Audit Committee
Basic Financial Statements and Supplementary Information
Management Letter
Communication to the Audit Committee (SAS #114 Letter)
Bond Compliance Letter
Agreed-Upon Procedures Reports - Series 1999; 2006; 2008; 2010; 2012-A and 2012-B; 2013-A, 2013-B and 2013-C; 2014-A; and 2015 Bonds
Basic Financial Statements, USA Research and Technology Corporation
7 Report: Alabama Department of Examiners of Public Accounts Compliance Report, Year Ended Sept. 30, 2014
8 Report: Independent Audit of the USA Foundation Consolidated Financial Statements and the Disproportionate Share Hospital Funds Combined Financial Statements, June 30, 2015 and 2014
9 Report: Annual Review, Internal Audit

BUDGET AND FINANCE COMMITTEE Tom Corcoran, Chair
Roll Call
Approve: Minutes
10 Report: University of South Alabama 2015 Financial Report
11 Recommendation to Approve: Directors for the USA Foundation for Research and Commercialization
12 Recommendation to Approve: Award of Construction Contract
13 Recommendation to Approve: Salary Supplement

HEALTH AFFAIRS COMMITTEE Dr. Steve Stokes, Chair
Roll Call
Approve: Minutes
14 Recommendation to Approve: USA Hospitals Credentials – August, September and October 2015
15 Report: Health Affairs

ACADEMIC AND STUDENT AFFAIRS COMMITTEE Bettye Maye, Chair
Roll Call
Approve: Minutes
16 Recommendation to Approve: Honorary Doctorate
17 Recommendation to Approve: Professors Emeritus
18 Recommendation to Approve: Sabbaticals
19 Report: Academic Affairs
20 Report: Annual Review of Research Activity
21 Report: Campus Safety

LONG-RANGE PLANNING COMMITTEE Jimmy Shumock, Chair
Roll Call
Approve: Minutes
22 Recommendation to Approve: University of South Alabama Strategic Plan, 2016-2020

BOARD OF TRUSTEES

DECEMBER 4, 2015
10:30 A.M.

Roll Call
1 Approve: Minutes
2 Report: President's Report

CONSENT AGENDA
4 Approve: Evaluation of USA's Endowment and Non-Endowment Investment Policies
11 Approve: Directors for the USA Foundation for Research and Commercialization
14 Approve: USA Hospitals Credentials – August, September and October 2015
16 Approve: Honorary Doctorate
17 Approve: Professors Emeritus
18 Approve: Sabbaticals

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE Jim Yance, Chair

AUDIT COMMITTEE John Peek, Chair

BUDGET AND FINANCE COMMITTEE Tom Corcoran, Chair
12 Approve: Award of Construction Contract
13 Approve: Salary Supplement

HEALTH AFFAIRS COMMITTEE Dr. Steve Stokes, Chair

ACADEMIC AND STUDENT AFFAIRS COMMITTEE Bettye Maye, Chair

LONG-RANGE PLANNING COMMITTEE Jimmy Shumock, Chair
22 Approve: University of South Alabama Strategic Plan, 2016-2020

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

THURSDAY, DECEMBER 3, 2015:

1:30 p.m.	*Committee Meetings (Consecutive)*	*Administration Bldg., Rm. 130*

FRIDAY, DECEMBER 4, 2015:

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

COMPENSATION COMMITTEE (*ad hoc*):

Mr. James H. Shumock, **Chair**
Mr. E. Thomas Corcoran
Dr. Steven P. Furr
Ms. Arlene Mitchell
Mr. John M. Peek

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

AGENDA

MINUTES

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

FREDERICK P. WHIDDON ADMINISTRATION BUILDING
SUITE 130, BOARD ROOM

STANDING COMMITTEES (Consecutive Meetings)

DECEMBER 3, 2015
1:30 P.M.

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE Jim Yance, Chair

Roll Call
Approve: Minutes
3 Reports: Gerber/Taylor ** Commonfund ** Douglas C. Lane and Associates ** Endowment Investment Performance
4 Recommendation to Approve: Evaluation of USA's Endowment and Non-Endowment Investment Policies
5 Report: Development and Alumni Relations

AUDIT COMMITTEE John Peek, Chair

Roll Call
Approve: Minutes
6 Report: KPMG Audit Reports, Year Ended September 30, 2015
KPMG Presentation to the Audit Committee
Basic Financial Statements and Supplementary Information
Management Letter
Communication to the Audit Committee (SAS #114 Letter)
Bond Compliance Letter
Agreed-Upon Procedures Reports - Series 1999; 2006; 2008; 2010; 2012-A and 2012-B; 2013-A, 2013-B and 2013-C; 2014-A; and 2015 Bonds
Basic Financial Statements, USA Research and Technology Corporation
7 Report: Alabama Department of Examiners of Public Accounts Compliance Report, Year Ended Sept. 30, 2014
8 Report: Independent Audit of the USA Foundation Consolidated Financial Statements and the Disproportionate Share Hospital Funds Combined Financial Statements, June 30, 2015 and 2014
9 Report: Annual Review, Internal Audit

BUDGET AND FINANCE COMMITTEE Tom Corcoran, Chair

Roll Call
Approve: Minutes
10 Report: University of South Alabama 2015 Financial Report
11 Recommendation to Approve: Directors for the USA Foundation for Research and Commercialization
12 Recommendation to Approve: Award of Construction Contract
13 Recommendation to Approve: Salary Supplement

HEALTH AFFAIRS COMMITTEE Dr. Steve Stokes, Chair

Roll Call
Approve: Minutes
14 Recommendation to Approve: USA Hospitals Credentials – August, September and October 2015
15 Report: Health Affairs

ACADEMIC AND STUDENT AFFAIRS COMMITTEE Bettye Maye, Chair

Roll Call
Approve: Minutes
16 Recommendation to Approve: Honorary Doctorate
17 Recommendation to Approve: Professors Emeritus
18 Recommendation to Approve: Sabbaticals
19 Report: Academic Affairs
20 Report: Annual Review of Research Activity
21 Report: Campus Safety

LONG-RANGE PLANNING COMMITTEE Jimmy Shumock, Chair

Roll Call
Approve: Minutes
22 Recommendation to Approve: University of South Alabama Strategic Plan, 2016-2020

BOARD OF TRUSTEES

DECEMBER 4, 2015
10:30 A.M.

Roll Call
1 Approve: Minutes
2 Report: President=s Report

CONSENT AGENDA

4 Approve: Evaluation of USA's Endowment and Non-Endowment Investment Policies
11 Approve: Directors for the USA Foundation for Research and Commercialization
14 Approve: USA Hospitals Credentials – August, September and October 2015
16 Approve: Honorary Doctorate
17 Approve: Professors Emeritus
18 Approve: Sabbaticals

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE Jim Yance, Chair

AUDIT COMMITTEE John Peek, Chair

BUDGET AND FINANCE COMMITTEE Tom Corcoran, Chair

12 Approve: Award of Construction Contract
13 Approve: Salary Supplement

HEALTH AFFAIRS COMMITTEE Dr. Steve Stokes, Chair

ACADEMIC AND STUDENT AFFAIRS COMMITTEE Bettye Maye, Chair

LONG-RANGE PLANNING COMMITTEE Jimmy Shumock, Chair

22 Approve: University of South Alabama Strategic Plan, 2016-2020

MEMORANDUM

UNIVERSITY OF SOUTH ALABAMA

November 24, 2015

TO: USA Board of Trustees

FROM: James H. Shumock
Secretary, Board of Trustees

Included herein are the unapproved minutes of the Board of Trustees and standing committee meetings held on September 3 and 4, 2015, as well as the minutes of a June 4 Long-Range Planning Committee meeting and a September 28 Executive Committee meeting. Please review these documents for amendment or approval at the December 3 and 4 meetings of the Board of Trustees.

JHS:mgc

Attachments

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

September 4, 2015
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 4, 2015, at 10:30 a.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Chandra Brown Stewart, Tom Corcoran, Steve Furr, John Peek, Jimmy Shumock, Ken Simon, Sandy Stimpson, Mike Windom and Jim Yance.
Members Absent:	Robert Bentley, Scott Charlton, Ron Jenkins, Bettye Maye, Arlene Mitchell, Bryant Mixon and Steve Stokes.
Administration and Others:	Isaiah Alton, Beth Anderson, Joe Busta, Micah Calhoun, Lynne Chronister, Reid Cummings, Monica Curtis, Brandi DePineuil, Joel Erdmann, Mike Finan, Stan Hammack, Mike Haskins, Brenda Hinson, Emily Hudson, Holly Hudson, David Johnson, Andi Kent, Don Langham, Abe Mitchell, Mike Mitchell, Randy Moon, Kit Outlaw, Patricia and Steve Picou, Ravi Rajendra (SGA), Barbara Shirvanian, John Smith, Dan Smithson, Polly Stokley, Sam Strada, Carl Thomas (AASA), Andrew Tindell, Ben Tipton, Jean Tucker, Tony Waldrop, Kevin West and Kelly Woodford (Faculty Senate).
Press:	Modupe Idowu and Stephen Smith (Local 15), and Alyssa Newton (*Vanguard*).

The meeting was called to order and the attendance roll was called. Chairman Furr called for consideration of **ITEM 1**, the minutes of the Board of Trustees meeting held on June 5, 2015. On motion by Mr. Windom, seconded by Mr. Shumock, the minutes were approved unanimously. Chairman Furr called for adoption of the revised agenda. On motion by Mr. Corcoran, seconded by Mr. Shumock, the revised agenda was adopted unanimously.

At Chairman Furr's request, Mayor Stimpson shared details on a new contract between the city of Mobile and Carnival Cruise Lines.

Chairman Furr gave background on the USA Board of Trustees Scholarship program created the previous year and recognized Mr. Jeffrey Hamilton, the inaugural recipient for 2014-2015, and his mother, Ms. Joanne Hamilton. He introduced Ms. Shirley Zhang as the Board of Trustees Scholar for 2015-2016, as well as her father, Mr. Rusheng Zhang, both of whom joined Chairman Furr and President Waldrop for the presentation of a commemorative plaque to Ms. Zhang. Ms. Zhang thanked the Board of Trustees. Mr. Hamilton and Ms. Zhang made brief comments about their academic pursuits.

Chairman Furr called for presentation of **ITEM 2**, the President's Report. President Waldrop welcomed Trustee *emeritus* Mr. Don Langham, Honorary Trustee Mr. Abe Mitchell, Faculty Senate President Dr. Kevin West, SGA President Mr. Ravi Rajendra, and African-American Student Association representative Mr. Carl Thomas. He called on Dr. Smith, who recognized new retiree Mr. Ben Tipton, who served the University for 27 years, most recently as Executive Director of the Office of Internal Audit and Chief Financial Compliance Officer (CFCO). Mr. Peek described Mr. Tipton as a consummate professional and conveyed gratitude for his service. Mr. Tipton reflected on his tenure at South Alabama and thanked the Trustees and colleagues in the room for their support. Dr. Smith introduced Ms. Polly Stokley, who will oversee audit functions on an interim basis.

President Waldrop announced the NCAA's selection of Dr. Erdmann to chair its Division I Baseball Committee for 2015-2016. Among his responsibilities will be assisting with tournament site selection and management, as well as bracket development.

President Waldrop reported that nine electrical engineering majors were selected by the Tau Beta Pi Engineering Honor Society to receive $2,000 senior scholarships.

President Waldrop called for remarks from Faculty Senate President Dr. Kevin West. Dr. West reported on expanded faculty lines. He credited the success of fall convocation activities to Drs. Nicole Carr and Krista Harrell. He discussed priorities of the Faculty Senate, which include a faculty mentoring program and opportunities to engage with the Administration. Judge Simon asked about the balance between teaching loads and research. Dr. West said faculty responsibilities are reasonable, yet unique to the academic unit. He said processes for assessment and regulation of faculty loads continue to evolve.

President Waldrop introduced Mr. Ravi Rajendra, Student Government Association (SGA) President, who attributed his involvement with USA's First Year Council in sparking his interest in SGA. He gave insight into SGA's infrastructure needs, as well as current initiatives being promoted, including *Ticket Forgiveness Day* for students in November. He addressed student attendance at football games. Mr. Peek agreed that SGA leaders should seek ways to increase student engagement. Mr. Rajendra asked the Board to pose with him for an SGA social media "selfie" snapshot.

President Waldrop recognized Dr. Kit Outlaw, USA Medical Alumni Association President.

President Waldrop discussed USA's inaugural Week of Welcome (WOW) activities in August. Graphics featuring WOW highlights were viewed. Activities included a convocation program and Move-In Day at the residence halls. He said volunteers for Move-In Day included student athletes and the marching band. He and Dr. Smith recognized Ms. Barbara Shirvanian for her many years of service in coordinating Move-In Day. President Waldrop reminded the Board that the University became a tobacco/vapor-free campus on August 1.

President Waldrop called on Provost Johnson for an update on position searches. Provost Johnson reported that Dr. Rick Talbott had agreed to continue serving as Dean of the Pat Capps Covey College of Allied Health Professions for another year while the search committee pursues candidates. He introduced Dr. Andi Kent, Interim Dean for the College of Education. He said the search to fill the Director position for the Melton Center for Entrepreneurship and Innovation in the Mitchell College of Business continues. President Waldrop said a final recommendation is expected soon from the search committee for the position of Vice President for Finance and Administration. He said Dr. Finan would chair the search committee to seek candidates for the position of Vice President for Medical Affairs/Dean of the College of Medicine. Additionally, search activities will start soon to fill the Executive Director/CFCO position in the Office of Internal Audit.

President Waldrop asked Mr. Shumock for an update on consideration of a football stadium on campus. Mr. Shumock reported that meetings with consulting firms had taken place to learn about options. He said the next step forward is to hire one of the firms to conduct a feasibility study. He said the information will be shared as developments progress.

President Waldrop called on Provost Johnson for a report on international engagement, an area the University seeks to expand as one of five institutional priorities adopted in 2014. Provost Johnson discussed a leadership trip made by the Waldrops, Lynne Chronister and himself to the Galapagos Islands in July. The purpose of the trip was to promote study abroad programs for students, as well as foster a partnership with the Galapagos Science Center and the Universidad of San Francisco de Quito to make research opportunities possible for faculty. Photos were viewed of the Galapagos wildlife known to have inspired Charles Darwin's theory of natural selection and modern evolution. Provost Johnson credited President Waldrop for the venture, noting his involvement in the development of the Galapagos Science Center during his tenure at the University of North Carolina Chapel Hill.

Provost Johnson introduced Ms. Holly Hudson, Director of International Education, and Ms. Brenda Hinson, Director of International Student Services/Admissions, describing them as individuals who have made great strides in the field international engagement abroad. Ms. Hudson presented an overview detailing goals for the Study Abroad program, which include growing the enrollment and increasing funding for the program, as well as collaborative opportunities with other universities. Charts with comparative data showed how the program has gained momentum in recent years. Ms. Hudson introduced students Mr. Isaiah Alton and Ms. Emily Hudson, and each addressed the Board about their Study Abroad experiences.

Chairman Furr called for a report from the Health Affairs Committee. [With quorum requirements not met on September 3, the Health Affairs Committee meeting was adjourned immediately following roll call.] On behalf of Dr. Stokes, Committee Chair, Ms. Brown Stewart reported that USA Health System leaders delivered informative presentations to the Trustees and guests assembled on September 3. These reports included an update from Ms. Tate on the USA Physicians Group professional office building that is under construction; a report from Ms. Anderson on a collaboration with the Mitchell College of Business to offer leadership training for Health System professionals; the introduction of Dr. Suzy Figarola, Professor and Chair of the Department of Radiology, by Dr. Strada; a report from Mr. Bailey on promotion of the unique services offered by USA Children's and Women's Hospital (CWH) via televised and social media video posts; and a report from Dr. Finan on the expansion of Mitchell Cancer Institute (MCI) services in Baldwin County and upgrades to radiation oncology services and facilities at the MCI.

Chairman Furr called for consideration of **ITEM 3** as follows. Judge Simon inquired about the credentials process. Mr. Hammack and Ms. Anderson gave assurances as to the thorough measures employed for verification of physicians and allied health professionals' credentials. On motion by Mr. Yance, seconded by Judge Simon, the resolution was approved unanimously:

RESOLUTION
USA HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS FOR MAY, JUNE AND JULY 2015

WHEREAS, the Medical Staff appointments and reappointments for May, June and July 2015 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.

Chairman Furr called for a report from the Academic and Student Affairs Committee. [With quorum requirements not met on September 3, the Academic and Student Affairs Committee meeting was adjourned immediately following roll call.] On behalf of Ms. Maye, Committee Chair, Mr. Windom said informative presentations were delivered to the Trustees and guests in attendance on September 3. These reports included a presentation by Mr. Lynch on fall enrollment records; a presentation by Dr. Nicole Carr on the services offered to students at USA's new Academic Support Center; and the introduction of Title IX Educational Specialist Ms. Courtney Diener by Dr. Harrell. Additionally on September 3, Ms. Chronister reported on Alabama Innovation Fund grant awards to Engineering faculty Drs. K. T. Hsiao and Mohammed Alam; USA's representation at the annual Farnborough Air Show in Paris; and the success of two teams of USA students representing the College of Engineering, the School of Computing and the Mitchell College of Business who placed first and second out of four teams nationwide who were invited by Airbus to participate in its *Innovation Showdown* scholarship competition.

Mr. Windom called upon Provost Johnson, who introduced Mr. Reid Cummings, Director of the University's Center for Real Estate and Economic Development. Provost Johnson shared background information on Mr. Cummings.

Provost Johnson presented **ITEM 5** as follows. On motion by Mayor Stimpson, seconded by Mr. Shumock, the resolution was approved unanimously:

RESOLUTION
PROFESSORS EMERITUS

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

ACADEMIC AFFAIRS:
Jerry Alan Bush, Ph.D., Professor of Music
Raymond Kent Clark, Ph.D., Professor of Physics
Scott L. Douglass, Ph.D., Professor of Civil Engineering
Ellwood B. Hannum, Ph.D., Professor of History and Interdisciplinary Studies
Joseph Timothy Holston, Au.D., Assistant Professor of Audiology
Michael L. Monheit, Ph.D., Associate Professor of History
Arifur Rahman, Ph.D., Professor of Electrical Engineering
Robert A. Shearer, J.D., Professor of Management
Joan Marie Sinnott, Ph.D., Associate Professor of Research in Psychology
Xin-Min Zhang, Ph.D., Professor of Mathematics

COLLEGE OF MEDICINE:
Stephen T. Ballard, Ph.D., Professor of Physiology and Cell Biology
Stephen G. Kayes, Ph.D., Professor of Medical Education
Stephen W. Schaffer, Ph.D., Professor of Pharmacology

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, the Provost and Senior Vice President for Academic Affairs, 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, Associate Professor Emeritus, or Assistant 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.

As to **ITEM 6** as follows, Provost Johnson introduced and discussed the credentials of Dr. Steven Picou, describing him as a mentor of undergraduate, graduate and doctoral students and a foremost expert on disasters, particularly those created by humans. Dr. Picou and his wife, Patricia, joined Chairman Furr and President Waldrop for the reading of the resolution by Mr. Windom. On motion by Mr. Peek, seconded by Mayor Stimpson, the resolution was approved unanimously:

RESOLUTION
DISTINGUISHED PROFESSOR

WHEREAS, the University of South Alabama seeks to honor exceptional faculty who have distinguished themselves in scholarly productivity throughout their professional careers, and

WHEREAS, Dr. J. Steven Picou is a full professor and accomplished researcher, and

WHEREAS, Dr. Picou has published over 150 peer-reviewed articles, book chapters, and research monographs in the areas of environmental sociology, disasters, applied sociology, social stratification, and social theory, and

WHEREAS, Dr. Picou has established himself, beginning with his pioneering research and original publications on the impact of the Exxon Valdez oil spill disaster in Prince William Sound, Alaska, as a world leader in the research of man-made disasters and environmental resiliency, and

WHEREAS, Dr. Picou was instrumental in securing funding for the Coastal Resource and Resiliency Center (CRRC) that was established in the aftermath of the 2010 Deepwater Horizon oil spill in the Gulf of Mexico and now serves as its director, and

WHEREAS, Dr. Picou has received over $9 million in external funding for disaster/environmental research, and

WHEREAS, Dr. Picou remains an undisputed leader in his field both nationally and internationally,

THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama recognizes Dr. J. Steven Picou for his scholarship and bestows upon him the rank of *Distinguished Professor* for the 2015-2016 academic year.

Dr. Picou presented a visual overview of his research spanning 33 years and his involvement with disaster recovery following the Exxon-Valdez oil spill in Alaska in 1989, Hurricane Katrina in 2005, and the Deepwater Horizon oil spill in 2010. He described his current work through USA's Coastal Resource & Resiliency Center to build social capital through community intervention training initiatives which focus on improving health outcomes primarily among disadvantaged and under-served populations. Dr. Picou shared words of appreciation for the individuals who have supported his life's work.

Chairman Furr called for a report from the Budget and Finance Committee. Mr. Corcoran, Committee Chair, stated that, on September 3, the Budget and Finance Committee heard presentations covering the quarterly financial statements for the nine months ended June 30, 2015, and results and recommendations relative to an information technology assessment of the main campus and USA Health System networks conducted by an independent contractor.

Mr. Corcoran stated the Committee voted unanimously to recommend approval of **ITEM 11** as follows. Chairman Furr called for a vote and the resolution was approved unanimously:

RESOLUTION
IMPLEMENTATION OF INFRASTRUCTURE UPGRADE AND IMPROVEMENT PROJECT

WHEREAS, the University of South Alabama was established in 1963, and

WHEREAS, many of the critical roofing and utility infrastructure systems, including electrical power, hot and chilled water, communication, potable water, sanitary sewer, storm drainage and natural gas are either over or approaching fifty years in age, and

WHEREAS, University administration recognized the need to ensure the campus roofing and utility infrastructure systems could appropriately support both existing needs and future growth on its main campus, and

WHEREAS, Krebs Engineering; Burns & McDonnell; Hays Cheatwood Consulting; and Goodwyn, Mills and Cawood were retained to provide engineering services related to the development of a coordinated master plan for the University's primary utility and roofing systems on the basis of their knowledge of the University's existing systems and experience in the planning and design of utility systems for other universities, and

WHEREAS, the utility systems included in the master plan were: hot and chilled water, electrical power, communications, potable water, sanitary sewer, storm drainage, natural gas and roofing, and

WHEREAS, the University's facilities staff provided these consultants copious amounts of detailed information about both the existing utility systems and anticipated future University facilities to use in the technical analysis required during the planning effort, and

WHEREAS, the University's facilities staff also responded to inquiries from the consultants and provided regular input and guidance to assure the finished master plan was consistent with the University's overall direction and purpose, and

WHEREAS, the completed plan provided the basis for the identification of improvements to each utility system required to correct existing deficiencies, as well as, utility improvements which will be necessary to support anticipated new and expanded facilities at the University's main campus, and

WHEREAS, University administration has recognized the need, both from a logistical and a financial standpoint, to develop a schedule to implement Phase I of the overall plan over a four- to five-year period in a fiscally responsible manner, and

WHEREAS, University administration has developed such a plan, Phase I, that would utilize a combination of current budgeted funding and bonded debt and would be implemented over a four- to five-year period at an estimated total cost of approximately $25 million,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees, authorizes University administration to begin Phase I of the infrastructure upgrade and improvement project to begin immediately and extend through the 2019 fiscal year. It is anticipated that Phase I of the project will be funded by a combination of approximately $5 million in budgeted funds and bonded indebtedness up to $20 million which would be formally presented to the Board for approval in September 2016.

Mr. Corcoran reported the Committee's unanimous recommendation for approval of **ITEM 12** as follows. Chairman Furr called for a vote and the resolution was approved unanimously:

RESOLUTION
ARCHITECT FOR RESIDENTIAL BUILDING

WHEREAS, the University of South Alabama has a growing enrollment, and the recruitment and retention of students as well as the quality of student life are strongly enhanced by excellent residential facilities, and

WHEREAS, the number of students seeking residence on campus has grown significantly over the past five years, and providing additional residential buildings is most beneficial at the beginning of fall semester, and

WHEREAS, the fall of 2017 is the target date for a new residential building, and

WHEREAS, it is important to continue the architectural style initiated by the design of the two previous residence halls by the firm Williams Blackstock, and there are efficiencies to be achieved in both time and costs by continuing with the same architectural firm,

THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama authorizes the President to engage the firm of Williams Blackstock to design and bid this project.

Mr. Corcoran said the Committee voted unanimously to recommend approval of **ITEM 13** as follows (for copies of policies and other authorized documents, refer to **APPENDIX A**), noting that the proposal provides for a balanced budget for 2015-2016. Chairman Furr called for a vote and the resolution was approved unanimously:

RESOLUTION
UNIVERSITY BUDGET FOR 2015-2016

BE IT RESOLVED, the University of South Alabama Board of Trustees approves the 2015–2016 University of South Alabama Budget, and

BE IT FURTHER RESOLVED, the University of South Alabama Board of Trustees approves the 2015–2016 Budget as a continuation budget for 2016–2017 in order to be in compliance with bond trust indenture requirements if the budget process cannot be completed prior to beginning the 2016–2017 fiscal year.

Chairman Furr called for a report from the Audit Committee. Mr. Peek, Committee Chair, reported that, despite the lack of a quorum on September 3, which prompted adjournment of the Audit Committee meeting, Mr. Mark Peach, KPMG partner, discussed expectations for the 2014-2015 compliance audit with the Trustees who were present.

Chairman Furr called for a report from the Development, Endowment and Investments Committee. Mr. Yance, Committee Chair, shared endowment performance results that were delivered to the Committee on September 3. He indicated that quarterly performance was positive as compared to the relative index. Fiscal year performance through June 30, 2015, was 3.42 percent versus the index of 2.89 percent, an outperformance of .53 percent. Mr. Yance said asset allocation continues to meet guideline parameters. He reported the annualized performance since inception at 5.18 percent versus the index at 4.42 percent through June 30, 2015. He reported that, amid a recent downturn, $5 million in accumulated cash had been reinvested into the endowment.

Chairman Furr called for a report from the Compensation Committee. Mr. Shumock, Committee Chair, discussed that a review of President Waldrop's performance for 2014-2015 had been conducted in recent weeks, with input solicited from a myriad of internal and external constituencies. The review was based on strides towards achieving the five institutional priorities, execution of duties as set forth by the Board of Trustees and its bylaws, and an evaluation of leadership acumen. Mr. Shumock expressed that the overwhelming consensus was that President Waldrop had consistently demonstrated abilities that meet or exceed expectations.

Chairman Furr asked President Waldrop to give details on the sports matches scheduled over the next days.

There being no further business, the meeting was adjourned at 11:59 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

COMPENSATION COMMITTEE

September 3, 2015
3:46 p.m.

A meeting of the Compensation Committee of the University of South Alabama Board of Trustees was duly convened by Mr. Jimmy Shumock, Chair, on Thursday, September 3, 2015, at 3:46 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Tom Corcoran, Steve Furr, John Peek and Jimmy Shumock.
Member Absent:	Arlene Mitchell.
Other Trustees:	Chandra Brown Stewart, Ken Simon, Sandy Stimpson, Mike Windom and Jim Yance.
Administration and Others:	Joe Busta, Lynne Chronister, Monica Curtis, Mike Finan, Happy Fulford, Stan Hammack, Mike Haskins, David Johnson, Michael Mitchell, John Smith, Sam Strada, Jean Tucker, Tony Waldrop, and Kevin West and Kelly Woodford (Faculty Senate).
Press:	Josh Harland and Lee Peck (Fox 10), Bria Johnson and Alyssa Newton (*Vanguard*) and Jason Johnson (*Lagniappe*).

The meeting came to order and Chairman Furr congratulated Mr. Shumock on the awarding of the Mobile Bay bridge contract to his company, Thompson Engineering. The roll was called and Mr. Shumock called for consideration of the revised agenda. On motion by Mr. Corcoran, seconded by Mr. Peek, the revised agenda was adopted unanimously.

Mr. Shumock reported on the evaluation of the University President, **ITEM 16**, noting it as President Waldrop's first performance review since being appointed. He gave details about the collaborative, comprehensive process employed and credited Mr. Windom for a considerable portion of the work conducted. He said the broad consensus expressed among the internal and external constituency groups was that President Waldrop met or exceeded expectations for his position. He added that the individuals consulted were appreciative of the opportunity to be involved. He said completion of the evaluation not only served to satisfy a legal requirement stipulated by the Board of Trustees' bylaws, but also would provide a mechanism to guide future evaluations. Mr. Windom agreed that everyone who participated felt President Waldrop had done an excellent job in his first year at USA's helm and he described the undertaking as worthwhile. He said the Board would conduct presidential evaluations on an annual basis. Mr. Yance thanked Messrs. Shumock and Windom for their leadership. Judge Simon observed the significance of the positive feedback collected from faculty. Dr. Furr recognized

Mr. Corcoran for establishing a framework in 2012 when he coordinated the previous presidential evaluation process.

There being no further business, the meeting was adjourned at 3:53 p.m.

Respectfully submitted:

James H. Shumock, Chair

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES MEETING

EXECUTIVE COMMITTEE

September 28, 2015
7:00 a.m.

A meeting of the Executive Committee of the University of South Alabama Board of Trustees was duly convened by Mr. Jimmy Shumock on behalf of Dr. Steve Furr, Chair *Pro Tempore,* on Monday, September 28, 2015, at 7:03 a.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Steve Furr (phone), John Peek, Jimmy Shumock and Jim Yance.
Members Absent:	Tom Corcoran, Arlene Mitchell and Ken Simon.
Administration Others:	Monica Curtis, Ken Davis, Stan Hammack, Mike Haskins, John Smith, Becky Tate, Jean Tucker (Phone), Scott Weldon and Tony Waldrop.

The meeting came to order and the attendance roll was called. Mr. Shumock called upon President Waldrop, who welcomed the group. President Waldrop asked Mr. Weldon to present the materials. Mr. Weldon gave background on the involvement of USA HealthCare Management, LLC, in the Gulf Coast Regional Care Organization (GCRCO) and he said the purpose of the meeting was to request approval to execute an irrevocable Letter of Commitment (Letter). He and Mr. Hammack talked about expectations concerning Medicaid's revision and approval of the Letter. They shared insight on the intricacies involved with RCO development, inclusive of financial implications, and they addressed questions from Committee members. Discussion took place about RCO contenders in the state. Mr. Hammack said maternity services is a component driving provider interest, a matter on which he said the University should remain neutral. Amid a thorough discussion on risk factors, loss potential, the GCRCO Board of Directors, and concerns as to Medicaid dependency, President Waldrop expressed the opinion that not moving forward may pose a greater risk for the University in the long run. Mr. Shumock called for a vote. On motion by Mr. Peek, seconded by Mr. Yance, the Committee voted unanimously to approve the following resolution:

RESOLUTION
APPROVAL OF LETTER OF COMMITMENT

WHEREAS, the University of South Alabama is the sole member of the USA HealthCare Management, LLC, and

WHEREAS, the USA HealthCare Management, LLC is the sole member of the Gulf Coast Regional Care Organization, and

WHEREAS, in April 2015, the Gulf Coast Regional Care Organization established a Medicaid Health Home program for certain Medicaid patients in southwest Alabama, and

WHEREAS, in March 2015, the University of South Alabama Board of Trustees authorized the President to transfer $2.5 million from the University of South Alabama Health system accounts to the USA HealthCare Management, LLC to meet Alabama Medicaid Agency solvency requirements, and

WHEREAS, the Gulf Coast Regional Care Organization is exploring the opportunity to be the capitated Alabama Medicaid Agency provider in the region, and

WHEREAS, the Alabama Medicaid Agency has established additional solvency requirements in order for the Gulf Coast Regional Care Organization to become the capitated Medicaid provider in the region, and

WHEREAS, the Alabama Medicaid Agency has established a deadline of October 1, 2015, for the Gulf Coast Regional Care Organization to have commitments in place that would meet Medicaid's solvency requirements,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees, authorizes the University president, who is the Manager of the USA Healthcare management LLC, or his designee, to execute an irrevocable letter of commitment from USA HealthCare Management, LLC to Gulf Coast Regional Care Organization for an amount up to $6.7 million, with the understanding that fulfilling the commitment is contingent upon the execution of a contract between the Gulf Coast Regional Care Organization and the Alabama Medicaid Agency.

There being no further business, the meeting was adjourned at 7:44 a.m.

Attest to:	Respectfully Submitted:
James A. Yance	James H. Shumock, Secretary
	On behalf of:
	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 3, 2015
3:38 p.m.

A meeting of the Development, Endowment and Investments Committee of the University of South Alabama Board of Trustees was duly convened by Mr. Jim Yance, Chair, on Thursday, September 3, 2015, at 3:38 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Tom Corcoran, Ken Simon, Mike Windom and Jim Yance.
Members Absent:	Ron Jenkins and Steve Stokes.
Other Trustees:	Chandra Brown Stewart, Steve Furr, John Peek, Sandy Stimpson, Jimmy Shumock.
Administration and Others:	Terry Albano, Joe Busta, Lynne Chronister, Monica Curtis, Mike Finan, Happy Fulford, Stan Hammack, Mike Haskins, David Johnson, Michael Mitchell, Norman Pitman, John Smith, Sam Strada, Jean Tucker, Tony Waldrop, and Kevin West and Kelly Woodford (Faculty Senate).
Press:	Josh Harland and Lee Peck (Fox 10), Bria Johnson and Alyssa Newton (*Vanguard*) and Jason Johnson (*Lagniappe*).

The meeting came to order and the attendance roll was called. Mr. Yance called for adoption of the revised agenda. On motion by Mr. Windom, seconded by Mr. Corcoran, the revised agenda was unanimously adopted. Mr. Yance called for consideration of the minutes of the meeting held on June 4, 2015. On motion by Mr. Corcoran, seconded by Mr. Windom, the minutes were approved unanimously.

Mr. Yance introduced **ITEM 15**, a report on the performance of the University endowment. He said a recent decline in the stock market presented a window for considering the addition of cash to the portfolio. Mr. Albano agreed that the time was right to reinvest a portion of the $10 million that was held aside previously when the market was at an all-time high. He presented a graphic overview of performance highlights, noting a 3.42 gain on investments for the period October 1, 2014, to June 30, 2015, a .53 percent outperformance of the relative index which yielded a 2.89 percent return. Mr. Pitman shared insight on manager underperformance and hedge projections, and Mr. Albano addressed asset distribution, noting that allocations are within the boundaries prescribed by endowment investment guidelines. As to the annualized performance since inception, Mr. Albano stated that the endowment outperformed the relative index by 76 basis points and ended with a $140.8 million balance at the close of June 2015. He added that the Administration would continue to look for opportunities in the market and suggested that the Committee could discuss ways to use the remaining endowment cash that is not currently invested. Chairman Furr asked for a prediction on fuel prices. Mr. Pitman said indications are that the cost of fuel may continue to be low for a good while. Mr. Yance stated that endowment managers would meet with the Committee in December for annual reports.

There being no further business, the meeting was adjourned at 3:46 p.m.

Respectfully submitted:

James A. Yance, Chair

GERBER TAYLOR

University of South Alabama

December 3, 2015

Matthew K. Kinnear, CFA

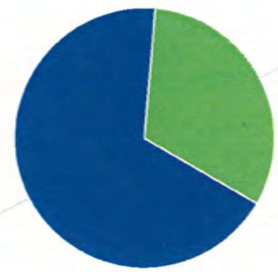
Important Disclosures

- *<u>Confidentiality</u>. 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.*
- *<u>No Obligation to Update</u>. 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.*
- *<u>Limitations on Use of Information</u>. 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.*
- *<u>No Offering of Securities, Including Fund Investments</u>. 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.*
- *<u>Risk of Investing in the Funds</u>. 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.*
- *<u>Performance Net of Fees and Expenses</u>. 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.***
- *<u>Reference to Indices</u>. 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.*
- *<u>Information from Outside Sources</u>. 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

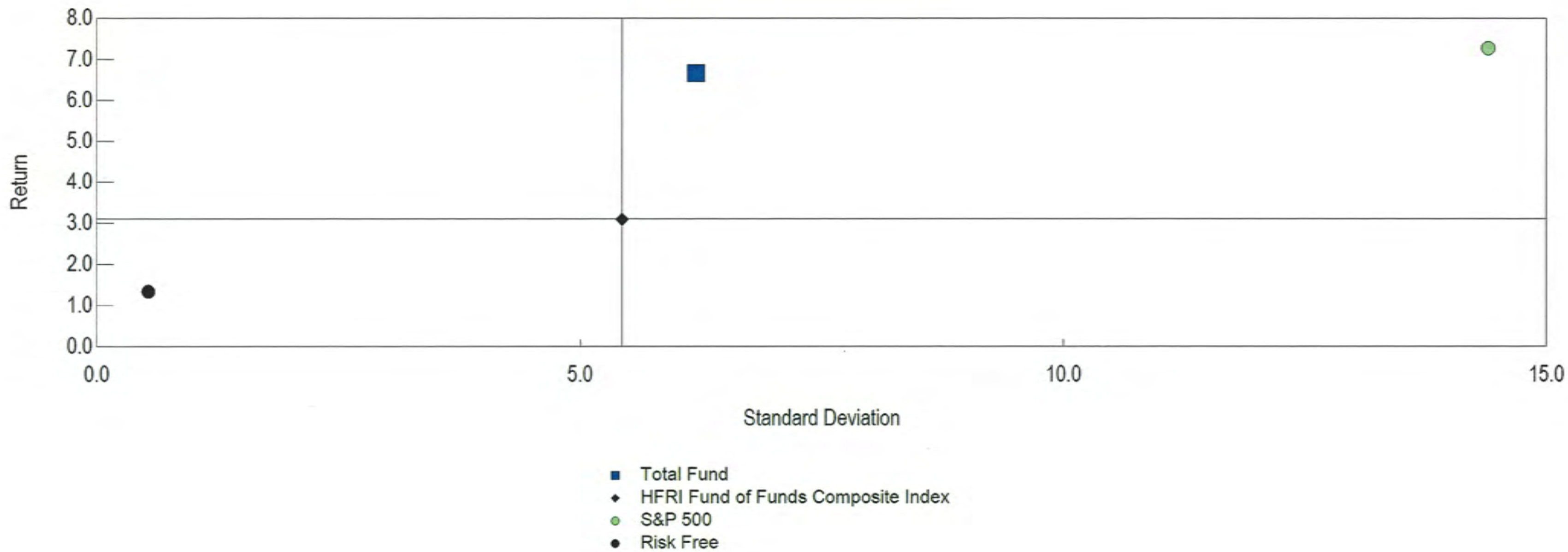
Sources of Portfolio Growth	Third Quarter	Year-To-Date	Inception 9/30/04
Beginning Market Value	$22,913,921	$22,297,196	--
Net Additions/Withdrawals	$0	$0	$15,548,000
Investment Earnings	-$718,347	-$101,622	$6,647,574
Ending Market Value	$22,195,574	$22,195,574	$22,195,574

Current Allocation



	Market Value	% of Portfolio	2015 Q3	YTD	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Return	Since
Total Fund	**$22,195,574**	**100.0%**	**-3.1%**	**-0.5%**	**1.2%**	**7.0%**	**6.4%**	**6.4%**	**6.3%**	**6.7%**	**Sep-04**
HFRI Fund of Funds Composite Index			*-3.7%*	*-1.1%*	*-0.1%*	*4.1%*	*2.7%*	*2.2%*	*2.4%*	*3.1%*	*Sep-04*
S&P 500			*-6.4%*	*-5.3%*	*-0.6%*	*12.4%*	*13.3%*	*9.8%*	*6.8%*	*7.3%*	*Sep-04*
GT Offshore A (GTP)	$15,089,695	68.0%	-2.0%	0.6%	1.8%	7.4%	7.0%	7.0%	6.7%	7.1%	Sep-04
HFRI FOF: Conservative Index			*-1.8%*	*0.3%*	*0.6%*	*4.2%*	*2.8%*	*1.9%*	*2.1%*	*2.6%*	*Sep-04*
GT Offshore B (GTGH)	$7,105,879	32.0%	-5.4%	-2.7%	0.0%	6.1%	4.9%	--	--	5.2%	Nov-09
MSCI World Gross			*-8.3%*	*-5.6%*	*-4.6%*	*9.2%*	*8.9%*	*7.1%*	*5.3%*	*8.5%*	*Nov-09*
HFRI FOF: Strategic Index			*-6.1%*	*-2.5%*	*-1.6%*	*4.1%*	*2.6%*	*2.3%*	*2.4%*	*2.7%*	*Nov-09*

Return vs. Standard Deviation
11 Years Ending September 30, 2015



	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	6.67%	103.46%	6.19%	3.60%	0.99	0.75	0.86	121.99%	74.42%
HFRI Fund of Funds Composite Index	3.10%	39.92%	5.43%	0.00%	1.00	1.00	0.32	100.00%	100.00%
S&P 500	7.28%	116.70%	14.40%	1.49%	1.87	0.50	0.41	224.30%	181.58%

Firm Overview

- Founded in 1990
- $5.3 billion in assets under management
- Client base of families and small-mid sized endowments and foundations
- Employee owned
- SEC Registered Investment Adviser

Gerber Taylor Team

Portfolio Management & Research	
Charles Gerber* [25]	Jason Gowen* [20]
Mike Douglass* [21]	Tara Elliott* [7]
Bill Ryan* [13]	Sean Montesi [5]
Kojo McLennon* [7]	Leo Corrigan [3]
Allen Hawley* [15]	Will Estes [2]
Alex Moore* [5]	

Client Service	
Andy Taylor* [25]	Bart Reid [14]
Bill Pickens* [25]	Wallace Johnson [6]
Matt Robbins* [21]	Matt Kinnear [5]
Beasley Wellford [21]	Lisa Mallory [4]
Warren Milnor [16]	

Due Diligence
David East* [17]
Ryan Gibbs [3]
Justin Rikard [2]
Ashlee Reid [4]
Marie McPherson [9]
Sara Kathryn Pace [7]

Client Analytics
Glynn Dean [20]
Mark Hicks [18]
Linda Cox [17]
Stacy Miller [14]
Sarah Thomas [11]
Steven Francomacaro [1]

Accounting & Operations
Mary Cornpropst* [16]
Simone Meeks* [13]
Scott Kay [1]
Erica Woodard [10]
Vivian Jones [14]
Janice Kruger [9]
Kristi Hicks [1]
Dana Czech [1]

Administrative
Gay Marbry [20]
Clarice Rowlett [20]
Connie Meyer [1]
Sara Negri-Whitmer [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	25	30
Mike Douglass	21	21
Allen Hawley	15	18
Alex Moore	5	15
David East	17	17

GERBER TAYLOR

GT Partners
(GT Offshore A)

Multi-Strategy Hedge

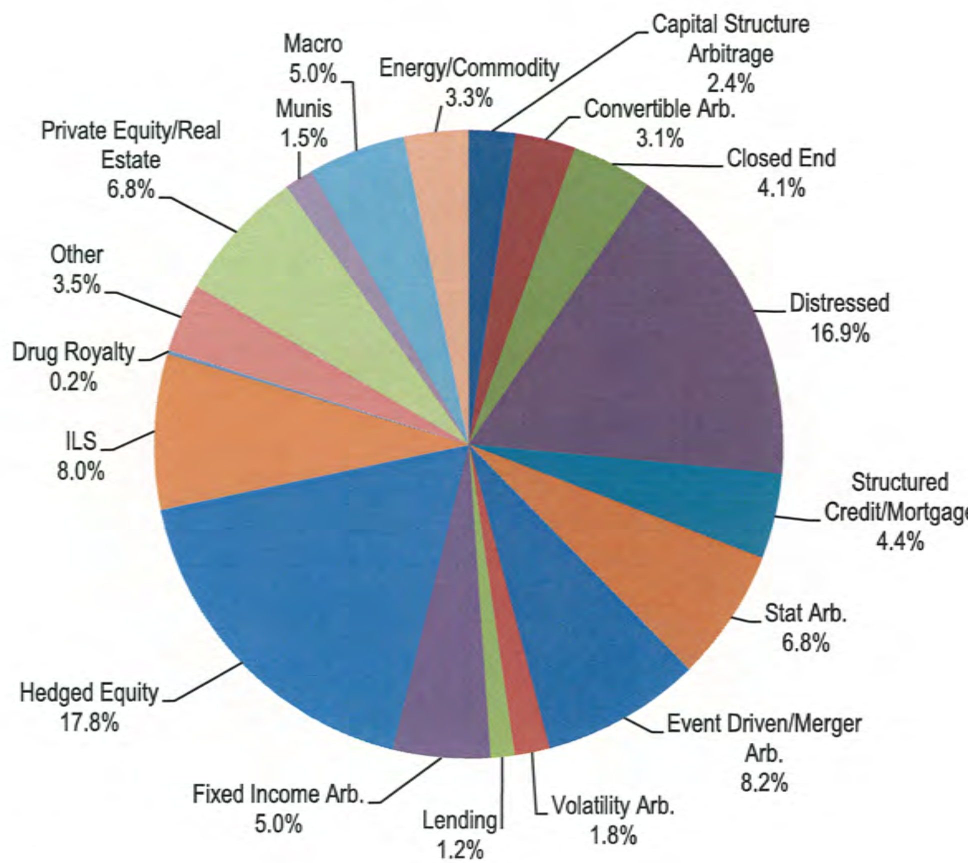
GT Partners: Overview

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

Strategy and Attributes:

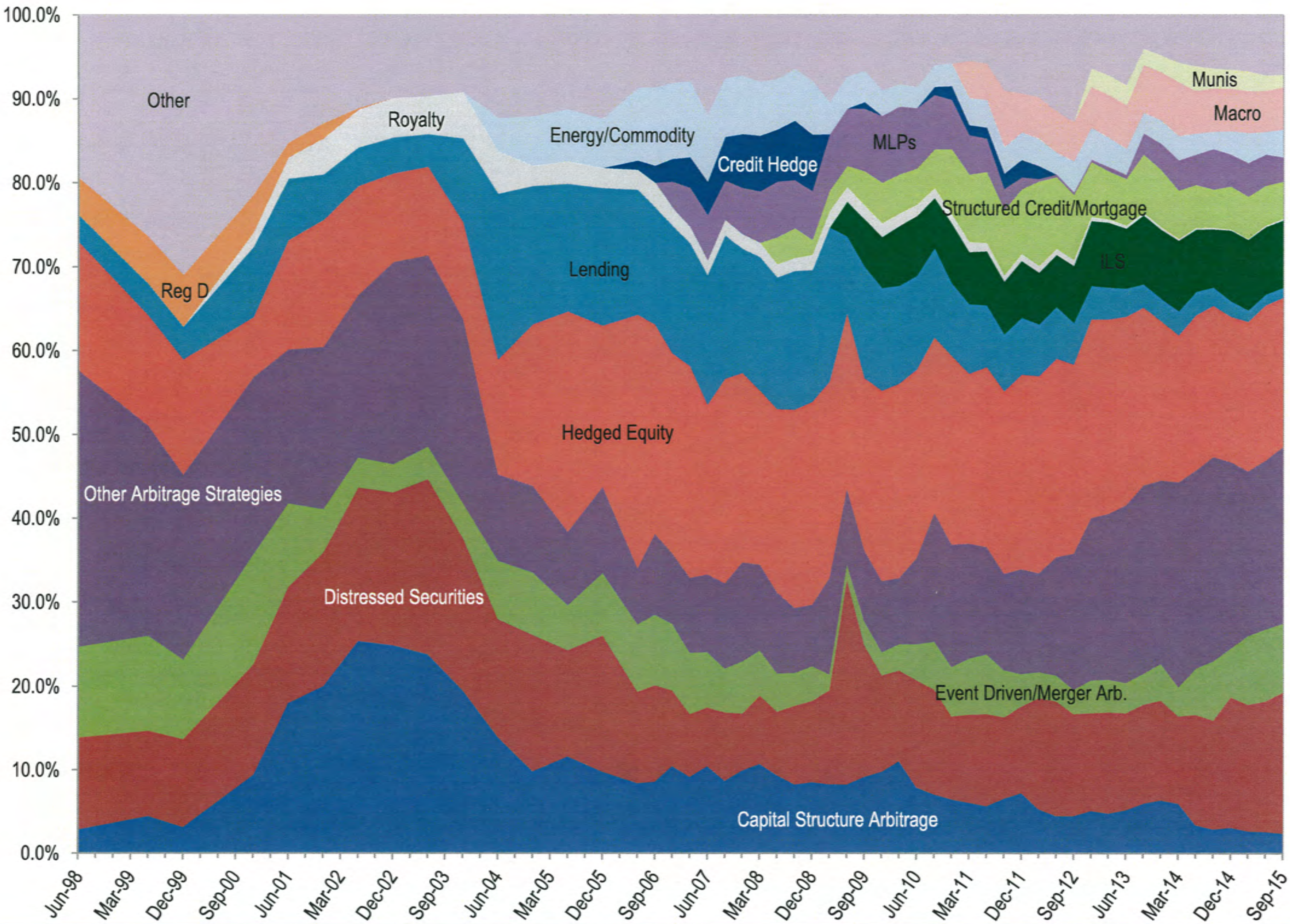
- Invested with an eclectic mix of managers who are oriented toward achieving consistent, absolute rates of return with minimal market exposure and low levels of leverage
- **Strategy includes:**
  - Multi-strategy Arbitrage
    - Convertible Bond
    - Fixed Income
    - Statistical
    - Closed-end Fund
    - Merger
  - Capital Structure
  - Distressed Debt
  - Long/Short Equity
  - Niche Financing
- Assets of approximately $1.7 billion
- Offshore fund available
- In 236 of the 297 months since inception, GT Partners has had positive returns (79%).

Fund Allocation as of 9/30/15*



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

GT Partners: Historical Strategy Allocation



GT Partners: Fund Allocation

	STRATEGY	ALLOCATION	CLOSED	DISCOUNTED FEE
1	Multi-Strategy	8.5%	x	
2	Multi-Strategy	7.9%	x	
3	Multi-Strategy	5.8%		
4	Multi-Strategy	5.6%		
5	Multi-Strategy	4.8%		
6	Insurance Linked Securities	4.8%	x	
7	Event Driven	4.7%	x	
8	Multi-Strategy	4.5%		
9	Global Long/Short	4.2%	x	
10	Multi-Strategy	3.0%	x	x
11	Multi-Strategy	2.8%	x	
12	Multi-Strategy	2.6%		
13	Macro	2.6%		
14	Event Driven	2.6%		
15	Distressed	2.5%	x	
16	Global Long/Short	2.5%		
17	Closed End Funds	2.4%		
18	Macro	2.4%	x	
19	Multi-Strategy	2.3%	x	
20	Insurance Linked Securities	1.8%		

FUND DIVERSIFICATION
The five largest funds represent 33% of assets, the top ten funds represent 54% of assets and the top 20 funds represent 78% of assets.

GERBER TAYLOR

GT Global Hedge
(GT Offshore B)

Hedged Equity

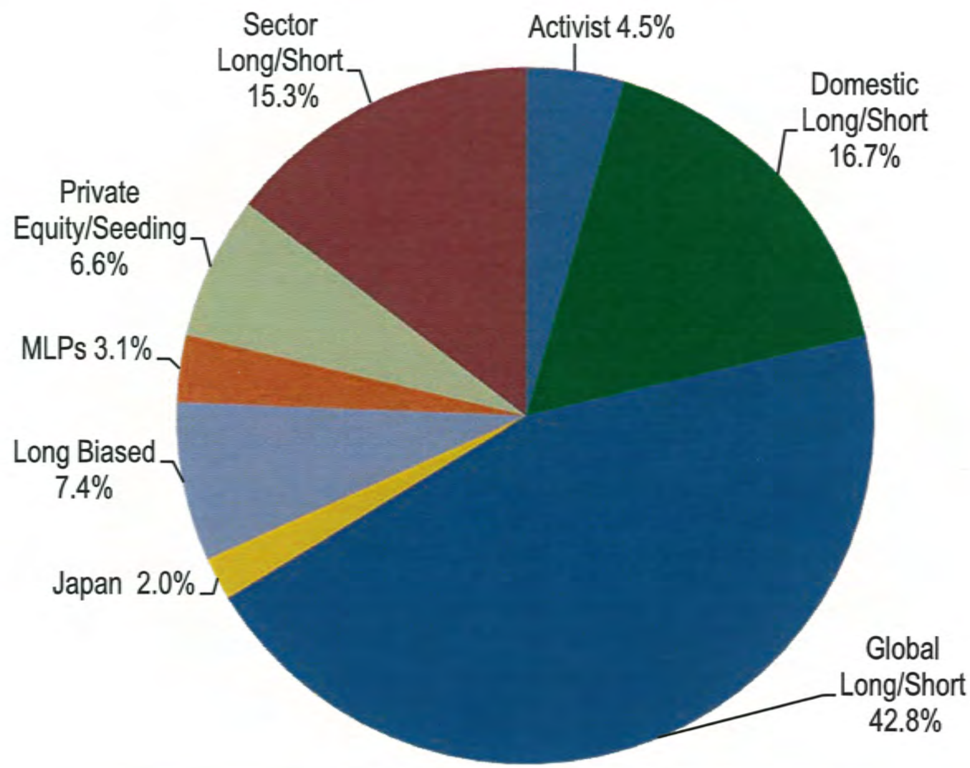
GT Global Hedge: Overview

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

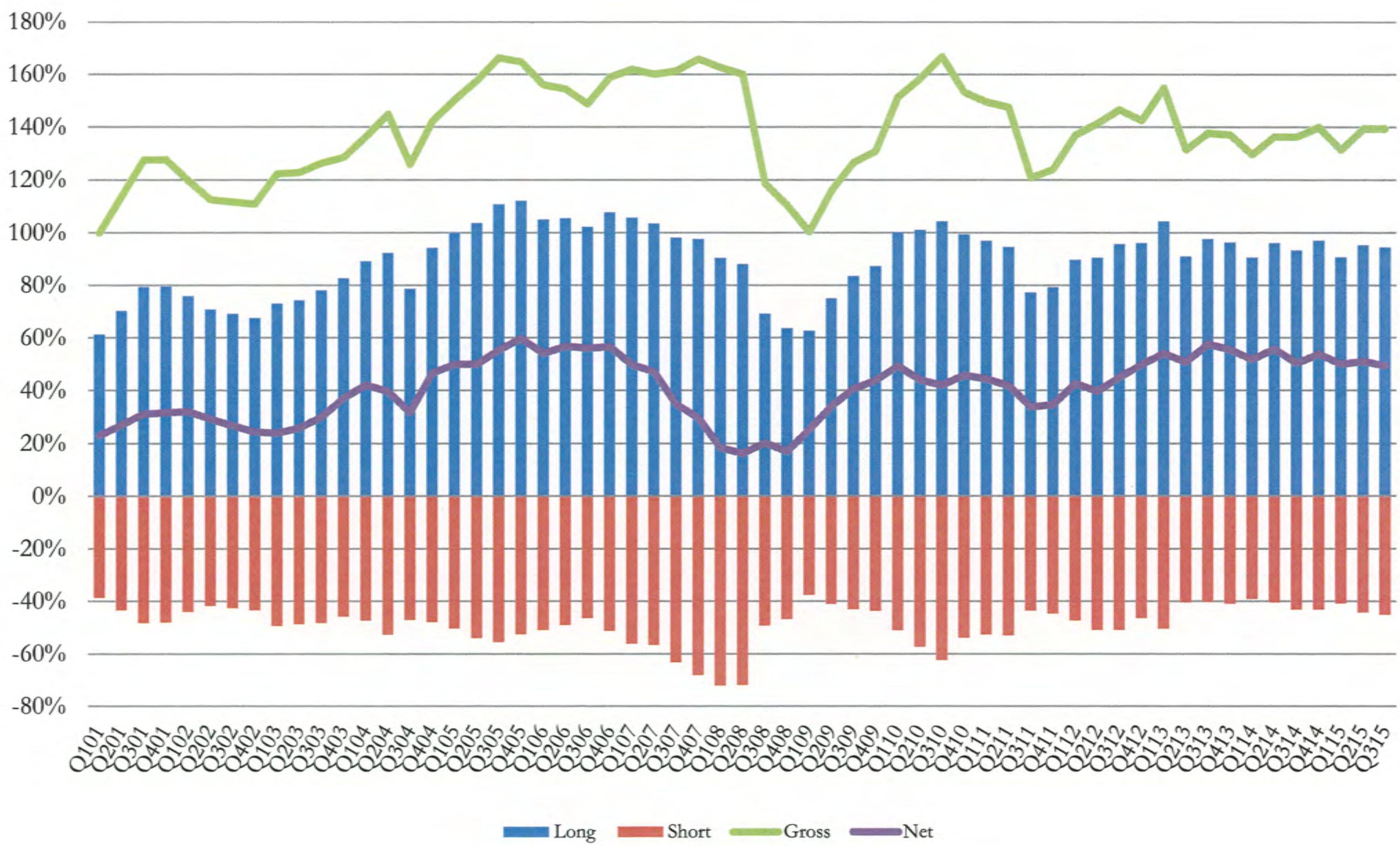
Strategy and Attributes:

- 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 9/30/15



GT Global Hedge: Historical Exposures



GT Global Hedge: Fund Allocation

	STRATEGY	ALLOCATION	CLOSED	DISCOUNTED FEE
1	Global Long/Short	7.5%	x	
2	Sector Long/Short	5.5%		x
3	Global Long/Short	5.4%		x
4	Global Long/Short	5.1%	x	
5	Global Long/Short	4.8%	x	
6	Activist	4.5%	x	
7	Domestic Long/Short	4.5%	x	x
8	Global Long/Short	4.1%	x	
9	Long Biased	3.9%		
10	Global Long/Short	3.7%	x	
11	Domestic Long/Short	3.6%		
12	Domestic Long/Short	3.5%		x
13	Global Long/Short	3.4%		
14	Domestic Long/Short	3.2%	x	x
15	Seeding	3.1%	x	
16	Sector Long/Short	2.7%	x	x
17	Global Long/Short	2.7%		x
18	Global Long/Short	2.6%		
19	Global Long/Short	2.6%		
20	Sector Long/Short	2.4%		

FUND DIVERSIFICATION
The five largest funds represent 28% of assets, the top ten funds represent 49% of assets and the top 20 funds represent 79% of assets.

Terms and Fees

Fund	Eligible Investors: Individuals, Family Trusts, IRAs	Eligible Investors: 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
GT Partners	1% of capital	1% of profits with highwater mark
GT Global Hedge	1% of capital	1% of profits with highwater mark

University of South Alabama

Portfolio Review

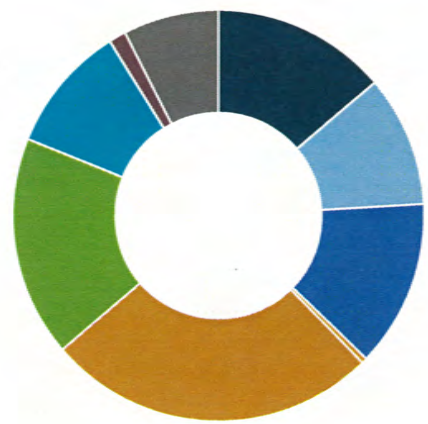
commonfund

Commonfund Profile

September 30, 2015

- $25.1 Billion[1] in assets under management
- Over 1,350 clients
- Our only business is investment management
- Comprehensive and customized investment solutions
- Deep resources
- Global reach

Distribution of assets by asset category[2]



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.

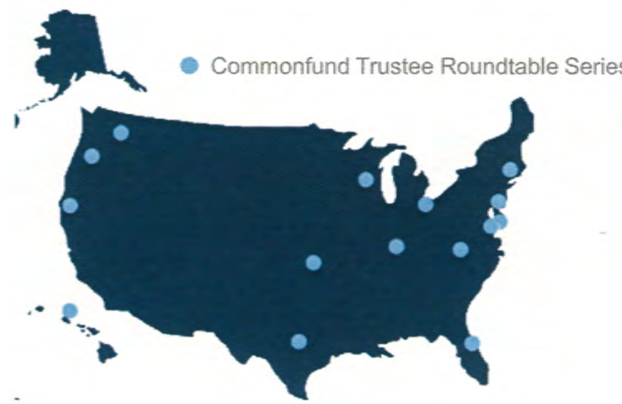
Education and Best Practices

A Commitment to Professional Development and the Sharing of Best Practices

- Commonfund Benchmarks Study® Series
- NACUBO–Commonfund Study of Endowments®
- Endowment Institute
- Regional Roundtables
- Publications and White Papers
- Treasury Institute for Higher Education
- Higher Education Price Index (HEPI)
- Commonfund Xchange Teleconferences

Highly Rated Educational Programs

- Commonfund Forum – Rated 4.4 on 5.0 point scale by attendees
- Endowment Institute – 4.6 on 5.0 point scale by participants
- Annual Client Satisfaction Survey – Clients consistently rate Commonfund as an important educational resource.



Commonfund's Investment Management Group
September 30, 2015

Catherine M. Keating
President
Chief Executive Officer
Commonfund

Investment Teams
- 72-person investment team*
- Strategy development
- Portfolio construction
- Research & due diligence
- Execution and manager selection
- Portfolio monitoring and rebalancing

Global Reach
- Active in all segments of capital markets globally
- On the ground presence through sub-advisors in more than 30 countries
- 36 investment programs selection

A. Nicholas De Monico
Interim Chief Investment Officer
Commonfund

Michael Strauss
Chief Economist
and Chief Investment Strategist

- Investment Solutions
- Equities
- Fixed Income & Commodities
- Real Estate

Donald T. Pascal
Chief Executive Officer of
Commonfund Capital, Inc.

Peter Burns**
President of
Commonfund Capital, Inc.

- Private Equity, Venture Capital & Natural Resources

A. Nicholas De Monico
Chief Executive Officer,
Head of Hedge Fund Investments,
Commonfund Hedge Fund Strategies Group

- Hedge Fund Strategies

Support Resources
- Client Service
- Accounting, Operations and Technology
- Risk Management
- Legal & Compliance

*Includes open positions
** As of October 13, 2015

Portfolio Positioning

Commonfund Outlook for Fiscal Year 2015 | 3Q Update

Equity Strategies

- ▲ We continue to favor an overweight to equities;
- ▲ Within equities, we continue to be overweight Japan;
- ▼ We were underweight Europe, but with Greek resolution, moving back to neutral.
- ■ Moving to reduce overweight to U.S.
- ▼ Still slightly underweight to emerging markets with an emphasis on non-resource/ commodity driven opportunities.

Fixed Income Strategies

- ▼ We continue to favor an underweight to fixed income;
- ▼ We are generally underweight duration in our fixed income funds.

Real Assets Strategies

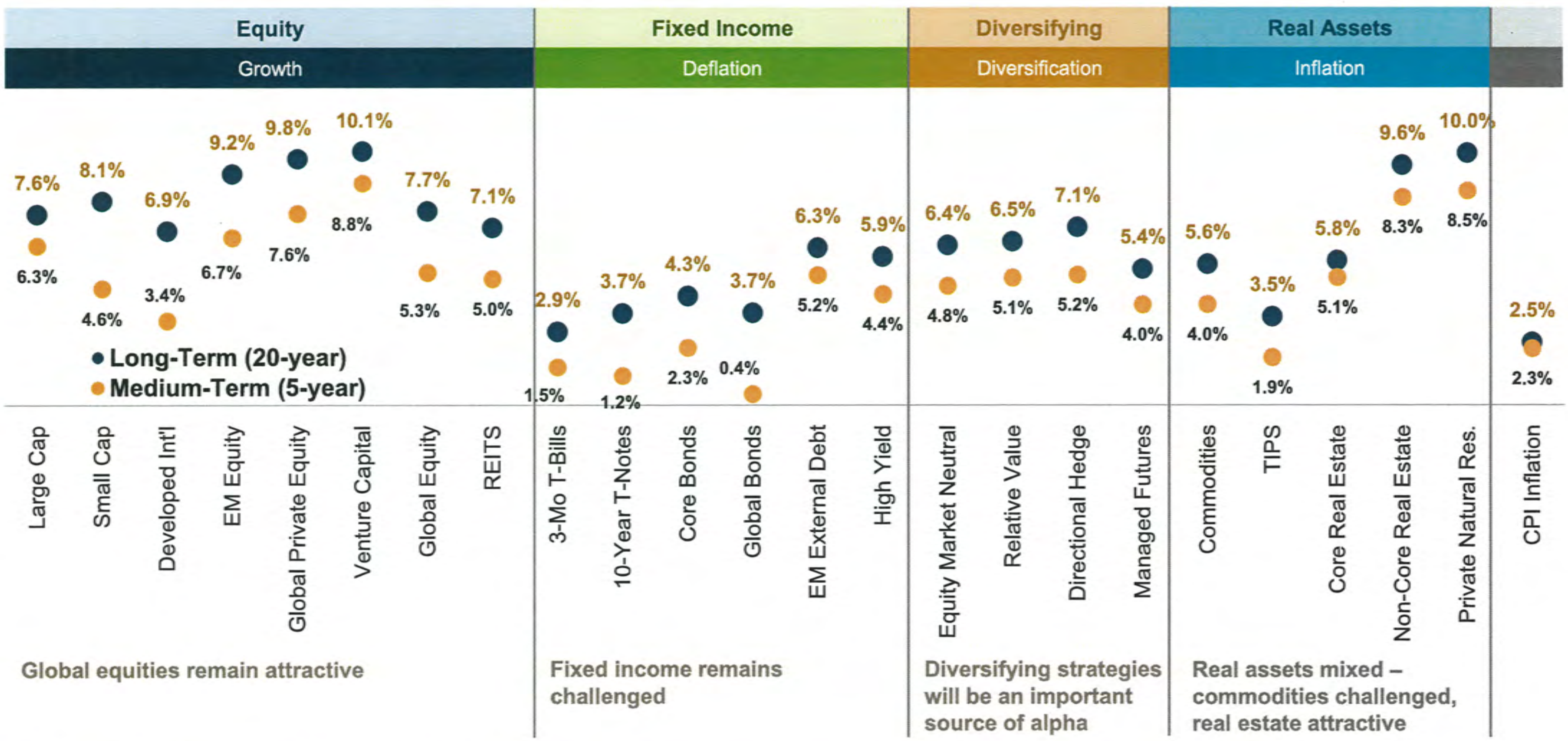
- ▼ We still favor an underweight to commodities.

We expect continued spikes in volatility as the world adjusts to price regime and Central Bank Policy divergence. Active management should be favored in these valuation and regime shifts.

See Important Notes | Market Commentary

Commonfund Long- and Medium-Term Return Forecasts

Investment Strategies | Commonfund Point-of-View



Long-Term (20 Years) / Policy and Medium-Term (5-Year) / Cyclical – estimates based upon historical returns, the academic literature, current valuations, the expected future equilibrium macroeconomic environment and expected active management excess return.
See "Explanatory Notes Regarding the Long-Medium Term Return/Risk Forecast" and "Important Notes – Market Commentary". These forecasts represent Commonfund Asset Management Company's long-term views with respect to the stated asset classes. There can be no assurance that these forecasts will be accurate. These forecasts do not represent the actual returns earned by any investor or investment fund or product, nor do they constitute a recommendation of any investment fund or product. Forecasts are as of January 2015 and runs through end of 2019. (As of March 2015)

Multi-Strategy Equity Fund | Objective and Strategy

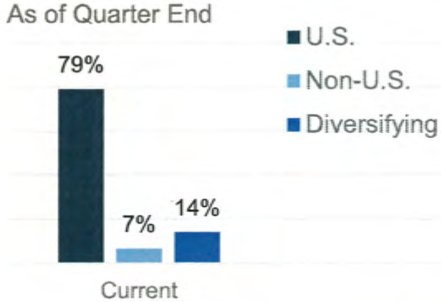
September 30, 2015

OBJECTIVE

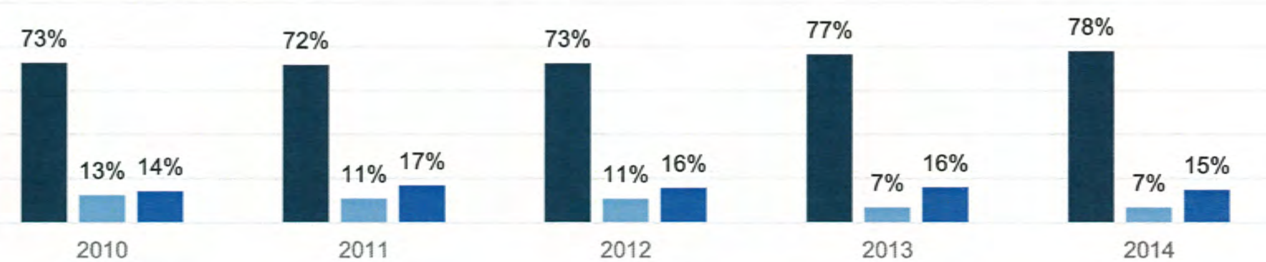
To offer an actively managed, multi-manager investment program that will provide broad exposure to global equity markets. The fund seeks to add value net of fees above the return of the U.S. equity market, as measured by the S&P 500 Index, over a full market cycle. The fund's risk characteristics will vary from those of the S&P 500 due to its diversified exposures to equity markets outside of that index, including non-U.S. equity markets and to certain marketable alternative strategies. A separate composite benchmark consists of typical allocations to these strategies that we believe provides greater insight on nearer term performance drivers and fund characteristics. It also provides an appropriate framework to understand the impact of allocation changes over time. The weights reflected in the composite represent our expectations for long run, average exposures to the strategies.

BENCHMARKS	MSE Funds Composite Benchmark[1] S&P 500 Index
INCEPTION	July 1971
ASSETS MANAGED	$1,838 Million
INVESTMENT VEHICLE	Commingled Fund
ELIGIBLE INVESTORS	Educational Institutions
MINIMUM INVESTMENT	$50,000

Manager Allocations[2]
As of Quarter End



Historical Allocations[2]
As of calendar year end



1. The MSE Funds Composite Benchmark consists of the following components: U.S. | S&P 500 (75%), Non-U.S. | MSCI All Country World ex USA Index Net (15%), and Diversifying | HFRI Fund of Funds Composite Index (10%). The monthly return used for the HFRI Composite FOF Index, a component of the Composite Benchmark, is the Flash Update return that is published by HFRI by the 5th business day of the following month. HFRI reserves the right to adjust the monthly return of the HFRI index up to four months after the month end performance date. Monthly returns for the Composite Benchmark may be retroactively restated based on later adjustments to the HFRI index. See Important Notes regarding limitations of indices.
2. May not add to 100 percent due to rounding.

Multi-Strategy Equity Fund | Attribution Analysis
September 30, 2015

Attribution Analysis
Numbers in percent

Strategies[1]	QTD	FYTD	CYTD	1 Year	3 Years	5 Years	10 Years
U.S.	-8.73	-8.73	-7.29	-3.42	13.40	12.94	7.53
S&P 500	-6.44	-6.44	-5.29	-0.61	12.40	13.34	6.80
Non-U.S.	-6.13	-6.13	-1.33	-2.60	6.92	5.25	5.52
MSCI ACWI ex-U.S.	-12.17	-12.17	-8.63	-12.16	2.34	1.82	3.03
Diversifying	-2.36	-2.36	0.20	1.95	6.85	4.41	4.77
HFRI FoF Composite Index	-3.28	-3.28	-0.67	0.27	4.25	2.74	2.44
MSEF Total (Net)	**-7.98**	**-7.98**	**-6.38**	**-3.18**	**11.32**	**10.32**	**6.39**
Composite Benchmark[2]	-7.00	-7.00	-5.29	-2.28	10.07	10.53	5.91
S&P 500	-6.44	-6.44	-5.29	-0.61	12.40	13.34	6.80

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.
1. Strategies reflect adjusted gross returns before participant fees.
2. See Important Notes for a description of the MSE Funds Composite Benchmark

Multi-Strategy Equity Fund | Managers

September 30, 2015[1]

	U.S.	Non-U.S.	Diversifying
Adage Capital Management	■		
Aronson, Johnson & Ortiz	■		
Global Absolute Alpha: Relative Value/Event Driven Strategy Managers[2]			■
Global Hedged Partners: US, European and Asian Hedged Equity Managers and Event Driven, Diversifying Strategy Managers[2]			■
Harris Associates	■		
Hedge: Hedged Equity, Global Macro and Diversifying Strategy Managers[2]			■
JP Morgan Asset Management		■	
Lazard Asset Management Company LLC		■	
Jackson Square Partners	■		
Levin Capital Strategies	■		
Martingale Asset Management	■		
Somerset Capital Management		■	
Southeastern Asset Management	■		
Steinberg Asset Management	■		
Symphony Financial Partners		■	
Wellington Management Company	■		

1. 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.
2. Direct investments limited to qualified institutional investors pursuant to Confidential Offering Memorandum.

Multi-Strategy Bond Fund | Objective and Strategy

September 30, 2015

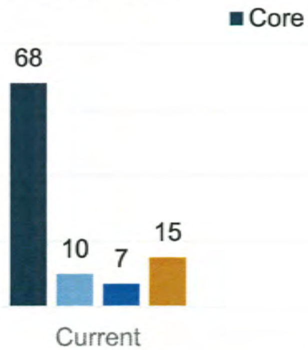
OBJECTIVE

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	$1,024 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

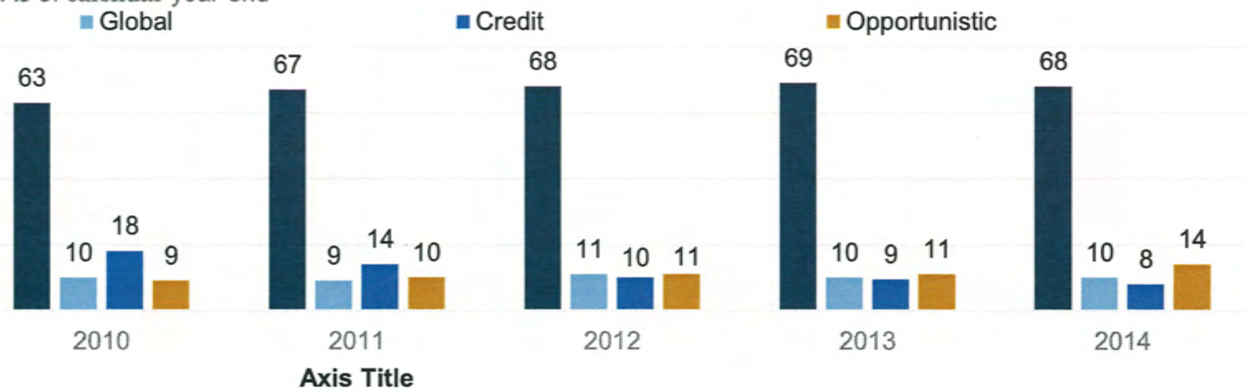
Actual Weights

Numbers in percent



Historical Allocations*

As of calendar year end



* May not add to 100% due to rounding.

Multi-Strategy Bond Fund | Attribution Analysis

September 30, 2015

Strategies*	QTD	FYTD	CYTD	1 Year	3 Years	5 Years	10 Years
Global	-4.4%	-4.4%	-6.9%	-7.6%	-0.4%	3.7%	6.3%
Core	0.8%	0.8%	1.3%	2.8%	2.7%	4.4%	5.4%
Credit	-1.2%	-1.2%	3.3%	5.7%	11.3%	9.4%	7.6%
Opportunistic	0.6%	0.6%	1.0%	1.2%	0.8%	3.1%	6.5%
MSBF Total (Net)	**0.0%**	**0.0%**	**0.3%**	**1.4%**	**2.4%**	**4.1%**	**5.2%**
Barclays U.S. Aggregate Bond Index	1.2%	1.2%	1.1%	2.9%	1.7%	3.1%	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 | Managers
September 30, 2015

	Core	Global	Credit	Opportunistic
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)			■	
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.

commonfund

Total Portfolio Market Value as of 10/31/2015

Investment Category	Adjusted Market Value	Allocation %
Portfolio Total Equity	$40,778,571.54	54.70%
Portfolio Total Fixed	$33,770,582.85	45.30%
Portfolio Total	**$74,549,154.39**	**100.00%**

Marketable Investments 9/30/2015 to 10/31/2015

Marketable Fund	Beginning Market Value	Purchases	Sales	Fees	Income Paid	Income Reinvested	Market Change	Ending Market Value
Multi-Strategy Equity Fund	$38,078,005.93	$0.00	$0.00	($6,822.52)	$0.00	$0.00	$2,707,388.13	$40,778,571.54
Total Equity	**$38,078,005.93**	**$0.00**	**$0.00**	**($6,822.52)**	**$0.00**	**$0.00**	**$2,707,388.13**	**$40,778,571.54**
Multi-Strategy Bond Fund	$33,614,158.13	$0.00	$0.00	($3,908.21)	$0.00	$0.00	$160,332.93	$33,770,582.85
Total Fixed	**$33,614,158.13**	**$0.00**	**$0.00**	**($3,908.21)**	**$0.00**	**$0.00**	**$160,332.93**	**$33,770,582.85**
Marketable Total	**$71,692,164.06**	**$0.00**	**$0.00**	**($10,730.73)**	**$0.00**	**$0.00**	**$2,867,721.06**	**$74,549,154.39**

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.

Important Notes

MSE Funds Composite Benchmark and Index Descriptions

MSE FUNDS COMPOSITE BENCHMARK

The MSE Funds Composite Benchmark consists of the following components: S&P 500 (75%), MSCI All Country World Index ex USA Net (15%), and HFRI Fund of Funds Composite Index (10%). For periods prior to January 1, 2001, the MSCI All Country World ex USA Index reflects dividends gross of withholding tax in the calculation of returns. The monthly return used for the HFRI Composite FOF Index, a component of the MSE Funds Composite Benchmark, is the Flash Update return that is published by HFRI by the 5th business day of the following month. HFRI reserves the right to adjust the monthly return of the HFRI index up to four months after the month end performance date. Monthly returns for the MSE Funds Composite Benchmark may be retroactively restated based on later adjustments to the HFRI index. See Important Notes regarding limitations of indices.

DESCRIPTION OF INDICES

HFRI Monthly Indices (HFRI) The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into 4 main strategies, each with multiple sub-strategies. All single-manager HFRI Index constituents are included in the HFRI Fund Weighted Composite, which accounts for over 2000 funds listed on the internal HFR Database. Due to mutual agreements with the hedge fund managers listed in the HFR Database, we are not at liberty to disclose the particular funds behind any index to non-database subscribers. Funds included in the HFRI Monthly Indices must: Report monthly returns, Report Net of All Fees Returns, Report assets in USD, Have at least $50 Million under management or have been actively trading for at least twelve (12) months. Funds are eligible for inclusion in the HFRI the month after their addition to HFR Database. For instance, a fund that is added to HFR Database in June is eligible for inclusion in the indices upon reporting their July performance. The HFRI are updated three times a month: Flash Update (5th business day of the month), Mid Update (15th of the month), and End Update (1st business day of following month). The current month and the prior three months are left as estimates and are subject to change. All performance prior to that is locked and is no longer subject to change. If a fund liquidates/closes, that fund's performance will be included in the HFRI as of that fund's last reported performance update. The HFRI Fund of Funds Index is not included in the HFRI Fund Weighted Composite Index. Both domestic and offshore funds are included in the HFRI. In cases where a manager lists mirrored-performance funds, only the fund with the larger asset size is included in the HFRI. See https://www.hedgefundresearch.com/index.php?fuse=indices-faq&1319810221

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom (List as of June 2014).

The MSCI US REIT Index is a free float-adjusted market capitalization weighted index that is comprised of Equity REIT securities. The MSCI US REIT Index includes securities with exposure to core real estate (e.g. residential and retail properties) as well as securities with exposure to other types of real estate (e.g. casinos, theaters).

The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates. (List as of June 2014)

CSFB Leveraged Loan Index is an index designed to mirror the investable universe of the $US-denominated leveraged loan market. The index inception is January 1992. The index frequency is monthly. New loans are added to the index on their effective date if they qualify according to the following criteria: Loans must be rated "5B" or lower; only fully- funded term loans are included; the tenor must be at least one year; and the Issuers must be domiciled in developed countries (Issuers from developing countries are excluded). Fallen angels are added to the index subject to the new loan criteria. Loans are removed from the index when they are upgraded to investment grade, or when they exit the market (for example, at maturity, refinancing or bank-

Important Notes

MSE Funds Composite Benchmark and Index Descriptions (continued)

ruptcy workout). Note that issuers remain in the index following default. Total return of the index is the sum of three components: principal, interest, and reinvestment return. The cumulative return assumes that coupon payments are reinvested into the index at the beginning of each period.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries*--excluding the United States. With 1,003 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates (List as of June 2014)

The Dow Jones U.S. Select Real Estate Securities Index (RESI) represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S. The Dow Jones U.S. Select REIT Index is a subset of the Dow Jones Americas Select RESISM and includes only REITs and REIT-like securities.

The S&P Global Natural Resources Index includes 90 of the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified and investable equity exposure across 3 primary commodity-related sectors: agribusiness, energy, and metals & mining.

The Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. Roll period typically occurs from 6th-10th business day based on the roll schedule.

The Barclays Capital U.S. Aggregate Bond Index measures the performance of the U.S. investment grade bond market. The index invests in a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States - including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.

The Barclays Capital U.S. Treasury Inflation Protected Securities (TIPS) Index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.

The Citigroup World Government Bond Index (WGBI) measures the performance of fixed-rate, local currency, investment grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 25 years of history available. The WGBI provides a broad benchmark for the global sovereign fixed income market. Sub-indices are available in any combination of currency, maturity, or rating.

The BofA Merrill Lynch 1-3 US Year Treasury Index is an unmanaged index that tracks the performance of the direct sovereign debt of the U.S. Government having a maturity of at least one year and less than three years. It is not possible to invest directly in an unmanaged index.

The S&P 500 Index is a widely recognized gauge of the U.S. equities market. This index is an unmanaged capitalization-weighted index consisting of 500 of the largest capitalization U.S. common stocks. The returns of the S&P 500 include the reinvestment of dividends.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000 Index is constructed to provide a comprehensive, unbiased and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected.

Explanatory Notes Regarding the Long-Medium Term Return/Risk Forecasts

COMMONFUND'S FORECASTS MAY NOT COME TRUE

No financial model or simulation can predict the future or account for the infinite number of possible outcomes in forecasting investment returns or risks. In order to assess the predictive value of any forecast, one should seek to understand the underlying assumptions and information that are used to generate the forecast.

THE UNDERLYING ASSUMPTIONS OF THESE FORECASTS

Commonfund's Long-Medium Term Return/Risk Forecasts are based on Commonfund's expectations about performance and risk characteristics of various asset classes. Those expectations are derived from historical data, academic and professional literature, and the judgment of Commonfund investment personnel. The utility of these forecasts depends greatly on the accuracy of Commonfund's assumptions about return parameters. For example, the forecasts take into consideration historical returns from periods experiencing interest rate environments that may be considerably different from future interest rate environments. The forecasts also project excess returns for active strategies as compared to passive strategies, which Commonfund believes is a reasonable expectation but may or may not be realized in the future. The reasonableness of the input assumptions made by Commonfund determines to a significant degree the reasonableness of the forecasts. Commonfund cannot guarantee the accuracy of the information it used in generating the forecasts, nor does it represent that the information used will necessarily represent market conditions in the future. In all cases, the statistical confidence in the predictions falls as the simulation period gets shorter.

THE RESULTS OF THESE FORECASTS WILL VARY

The results of simulations using the Long-Medium Term Return/Risk Forecasts will vary with any change to the inputs: asset allocation, spending rates or methods, contributions, or beginning market value. The results will also change with any periodic updates to Commonfund's point of view and assumptions. Because the model uses asset class returns, it should not be used to evaluate or simulate the results of any specific investment program (or fund).

THESE FORECASTS USE ESTIMATED FEES AND EXPENSES

The return distributions in the Commonfund Long-Medium Term Return/Risk Forecasts are calculated using Monte Carlo simulation and are based on projected returns net of all fees. These net returns reflect Commonfund's projections for active management returns in excess of both the benchmark and active manager fees. In the case of an actual investment portfolio, fees and expenses may deviate from those projected by Commonfund. To the extent that returns exceed benchmarks for investments that incur incentive fees, fees may be higher. Alternatively, managers in a specific client portfolio may be different from those employed in the simulation.

INVESTMENT RISKS

The investment asset classes depicted in the Long-Medium Term Return/Risk Forecasts involve varying degrees of investment risk. Alternative assets in particular may involve reduced liquidity and risky investment strategies. Investors in any of these asset classes could lose some or all of their principal. In particular cases (including investments on margin, short selling and similar strategies), investors could lose more than their principal investment.

WPA NOTES

Wealth and Income Simulations

The Wealth and Income module within the WPA estimates future levels of wealth and income.

To estimate future wealth the WPA first simulates future returns for each asset. The WPA offers two simulation methods: Monte-Carlo or Bootstrap. The results in this presentation are a result of using the Monte-Carlo simulation function. Since future returns cannot be precisely forecasted, both simulation methods will generate hundreds of possible future scenarios. The scenarios are summarized to provide a probabilistic analysis of future wealth and income.

The most commonly used simulation method, Monte-Carlo simulation, is a multi-variate normal model to simulate asset returns using the chosen return and risk estimation methods; the equilibrium return estimate, and blended quiet/turbulent risk estimate for example. Bootstrap simulation offers the advantage of using actual empirical experience to simulate future scenarios capturing non-normal characteristics such as fat-tails. Whereas Monte-Carlo allows use of the turbulence risk estimate, the Bootstrap method can only assume the historical risk estimate.

While the number of possible future scenarios can be controlled by the user, typically the default value of 1000 is sufficient to generate reasonably stable results without exhausting computer memory (RAM).

The returns of each asset are simulated for each month (or quarter if necessary) in the horizon. Using the simulated asset returns and the portfolio weights we derive the portfolio return and level of portfolio wealth. From this distribution of wealth we can determine the portfolio wealth at any point in time and at any confidence level. The portfolios are assumed to be rebalanced every 12 months on the anniversary of inception.

IMPORTANT: The Commonfund Long-Medium Term Return/Risk Forecasts are hypothetical, do not represent the actual returns earned by any investor or investment fund or product, and are not guarantees of future results.

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

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 3, 2015

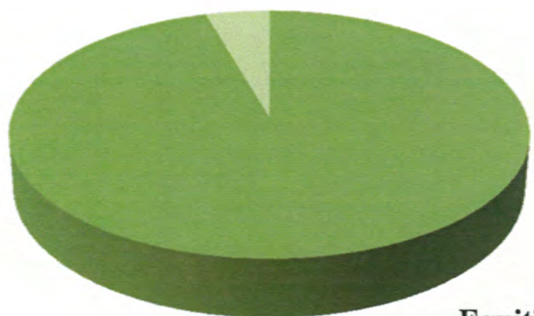
777 Third Avenue, 38th Floor
New York, NY 10017
Telephone: 212-262-7670
Fax: 212-262-2801
Website: www.dclainc.com

DCLA

USA Portfolio Summary

As of September 30, 2015

Total Portfolio Value:
$7,902,939



Top 10 Holdings

Security	Cost	Market Value
Visa, Inc.	$59,695	$250,776
Delta Air Lines, Inc.	60,009	246,785
MasterCard, Inc.	47,537	225,300
Cerner Corp.	39,460	215,856
Illumina, Inc.	47,546	210,984
Southwest Airlines, Co.	46,824	209,220
United Continental Holdings, Inc.	84,142	185,675
Amgen, Inc.	70,159	165,984
Ecolab, Inc.	60,688	164,580
Air Products & Chemicals	83,823	153,096
TOTAL	**$599,881**	**$2,028,256**

DCLA

Performance Summary

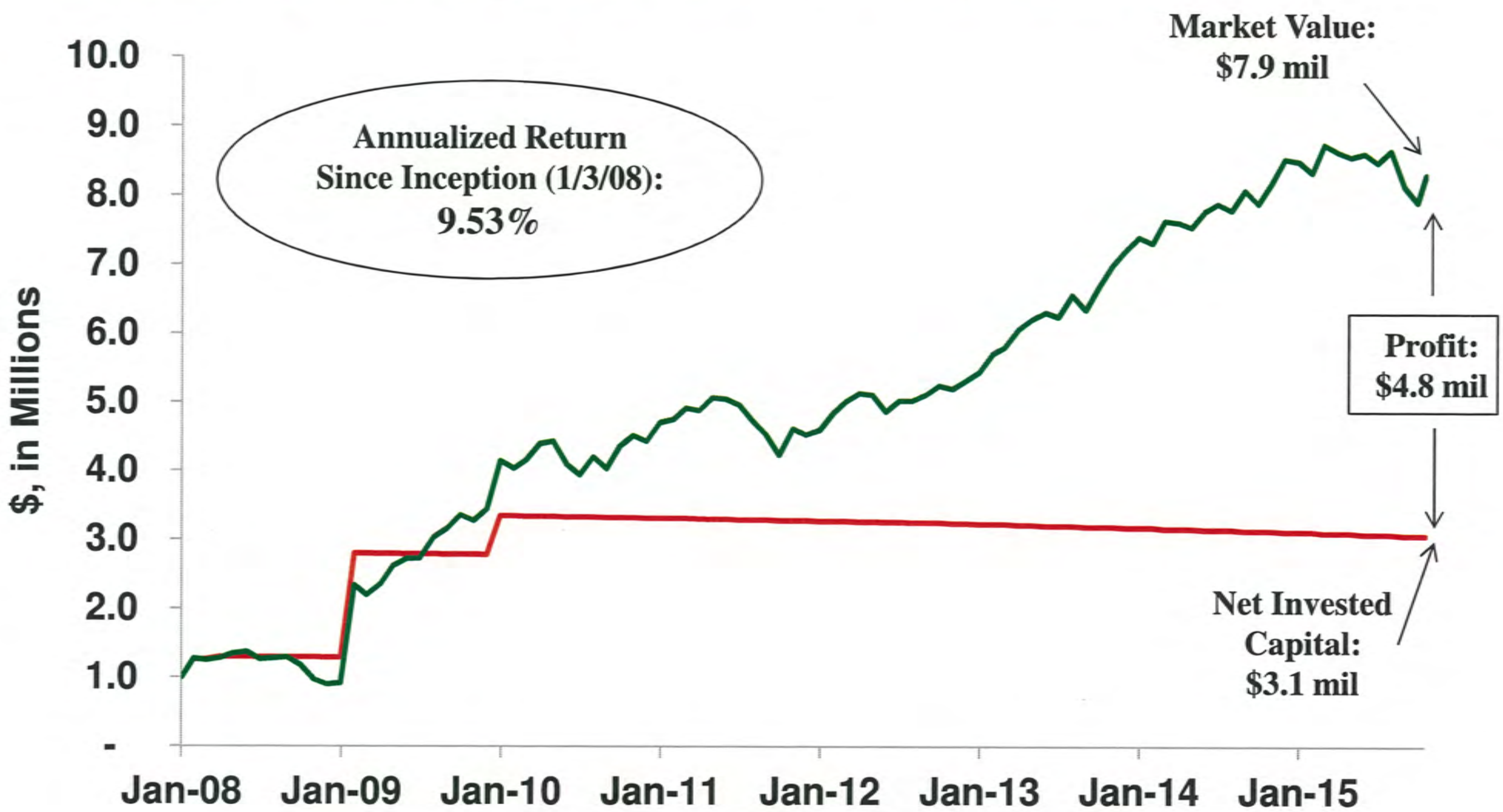
CUMULATIVE	One Year Ended 9/30/15	Three Years Ended 9/30/15	Five Years Ended 9/30/15	Since Inception (1/3/08 - 9/30/15)
University of South Alabama	1.03%	54.74%	89.04%	102.34%
S&P 500 Index	(0.61%)	42.02%	87.02%	57.04%

ANNUALIZED	One Year Ended 9/30/15	Three Years Ended 9/30/15	Five Years Ended 9/30/15	Since Inception (1/3/08 - 9/30/15)
University of South Alabama	1.03%	15.66%	13.58%	9.53%
S&P 500 Index	(0.61%)	12.40%	13.34%	6.00%

DCLA

University of South Alabama

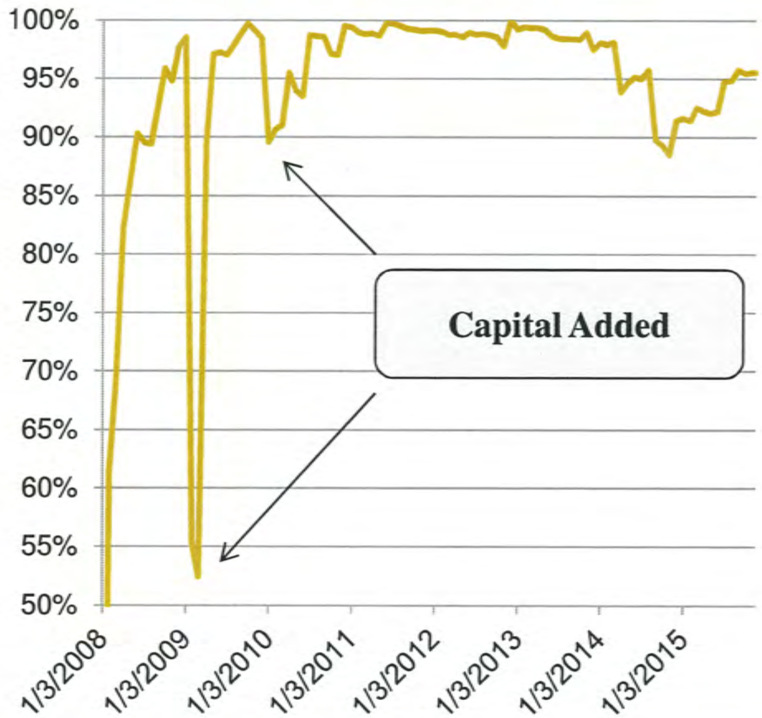
Relationship History (Jan 2008 – Sep 2015)



What Did We Do?

Maintained Significant Equity Exposure, Powered by In-House Research

Equity Allocation %



Active Security Selection

- ***Industry Change:***
  - ✓ Airlines, Autos
- ***Secular Growth:***
  - ✓ ePayments, Health Technology, Digital/Social/Mobile
- ***Cyclical Growth:***
  - ✓ Biotech, Refiners
- ***Low Interest Rate Beneficiaries:***
  - ✓ REITs
- ***Individual Company Stories:***
  - ✓ Luxottica, Verisk Analytics

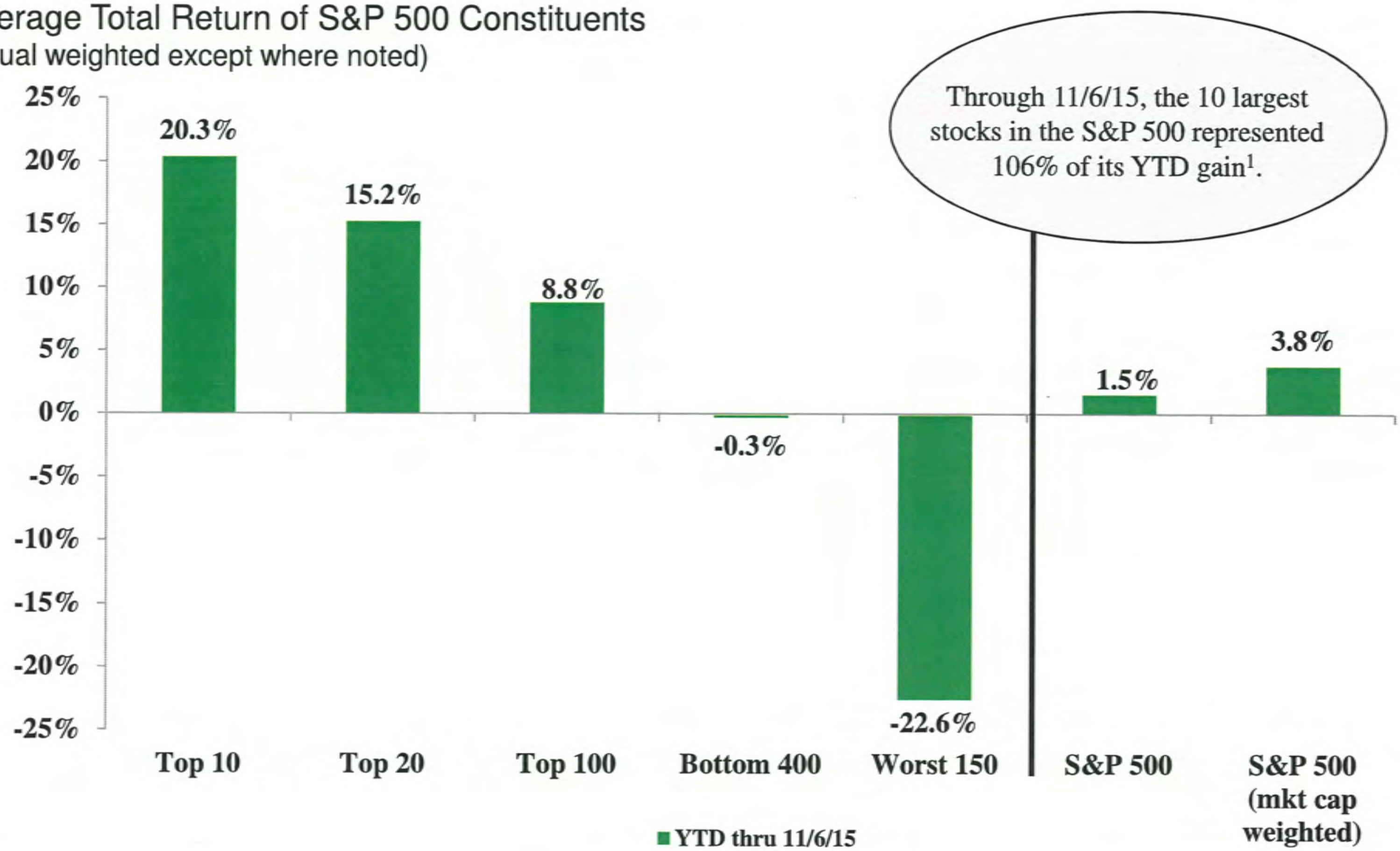
Current Investment Landscape

Positive	Negative	TBD
• US Consumer Strength • Jobs, Wages, Gas Prices • Autos / Housing • Real Innovation and Productivity Gains • Some Stock Prices More Attractive	• China Industrial Complex Decelerating • Strengthening US Dollar • Political Gridlock • Sovereign/State Liabilities • Healthcare Costs "Crowding Out"	• Falling Commodity Prices, Especially Oil • Tightening US Monetary Policy • European Recovery • Global Conflict

Newer areas of interest: Retail, Regional Banks, Life Insurance

S&P 500 Gains Driven by Largest Constituents (Creates Opportunities)

Average Total Return of S&P 500 Constituents
(equal weighted except where noted)



[1]Compares to 15.2% and 19.0%, for full-year 2013 and 2014, respectively.

Source: Blackrock, FactSet, Strategas, DCLA

DCLA

Gazing Over The Horizon

Developments to Watch…

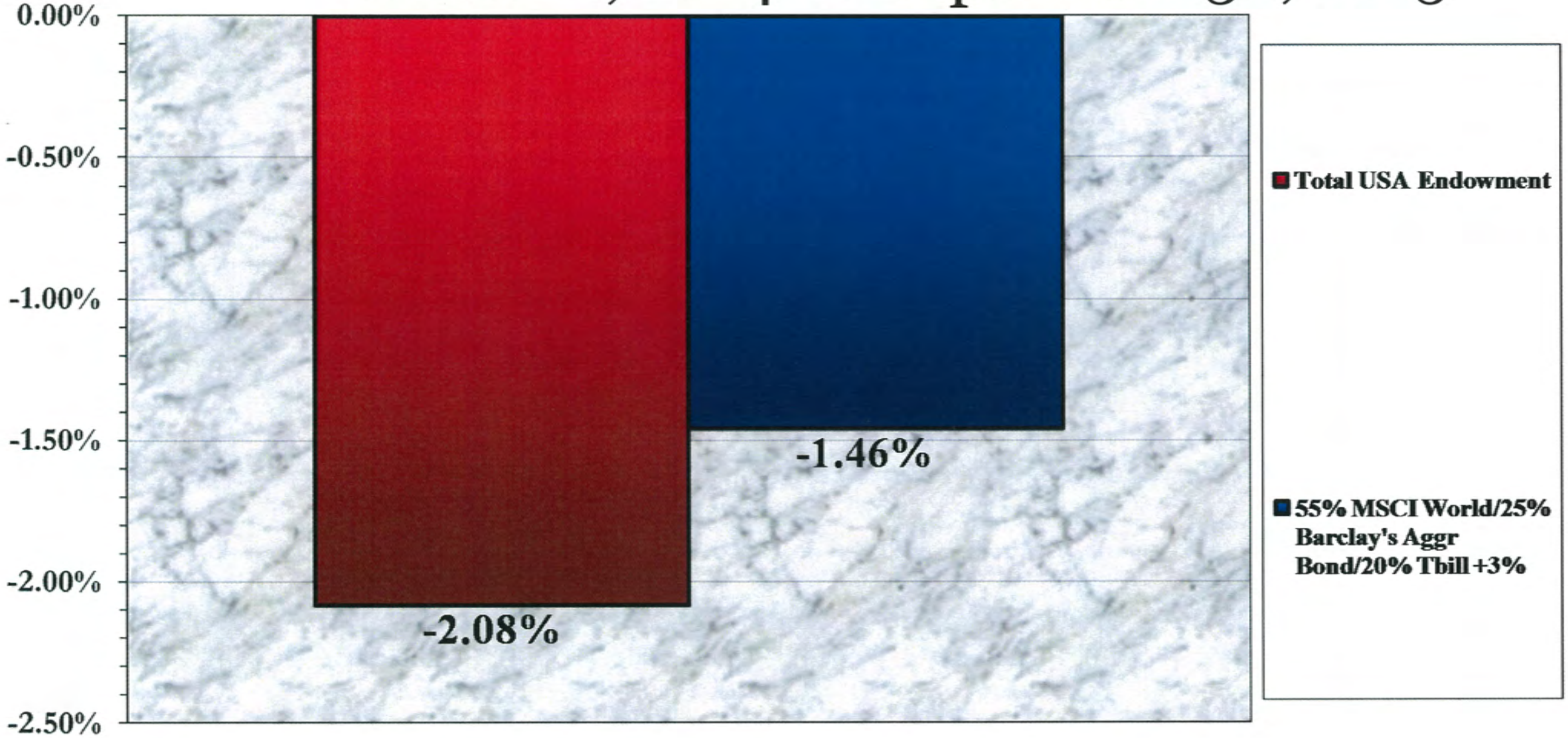
Block Chain / Bitcoin	"Eventually mainstream products, companies and industries emerge to commercialize it; its effects become profound; and later, many people wonder why its powerful promise wasn't more obvious from the start. What technology am I talking about? Personal computers in 1975, the Internet in 1993, and – I believe – Bitcoin in 2014." – ***Marc Andreessen,*** *Andreesen Horowitz*
Internet of Things (IoT)	Desktop Internet: 1+ Billion Devices Mobile Internet: 10+ Billion Devices Internet of Things: 50+ Billion Devices
Personalized, Outcome-Based Healthcare	"The $1,000 Genome Arrives – For Real, This Time" – *Forbes* "HHS has set a goal to have…50% of Medicare payments in alternative payment models by 2018" - *CMS*

University of South Alabama
Endowment Investment Performance
Review/Analysis

Fiscal Year 2015

UNIVERSITY OF SOUTH ALABAMA

Total USA Endowment
Fiscal Year 2015
October 1, 2014 To September 30, 2015

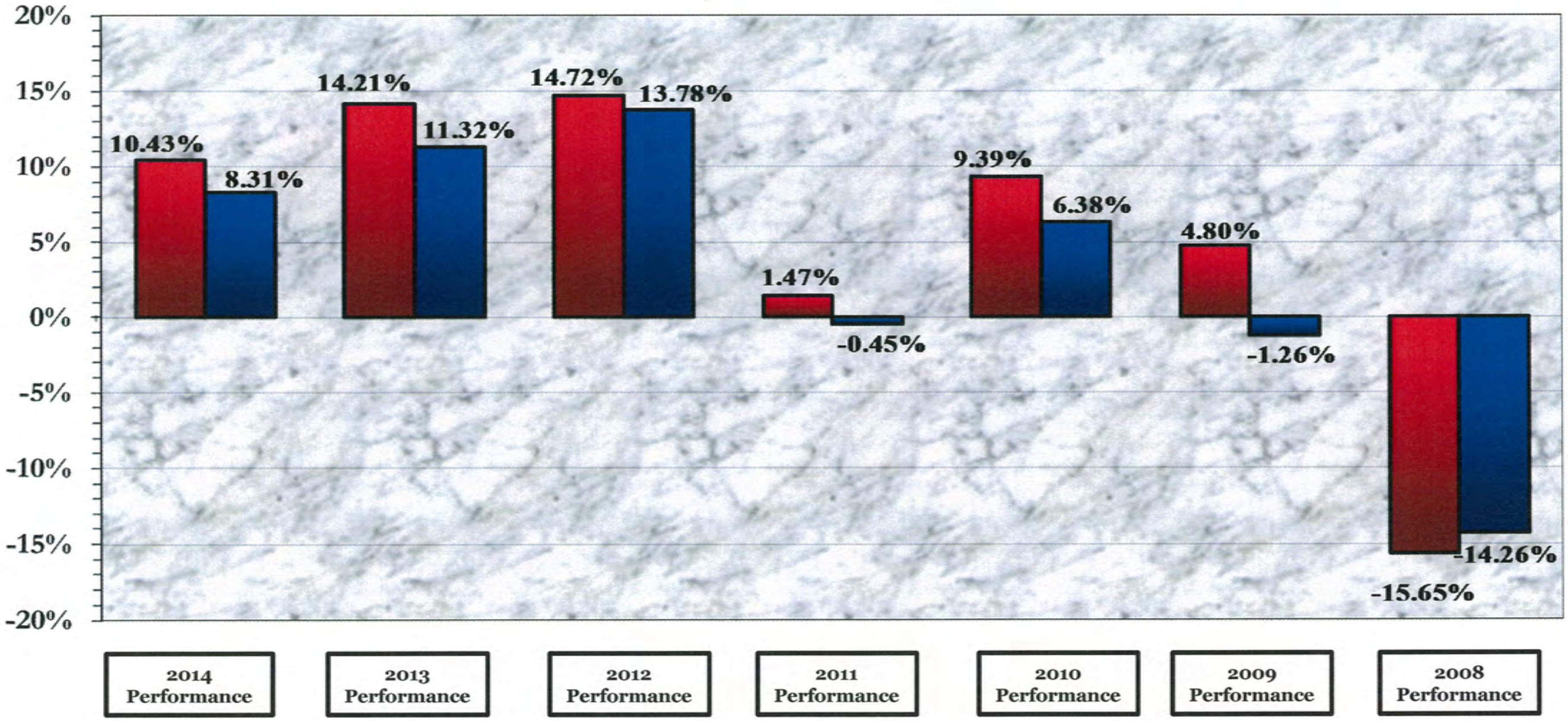


Underperformed (0.62)%

Balance: $137,732,206

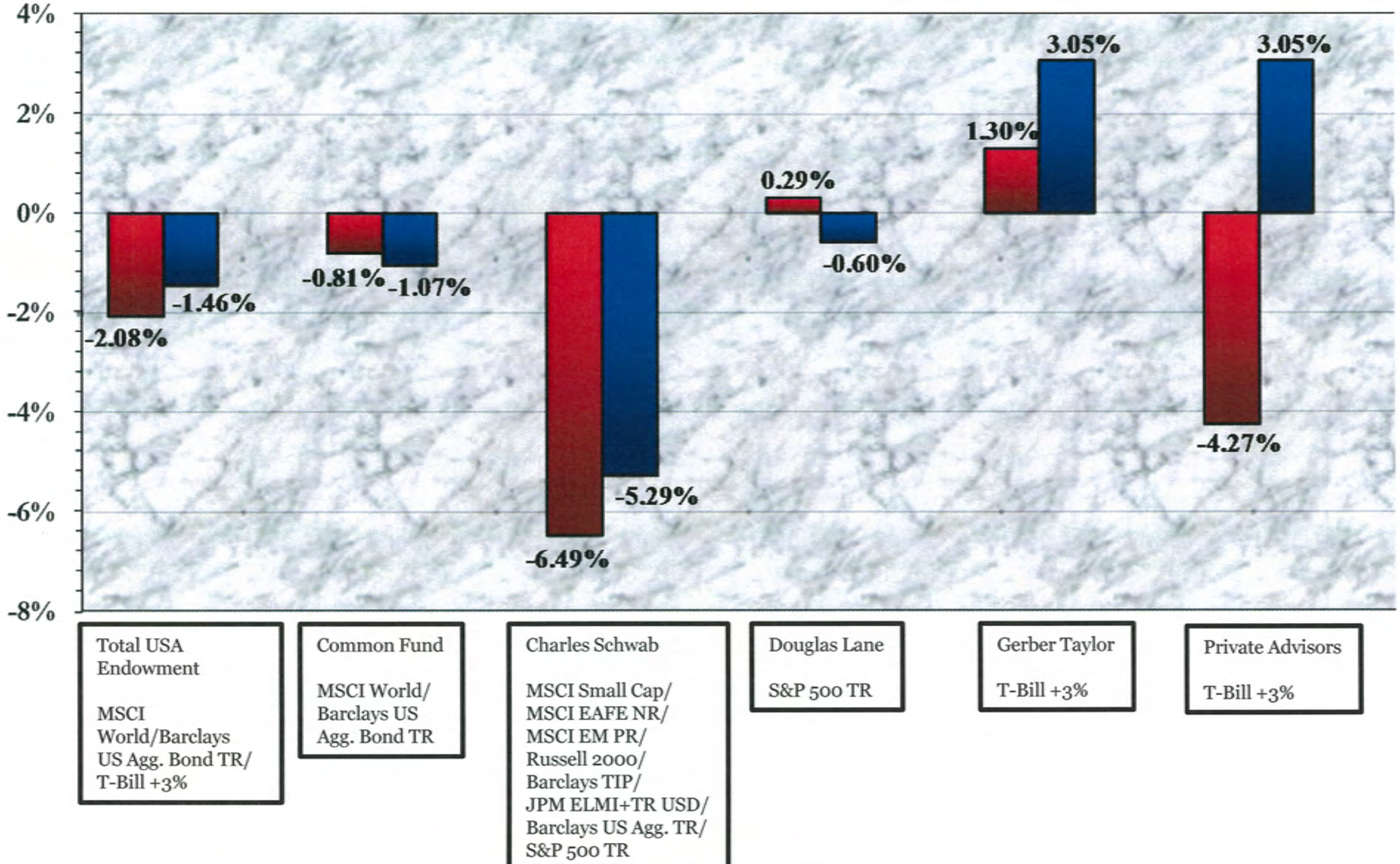
UNIVERSITY OF SOUTH ALABAMA

USA Endowment
Fiscal Year Performance
Last Seven Years

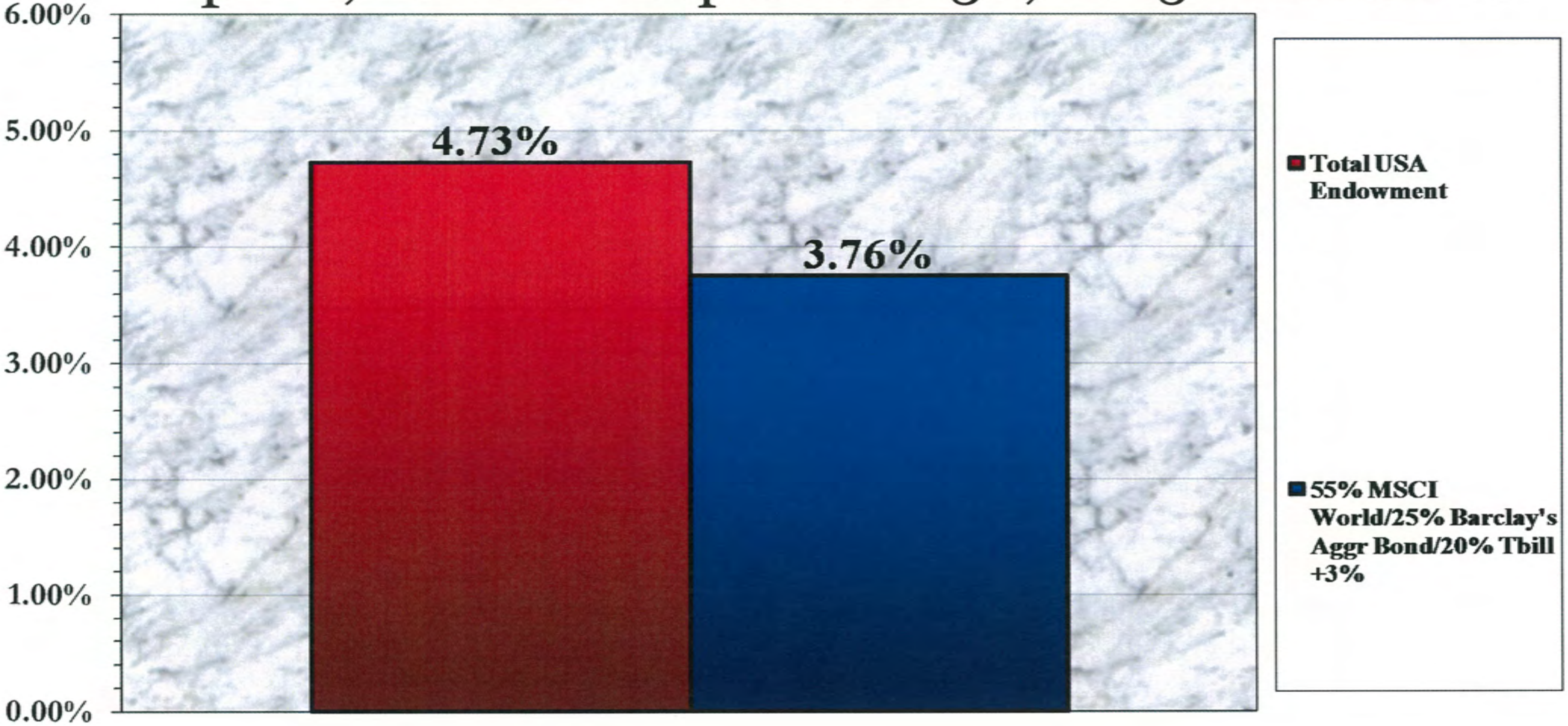


UNIVERSITY OF SOUTH ALABAMA

Endowment Fund Managers
Fiscal Year 2015
October 1, 2014 To September 30, 2015



Total USA Endowment
Since Inception
April 1, 2000 To September 30, 2015 Annualized



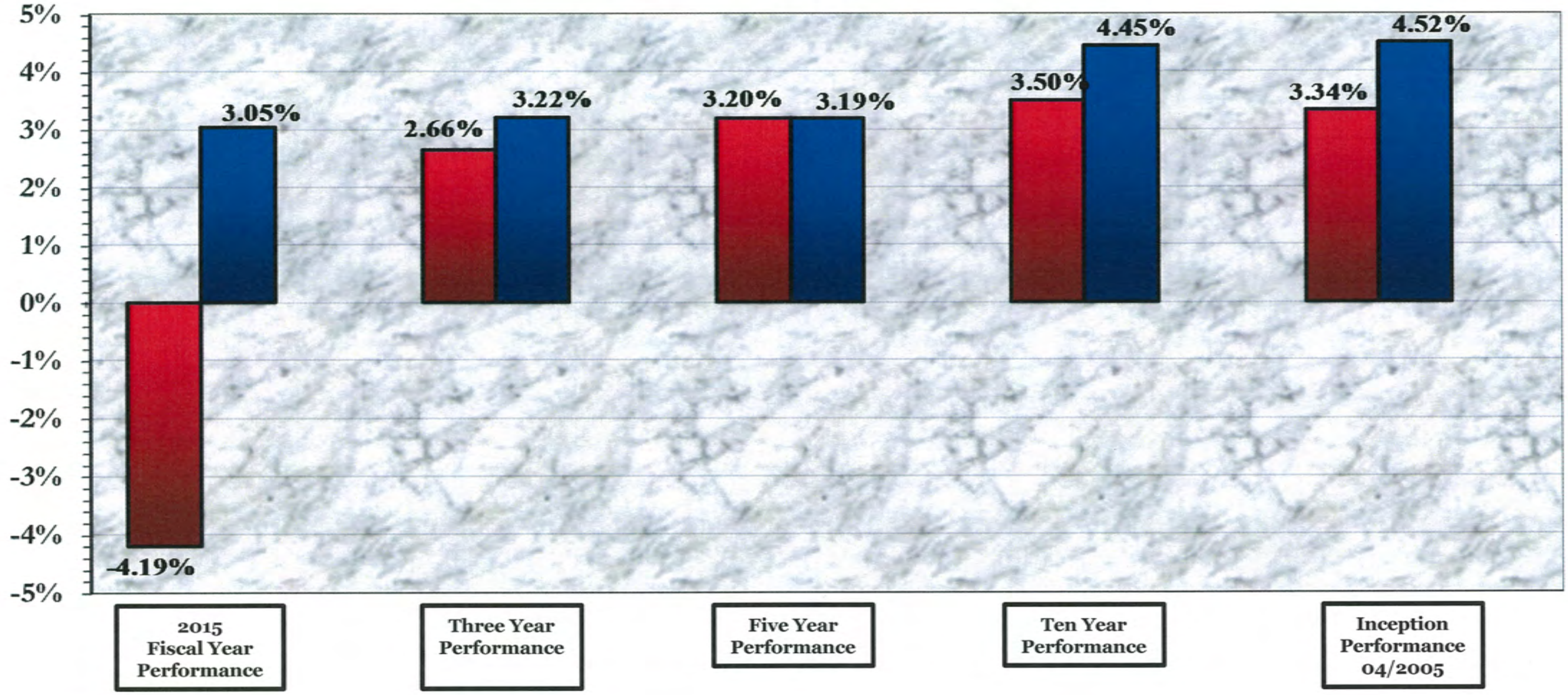
Outperformed 0.97%

Balance: $137,732,206

UNIVERSITY OF SOUTH ALABAMA

Private Advisors Overall Performance vs T-Bill + 3% Through 09/30/2015

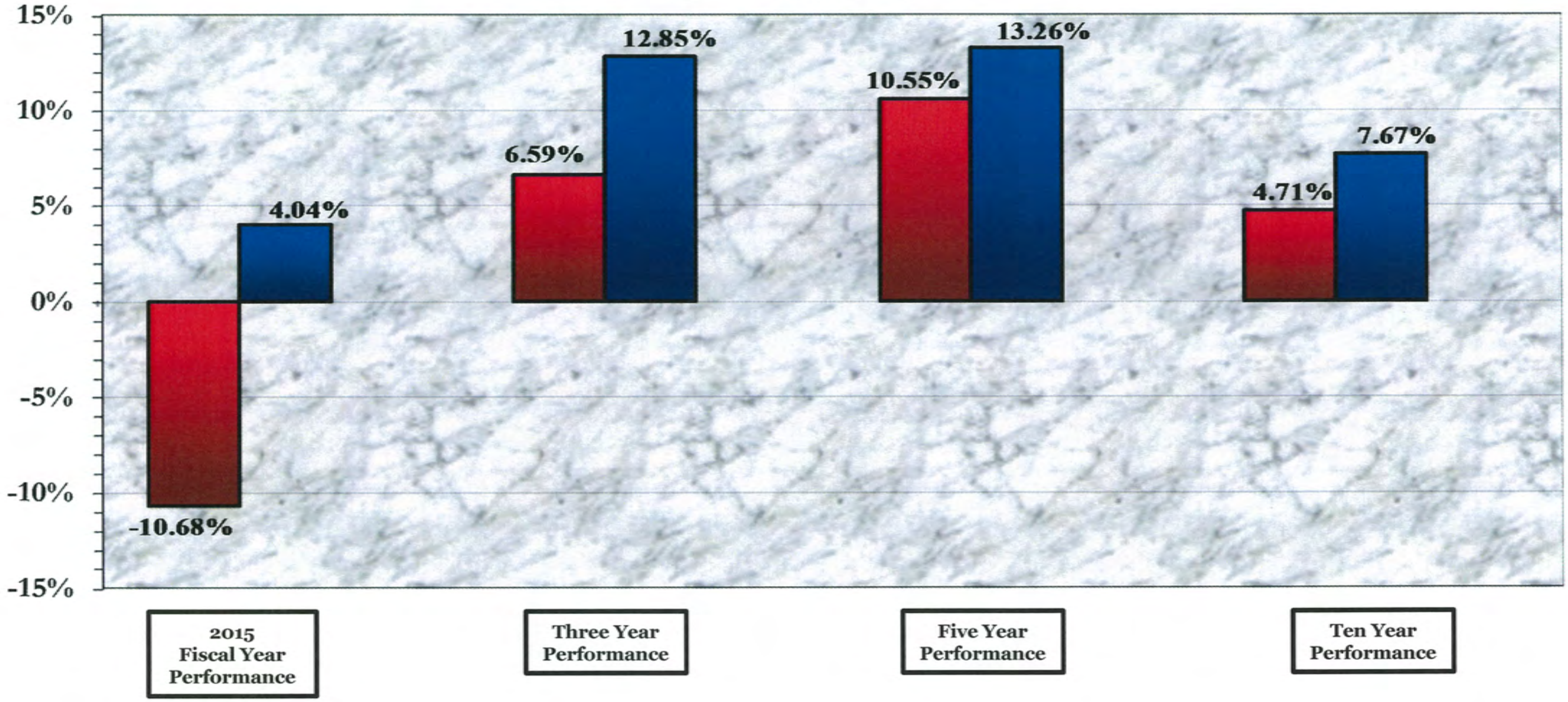
Balance: $6,982,806
5% of Total



UNIVERSITY OF SOUTH ALABAMA

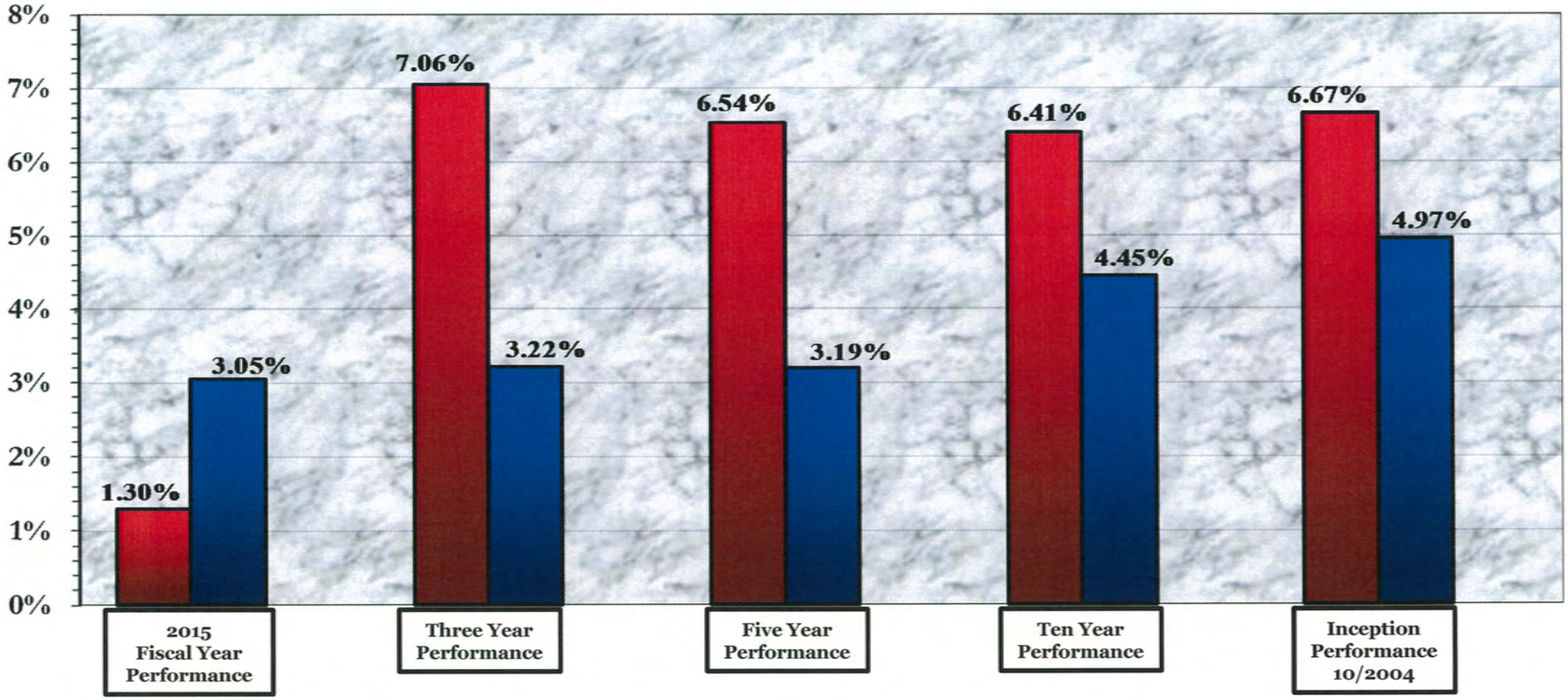
Masters Select Fund Overall Performance Vs Russell 2000 Through 09/30/2015

Balance: $3,534,496
2.6% of Total



**Performance from Fund Inception*

Gerber Taylor
Overall Performance
Vs T-Bill + 3%
Through 09/30/2015



UNIVERSITY OF SOUTH ALABAMA

Total USA Endowment Breakdown
Fiscal Year 2015

Manager	Money Market	Large Cap Equity	Small Cap Equity	International	Fixed	Hedge	Total	%
Private Advisors	$ -	$ -	$ -	$ -	$ -	$ 6,982,806	$ 6,982,806	5%
Schwab	$ -	$ 6,860,702	$ 7,448,876	$ 15,736,578	$ 5,082,092	$ -	$ 35,128,248	26%
Doug Lane	$ 359,944	$ 7,542,995	$ -	$ -	$ -	$ -	$ 7,902,939	6%
Common Fund	$ -	$ 33,404,634	$ -	$ -	$ 32,115,788	$ -	$ 65,520,422	48%
Gerber Taylor	$ -	$ -	$ -	$ -	$ -	$ 22,197,791	$ 22,197,791	16%
Total	$ 359,944	$ 47,808,331	$ 7,448,876	$ 15,736,578	$ 37,197,881	$ 29,180,597	$ 137,732,206	100%
%	0%	35%	5%	11%	27%	21%	100%	
Policy %		25-55%	0-8%	5-15%	15-35%	10-30%	100%	

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 Development, 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

<u>Short-Term Operational Funds</u>

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.

<u>Intermediate-Term Investment of Operational Funds</u>

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.

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

AUDIT

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

AUDIT COMMITTEE

September 3, 2015
3:32 p.m.

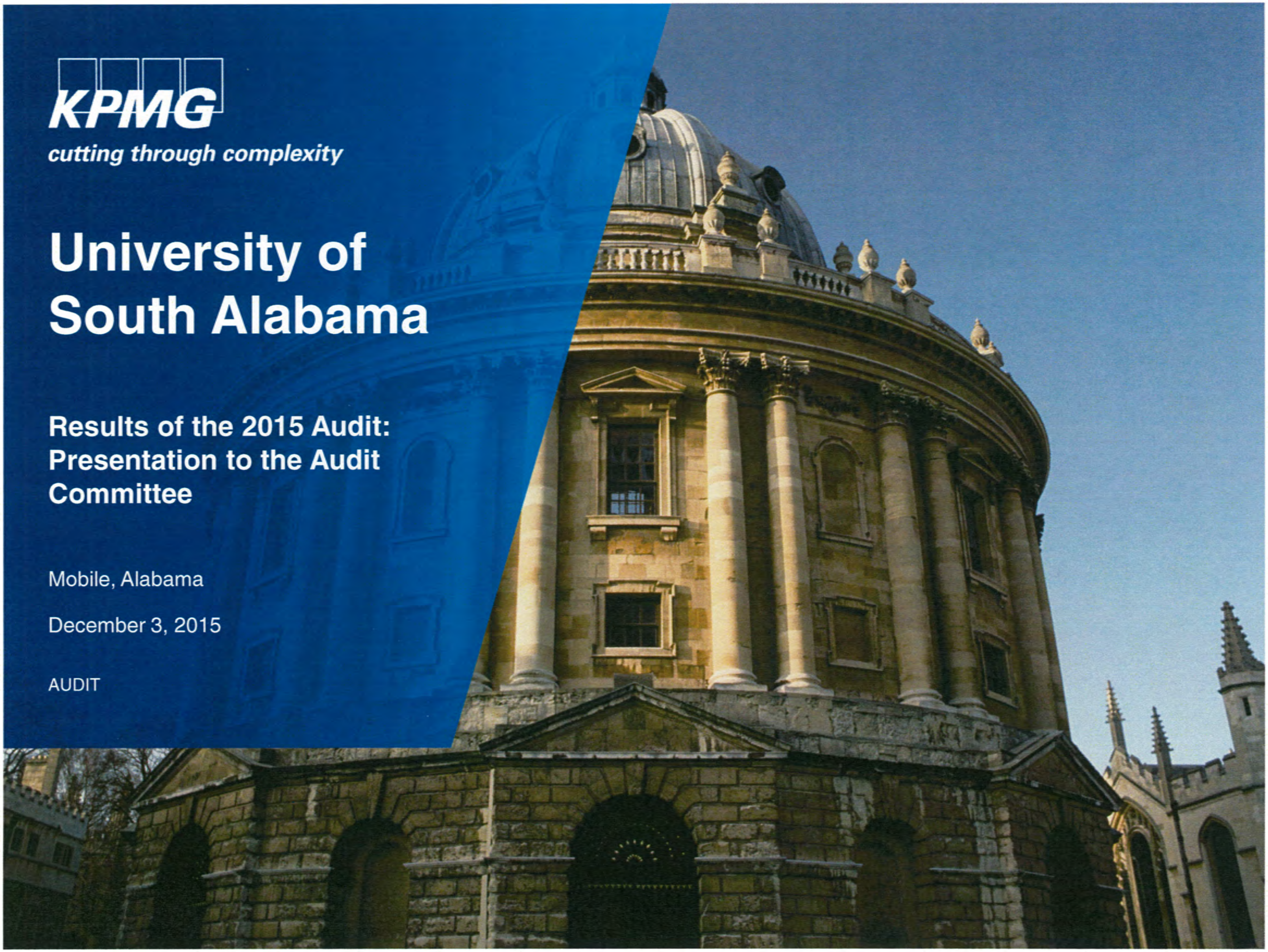
A meeting of the Audit Committee of the University of South Alabama Board of Trustees was duly convened by Mr. John Peek, Chair, on Thursday, September 3, 2015, at 3:32 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Sandy Stimpson and John Peek.
Members Absent:	Scott Charlton, Ron Jenkins and Bryant Mixon.
Other Trustees:	Chandra Brown Stewart, Tom Corcoran, Steve Furr, Jimmy Shumock, Ken Simon, Mike Windom and Jim Yance.
Administration and Others:	Joe Busta, Lynne Chronister, Monica Curtis, Mike Finan, Happy Fulford, Stan Hammack, Mike Haskins, David Johnson, Michael Mitchell, Mark Peach (KPMG), John Smith, Sam Strada, Jean Tucker, Tony Waldrop, and Kevin West and Kelly Woodford (Faculty Senate).
Press:	Josh Harland and Lee Peck (Fox 10), Bria Johnson and Alyssa Newton (*Vanguard*) and Jason Johnson (*Lagniappe*).

The meeting came to order and the attendance roll was called. Without a quorum of the Committee members present, the meeting was adjourned at 3:32 p.m.

Respectfully submitted:

John M. Peek, Chair



KPMG

cutting through complexity

University of South Alabama

Results of the 2015 Audit: Presentation to the Audit Committee

Mobile, Alabama

December 3, 2015

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 2015 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 2015 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
- Implementation of GASB 68

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, 2015

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

September 30, 2015

Table of Contents

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2015

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, 2015 and 2014 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 (GASB). 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, the USA Research and Technology Corporation, and the Gulf Coast Regional Care Organization are discretely presented.

Because of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in 2015, the University only presented financial statements for 2015 and management's discussion and analysis for 2015 and 2014. Management's discussion and analysis for 2014 does not reflect the impact of the adoption of GASB Statement No. 68 and therefore is not comparative to 2015.

Financial Highlights

At September 30, 2015 and 2014, the University had total assets and deferred outflows of $1,114,951,000 and $1,055,286,000, respectively; total liabilities and deferred inflows of $919,899,000 and $555,736,000, respectively; and net position of $195,052,000 and $499,550,000, respectively. As a result of 2015 activity, net position increased $9,239,000 during the year ended September 30, 2015 compared to an increase of $6,560,000 for the year ended September 30, 2014. Due to the cumulative effect of the change in accounting principle as a result of the adoption of GASB Statement No. 68, there was a decrease in beginning net position of $313,737,000. See Note 12 for a complete explanation of the impact of GASB Statement No. 68.

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, deferred outflows, liabilities, deferred inflows and net position of the University at September 30, 2015. 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 donors. 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 net patient accounts receivable comprise approximately 41%, 26% and 14%, respectively, of current assets at September 30, 2015. Noncurrent assets at September 30, 2015 consist primarily of capital assets, restricted cash and cash equivalents, and restricted investments.

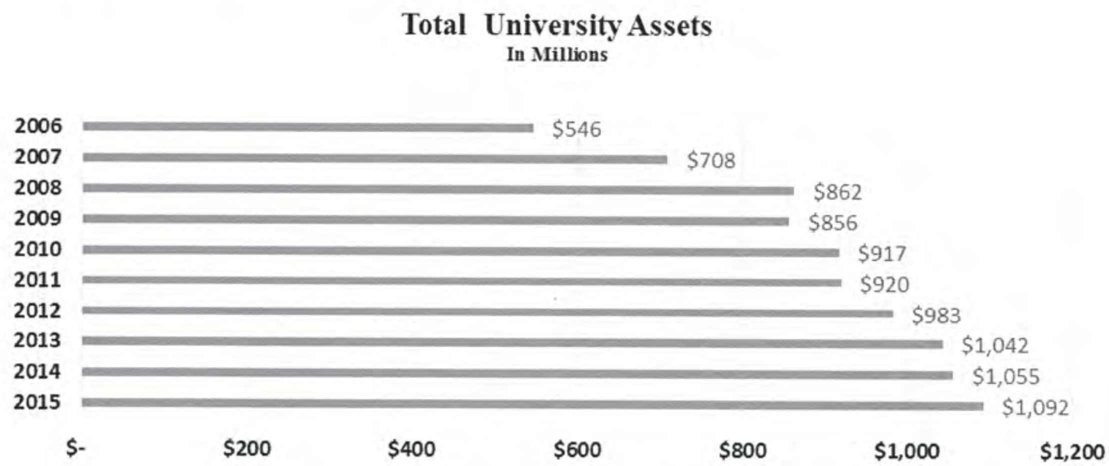
The Condensed Schedules of Net Position at September 30, 2015 and 2014 follow (in thousands):

Condensed Schedules of Net Position

		2015	2014
Assets:			
Current	$	233,940	303,272
Capital assets		609,630	578,303
Other noncurrent		248,539	173,711
Total assets		1,092,109	1,055,286
Deferred outflows		22,842	—
Total assets and deferred outflows	$	1,114,951	1,055,286
Liabilities:			
Current	$	132,128	120,646
Noncurrent		751,880	434,913
Total liabilities		884,008	555,559
Deferred inflows		35,891	177
Total liabilities and deferred inflows	$	919,899	555,736
Net position:			
Net investment in capital assets	$	246,567	237,851
Restricted, nonexpendable		43,425	40,191
Restricted, expendable		60,106	60,873
Unrestricted		(155,046)	160,635
Total net position	$	195,052	499,550

University cash, cash equivalents, and investments (current and noncurrent) decreased between September 30, 2014 and 2015 by $3,016,000 to $400,949,000.

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:

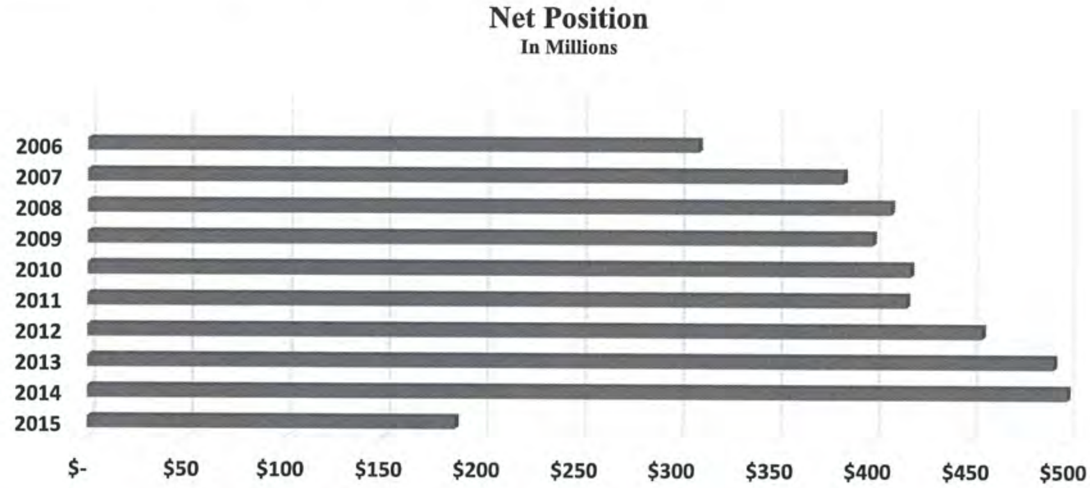
Net investment in capital assets represents the University's capital assets less accumulated depreciation and outstanding principal balances of the debt attributable to the acquisition, construction, or improvement of those assets.

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 amounts 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. Also included in unrestricted net position at September 30, 2015 is the impact of the net pension liability recorded pursuant to the requirements of GASB Statement No. 68.

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



All categories of restricted net position increased by approximately 8% between September 30, 2015 and 2014, primarily due to the addition of restricted gifts to the University. Unrestricted net position decreased from $160,635,000 to $(155,046,000) between September 30, 2015 and 2014 due primarily to the adoption of GASB Statement No. 68. The impact of the implementation of GASB Statement No. 68 on unrestricted net position at September 30, 2015 is summarized below:

Unrestricted net position related to net pension liability	$	(310,827)
Unrestricted net position related to other activity		155,781
Unrestricted net position	$	(155,046)

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total University 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 non-exchange 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 GASB 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.

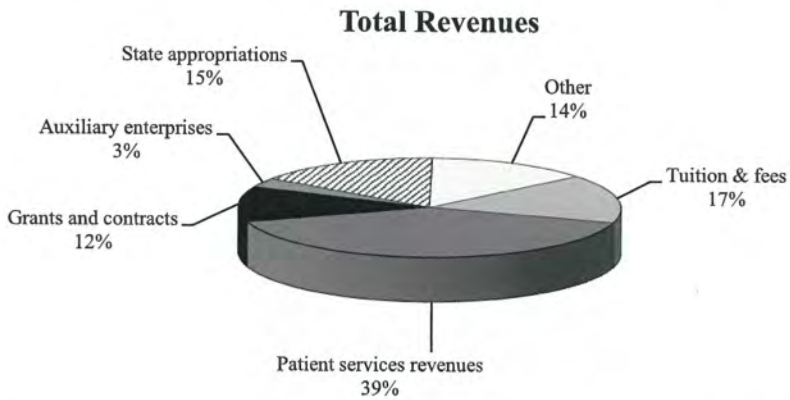
The Condensed Schedules of Revenues, Expenses, and Changes in Net Position for the years ended September 30, 2015 and 2014 follow (in thousands):

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

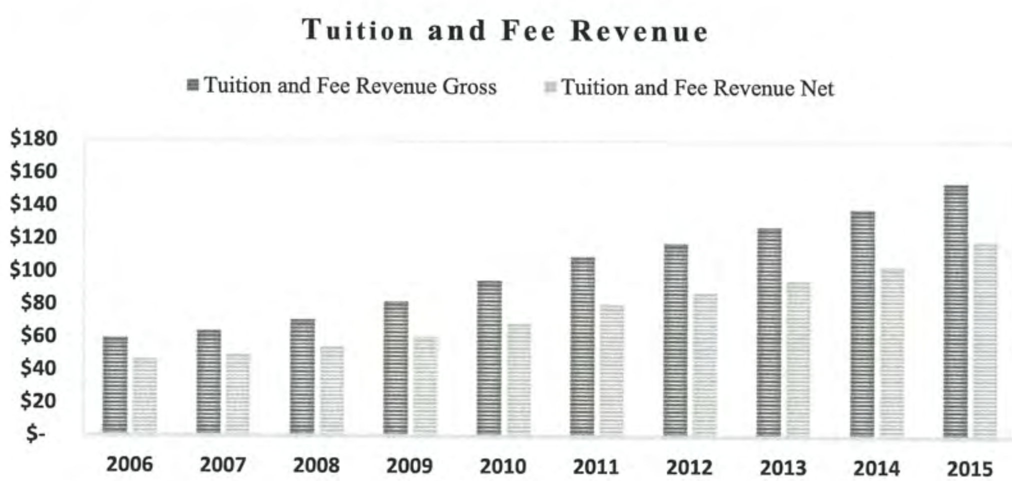
		2015	2014
Operating revenues:			
Tuition and fees	$	120,265	104,448
Net patient service revenue		271,655	268,449
Federal, state and private grants and contracts		85,756	76,719
Other		78,845	54,010
		556,521	503,626
Operating expenses:			
Salaries and benefits		433,679	419,966
Supplies and other services		169,873	158,615
Other		57,476	55,397
		661,028	633,978
Operating loss		(104,507)	(130,352)
Nonoperating revenues:			
State appropriations		103,974	103,695
Investment income (loss)		(10,718)	8,206
Other, net		13,259	14,475
Net nonoperating revenues		106,515	126,376
Income (loss) before capital appropriations, capital contributions, grants, and additions to endowment		2,008	(3,976)
Capital appropriations, capital contributions, grants, and additions to endowment		7,231	10,536
Increase in net position		9,239	6,560
Beginning net position, before cumulative effect of change in accounting principle		499,550	492,990
Cumulative effect of change in accounting principle		(313,737)	—
Beginning net position – as adjusted		185,813	492,990
Ending net position	$	195,052	499,550

In 2015 and 2014, approximately 39% and 40%, 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 17% of total revenues in fiscal 2015. Also in 2015, state appropriations and grants and contracts (federal, state and private) represented approximately 15% and 12% of total revenues, respectively.

A summary of University revenues for the year ended September 30, 2015 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 2005 to 22% in 2015. Tuition and fees, gross and net of scholarship allowances, for the past ten fiscal years are as follows:

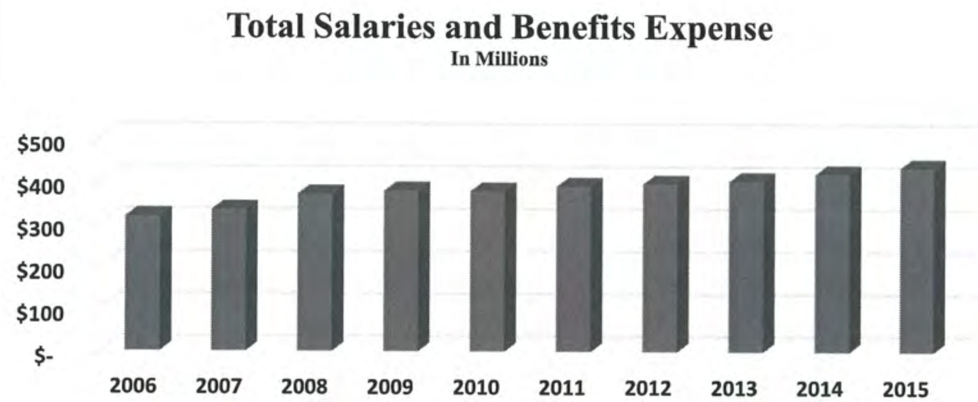


Capital contributions and grants increased from $790,000 in 2014 to $2,784,000 in 2015 due to a increase in grant funds received for construction of Shelby Hall and the ABSL-3 Laboratory Building. The University recognized no capital appropriations in 2015.

University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2015 is presented below:

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 17 to the basic financial statements.

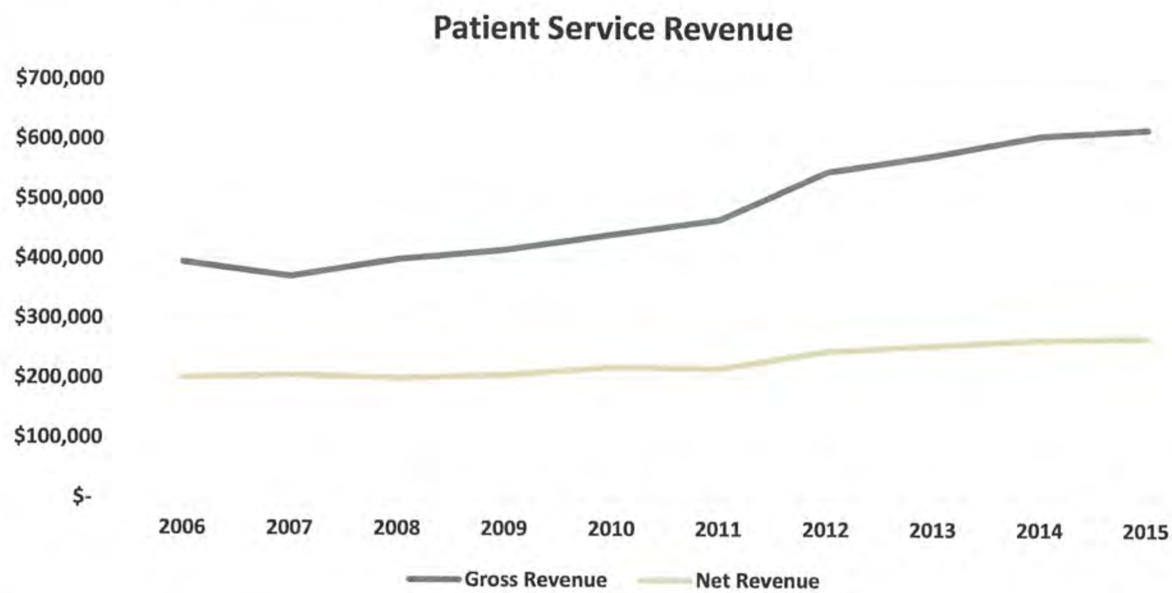
In 2015 and 2014, approximately 62% and 66%, respectively, of the University's total operating expenses were salaries and benefits.



For the years ended September 30, 2015 and 2014, the University reported operating losses of approximately $104,507,000 and $130,352,000, 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), and applying the cumulative effect of the change in accounting principle the total change in net position was approximately $(304,498,000) and $6,560,000, for the years ended September 30, 2015 and 2014, respectively.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2015

The Hospitals represent a significant portion of total University revenues. Operating patient service revenues, gross and net, for the last ten fiscal years are presented below:



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 $65,446,000 in 2015. During 2015, the expansion of USA Children's and Women's Hospital was placed into service. Significant construction projects that remain in progress at September 30, 2015 include a new professional medical office building. Major projects completed and placed into service in fiscal 2014 included New Hall (residence hall) and a major renovation of the Student Center. At September 30, 2015, the University had outstanding commitments of approximately $30,800,000 for various capital projects.

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 June 2015, the University issued the University Facilities Revenue Capital Improvement Bond, Series 2015, with a face value of $6,000,000. The proceeds of this bond are being used to fund the acquisition of certain property and the construction of certain facilities to be used by the USA Mitchell Cancer Institute.

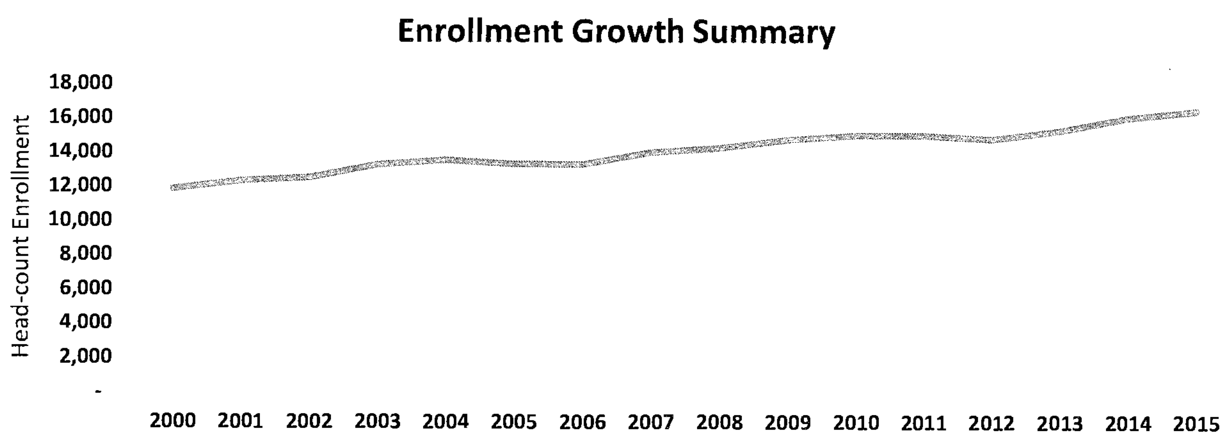
In order to realize debt service savings currently from future debt refunding, in January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to the counterparty 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 (loss) in 2015 and 2014.

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, and issued the 2014-A variable rate bond. As a result of the exercise of the option by the counterparty, the swaption was terminated and 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 2015 swap of $7,768,000 was recognized and is reported in the statement of net position at September 30, 2015.

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 2015.

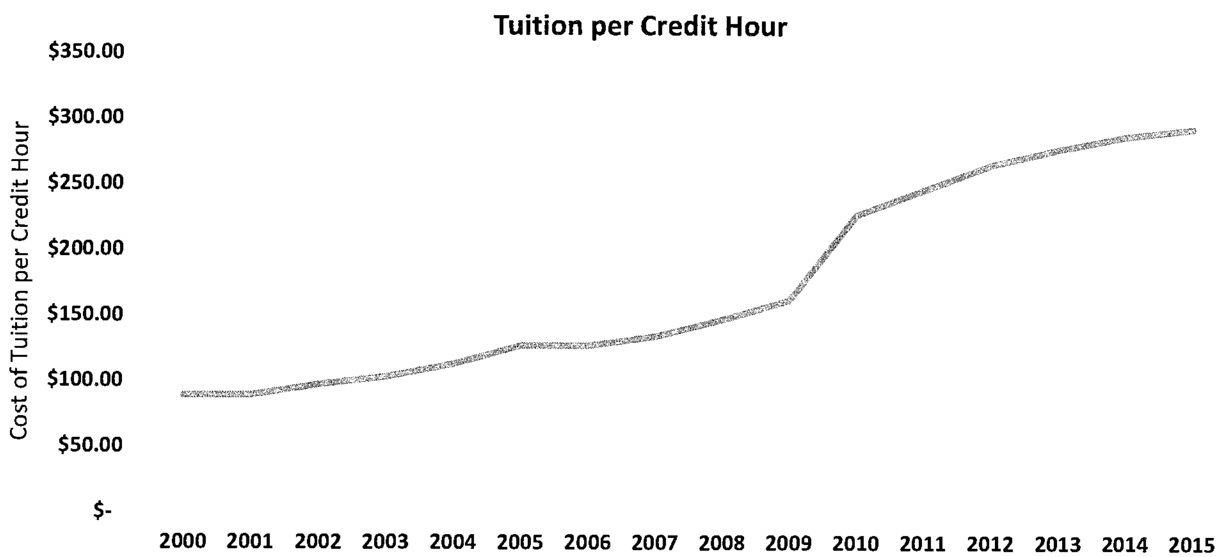
Economic Outlook

Student enrollment and tuition and fee rates have both increased over the past fifteen years. The University has experienced an increase in enrollment between 2000 and 2015, from 11,870 in 2000 to 16,462 for the 2015 Fall semester. The enrollment trend for the University between 2000 and 2015 is as follows:



In that same time period, in-state tuition per credit hour has increased by approximately 229%. 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-state tuition per credit hour between 2000 and 2015 is as follows:



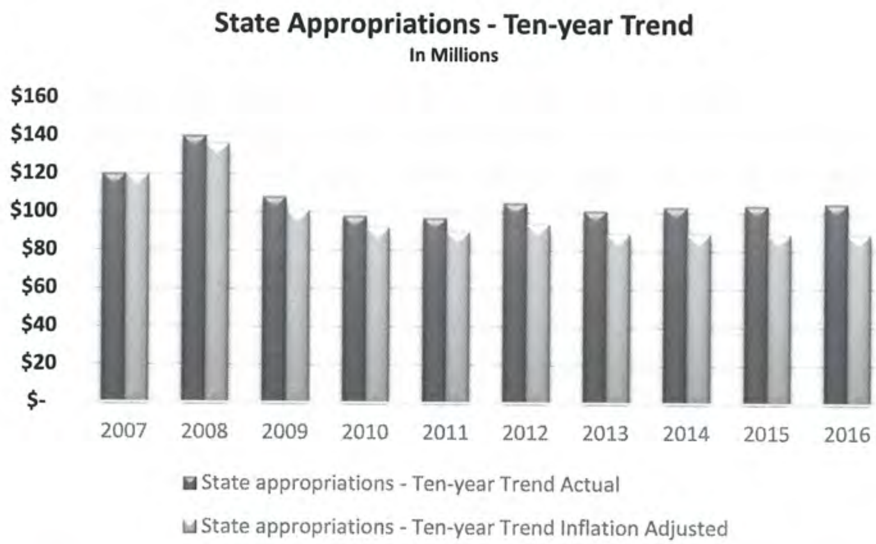
While enrollment and tuition have both increased in recent years, state appropriations prior to 2006 were relatively flat. However, in the 2008, 2007 and 2006 fiscal years, the University experienced increases of 16%, 19% and 17%, respectively, or approximately $19,349,000, $19,185,000 and $14,581,000, 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.

A state appropriation in the amount of approximately $103,974,000 was authorized and received for the year ended September 30, 2015.

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 $104,977,000 has been authorized for the year ending September 30, 2016. This represents a $1,003,000 increase from the fiscal 2015 appropriation received. While no announcement has been made, the University is aware that reductions in its 2016 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 2016 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 G. Scott Weldon; Vice-President for Finance and Administration; 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 year ended September 30, 2015, 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 audit. We did not audit the 2015 consolidated financial statements of the University of South Alabama Foundation, which represents 87%, 101%, and 41%, respectively, of the 2015 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, the Gulf Coast Regional Care Organization, 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 audit 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, 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1(y) to the basic financial statements, in 2015, the University adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1-12 and the schedule of the University's proportionate share of the net pension liability and schedule of University's contributions on pages 68 and 69 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 13, 2015, 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 13, 2015

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

Statement of Net Position

September 30, 2015

(In thousands)

Current assets:		
Cash and cash equivalents	$	95,938
Investments		61,531
Net patient accounts receivable, (net of allowance for doubtful accounts of $62,726)		31,747
Accounts receivable, affiliates		20,169
Accounts receivable, other		8,292
Notes receivable, net		5,365
Prepaid expenses, inventories, and other		10,898
Total current assets		233,940
Noncurrent assets:		
Restricted cash and cash equivalents		31,324
Restricted investments		96,386
Investments		115,770
Accounts receivable		2,345
Notes receivable, net		481
Other noncurrent assets		2,233
Capital assets, net		609,630
Total noncurrent assets		858,169
Total assets		1,092,109
Deferred outflows		22,842
Total assets and deferred outflows		1,114,951
Current liabilities:		
Accounts payable and accrued liabilities		53,244
Unrecognized revenue		58,224
Deposits		2,302
Current portion of long-term debt		18,358
Total current liabilities		132,128
Noncurrent liabilities:		
Long-term debt, less current portion		386,402
Net pension liability		297,734
Other long-term liabilities		67,744
Total noncurrent liabilities		751,880
Total liabilities		884,008
Deferred inflows		35,891
Total liabilities and deferred inflows		919,899
Net position:		
Net investment in capital assets		246,567
Restricted, nonexpendable:		
Scholarships		20,844
Other		22,581
Restricted, expendable:		
Scholarships		12,629
Other		47,477
Unrestricted		(155,046)
Total net position	$	195,052

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Financial Position

June 30, 2015

(In thousands)

Assets

Cash and cash equivalents	$	1,234
Investments:		
Equity securities		132,514
Timber and mineral properties		157,064
Real estate		66,320
Other		5,803
Other assets		580
Total assets	$	363,515

Liabilities and Net Assets

Liabilities:		
Accounts payable	$	322
Other liabilities		701
Total liabilities		1,023
Net assets:		
Unrestricted		96,885
Temporarily restricted		96,033
Permanently restricted		169,574
Total net assets		362,492
Total liabilities and net assets	$	363,515

See accompanying notes to basic financial statements.

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

Statement of Financial Position

September 30, 2015

(In thousands)

Assets		
Current assets:		
Cash and cash equivalents	$	13
Patient accounts receivable (net of allowance for uncollectible accounts of approximately $5,201)		12,280
Other current assets		1,221
Total current assets		13,514
Interest in assets of University of South Alabama Professional Liability Trust Fund		16,593
Property and equipment, net		2,459
Total assets	$	32,566
Liabilities and Net Deficit		
Current liabilities:		
Accounts payable	$	1,012
Due to affiliates		17,924
Total current liabilities		18,936
Estimated professional liability costs		16,593
Total liabilities		35,529
Net deficit		(2,963)
Total liabilities and net deficit	$	32,566

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statement of Net Position

September 30, 2015

(In thousands)

Assets:		
Current assets:		
Unrestricted cash and cash equivalents	$	695
Rent receivable		143
Prepaid expenses and other current assets		4
Total current assets		842
Noncurrent assets:		
Intangible assets, net		47
Capital assets, net		23,040
Total noncurrent assets		23,087
Deferred outflows		3,383
Total assets and deferred outflows		27,312
Liabilities:		
Current liabilities:		
Deposits, other current liabilities, and accrued expenses		166
Payable to University of South Alabama		162
Unrecognized rent revenue		378
Current portion of notes payable		1,001
Total current liabilities		1,707
Noncurrent liabilities:		
Notes payable, excluding current portion		21,316
Interest rate swap		3,383
Total noncurrent liabilities		24,699
Total liabilities		26,406
Net position:		
Net investment in capital assets		574
Unrestricted		332
Total net position	$	906

See accompanying notes to basic financial statements.

GULF COAST REGIONAL CARE ORGANIZATION
(Discretely Presented Component Unit)

Statement of Net Position

September 30, 2015

(In thousands)

Assets:		
Current assets:		
Cash and cash equivalents	$	147
Total current assets		147
Total assets		147
Liabilities:		
Noncurrent liabilities:		
Due to affiliate		50
Total noncurrent liabilities		50
Total liabilities		50
Net position:		
Unrestricted		97
Total net position	$	97

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2015

(In thousands)

Operating revenues:		
Tuition and fees (net of scholarship allowances of $34,910)	$	120,265
Net patient service revenue (net of provision for bad debts of $64,168)		271,655
Federal grants and contracts		16,811
State grants and contracts		8,727
Private grants and contracts		60,218
Auxiliary enterprises (net of scholarship allowances of $1,080)		21,777
Other operating revenues		57,068
Total operating revenues		556,521
Operating expenses:		
Salaries and benefits		433,679
Supplies and other services		169,873
Scholarships and fellowships		8,687
Utilities		15,061
Depreciation and amortization		33,728
Total operating expenses		661,028
Operating loss		(104,507)
Nonoperating revenues (expenses):		
State appropriations		103,974
Investment loss		(10,718)
Interest expense		(15,758)
Other nonoperating revenues		36,669
Other nonoperating expenses		(7,652)
Net nonoperating revenues		106,515
Income before capital contributions, grants and additions to endowment		2,008
Capital contributions and grants		2,784
Additions to endowment		4,447
Change in net position		9,239
Net position:		
Beginning of year, before cumulative effect of change in accounting principle		499,550
Cumulative effect of change in accounting principle		(313,737)
Beginning balance, as adjusted		185,813
End of year	$	195,052

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, 2015

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Net realized and unrealized gains on investments	$ 40,749	5,871	—	46,620
Rents, royalties and timber sales	4,006	168	14	4,188
Interest and dividends	192	1,948	6	2,146
Gifts	—	3	14	17
Required match of donor contributions	(18)	4	14	—
Interfund interest	(191)	191	—	—
Net assets released from program restrictions	3,061	(3,061)	—	—
Total revenues, gains, and other support	47,799	5,124	48	52,971
Expenditures:				
Program services:				
Faculty support	2,440	—	—	2,440
Scholarships	1,101	—	—	1,101
Other	1,190	—	—	1,190
Total program service expenditures	4,731	—	—	4,731
Management and general	1,869	—	—	1,869
Other investment expense	1,976	—	—	1,976
Depletion expense	4,898	—	—	4,898
Depreciation expense	95	—	—	95
Interest expense	46	—	—	46
Total expenditures	13,615	—	—	13,615
Increase in net assets	34,184	5,124	48	39,356
Net assets – beginning of year	62,701	90,909	169,526	323,136
Net assets – end of year	$ 96,885	96,033	169,574	362,492

See accompanying notes to basic financial statements.

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

Statement of Operations and Changes in Net Assets (Deficit)

Year ended September 30, 2015

(In thousands)

Unrestricted revenues, gains and other support:		
Net patient service revenue	$	76,797
Provision for uncollectible accounts		(14,772)
Net patient service revenue less provision for uncollectible accounts		62,025
Other revenue		11,213
Total unrestricted revenues, gains, and other support		73,238
Expenses:		
Salaries and benefits		55,195
General and administrative		17,072
Depreciation and amortization		1,624
Total expenses		73,891
Operating loss		(653)
Nonoperating gains		1,622
Revenues over expenses		969
Transfer of capital to University of South Alabama, College of Medicine		(6,800)
Change in net assets (deficit)		(5,831)
Net assets at beginning of year		2,868
Net deficit at end of year	$	(2,963)

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2015

(In thousands)

Operating revenues	$	3,647
Total operating revenues		3,647
Operating expenses:		
Building management and operating expenses		1,136
Depreciation and amortization		992
Legal and administrative fees		229
Insurance		3
Total operating expenses		2,360
Operating income		1,287
Nonoperating revenues (expenses):		
Investment income		2
Interest expense		(1,267)
Other		4
Net nonoperating expenses		(1,261)
Change in net position		26
Net position:		
Beginning of year		880
End of year	$	906

See accompanying notes to basic financial statements.

GULF COAST REGIONAL CARE ORGANIZATION
(Discretely Presented Component Unit)

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2015

(In thousands)

Operating revenues:		
Contract revenues	$	1,879
Operating expenses:		
Third party administration expense		1,681
Management company expense		99
Other operating expense		2
Total operating expenses		1,782
Operating income		97
Change in net position		97
Net position:		
Beginning of year		—
End of year	$	97

See accompanying notes to basic financial statements.

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

Statement of Cash Flows

Year ended September 30, 2015

(In thousands)

Cash flows from operating activities:	
Receipts related to tuition and fees	$ 120,977
Receipts from and on behalf of patients and third-party payers	276,589
Receipts from grants and contracts	74,765
Receipts related to auxiliary enterprises	24,303
Payments to suppliers and vendors	(181,166)
Payments to employees and related benefits	(413,532)
Payments for scholarships and fellowships	(8,687)
Other operating receipts	59,390
Net cash used in operating activities	(47,361)
Cash flows from noncapital financing activities:	
State appropriations	103,973
Endowment gifts	4,447
Agency funds received	1,221
Agency funds disbursed	(1,226)
Student loan program receipts	142,053
Student loan program disbursements	(142,591)
Other nonoperating revenues	25,864
Other nonoperating expenses	(6,209)
Net cash provided by noncapital financing activities	127,532
Cash flows from capital and related financing activities:	
Capital contributions and grants	2,786
Purchases of capital assets	(48,115)
Proceeds from sale of capital assets	3,846
Proceeds from issuance of capital debt	7,263
Principal payments on capital debt	(15,643)
Interest payments on capital debt	(10,846)
Net cash used in capital and related financing activities	(60,709)
Cash flows from investing activities:	
Interest and dividends on investments	15,028
Purchases of investments	(87,545)
Proceeds from sales of investments	52,068
Net cash used in investing activities	(20,449)
Net decrease in cash and cash equivalents	(987)
Cash and cash equivalents (unrestricted and restricted):	
Beginning of year	128,249
End of year	$ 127,262

(Continued)

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

Statement of Cash Flows

Year ended September 30, 2015

(In thousands)

Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(104,507)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense		33,728
Changes in assets and liabilities, net:		
Student receivables		(2,813)
Net patient accounts receivables		(1,403)
Grants and contracts receivables		(10,815)
Other receivables		2,483
Prepaid expenses, inventories, and other		3,644
Accounts payable and accrued liabilities		26,131
Unrecognized revenue		6,191
Net cash used in operating activities	$	(47,361)
Noncash investing, noncapital financing, and capital and related financing transactions:		
Net decrease in fair value of investments recognized as a component of investment income	$	(14,238)
Addition of capital lease		17,226
Additional maturity on capital appreciation on bonds payable and other borrowings recorded as interest expense		1,627
Gifts of capital and other assets		70
Capitalization of construction period interest		390
Increase in accounts payable related to capital assets		722

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.

The University has adopted GASB Statement No. 61, 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, 2015, the University reports the University of South Alabama Foundation (USA Foundation), the University of South Alabama Health Services Foundation (USAHSF), the USA Research and Technology Corporation (the Corporation), and the Gulf Coast Regional Care Organization (RCO) 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 15 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 HCM). The HCM 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 HCM. The HCM commenced operations in October 2010 and is reported as a blended component unit (see note 18 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, HCM and SAMSF are the only participants. In accordance with the bylaws of the PLTF, the president of the University is responsible for appointing members of the PLTF policy committee. Additionally, the general liability of the University, USAHSF, HCM, 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. 18, 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 18 for further discussion of, and disclosure for, these entities).

(d) University of South Alabama Foundation

The USA Foundation is a not-for-profit corporation 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 year ended September 30, 2015 were $4,639,000, and are primarily included in other nonoperating revenues and capital contributions and grants in the University's statement 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 statement of financial position and statement of activities and changes in net assets for the USA Foundation as of and for the year ended June 30, 2015 are discretely presented.

(Continued)

(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 $53,958,000 for the year ended September 30, 2015, and are reflected as private grants and contracts in the accompanying statement of revenues, expenses, and changes in net position of the University. The USAHSF presents its financial statements in accordance with standards issued by the FASB. The accompanying statement of financial position and statement of operations and changes in net assets (deficit) for the USAHSF for the year ended September 30, 2015 is 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 statement of net position and statement of revenues, expenses and changes in net position for the Corporation are discretely presented.

(g) Gulf Coast Regional Care Organization

The RCO is a not-for-profit corporation that exists for the purpose of creating and operating a community-led network to coordinate the heath care of Medicaid patients in a seven county region of southwest Alabama. The RCO commenced operations in April 2015. For the initial eighteen month period between April 1, 2015 and September 30, 2016, the RCO is operating a health home program that provides certain case management services to qualifying Medicaid beneficiaries. Beginning October 1, 2016, it is anticipated that the RCO will be responsible for the care of all Medicaid patients in the region. Because of the significance of the relationship between the University and the RCO, the RCO is considered a component unit of the University. The RCO presents its financial statements in accordance with GASB. The accompanying statement of net position and statement of revenues, expenses and change in net position for the RCO are discretely presented.

(h) 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, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*. 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.

(i) 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.

(j) 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.

(k) Investments and Investment Income

Investments are recorded at fair value. The fair value of alternative investments (low-volatility multi-strategy funds of funds), 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 some of these investments are not readily 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).

(l) 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 10, 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, 2015.

The University determined that as of September 30, 2015, the remaining swaption was not a hedging derivative instrument. As a result of that determination, the swaption is required to be reported as an investment derivative with the change in fair value flowing through the statement of revenues, expenses and changes in net position.

The fair value of the outstanding swaption was $(22,468,000) at September 30, 2015. At September 30, 2015, the fair value of the swaption is included in other long-term liabilities in the accompanying statement of net position. The change in fair value for the year ended September 30, 2015 was $(8,277,000), and was included in investment loss in the accompanying statement of revenues, expenses, and changes in net position for the year ended September 30, 2015. 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 (LIBOR) 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 the fair value of the swap ($44,000 at September 30, 2015) is reported as a deferred outflow and derivative liability on the 2015 statement of net position since the interest rate swap is a hedging derivative. See note 10 for further discussion.

(m) 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.

(n) 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.

(o) 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

(Continued)

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 statement 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 year ended September 30, 2015, no impairments were recorded.

(p) 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.

(q) Cost Sharing Multi-Employer Pension Plan

Employees of the University are covered by a cost sharing multiple-employer defined benefit pension plan administered by the Teachers' Retirement System of Alabama (TRS). The TRS financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the GASB. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

(Continued)

(r) 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.

(s) 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 statement 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 non-exchange 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.

(t) 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.

(u) 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 non-exchange transactions, such as gifts and contributions, and other revenue sources such as state appropriations and investment income.

(v) 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 Non-exchange 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.

(w) 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.

(Continued)

(x) ***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.

The Hospitals recognized Medicare EHR incentive revenues of $5,244,000 for the year ended September 30, 2015. EHR incentive revenues are included in other operating revenues in the accompanying statement of revenues, expenses and changes in net position.

(y) ***Recently Adopted Accounting Pronouncements***

In 2015, the University adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 changes accounting and financial reporting for entities participating in a cost sharing plan. GASB Statement No. 68 required 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 the net pension liability of the TRS. The adoption of the provisions of GASB Statement No. 68 resulted in a restatement of beginning unrestricted net position at October 1, 2014 by decreasing unrestricted net position $313,737,000. See note 12 for a further discussion.

(z) ***Compensated Absences***

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

(Continued)

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, 2015, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately $9,690,174,000. The University had cash and cash equivalents totaling $127,262,000 at September 30, 2015.

At September 30, 2015, restricted cash and cash equivalents consist of $2,300,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, $1,689,000 related to collateral requirements of the HCM and $27,335,000 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 "Non-endowment 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 non-endowment 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, certain 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, 2015 (in thousands):

U.S. Treasury notes	$	8,869
U.S. federal agency notes		99,914
Pooled equity mutual funds		82,179
Pooled debt mutual funds		38,740
Managed income alternative investments (low-volatility multi-strategy funds of funds)		29,171
Other		14,814
	$	273,687

At September 30, 2015, $15,052,000 of appreciation in fair value of investments of donor-restricted endowments was recognized and is included in restricted expendable net position in the accompanying statement 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, 2015 is as follows:

	Credit rating	Percentage of total investments
Federal Home Loan Mortgage Corporation	AAA	8.7%
Federal Home Loan Bank Corporation	AAA	7.4
Federal National Mortgage Association	AAA	4.6
Common Fund Bond Fund	A+	12.3
PIMCO Pooled Bond Fund	A/BA/AA	1.9
Federal Farm Credit Banks Funding Corporation	AAA	15.1
Federal Agricultural Mortgage Corporation	AAA	0.8
Common Fund Equity Fund	N/A*	13.9

*Credit rating not applicable.

Interest Rate Risk

At September 30, 2015, 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	$	8,869	3,698	5,171	—	—
U.S. federal agency notes		99,914	9,388	90,526	—	—
Pooled debt mutual funds		38,740	1,192	33,658	3,890	—
	$	147,523	14,278	129,355	3,890	—

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.

(Continued)

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, 2015.

At September 30, 2015, restricted investments consist of $46,408,000 related to investments included in the PLTF and GLTF to pay insurance liability claims and $49,978,000 in required collateral related to the 2006 swaption and the interest rate swap.

(b) ***University of South Alabama Foundation***

Investments in securities consist primarily of equity securities totaling $132,514,000 at June 30, 2015.

Investment income was comprised of the following for the year ended June 30, 2015 (in thousands):

Unrealized gains	$	42,901
Realized gains		3,719
Timber sales		3,360
Interest and dividends		2,146
Rents		713
Royalties		115
	$	52,954

Investment related expenses in the amount of $322,000 are included in the USA Foundation's management and general expenses in the accompanying 2015 consolidated statement of activities and changes in net assets.

Real estate at June 30, 2015 consisted of the following property held (in thousands):

Land and land improvements – held for investment	$	65,269
Building and building improvements – held for investment		1,051
	$	66,320

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, 2015, 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, 2015, are summarized based on the criteria of ASC 820 as follows (in thousands):

	Fair value measurements at June 30, 2015			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 72,836	59,678	—	132,514
Timber and mineral properties	—	—	157,064	157,064
Real estate	—	—	66,320	66,320
Other investments	—	—	5,803	5,803
	$ 72,836	59,678	229,187	361,701

For the year ended June 30, 2015, 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	$	156,320	31,007	6,054	193,381
Total gains (losses) (realized/unrealized)		4,667	35,346	(251)	39,762
Dispositions		(81)	—	—	(81)
Reforestation		1,056	—	—	1,056
Depreciation/depletion		(4,898)	(33)	—	(4,931)
Ending balance	$	157,064	66,320	5,803	229,187

As of June 30, 2015, the Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of the Foundation's equity securities at June 30, 2015 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 10, in December 2013, the counterparty exercised its option with respect to the 2004 swaption. The University refunded its Series 2004 bonds, and issued the Series 2014-A variable rate bond. As a result of the exercise of the option by the counterparty, the swaption was terminated and 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 statement of revenues, expenses and changes in net position for the year ended September 30, 2014. An original 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 amount of $6,595,000, in the statement of net position at September 30, 2015.

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 2015 statement of net position. Interest is being accreted on, and added to, the borrowings through the expiration date of the option. For the year ended September 30, 2015, $355,000 was accreted and is included in interest expense in the statement of revenues, expenses, and changes in net position.

The fair value of the embedded investment derivative is reported as an investment asset, if the swaption derivative is an asset, or other noncurrent liability, depending on the fair value of the swaption derivative. The change in the fair market value of the swaption derivative is reported as a component of investment income (loss) in the statement of revenues, expenses and changes in net position. At September 30, 2015, the negative fair value of the swaption derivative is approximately $22,468,000 and is included in other long-term liabilities in the accompanying statement of net position. For the year ended September 30, 2015, the change in the fair value of the derivative was ($8,277,000).

Fair Value

At September 30, 2015, the total of the embedded derivative associated with the outstanding swaption had a negative fair value of $22,468,000. The fair value of this swaption derivative was 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 swap is 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 derivative 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, 2015, the swap counterparty was rated Aa1 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, 2015, 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, 2015 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		108,311	51,300	(76,698)	—	82,913
		130,827	51,300	(76,698)	—	105,429
Capital assets being depreciated:						
Land improvements		31,395	56	956	(46)	32,361
Buildings, fixed equipment, and infrastructure		601,425	4,849	72,109	(1,552)	676,831
Other equipment		150,682	5,909	3,633	(9,563)	150,661
Library materials		60,632	3,332	—	—	63,964
		844,134	14,146	76,698	(11,161)	923,817
Less accumulated depreciation for:						
Land improvements		(18,419)	(871)	27	45	(19,218)
Buildings, fixed equipment, and infrastructure		(221,060)	(18,589)	719	1,282	(237,648)
Other equipment		(110,871)	(11,377)	(746)	9,338	(113,656)
Library materials		(46,308)	(2,786)	—	—	(49,094)
		(396,658)	(33,623)	—	10,665	(419,616)
Capital assets being depreciated, net		447,476	(19,477)	76,698	(496)	504,201
Capital assets, net	$	578,303	31,823	—	(496)	609,630

(Continued)

At September 30, 2015, the University had commitments of approximately $30,800,000 related to various construction projects.

(b) USA Research and Technology Corporation

Changes in capital assets for the year ended September 30, 2015 are as follows (in thousands):

		Beginning balance	Additions	Transfers	Reductions	Ending balance
Land improvements	$	2,199	—	—	—	2,199
Buildings		27,917	6	—	—	27,923
Tenant improvements		913	59	—	—	972
Construction in progress		—	143	—	—	143
Other equipment		256		—	—	256
		31,285	208	—	—	31,493
Less accumulated depreciation for:						
Land improvements		(936)	(94)	—	—	(1,030)
Buildings		(5,867)	(717)	—	—	(6,584)
Tenant improvements		(547)	(125)	—	—	(672)
Other equipment		(141)	(26)	—	—	(167)
		(7,491)	(962)	—	—	(8,453)
Capital assets, net	$	23,794	(754)	—	—	23,040

(7) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the year ended September 30, 2015 follows (in thousands):

		Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:							
Bonds payable	$	395,306	7,627	(14,579)	388,354	14,978	373,376
Notes payable		—	1,264	—	1,264	1,264	—
Capital lease obligation		—	17,226	(2,084)	15,142	2,116	13,026
Total long-term debt		395,306	26,117	(16,663)	404,760	18,358	386,402
Other non-current liabilities							
Net pension liability		—	337,603	(39,869)	297,734	—	297,734
Other long-term liabilities		65,924	35,228	(26,726)	74,426	6,682	67,744
Total other non-current liabilities		65,924	372,831	(66,595)	372,160	6,682	365,478
Total noncurrent liabilities	$	461,230	398,948	(83,258)	776,920	25,040	751,880

Other long-term liabilities primarily consist of net pension liability, 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, 2015 (in thousands):

University Tuition Revenue Bonds, Series 1999 Capital Appreciation, 4.70% to 5.25%, payable November 2011 through November 2018	$	24,933
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006 5.00%, payable through December 2036		100,000
University Facilities Revenue and Capital Improvement Bonds, Series 2008, 3.00% to 5.00%, payable through August 2038		101,715
University Facilities Revenue and Capital Improvement Bonds, Series 2010, 3.81%, payable through August 2030		24,330
University Facilities Revenue Capital Improvement Bond, Series 2012-A, 2.92% payable through August 2032		22,067
University Facilities Revenue Capital Improvement Bond, Series 2012-B, 2.14% payable through August 2018		3,990
University Facilities Revenue Capital Improvement Bond, Series 2013-A, 2.83% payable through August 2033		29,542
University Facilities Revenue Capital Improvement Bond, Series 2013-B, 2.83% payable through August 2033		7,386
University Facilities Revenue Capital Improvement Bond, Series 2013-C, 2.78% payable through August 2025		8,892
University Facilities Revenue Refunding Bond, Series 2014-A, variable rate payable at 68% of LIBOR plus .73%, payable through March 2024		40,775
University Facilities Revenue Capital Improvement Bond, Series 2015, 2.47% payable through August 2030		5,625
Borrowing arising from swaption, Series 2006 Bonds		6,595
Borrowing arising from interest rate swap		7,768
		383,618
Plus unamortized premium		4,904
Less unaccreted discount		(23)
Less unamortized debt extinguishment costs		(145)
	$	388,354

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 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 began maturing in March 2015 and is redeemable at any time. The Series 2015 bond began maturing in August 2015 and is redeemable beginning in June 2020.

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 component is included in long-term debt. As a result of this transaction, the counterparty has the option to compel the University to redeem its 2006 bonds at their respective redemption dates. See note 5 for a complete description of this transaction.

During the year ended September 30, 2015, the maturity value of the Capital Appreciation Bonds increased $1,272,000, over the original principal amount of $19,810,000, reflecting accretion of interest.

Approximately $2,594,000 of proceeds from the issuance of the Series 2012 Bond remained unspent at September 30, 2015 and is included in restricted cash and cash equivalents in the 2015 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

Approximately $20,616,000 of proceeds from the issuance of the Series 2013-A Bond remained unspent at September 30, 2015 and is included in restricted cash and cash equivalents in the 2015 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

Approximately $4,125,000 of proceeds from the issuance of the Series 2015 Bonds remained unspent at September 30, 2015 and is included in restricted cash and cash equivalents in the 2015 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, 2015, 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, 2015, management believes the University was in compliance with such financial covenants.

In April 2015, the University signed a seven-year purchase agreement as a method of financing the purchase of certain computer software and hardware for the USA Health System. Also, in July 2015, the University signed a second seven-year purchase agreement as a method of financing additional laboratory software and hardware for the USA Health System. See Note 9 for further disclosure.

In March 2015, the University entered into a variable interest rate revolving line of credit with Compass Bank to, among other reasons, fund the acquisition of certain real property by the USA Health System. The total amount available under the line of credit is $5,000,000 and interest on the outstanding amounts accrued at the rate of the London Interbank Offered Rate (LIBOR) plus 1.00%. The maturity date is March 26, 2016.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Notes to Basic Financial Statements
September 30, 2015

The amount outstanding at September 30, 2015 is $1,264,000 and is reported in current portion of long-term debt in the current liabilities section of the statement of net position. See Note 16(c) for further disclosure.

Debt Service on Long-Term Obligations

Total debt service (which includes bonds and notes payable) by fiscal year is as follows as of September 30, 2015 (in thousands):

	Debt service on note and bonds			
	Principal	Interest	Additional maturity	Total
2016	$ 16,095	14,154	(1,099)	29,150
2017	18,552	13,427	(782)	31,197
2018	18,900	13,081	(427)	31,554
2019	17,831	12,763	(49)	30,545
2020	16,823	12,278	—	29,101
2021-2025	89,772	52,000	—	141,772
2026-2030	88,541	37,588	—	126,129
2031-2035	80,556	19,476	—	100,032
2036-2038	40,169	3,040	—	43,209
Subtotal	387,239	177,807	(2,357)	562,689
Plus (less):				
Additional maturity	(2,357)			
Unamortized bond premium	4,904			
Unaccreted bond discount	(23)			
Unamortized debt extinguishment costs	(145)			
Total	$ 389,618			

The principal amount of debt service due on bonds at September 30, 2015 includes $2,356,000 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, 2015, is $188,000 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, 2015 (in thousands):

Wells Fargo, N.A. promissory note, one-month LIBOR plus 0.85% (1.043% at September 30, 2015) payable through 2028	$	13,772
PNC Bank promissory note, 4.50%, payable through 2021		8,545
	$	22,317

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. During December 2014, the Corporation negotiated a reduction in the interest rate from 4.88% to 4.5%. All other terms of the note remain unchanged. PNC Bank acquired the promissory note as part of its acquisition of RBC Bank (USA) on March 20, 2012. The Corporation agreed not to 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 2015 the Corporation's debt service coverage ratio was 1.33 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2015. Further, management believes that, based on existing leases and service contracts and agreements, the debt service coverage ratio for fiscal 2016 will still exceed 1 to 1.

Debt Service on Long-Term Obligations

At September 30, 2015, total debt service by fiscal year is as follows (in thousands):

		Debt service on note and loan		
		Principal	Interest	Total
2016	$	1,001	1,212	2,213
2017		1,062	1,151	2,213
2018		1,119	1,094	2,213
2019		1,194	1,020	2,214
2020		1,264	949	2,213
2021–2025		12,822	2,244	15,066
2026–2028		3,855	336	4,191
Total	$	22,317	8,006	30,323

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 $725,945 under the interest rate swap agreement for the year ended September 30, 2015, which is reflected as an increase in interest expense.

Fair value. The interest rate swap had a negative fair value of $(3,383,221) at September 30, 2015. The changes in fair value are reported as deferred outflows on the accompanying statement 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, 2015, 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 Aa1 by Moody's Investors Services and AA- by Standard & Poor's Ratings Services as of September 30, 2015.

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, 2015, 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, 2015, 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**
2016	$ 738	142	691	1,571
2017	787	134	650	1,571
2018	832	127	613	1,572
2019	893	116	562	1,571
2020	949	106	516	1,571
2021–2025	5,719	366	1,772	7,857
2026–2028	3,854	57	280	4,191
Total	$ 13,772	1,048	5,084	19,904

(9) Capital Lease Obligation

In April 2015, the University signed a seven-year purchase agreement as a method of financing the purchase of certain computer software and hardware for the USA Health System. Also, in July 2015, the University signed a second seven-year purchase agreement as a method of financing additional laboratory software and hardware for the USA Health System.

Future minimum capital lease payments at September 30, 2015, are as follows (in thousands).

Year ending September 30:		
2016	$	2,609
2017		2,609
2018		2,609
2019		2,609
2020		2,609
Thereafter		3,913
		16,958
Less amounts representing interest		(1,816)
Net minimum lease payments	$	15,142

(10) 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 2015 interest rate swap as long-term-debt in the amount of $7,768,000 the 2015 statement of net position.

The change in the fair value of the swap, $44,000, at September 30, 2015, is reported as a deferred outflow and derivative liability on the statement 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 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, 2015, 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 becomes positive, the University would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa1 by Moody's Investor Services and AA – by Standard & Poor's Ratings Services as of September 30, 2015.

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
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	925	2,775
2020	6,925	1,136	768	8,829
2021–2024	31,440	2,235	1,301	34,976
Total	$ 40,775	7,204	6,887	54,866

(11) 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.

(Continued)

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. During fiscal year 2015, USA Medical Center has received a final settled 2010 and 2011 cost report. USA Medical Center's 2012 and 2013 cost reports are still not settled. Audit work has been ongoing during this fiscal year on 2012 with no settlements received. The 2013 cost report was amended and the 2014 cost report was filed. During fiscal year 2015, USA Children's and Women's Hospital's 2011 and 2012 cost reports were resettled. The 2013 cost report was amended and the 2014 cost report was filed. Revenue from the Medicare program accounted for approximately 17% of the Hospitals' net patient service revenue for the year ended September 30, 2015.

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 Blue Cross retroactive settlements for USA Medical Center and USA Children's and Women's Hospital for 2013 were issued in October 2014. 2014 cost reports were filed timely during 2015 and USA Medical Center has been audited and was settled in July 2015. The 2014 cost report for USA Children's and Women's Hospital has been audited but not settled. The settlement due is fully reserved, and repayment is due to begin in November 2015. Revenue from the Blue Cross program accounted for approximately 23% of the Hospitals' net patient service revenue for the year ended September 30, 2015.

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 36% of the Hospitals' net patient service revenue for the year ended September 30, 2015.

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 year ended September 30, 2015 follows (in thousands):

Gross patient service revenue	$	621,147
Less provision for contractual and other adjustments		(285,324)
Less provision for bad debts		(64,168)
	$	271,655

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately $8,010 in net patient service revenue for the year ended September 30, 2015.

(12) Defined Benefit Cost Sharing Pension Plan

Employees of the University are covered by a cost sharing multiple-employer defined benefit pension plan administered by the TRS.

Plan description

The TRS was established in September 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). Title 16-Chapter 25 of the code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Benefits provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after ten years of creditable service. Tier 1 TRS members who retire after age sixty with ten years or more creditable service or with twenty-five years of services (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or formula method, with the member receiving payment under the method that yields the higher monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest three of the last ten years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age sixty-two with ten years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest five of the last ten years) for each year of service. Members are eligible for disability retirement if they have ten years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated form further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status, and eligibility for retirement.

Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered Tier 1 members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2014 was 11.71% of annual pay for Tier 1 members and 11.08% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were $22,798,000 for the year ended September 30, 2015.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the University reported a liability of $297,734,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actual valuation as of September 30, 2013. The University's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2014, the University's proportion was 3.322348%, which was a decrease of 0.167423% from its proportion measured as of September 30, 2013.

For the year ended September 30, 2015, the University recognized pension expense of approximately $19,747,000. At September 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$	—	22,630,000
Changes in proportion and differences between employer contributions and proportionate share of contributions		—	13,261,000
Employer contributions subsequent to measurement date		22,798,000	—
	$	22,798,000	35,891,000

Approximately $22,798,000 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30,		
2016	$	8,741,000
2017		8,741,000
2018		8,741,000
2019		8,741,000
2020		927,000
	$	35,891,000

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2013 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return*	8.00%
Projected salary increases	3.50% - 8.25%

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2013, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of the fiscal year 2012. Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rate of return for each major asset class are as follows:

	Target Allocation	Long-term Expected Rate of Return*
Fixed Income	25.00%	5.00%
U. S. Large Stocks	34.00	9.00
U. S. Mid Stocks	8.00	12.00
U. S. Small Stocks	3.00	15.00
International Developed Market Stocks	15.00	11.00
International Emerging Market Stocks	3.00	16.00
Real Estate	10.00	7.50
Cash	2.00	1.50
	100.00%	

* Includes assumed rate of inflation of 2.50%

Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate

The following table presents the University's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage point higher (9%) than the current rate (in thousands):

	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
University's proportionate share of collective net pension liability	$405,606	$297,734	$206,305

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2014. The auditors' report dated May 1, 2015 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating entities as of September 30, 2014 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

(13) Other Employee Benefits

(a) Other Pension Plans

Employees of the University also participate in a defined contribution pension plan. 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 $759,000 in 2015, representing 343 employees participating in this Plan.

All employees of the HCM 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 HCM up to a maximum of 5% of current annual pay. The HCM and the employees contributed $3,111,000 in 2015 representing 1,090 employees participating in this plan. University employees as of September 30, 2010 who later transfer to the HCM are immediately vested in the plan. All other employees do not vest until they have held employment with the HCM 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 statement of net position includes accruals for vacation pay and paid time off of approximately $15,163,000 at September 30, 2015. 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 applying 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 year ended September 30, 2015, the University's expense related to PEEHIP was $8,461,000.

(14) Risk Management

The University, USAHSF, HCM and SAMSF participate in the professional liability trust fund and the University, USAHSF, HCM, 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 year ended September 30, 2015. 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 HCM participate in a self-insured health plan, administered by an unaffiliated entity. Administrative fees paid by the University for such services were approximately $1,849,000 in 2015. 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 year ended September 30, 2015 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

Balance, beginning of year	$	29,792
Liabilities incurred and other additions		56,829
Claims, administrative fees paid and other reductions		(63,491)
Balance, end of year	$	23,130

Self-insurance liabilities due within one year are included in accounts payable and accrued liabilities and the noncurrent portion is included in other long-term liabilities in the accompanying statement of net position.

(15) 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, 2015, SAMSF had total assets of $12,986,000, net assets of $9,887,000, and total revenues of $4,062,000. SAMSF reimburses the University for certain administrative expenses and other related support services. Total amounts received for such expenses were approximately $600,000 in 2015, and are reflected as private grants and contracts in the accompanying statement of revenues, expenses, and changes in net position.

(16) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2015, the University had been awarded approximately $23,610,000, 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 year ended September 30, 2015.

(c) Line of Credit

In March 2015, the University entered into a variable interest rate revolving line of credit with Compass Bank to, among other reasons, fund the acquisition of certain real property by the USA Health System. The total amount available under the line of credit is $5,000,000 and interest on the outstanding amounts accrue at the rate of the London Interbank Offered Rate (LIBOR) plus 1.00% with a maturity date of March 26, 2016. The amount outstanding at September 30, 2015 is $1,264,000 and is reported as debt in the current liabilities section of the statement of net position as of September 30, 2015.

(d) Letter of Credit

In connection with RCO participation in the Alabama Medicaid Agency's Home Health Regional Care Organization Program, the HCM has established a $1,689,000 irrevocable standby letter of credit with Hancock Bank. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds were advanced under this letter during the year ended September 30, 2015. As a requirement of the issuance of this letter of credit, the HCM is required to establish collateral in the same amount as the letter of credit. As such, a collateral account in the amount of $1,689,000 has been established and is included in restricted cash and cash equivalents on the statement of net position as of September 30, 2015.

(e) HCM Commitment

In September 2015, the HCM entered into a commitment to the RCO. This letter commits the HCM to contribute cash or other assets to the RCO only upon the execution of a contract between the RCO and the Alabama Medicaid Agency to provide medical services to Medicaid patients on a capitated basis. The amount of the commitment is $6,644,000. As of September 30, 2015, no amounts have been paid to the RCO.

(f) Federal Program Review

In November 2014, the University was the subject of a program review conducted by the U. S. Department of Education. The program review assessed the University's administration of Title IV, HEA programs for the 2013-2014 fiscal year and the first two months of the 2015 fiscal year. A draft report has been subsequently received by the University and a response to this draft has been sent to the U.S. Department of Education. No final report has been issued. Management believes that there will be no liability to the University beyond that which is reported in the financial statements.

(g) 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 statement of revenues, expenses, and changes in net position of the University.

(h) 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, 2015, no amounts were payable pursuant to these agreements.

(i) Sale of Brookley Campus

On September 29, 2010, the University and the USA Foundation executed a 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 was recorded as an installment sale. As such, during the year ended September 30, 2015, the University reported a gain on the sale of $2,289,000, which is reported as other nonoperating revenues in the 2015 statement of revenues, expenses and changes in net position.

(j) USA Research and Technology Corporation 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. 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 47,218 square feet at September 30, 2015.

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 expiring in March 2020 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, 2015. 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 year are as follows (in thousands):

2016	$	1,982
2017		1,792
2018		1,601
2019		999
2020		653
2021–2046		6,262
Total	$	13,289

(17) Functional Expense Information

Operating expenses by functional classification for the year ended September 30, 2015 are listed below (in thousands). In preparing the basic financial statements, all significant transactions and balances among accounts have been eliminated (in thousands).

Instruction	$	125,495
Research		23,132
Public service		44,677
Academic support		20,097
Student services		31,348
Institutional support		29,925
Operation and maintenance of plant		31,503
Scholarships		7,602
Hospital		295,447
Auxiliary enterprises		18,074
Depreciation and amortization		33,728
	$	661,028

(Continued)

(18) Blended Component Units

As more fully described in notes 1(b) and 1(c), the HCM, PLTF and GLTF are considered component units pursuant to the provisions of GASB Statement No. 61. In accordance with that statement, the HCM, PLTF and GLTF are reported as blended component units. Required combining financial information of the aggregate blended component units is presented below (in thousands):

Current assets	$	14,032
Noncurrent assets		48,709
Total assets		62,741
Noncurrent liabilities		62,026
Total liabilities		62,026
Net position	$	715
Operating revenues	$	131,622
Operating expenses		(131,410)
Operating income		212
Nonoperating expenses		(20)
Change in net position	$	192

(19) Significant New (Future) Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application.* GASB Statement No. 72 provides hierarchical guidance for determining a fair value measurement for assets and liabilities for financial reporting purposes and also provides guidance for required disclosures related to fair value measurements and is effective for the University's fiscal year ending September 30, 2016. In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Statement No. 73 establishes requirements for defined benefit and defined contribution pension plans that are not within the scope of Statement No. 68 and, with certain modifications, extends the accounting and reporting approach established in Statement No. 68 to all pensions. GASB Statement No. 73 is effective for the fiscal year ending September 30, 2016. In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* GASB Statement No. 75 changes accounting and financial reporting for entities which participate in plans providing postemployment benefits other than pensions and will be effective for the University's year ending September 30, 2018. Also in June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Statement No. 76 identifies the hierarchy of generally accepted accounting principles for entities, reduces the GAAP hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment of a transaction is not specified within a source of authoritative GAAP. GASB Statement No. 76 is effective for the University's fiscal year ending September 30, 2016.

The effect of the implementation of GASB Statements Nos. 72, 73, 75 and 76 on the University has not yet been determined.

REQUIRED SUPPLEMENTARY INFORMATION

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Schedule of the University's Proportionate Share of the Net Pension Liability (Unaudited)

Teachers' Retirement Plan of Alabama

September 30, 2015

University's proportion of the net pension liability		3.322348%
University's proportionate share of the net pension liability	$	297,734,000
University's covered-employee payroll		201,858,000
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll		147.50%
Plan fiduciary net position as a percentage of the total pension liability		71.01%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of University's Contributions (Unaudited)

Teachers' Retirement Plan of Alabama

September 30, 2015

Contractually required contribution	$	23,524,000
Contributions in relation to the contractually required contribution		23,524,000
Contribution deficiency (excess)	$	—
University's covered-employee payroll	$	201,858,000
Contributions as a percentage of covered-employee payroll		11.65%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

September 30, 2015

(1) Summary of Cost Sharing Pension Plan Provisions and Assumptions

Employees of the University of South Alabama (the University) are covered by a cost sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement System (TRS) of the State of Alabama.

(a) Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2013 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return*	8.00
Projected salary increases	3.50–8.25

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2013, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of the fiscal year 2012.

Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females. The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding expected inflation.

(b) Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

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			$ 347,526	—	347,526
Federal Work Study Program	84.033			451,923	—	451,923
Federal Pell Grant Program	84.063			20,341,848	—	20,341,848
Federal Direct Student Loan Program	84.268			119,900,135	—	119,900,135
Teacher Education Assistance for College and Higher Education	84.379			16,873	—	16,873
Nurse Faculty Loan Program	93.264			112,748	—	112,748
Total Student Financial Aid Cluster				141,171,053	—	141,171,053
Research and Development Cluster:						
U.S. Department of Agriculture:						
Plant and Animal Disease Pest Control and Animal Care	10.025			153,532	—	153,532
Plant and Animal Disease Pest Control and Animal Care	10.025			8,912	—	8,912
Total CFDA				162,444	—	162,444
Wetlands Reserve Program	10.072			1,100	—	1,100
Forestry Research	10.652			(12,582)	—	(12,582)
Forestry Research	10.652			83,423	—	83,423
Total CFDA				70,841	—	70,841
Total U.S. Department of Agriculture				234,385	—	234,385
U.S. Department of Commerce:						
Economic Development Support for Planning Organizations	11.302			70,753	—	70,753
Sea Grant Support	11.417	USM-GR04867-01	Mississippi-Alabama Sea Grant	—	24,118	24,118
Sea Grant Support	11.417	USM-GR03924-R/HCE-04-PD	University of Southern Mississippi	—	9,934	9,934
Sea Grant Support	11.417	USM-GR05069-01	University of Southern Mississippi	—	1,712	1,712
Sea Grant Support	11.417	080100.340557.01	Mississippi State University	—	9,531	9,531
Sea Grant Support	11.417	130206	University of Southern Mississippi	—	15,570	15,570
Total CFDA				—	60,865	60,865
Fisheries Development and Utilization Research	11.427			122,422	—	122,422
Marine Fisheries Initiative	11.433			130,596	—	130,596
Cooperative Fishery Statistics	11.434	150294	Alabama Department of Conservation and Natural Resources	—	2,183	2,183
Unallied Management Projects	11.454			(3,718)	—	(3,718)
Unallied Management Projects	11.454	15–15	Texas A&M University	—	7,442	7,442
Total CFDA				(3,718)	7,442	3,724
Center for Sponsored Coastal Ocean Research – Coastal Ocean	11.478			28,441	—	28,441
Center for Sponsored Coastal Ocean Research – Coastal Ocean	11.478	ORSP-10097-20096-1	Florida Gulf Coast University	—	88,545	88,545
Total CFDA				28,441	88,545	116,986
Arrangements for Interdisciplinary Research Infrastructure	11.619	140453	Colorado State University	—	21,834	21,834
Total U.S. Department of Commerce				348,494	180,869	529,363
U.S. Department of Defense:						
Procurement Technical Assistance For Business Firms	12.002	140151	Small Business Innovation	—	6,095	6,095
Procurement Technical Assistance For Business Firms	12.002	150228	Small Business Innovation	—	16,879	16,879
Procurement Technical Assistance For Business Firms	12.002	150027	DxDiscovery, Inc.	—	37,088	37,088
Total CFDA				—	60,062	60,062
Basic and Applied Scientific Research	12.300	TAI-13-1113	Thermoanalytics, Inc.	—	37,434	37,434
Basic Scientific Research – Combating Weapons of Mass Destruction	12.351			653,582	—	653,582
Military Medical Research and Development	12.420	130457	The Geneva Foundation	—	3,652	3,652
Basic Scientific Research	12.431			(2,015)	—	(2,015)
Basic Scientific Research	12.431			57,228	—	57,228
Basic Scientific Research	12.431	DARPA2015A-02	Sage Bionetworks	—	3,792	3,792
Total CFDA				55,213	3,792	59,005
Basic, Applied, and Advanced Research in Science and Engineering	12.630	RSC15035	University of Dayton Research Institute	—	35,071	35,071
Research and Technology Development	12.910	RD198-S1	Georgia Institute of Technology	—	18,966	18,966
Total U.S. Department of Defense				708,795	158,977	867,772

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2015

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
U.S. Department of Interior:						
Mineral Management Services Environmental Studies Program	15.423	159	University of New Orleans	$ —	33,377	33,377
Sport Fish Restoration Program	15.605	140103	Alabama Department of Conservation and Natural Resources	—	95,743	95,743
Sport Fish Restoration Program	15.605	150159	Alabama Department of Conservation and Natural Resources	—	45,130	45,130
Sport Fish Restoration Program	15.605	140425	Alabama Department of Conservation and Natural Resources	—	27,018	27,018
Total CFDA				—	167,891	167,891
National Park Service Conservation, Protection, Outreach and Education	15.954			47,574	—	47,574
National Park Service Conservation, Protection, Outreach and Education	15.954	P11AC90959	National Park Service	—	11,211	11,211
Total CFDA				47,574	11,211	58,785
Total U.S. Department of Interior				47,574	212,479	260,053
U.S. Department of Transportation:						
Highway Planning and Construction	20.205	140473	Neel-Schaffer, Inc.	—	1,258	1,258
Highway Planning and Construction	20.205	930-841R	Alabama Department of Transportation	—	49,262	49,262
Highway Planning and Construction	20.205	930-839R	Alabama Department of Transportation	—	66,588	66,588
Highway Planning and Construction	20.205	930-856R	Alabama Department of Transportation	—	24,986	24,986
Highway Planning and Construction	20.205	TASK ORDER 5000	Kilgore Consulting & Management	—	6,908	6,908
Highway Planning and Construction	20.205	130073	The University of Alabama	—	1,981	1,981
Total CFDA				—	150,983	150,983
Total U.S. Department of Transportation				—	150,983	150,983
National Aeronautics and Space Administration:						
Exploration	43.003	XHAB 2016-7 15280	National Space Grant Foundation	—	4,086	4,086
Education	43.008	XHAB 2014-02	National Space Grant Foundation	—	2,507	2,507
Education	43.008	2013-067	University of Alabama in Huntsville	—	3,634	3,634
Education	43.008	XHAB 2014-02	National Space Grant Foundation	—	(655)	(655)
Education	43.008	140277	National Space Grant Foundation	—	17,480	17,480
Total CFDA				—	22,966	22,966
Total National Aeronautics and Space Administration				—	27,052	27,052
National Science Foundation:						
Engineering Grants	47.041			26,139	—	26,139
Engineering Grants	47.041			59,978	—	59,978
Engineering Grants	47.041			2,595	—	2,595
Engineering Grants	47.041			667,000	—	667,000
Engineering Grants	47.041	4101-66727	Purdue University	—	5,321	5,321
Total CFDA				755,712	5,321	761,033
Mathematical and Physical Sciences	47.049			50,157	—	50,157
Mathematical and Physical Sciences	47.049			27,944	—	27,944
Mathematical and Physical Sciences	47.049			42,430	—	42,430
Total CFDA				120,531	—	120,531
Geosciences	47.050			18,629	—	18,629
Geosciences	47.050			75,297	—	75,297
Geosciences	47.050			104,724	—	104,724
Geosciences	47.050			24,407	—	24,407
Total CFDA				223,057	—	223,057
Computer and Information Science and Engineering	47.070			154,724	—	154,724
Computer and Information Science and Engineering	47.070			68,403	—	68,403
Computer and Information Science and Engineering	47.070			436,220	—	436,220
Computer and Information Science and Engineering	47.070			40,120	—	40,120
Computer and Information Science and Engineering	47.070			904	—	904
Total CFDA				700,371	—	700,371
Biological Sciences	47.074			177,264	—	177,264
Biological Sciences	47.074	NYBG-120619710-USAM	New York Botanical Gardens	—	7,013	7,013
Biological Sciences	47.074	14-BS-200511-USA	Auburn University	—	5,324	5,324
Total CFDA				177,264	12,337	189,601
Social Behavioral and Economic Sciences	47.075			35,617	—	35,617

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2015

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
Education and Human Resources	47.076			$ 10,060	—	10,060
Education and Human Resources	47.076			108,771	—	108,771
Education and Human Resources	47.076	USM-GR05135-002	University of Southern Mississippi	—	24,196	24,196
Total CFDA				118,831	24,196	143,027
Polar Programs	47.078			22,884	—	22,884
Office of Experimental Programs	47.081	34-21530-200-76190	Tuskegee University	—	31,655	31,655
Total National Science Foundation				2,154,267	73,509	2,227,776
U.S. Environmental Protection Agency:						
Dendritic Polymers as Biocompatible	66.509	1614-218-2008962	Clemson University	—	3,681	3,681
Total U. S. Environmental Protection Agency				—	3,681	3,681
U.S. Department of Energy:						
Basic Energy Sciences University and Science Education	81.049	DE-SC0002470	University of Alabama	—	20,264	20,264
Basic Energy Sciences University and Science Education	81.049	UA13-073	University of Alabama	—	347	347
Total CFDA				—	20,611	20,611
Nuclear Energy Research, Development, and Demonstration	81.121	246281	Battelle Memorial Institute, Pacific NW Division	—	33,557	33,557
Island World: A Small World Simulation	81.UNK	4000137203	Oak Ridge National Laboratory	—	9,524	9,524
Total U. S. Department of Energy				—	63,692	63,692
U.S. Department of Health and Human Services:						
Environmental Health	93.113	HSR-SSS-S-14-003667	Social and Scientific Systems Inc.	—	581,754	581,754
Environmental Health	93.113	130272	Lynntech, Inc.	—	46,148	46,148
Environmental Health	93.113	150121	Trevigen Inc.	—	97,911	97,911
Total CFDA				—	725,813	725,813
Minority Health and Health Disparities Research	93.307			1,252,436	—	1,252,436
Minority Health and Health Disparities Research	93.307	USM-GR04826-01	University of Southern Mississippi	—	58,137	58,137
Total CFDA				1,252,436	58,137	1,310,573
Trans – NIH Research Support	93.310			46,485	—	46,485
Nursing Research	93.361			69,474	—	69,474
National Center for Research Resources	93.389			5,863	—	5,863
Cancer Cause and Prevention Research	93.393			1,226,225	—	1,226,225
Cancer Cause and Prevention Research	93.393	000369558-001	University of Alabama at Birmingham	—	1,031	1,031
Total CFDA				1,226,225	1,031	1,227,256
Cancer Detection and Diagnosis Research	93.394			72,120	—	72,120
Cancer Detection and Diagnosis Research	93.394			263,022	—	263,022
Total CFDA				335,142	—	335,142
Cancer Treatment Research	93.395			499,273		499,273
Cancer Treatment Research	93.395	27469-02	University of Alabama	—	430	430
Cancer Treatment Research	93.395	9500080215-12C	Children's Hospital of Philadelphia	—	80,053	80,053
Total CFDA				499,273	80,483	579,756
Cancer Biology Research	93.396			880,250	—	880,250
Cancer Research Manpower	93.398			26,118	—	26,118
NIH Recovery Act Research Support	93.701	9500010213	Children's Hospital of Philadelphia	—	(73,178)	(73,178)
ARRA – National Center for Research Resources, Recovery Act Construction Support	93.702			(2,250)	—	(2,250)
Cardiovascular Diseases Research	93.837			382,101	—	382,101
Cardiovascular Diseases Research	93.837			245,875	—	245,875
Cardiovascular Diseases Research	93.837	PS#107223	Brigham and Women's Hospital	—	3,656	3,656
Total CFDA				627,976	3,656	631,632
Lung Diseases Research	93.838			3,457,818	—	3,457,818
Lung Diseases Research	93.838	080-18007-S11201	Thomas Jefferson University	—	63,880	63,880
Total CFDA				3,457,818	63,880	3,521,698
Blood Diseases and Resources Research	93.839	130317	Cincinnati Children's Hospital Medical Center	—	7,429	7,429
Blood Diseases and Resources Research	93.839	T098327	Emory University	—	150,620	150,620

(Continued)

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
Blood Diseases and Resources Research	93.839	136444	Children's Hospital Medical Center	$ —	218	218
Total CFDA				—	158,267	158,267
Clinical Research Related to Neurological Disorders	93.853	0019741(121423-1)	University of Pittsburgh	—	24,027	24,027
National Institutes of Health	93.UNK	150238	University of Maryland	—	3,375	3,375
Allergy Immunology and Transplantation Research	93.855			438,292	—	438,292
Allergy Immunology and Transplantation Research	93.855			102,455	—	102,455
Allergy Immunology and Transplantation Research	93.855			(981)	—	(981)
Allergy Immunology and Transplantation Research	93.855			306,406	—	306,406
Allergy Immunology and Transplantation Research	93.855	2012-2764	The Regents of the University of California	—	48,987	48,987
Allergy Immunology and Transplantation Research	93.855	USA-13597-3	Seattle Biomedical Research Institute	—	19,643	19,643
Total CFDA				846,172	68,630	914,802
Pharmacology Physiology and Biological Chemistry	93.859			157,627	—	157,627
Pharmacology Physiology and Biological Chemistry	93.859			213,500	—	213,500
Pharmacology Physiology and Biological Chemistry	93.859	130270	Exscien	—	68,324	68,324
Total CFDA				371,127	68,324	439,451
Aging Research	93.866			22,702	—	22,702
Total U.S. Department of Health and Human Services				9,664,811	1,182,445	10,847,256
Total Research and Development Cluster				13,158,326	2,053,687	15,212,013
Other federal assistance:						
U.S. Department of Commerce:						
Congressionally Identified Projects	11.617			854,723	—	854,723
Total U.S. Department of Commerce				854,723	—	854,723
U.S. Department of Transportation						
Highway Research and Development Program	20.200	TASK ORDER 12005	Kilgore Consulting & Management	—	1,624	1,624
Total U.S. Department of Transportation				—	1,624	1,624
National Aeronautics and Space Administration:						
Aerospace Education Services Program	43.001	SUB 2010-178-A14-01	University of Alabama in Huntsville	—	12,566	12,566
Aerospace Education Services Program	43.001	SUB2010-176-A12	University of Alabama in Huntsville	—	(50)	(50)
Aerospace Education Services Program	43.001	SUB2010-176-A16	University of Alabama in Huntsville	—	4,219	4,219
Aerospace Education Services Program	43.001	140244	University of Alabama in Huntsville	—	212	212
Aerospace Education Services Program	43.001	SUB2010-176-A16	University of Alabama in Huntsville	—	657	657
Total CFDA				—	17,604	17,604
Technology Transfer	43.002	Various	University of Alabama in Huntsville	—	20,594	20,594
Education	43.008	140309	University of Alabama in Huntsville	—	60,191	60,191
Education	43.008	150366	University of Alabama in Huntsville	—	3,000	3,000
Education	43.008	150366	University of Alabama in Huntsville	—	1,888	1,888
Total CFDA				—	65,079	65,079
Total National Aeronautics and Space Administration				—	103,277	103,277
National Science Foundation:						
Education and Human Resources	47.076	150374	University of Southern Mississippi	—	1,194	1,194
Education and Human Resources	47.076	12-120333	Mobile Area Education Foundation Inc.	—	27,244	27,244
Education and Human Resources	47.076	000398033-006	University of Alabama at Birmingham	—	52,941	52,941
Education and Human Resources	47.076			461,160	—	461,160
Total CFDA				461,160	81,379	542,539
ARRA - Trans-NSF Recovery Act Research Support	47.082			173,764	—	173,764
Total National Science Foundation				634,924	81,379	716,303
U. S. Environmental Protection Agency:						
Science to Achieve Results	66.514			6,480	—	6,480
U.S. Department of Education:						
Title I Grants to Local Educational Agencies	84.010	15-150303	Alabama State Department of Education	—	14,264	14,264
Special Education Grants to States	84.027	15-15304	Alabama State Department of Education	—	10,000	10,000
TRIO Cluster:						
TRIO Talent Search	84.044			308,092	—	308,092

(Continued)

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2015

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
TRIO Upward Bound	84.047			$ 244,815	—	244,815
Total TRIO Cluster				552,907	—	552,907
Special Education – State Personnel Development	84.323	U500130	Alabama State Department of Education	—	30,664	30,664
Mathematics and Science Partnerships	84.366	U400315	Alabama State Department of Education	—	64,946	64,946
Mathematics and Science Partnerships	84.366	U400316	Alabama State Department of Education	—	101,868	101,868
Mathematics and Science Partnerships	84.366	Various	Alabama State Department of Education	—	370,568	370,568
Total CFDA				—	537,382	537,382
Improving Teacher Quality State Grants	84.367	Various	Alabama State Department of Education	—	48,103	48,103
Improving Teacher Quality State Grants	84.367	Various	Alabama Commission on Higher Education	—	203,495	203,495
Total CFDA				—	251,598	251,598
Total U.S. Department of Education				—	843,908	843,908
U.S. Department of Health and Human Services:						
Alzheimer's Disease Demonstration Grants to States	93.051	13-130338	South Alabama Regional Planning Commission	—	12,691	12,691
Well-Integrated Screening and Evaluation for Women Across the Nation	93.094	C50119148(GC-15-264)	Center for Disease Control and Prevention	—	11,098	11,098
Well-Integrated Screening and Evaluation for Women Across the Nation	93.094	C50119148(GC-15-264)	State of Alabama Department of Public Health	—	3,179	3,179
Total CFDA				—	14,277	14,277
HIV Demonstration Program for Children, Adolescents	93.153			366,809	—	366,809
HIV Demonstration Program for Children, Adolescents	93.153			1,608	—	1,608
Total CFDA				368,417	—	368,417
Advanced Education Nursing Grant Programs	93.247			279,044	—	279,044
Universal Newborn Hearing Screening	93.251	C50119125(CG-15-224)	State of Alabama Department of Public Health	—	7,412	7,412
Centers for Disease Control	93.283	Various	State of Alabama Department of Public Health	—	72,187	72,187
The Affordable Care Act: Centers for Disease Control and Prevention	93.283	150209	State of Alabama Department of Public Health	—	6,308	6,308
Total CFDA				—	78,495	78,495
Minority Health and Health Disparities Research	93.307	USM-GR04826-01	University of Southern Mississippi		32,800	32,800
Advanced Education Nursing Traineeships	93.358			224,030	—	224,030
Nurse Education, Practice Quality, and Retention Grants	93.359			508,276	—	508,276
Health Care Innovation Awards	93.610	9185-01	Alabama Medicaid Agency	—	19,522	19,522
Strong Start for Mothers and Newborns	93.611			319,623	—	319,623
Strong Start for Mothers and Newborns	93.611			30,138	—	30,138
Total CFDA				349,761	—	349,761
Foster Care Title IV-E	93.658	140348	University of Alabama	—	105,231	105,231
ARRA-Health Information Technology Regional Extension Centers Program	93.718			863,677	—	863,677
State Children's Insurance Program	93.767	150019	University of Alabama at Birmingham	—	3,303	3,303
Medicaid	93.778	11-152A9279	Alabama Medicaid Agency	—	358,283	358,283
Grants for Primary Care Training and Enhancement	93.884			141,700	—	141,700
Grants for Primary Care Training and Enhancement	93.884			189,462	—	189,462
Grants for Primary Care Training and Enhancement	93.884			197,874	—	197,874
Total CFDA				529,036	—	529,036
National Bioterrorism Hospital Preparedness Program	93.889	Various	State of Alabama Department of Public Health	—	1,153,472	1,153,472
HIV Care Formula Grants	93.917	140276	United Way of Central Alabama	—	34,924	34,924
HIV Care Formula Grants	93.917	150312	United Way of Central Alabama	—	6,828	6,828
Total CFDA				—	41,752	41,752
Cooperative Agreements to Support State-Based Infant	93.946	140012	Mobile County Health Department	—	117,965	117,965
Maternal and Child Health Services Block Grant	93.994	Various	State of Alabama Department of Public Health	—	1,933	1,933
Total U.S. Department of Health and Human Services				3,122,241	1,947,136	5,069,377
Corporation for National and Community Service:						
AmeriCorp Recovery	94.006			23,444	—	23,444
Office of National Drug Control Policy						
High Intensity Drug Trafficking Areas Program	95.001	3HUS	State of Alabama Department of Public Safety	—	(2,135)	(2,135)
Total other federal assistance				4,641,812	2,975,189	7,617,001
Total federal expenditures				$ 159,524,098	5,028,876	164,552,974

*Indicates major program

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 2015 statement of net position and consist of the following loan programs:

	CFDA #		Outstanding amount at September 30, 2015	Amount advanced in 2015
Federal Perkins Loan Program	84.038	$	3,511,372	596,750
Nurse Faculty Loan Program	93.264		513,042	112,748
Nurse Faculty Loan Program ARRA	93.408		22,027	—
		$	4,046,441	709,498

(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 2015, which were not originated 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, 2015.

(Continued)

During the year ended September 30, 2015, the University advanced to students the following amounts of new loans under Direct Loan Programs:

		Amount advanced
Stafford loans	$	22,821,960
Unsubsidized Stafford loans		75,188,689
Parent Loans for Undergraduate Students		21,889,486
Total	$	119,900,135

(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, 2015:

	Federal CFDA #		Amounts expended
Marine Fisheries Initiative	11.433	$	124,593
Unallied Management Projects	11.454		(2,862)
Basic Scientific Research- Combating Weapons of Mass Destruction	12.351		209,099
National Park Service Conservation Protection Outreach and Education	15.954		4,477
Engineering grants	47.041		1,873
Geosciences	47.050		16,012
Education and Human Resources	47.076		12,068
HIV Demonstration Program for Children Adolescents and Women	93.153		9,818
Trans- NIH Research Support	93.310		24,675
Cancer Cause and Prevention Research	93.393		316,967
ARRA-Health Information Technology Regional Extension Centers Program	93.718		232,506
Cancer Biology Research	93.396		102,420
Lung Diseases Research	93.838		438,964
Allergy Immunology and Transplantation Research	93.855		1,372
Grants for Residency Training for General Pediatrics	93.884		10,100
Sea Grant Support	11.417		7,493
Center for Sponsored Coastal Ocean Research - Coastal Ocean	11.478		(1,589)
Mineral Management Services Environmental Studies Program	15.423		(6,021)
Mathematics and Science Partnerships	84.366		81,140
Improving Teacher Quality State Grants	84.367		129,452
		$	1,712,557

(6) Matching

Under the Federal Supplemental Education Opportunity Grant Program, the University matched $147,702 in funds awarded to students for the year ended September 30, 2015 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, 2015, 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 13, 2015. 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, the Gulf Coast Regional Care Organization, 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.

KPMG

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 13, 2015

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, 2015. 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, 2015.

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, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated November 13, 2015, 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 13, 2015

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Findings and Questioned Costs
Year ended September 30, 2015

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

Dollar threshold used to distinguish between type A and type B programs:	$ 701,457
Auditee qualified as low-risk auditee?	__x__ yes 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, 2015.

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, 2015.

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

November 13, 2015

Audit Committee
of the Board of Trustees
University of South Alabama:

Ladies and Gentlemen:

In planning and performing our audit 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 year ended September 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the University's 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.

During our audit we noted a certain matter involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit I.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the University's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss this comment and recommendation with you at any time.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Exhibit I

Schedule of Federal Awards (SEFA)

The University's SEFA as of September 30, 2015, excluded thirteen federally funded awards with expenditures totaling $982,462 that related to fiscal year 2015. These awards were originally misclassified as non-federal expenditures in the University's books and records. The University's SEFA for the year ended September 30, 2015 was understated by $982,462 due to the omission of these programs. In addition, the SEFA was not properly reconciled to the University's general ledger as of September 30, 2015. The University's controls surrounding the preparation and review of the SEFA at year-end were not sufficient to ensure the completeness and accuracy of the report.

Recommendation:

We recommend the University implement reconciliation and management review procedures to ensure that all Federal awards received and expended are properly reported in the SEFA at each year-end and the SEFA is properly reconciled to the general ledger.

Management Response:

The September 30, 2015 SEFA has been corrected; however, the University agrees with the recommendation and has implemented expanded agreement review and fund set-up procedures. The new procedures include expanded agreement review checklists, management review of new agreements, as well as management review of fund set-up and modification for accuracy and completeness through the year. The Office of Grants and Contracts staff has been advised on all revisions to the procedures.

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

November 13, 2015

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 and for the year ended September 30, 2015 and issued our report thereon under date of November 13, 2015. 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 basic financial statements in accordance with auditing standards generally accepted in the United States of America. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the basic financial statements as a whole 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 basic 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 as a basis for designing audit procedures that are appropriate in the circumstances 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 over financial reporting. 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. 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 Practices and Alternative Treatments

Significant Accounting Policies

The significant accounting policies used by the University are described in Note 1 to the basic financial statements. As described in Note 1 to the basic financial statements, in order to comply with the requirements of the Governmental Accounting Standards Board (GASB), the University adopted GASB No. 68, *Accounting and Financial Reporting for Pensions* in 2015.

Unusual Transactions

There were no transactions entered into by the University during the year that were both significant and unusual and of which, under professional standards, we are required to inform you, or transactions for which there is lack of authoritative guidance or consensus.

Qualitative Aspects of Accounting Practices

We have discussed with the Audit Committee of the Board of Trustees and management our judgments about the quality, not just the acceptability, of the University's accounting principles as applied in its financial reporting. 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 basic 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 basic 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 basic financial statements of the University taken as a whole.

Uncorrected and Corrected Misstatements

There were no uncorrected or corrected 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 would have caused a modification of our auditors' reports 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, 2015.

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.

Confirmation of Audit Independence

We hereby confirm that as of November 13, 2015, we are independent accountants with respect to the University under relevant professional and regulatory standards.

* * * * * * *

This report to the audit committee is intended solely for the information and use of the audit 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 permission in each specific instance.

Very truly yours,

KPMG LLP

Jackson, Mississippi

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

January 30, 2015

Mr. Stephen H. Simmons
Vice President for Finance and Administration
307 University Boulevard, AD180
Mobile, Alabama 36688

Dear Steve:

This letter (the Engagement Letter) confirms our understanding of our engagement to provide professional services to the University of South Alabama (the University).

Objectives and Limitations of Services

Financial Statement Audit Services

You have requested that we audit the University's financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, with the objective of expressing an opinion as to whether the presentation of the financial statements that have been prepared by management with the oversight of those charged with governance, conforms with U.S. generally accepted accounting principles.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud, to provide a reasonable basis for our opinion on the financial statements. We also will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements will be planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. Also, an audit is not designed to detect matters that are immaterial to the financial statements, and because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to detect abuse.

Subject to the remainder of this paragraph, we will issue a written report upon completion of our audit of the University's financial statements addressed to the Board of Trustees of the University. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add emphasis-of-matter or other-matter paragraphs or withdraw from the engagement. If, during the performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the audit committee our reasons for modification or withdrawal.

While our report may be sent to the University electronically for your convenience, only the hard copy report is to be relied upon as our work product.

Internal Control over Financial Reporting and Compliance and Other Matters

In making our risk assessments as part of planning and performing our audit of the financial statements, we will consider the University's internal control relevant to the preparation and fair presentation of the financial statements in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the University's internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the University's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the University's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements, this report will include any material weaknesses and significant deficiencies to the extent they come to our attention. 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 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. This report will also include instances of:

- Fraud and noncompliance with provisions of laws or regulations that have a material effect on the financial statements or other financial data significant to the audit objectives and any other instances that warrant the attention of those charged with governance;

- Noncompliance with provisions of contracts or grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives; or

- Abuse that is material, either quantitatively or qualitatively.

The report will describe its purpose and will state that it is not suitable for any other purpose.

In accordance with *Government Auditing Standards*, we will also issue a management letter to communicate instances of noncompliance with provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but warrant the attention of those charged with governance.

OMB Circular A-133 Audit Services

We will also perform audit procedures with respect to the University's major federal programs in accordance with the provisions of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133). OMB Circular A-133 includes specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts, and grant agreements that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of OMB Circular A-133, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with laws, regulations, contracts, and grant agreements applicable to each of the University's major programs. The tests of internal control performed in accordance with OMB Circular A-133 are less in scope than would be necessary to render an opinion on internal control.

In relation to compliance with the program requirements applicable to its federal programs, management acknowledges and understands its responsibility for:

- Identifying the University's government programs and understanding and complying with the compliance requirements.
- Establishing and maintaining effective controls that provide reasonable assurance that the University administers government programs in compliance with the compliance requirements.
- Evaluating and monitoring the University's compliance with the compliance requirements.
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit.

We will perform tests of the University's compliance with certain provisions of laws, regulations, contracts, and grant agreements we determine to be necessary based on the *OMB Circular A-133 Compliance Supplement (Compliance Supplement)*. The procedures outlined in the *Compliance Supplement* are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

As required by OMB Circular A-133, we will prepare a written report which provides our opinion on the schedule of expenditures of federal awards in relation to the University's financial statements. In addition, we will prepare a written report (A-133 report) which 1) provides our opinion on compliance with laws, regulations, contracts, and grant agreements that could have a direct and material effect on a major federal program and 2) communicates our consideration of internal control over major federal programs. The A-133 report will describe its purpose and will state that it is not suitable for any other purpose.

Offering Documents

Should the University wish to include or incorporate by reference these financial statements and our audit reports thereon into an offering of exempt securities, prior to our consenting to include or incorporate by reference our reports on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future offering documents will be determined at the time the services are to be performed.

Should the University wish to include or incorporate by reference these financial statements and our audit reports thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our reports on such financial statements, and we are not otherwise associated with the offering document, then the University agrees to include the following language in the offering document:

> "KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement."

Our Responsibility to Communicate with the Audit Committee

We will report to the audit committee or those charged with governance, in writing, the following matters:

- Material, corrected misstatements that were brought to the attention of management as a result of audit procedures.
- Uncorrected misstatements accumulated by us during the audit and the effect that they, individually or in the aggregate, may have on our opinion in the auditor's report, and the effect of uncorrected misstatements related to prior periods.
- Significant difficulties and disagreements with management, if any, encountered during our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

We will also read minutes, if any, of relevant committee meetings for consistency with our understanding of the communications made to the audit committee and determine that the audit committee has received copies of all material written communications between ourselves and management. We will also determine that the audit committee has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

To the extent that they come to our attention, we will inform the appropriate level of management about any illegal acts, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud. Further, to the extent they come to our attention, we also will communicate directly to the audit committee illegal acts that come to our attention, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud that involve senior management or that, in our judgment, cause a material misstatement of the financial statements.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the auditee.

Management Responsibilities

The management of the University acknowledges and understands that they have responsibility for the preparation and fair presentation, in accordance with U.S generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the University complies with laws, regulations, contracts, and grant agreements applicable to its activities, and for informing us of any known material violations of such laws and regulations and provisions of contracts and grant agreements. Management also is responsible for preventing and detecting fraud, including the design and implementation 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. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management of the University also acknowledges and understands that it is their responsibility to provide us with: i) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements and the compliance requirements applicable to its federal programs such as records, documentation, and other matters; ii) additional information that we may request from management for purposes of the audits; and iii) unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. As required by auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with the compliance requirements applicable to federal programs as discussed above, OMB Circular A-133 also requires the University to prepare a:

- Schedule of expenditures of federal awards;
- Summary schedule of prior audit findings;
- Corrective action plan; and
- Data collection form (Part I).

KPMG

While we may be separately engaged to assist you in the preparation of these items, preparation is the responsibility of the University.

Certain provisions of OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental audit cost arising from such selection. The University agrees to notify KPMG LLP (KPMG) of any such request by a granting agency and to work with KPMG to modify the terms of this letter as necessary to accommodate such a request.

To facilitate our audit planning, in accordance with *Government Auditing Standards*, management agrees to identify and provide copies of reports, if applicable, of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented, prior to September 30, 2015.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon, taken as a whole. Because of the importance of management's representations to the effective performance of our services, the University will release KPMG and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss asserted, whether in contract, statute, tort (including but not limited to negligence) or otherwise.

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAGAS or A-133 report within 30 days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the reports, the reports will indicate the status of management's responses.

Management is responsible for the distribution of the reports issued by KPMG.

Use of Internal Audit

Management and the Board of Trustees acknowledges and understands that internal auditors providing direct assistance to us will be allowed to follow our instructions and that personnel of the University will not intervene in the work the internal auditor performs for us. Further, management and the Board of Trustees acknowledges and understands that if, in our sole judgment, we believe the objectivity of internal auditors providing direct assistance to us has been impaired, we will be unable to use the work performed or planned to be performed.

Government Auditing Standards require external and internal auditors to meet minimum Continuing Professional Education (CPE) hours. Therefore, management is responsible for monitoring and documenting the compliance with the Government Auditing Standards CPE hours of those internal auditors assigned to the audit in direct assistance roles.

Dispute Resolution

Any dispute or claim arising out of or relating to this Engagement Letter or the services provided hereunder, or any other audit or attest services provided by or on behalf of KPMG or any of its subcontractors or agents to the University or at its request, shall be submitted first to non-binding mediation (unless either party elects to forego mediation by initiating a written request for arbitration) and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution ("CPR Arbitration Rules"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. By operation of this provision, the parties agree to forego litigation over such disputes in any court of competent jurisdiction.

Mediation, if selected, may take place at a location to be designated by the parties using Mediation Procedures of the International Institute for Conflict Prevention and Resolution, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in New York, New York. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in CPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm and enforce any final award entered in arbitration, in any court of competent jurisdiction. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.

Other Matters

This letter shall serve as the University's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the University and between KPMG and outside specialists or other entities engaged by either KPMG or the University. The University acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, the University hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all logos, trademarks and service marks of the University solely for presentations or reports to the University or for internal KPMG presentations and intranet sites.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.

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.

The audit documentation for this engagement is the property of KPMG. Pursuant to *Government Auditing Standards*, we are required to make certain audit documentation available in a full and timely manner to regulators upon request for their reviews of audit quality and for use by their auditors. In addition, we may also be requested to make certain audit documentation available to regulators pursuant to authority provided by law or regulation. If so requested, access to such audit documentation will be provided. Furthermore, regulators may obtain copies of selected audit documentation. Such regulators may intend, or decide, to distribute the copies or information contained therein to others, including other government agencies.

In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents and/or testimony relating to this engagement for the University in judicial or administrative proceedings to which KPMG is not a party, the University shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

Other Government Auditing Standards Matters

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

Additional Reports and Fees for Services

Appendix I to this letter lists the additional reports we will issue as part of this engagement and our fees for professional services to be performed under this letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to those in this letter.

* * * * * * *

Our engagement herein is for the provision of annual audit services for the financial statements and OMB Circular A-133 and for the periods described in Appendix I, and it is understood that such services are provided as a single annual engagement. Pursuant to our arrangement as reflected in this letter we will provide the services set forth in Appendix I as a single engagement for each of the University's subsequent fiscal years until either those charged with governance or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by those charged with governance.

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 to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

Very truly yours,

KPMG LLP

Mark P. Peach
Partner

MPP:jm

ACCEPTED:

University of South Alabama

Stephen H. Simmons

Stephen H. Simmons
Vice President for Finance and Administration

2/2/15

Date

Fees for Services

Based upon our discussions with and representations of management, our fees for services we will perform are estimated as follows:

	2015	2016	2017
Audits of financial statements of University of South Alabama as of and for the years ended September 30, 2015, 2016 and 2017 and other reports detailed below (includes KPMG performing substantially all audit procedures related to OMB Circular A-133 audit of two major programs)	$550,000	$565,000	$580,000

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
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. The above fees do not consider any time associated with implementing any future GASB pronouncements (such as GASB 68). Any additional time associated with future GASB pronouncements will be billed separately. 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.

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

November 12, 2015

PRIVATE

University of South Alabama
Attn: Mr. G. Scott Weldon
Vice President for Financial Affairs
307 University Boulevard North, AD 170
Mobile, Alabama 36688-0002

Dear Scott:

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 2006, University Facilities Revenue Capital Improvement Bonds, Series 2008, University Facilities Revenue Capital Improvement Bond, Series 2010, University Facitities 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, University Facilities Revenue Refunding Bond, Series 2014-A and the University Facilities Revenue Capital Improvement Board, Series 2015, as of September 30, 2015 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, 2015, and compare that amount to the general student fees recorded in the University's general ledger and ensure that they agree.

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

University of South Alabama

Mr. G. Scott Weldon
Vice President for Financial Affairs

Date 11/13/15

UNIVERSITY OF SOUTH ALABAMA

OFFICE OF THE PRESIDENT

TELEPHONE: (251) 460-6111
MOBILE, ALABAMA 36688-0002

November 13, 2015

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 audit of the 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, 2015, for the purpose of expressing opinions as to whether these basic financial statements present fairly 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 accordance 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, 2015.

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 13, 2015, the following representations made to you during your audit:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 30, 2015, 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 audit.

   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 summarized in the accompanying schedule, if any, 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.

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 organizations, joint ventures, and jointly governed organizations, 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 audit.

19. 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 financial statements disclose all other joint ventures and other related organizations.

20. 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*.

21. 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.

22. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

23. 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 thos dealing with Medicare and Medicaid andtifraud 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.

24. 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.

25. 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.

26. Deposits and investment securities are properly classified and reported.

27. 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.

28. 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.

29. 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.

30. 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.

31. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.

32. 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.

33. 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.

34. 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.

35. The University has complied with all tax and debt limits and with all debt related covenants.

36. 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.

37. We believe the actuarial assumptions and methods used to measure financial statement liabilities and costs associated with 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 the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.

38. The due from the Gulf Coast Regional Care Organization of $50,000 at September 30, 2015 is considered a non-current asset as the intent is that the amount will be repaid subsequent to September 30, 2015

39. For each defined benefit pension plan in which the University is a participating employer:

    a. The net pension liability, related deferred outflows of resources, deferred inflows of resources, and pension expense has been properly measured and recorded as of the measurement date in accordance with the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

    b. All relevant plan provisions in force as of the measurement date have been properly reflected in the measurement of the net pension liability and pension expense.

    c. We believe the actuarial assumptions and methods used to measure the net pension liability and pension expense are appropriate in the circumstances and the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.

d. The participants' data provided to the actuary for purpose of determining the net pension liability and pension expense is accurate and complete.

e. The basis for our proportion of the collective pension amounts is appropriate and consistent with the manner in which contributions to the pension plan are determined.

40. The University has identified and properly accounted for and presented all deferred outflows of resources and deferred inflows of resources.

41. 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.

42. Revenues are appropriately classified in the statement of revenues, expenses, and changes in net position.

43. The University has identified and properly accounted for all nonexchange transactions.

44. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

45. Special and extraordinary items are appropriately classified and reported.

46. 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.

47. 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.

48. 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 quanities 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 claims incurred but not reported and loss to be sustained for commitments to provide medical services to enrollees under capitation agreements.

49. We acknowledge our responsibility for the presentation of the supplementary information, in accordance with the applicable criteria and:

    a. Believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria.

    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.

50. The University has complied with all applicable laws and regulations in adopting, approving, and amending budgets.

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 for 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:

56. 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.

57. 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 the University's federal programs.

58. We are responsible for taking corrective action on audit findings of the compliance audit.

59. 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.

60. 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.

Additionally, 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 13, 2015, the following representations made to you during your A-133 audit:

61. The University is responsible for complying, and has complied, with the requirements of OMB Circular A-133.

62. 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, 2015 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.

63. 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.

64. We have advised you that the University does not participate in the zone alternative.

65. The University has disclosed to you any interpretations of any compliance requirements that have varying interpretations.

66. The University has 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.

67. 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.

68. 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.

69. 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.

70. 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.

71. 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.

72. Federal financial reports and claims for advances and reimbursements are supported by the accounting records from which the financial statements have been prepared.

73. 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.

74. 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, the University has issued management decisions on a timely basis after receipt of subrecipient audit reports that identified noncompliance 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.

75. If applicable, we have considered the results of subrecipient audits and have made any necessary adjustments to the University accounting records.

76. 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.

77. 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.

78. The University has accurately completed Part I of the data collection form.

79. The University has advised you of all contracts or other agreements with service organizations.

80. The University has disclosed to you all communications from its service organizations relating to noncompliance at the service organizations.

81. We have disclosed any known noncompliance occurring subsequent to the period to September 30, 2015

82. 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, 2015.

83. There are no material unrecorded environmental remediation liabilities that must be recorded and/or disclosed in the University's financial statements.

84. We believe that the amount recorded as due from the Health Services Foundation is fully collectible.

85. The allocation of expenses incurred by the University and allocated to the Health Services Foundation are considered a reasonable estimate of these expenses.

86. 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

G. Scott Weldon
Vice President for Finance and Administration

Robert K. Davis

University Treasurer, Associate Vice President for
Finance and Administration & Director of Tax Accounting

Traci M. Jones

Health System Controller

Donna R. Robinson

Assistant Vice President for Finance and Administration

Polly D. Stokley

Controller

UNIVERSITY OF SOUTH ALABAMA

VICE PRESIDENT
FOR FINANCE AND ADMINISTRATION

TELEPHONE: (251) 460-6132
307 UNIVERSITY BOULEVARD, N., SUITE 170
MOBILE, ALABAMA 36688-0002

November 13, 2015

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

Ladies and Gentlemen:

In connection with your engagement to apply agreed-upon procedures, which were agreed to by the management of the University of South Alabama, a component of the State of Alabama, (the University), solely to assist us in evaluating 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 relating to the University Tuition Revenue Bonds, Series 1999, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2008, University Facilities Revenue Capital Improvement Bonds, Series 2010, University Facilities Revenue Capital Improvement Bonds, Series 2012-A and Series 2012-B, University Facilities Revenue Capital Improvements Bonds, Series 2013-A, 2013-B, and 2013-C, University Facilities Revenue Refunding Bond Series 2014-A, and University Facilities Revenue Capital Improvement Bond, Series 2015 as of September 30, 2015, and for the year ended, we confirm:

1. Our understanding that you were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the subject matter referred to above. Accordingly, you did not express such an opinion. Had additional procedures been performed, other matters might have come to your attention that would have been reported to us.

Further, we confirm that, to the best of our knowledge and belief, the following representations made to you during your agreed-upon procedures engagement:

2. We are responsible for the subject matter and, when applicable, the assertion.

3. We are responsible for the fair presentation of the subject matter referred to above as of September 30, 2015 and for the year ended.

4. We are responsible for selecting the criteria and for determining that such criteria are appropriate for our purposes.

5. We have made available to you all related financial records and data.

6. We have advised you of all actions taken at meetings of stockholders, board of directors, and committees of the board of directors (or other similar bodies as applicable) that may affect the subject matter.

7. We have reviewed a draft of your report of findings dated November 13, 2015 and we are not aware of any significant errors or misstatements contained in that report, and the procedures referred to in the draft report are those we requested and were agreed to by the other specified parties.

8. We take responsibility for the sufficiency (nature, timing and extent) of the agreed-upon procedures for our purposes.

9. Your procedures were limited to those which we determined would best meet our informational needs and may not necessarily disclose all significant errors, irregularities, including fraud or defalcation, or illegal acts, that may exist.

10. Your report is intended solely for use by us and the other specified parties, and is not intended for use by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes.

11. We have responded fully to all inquiries made to us by you during your engagement.

12. We have communicated to you all known matters contradicting the subject matter or the assertion.

13. We acknowledge that you have not performed any procedures since the date of your report and that you have no responsibility to update your procedures.

14. There have been no communications from regulatory agencies that would affect the subject matter or the assertion.

15. The University has complied with all aspects of contractual agreements that would have a material effect on the subject matter or the assertion in the event of noncompliance.

16. There are no material transactions that have not been properly recorded as part of the subject matter or the assertion.

Very truly yours,

University of South Alabama

G. Scott Weldon
Vice President for Finance and Administration

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, 2015, and have issued our report thereon dated November 13, 2015. We did not audit the 2015 consolidated financial statements of the University of South Alabama Foundation, which represents 87%, 101%, and 41%, respectively, of the 2015 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 December 1, 2006, authorizing the issuance of $100,000,000 of University Tuition Refunding and Capital Improvements Bonds, Series 2006, 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, on March 14, 2014, authorizing the issuance of $41,245,000 University Facilities Revenue Refunding Bond, Series 2014-A, and on June 15, 2015, authorizing the issuance of $6,000,000 University Facilities Revenue Capital Improvement Bond, Series 2015, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the University's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Trust Indenture, 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 13, 2015

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 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, University Facilities Revenue Refunding Bond Series 2014-A, and University Facilities Revenue Capital Improvement Bond, Series 2015

September 30, 2015

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 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, University Facilities Revenue Refunding Bond Series 2014-A, and University Facilities Revenue Capital Improvement Bond, Series 2015, as of September 30, 2015, 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, 2015 (not included herein), which approximated \$138 million and compared that amount to the general student fees recorded in the University's general ledger for the year ended September 30, 2015 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 13, 2015

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 2006,
University Facilities Revenue Capital Improvement Bonds, Series 2008,
University Facilities Revenue Capital Improvement Bond, Series 2010,
University Facilities Revenue Capital Improvement Bond 2012-A and 2012-B,
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C,
University Facilities Revenue Refunding Bond, Series 2014-A,
and University Facilities Revenue Capital Improvement Bond, Series 2015

Year ended September 30, 2015
(In thousands)

Cash and investment transactions:		
Cash receipts:		
Deposits from University of South Alabama for interest and retirement of bonds	$	24,504
Proceeds from sale of investments		7,457
		31,961
Cash disbursements:		
Principal payments		13,559
Interest payments		10,938
Administrative fees		10
Purchases of investments		7,457
		31,964
Net change in cash and investments during the year		(3)
Total cash and investments held by trustee:		
Beginning of year		3
End of year	$	—

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 2006,
University Facilities Revenue Capital Improvement Bonds, Series 2008,
University Facilities Revenue Capital Improvement Bond, Series 2010,
University Facilities Revenue Capital Improvement Bond 2012-A and 2012-B,
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C,
University Facilities Revenue Refunding Bond, Series 2014-A,
and University Facilities Revenue Capital Improvement Bond, Series 2015

September 30, 2015
(In thousands)

Cash and investments, at cost:	
Total cash and investments	$ —

See accompanying independent accountants' report on applying agreed-upon procedures.

USA RESEARCH AND TECHNOLOGY CORPORATION

(A Component Unit of the University of South Alabama)

Basic Financial Statements

September 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

USA RESEARCH AND TECHNOLOGY CORPORATION
(A Component Unit of the University of South Alabama)

Table of Contents

USA RESEARCH AND TECHNOLOGY CORPORATION
(A Component Unit of the University of South Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2015 and 2014

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, 2015, 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 approximately 236,700 square feet of gross leasable space. At September 30, 2015, total square feet under lease was approximately 210,000. 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, 2015, 2014, and 2013, the Corporation had total assets and deferred outflows of $27,312,101, $27,954,017, and $29,648,368, respectively; total liabilities of $26,405,889, $27,073,811, and $28,305,741, respectively; and net position of $906,212, $880,206, and $1,342,627, 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, 2015, 2014, and 2013 follows (in thousands):

Condensed Schedules of Net Position

		2015	2014	2013
Assets and deferred outflows:				
Current	$	842	1,030	1,624
Capital assets – noncurrent		23,040	23,794	24,701
Other noncurrent assets		47	77	99
Deferred outflows		3,383	3,053	3,225
		27,312	27,954	29,649

(Continued)

Condensed Schedules of Net Position (continued)

		2015	2014	2013
Liabilities:				
Current	$	1,707	1,796	1,796
Noncurrent		24,699	25,278	26,510
		26,406	27,074	28,306
Net position:				
Net investment in capital assets		574	503	284
Unrestricted		332	377	1,059
	$	906	880	1,343

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

		2015	2014	2013
Operating revenues	$	3,647	3,506	4,011
Operating expenses:				
Depreciation and amortization		992	1,017	981
Other		1,368	1,609	1,799
Net operating expenses		2,360	2,626	2,780
Operating income		1,287	880	1,231
Nonoperating (expenses) revenues:				
Interest expense		(1,267)	(1,351)	(1,409)
Other		6	8	15
Net nonoperating expenses		(1,261)	(1,343)	(1,394)
Change in net position		26	(463)	(163)
Beginning net position		880	1,343	1,506
Ending net position	$	906	880	1,343

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, 2015, 2014, and 2013. 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,

(Continued)

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, 2015, 2014, and 2013. Noncurrent assets at September 30, 2015, 2014, and 2013 consist primarily of capital assets.

Deferred outflows and the noncurrent liability related to the interest rate swap increased as a result of the change in the fair value of the swap between September 30, 2015 and 2014.

Current liabilities primarily consist of unrecognized rent revenue, accrued expenses, and the current portion of long-term debt at September 30, 2015, 2014, and 2013. 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.

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 and expenses incurred by the Corporation.

For the years ended September 30, 2015, 2014, and 2013, the Corporation reported a change in net position of \$26,006, \$(462,421), and \$(162,877), respectively. The 2015 increase in the change in net position was due primarily to a four percent overall increase in rent and reductions in expenses that had been identified by management as areas in which savings might be achieved. Among these expenses are insurance (moved coverage to the Alabama State Insurance Fund) interest (negotiated a reduction in the interest rate on one note), and building operating expenses (changing from outside contractors to University personnel).

Statement of Cash Flows

The statement of cash flows presents information related to the 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.

(Continued)

Capital Assets and Debt Administration

Total capital asset additions during the years ended September 30, 2015 and 2014 were approximately $208,300 and $64,100, respectively. Financing was primarily provided for additions during fiscal years 2015 and 2014 through use of a payable to the University of South Alabama and 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, 2015, it is expected that fiscal year 2016 results will approximate fiscal year 2015 results. 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 2016 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. G. Scott Weldon; Vice-President for Finance and Administration; 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, 2015 and 2014, 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, 2015 and 2014, and its changes in financial position, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1-4 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 13, 2015

USA RESEARCH AND TECHNOLOGY CORPORATION
(A Component Unit of the University of South Alabama)

Statements of Net Position

September 30, 2015 and 2014

		2015	2014
Assets:			
Current assets:			
Unrestricted cash and cash equivalents	$	695,188	760,464
Rent receivable		142,747	263,276
Prepaid expenses and other current assets		4,166	6,063
Total current assets		842,101	1,029,803
Noncurrent assets:			
Intangible assets, net		46,769	77,010
Capital assets, net		23,040,010	23,793,928
Total noncurrent assets		23,086,779	23,870,938
Deferred outflows		3,383,221	3,053,276
Total assets and deferred outflows		27,312,101	27,954,017
Liabilities:			
Current liabilities:			
Deposits, other current liabilities, and accrued expenses		165,162	197,123
Payable to University of South Alabama		162,024	44,379
Unrecognized rent revenue		378,467	494,073
Current portion of notes payable		1,001,023	1,060,388
Total current liabilities		1,706,676	1,795,963
Noncurrent liabilities:			
Notes payable, excluding current portion		21,315,992	22,224,572
Interest rate swap		3,383,221	3,053,276
Total noncurrent liabilities		24,699,213	25,277,848
Total liabilities		26,405,889	27,073,811
Net position:			
Net investment in capital assets		573,971	503,100
Unrestricted		332,241	377,106
Total net position	$	906,212	880,206

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, 2015 and 2014

		2015	2014
Operating revenues	$	3,647,205	3,506,072
Operating expenses:			
Building management and operating expenses		1,135,640	1,239,589
Depreciation and amortization		992,409	1,017,172
Legal and administrative fees		229,234	231,190
Insurance		3,350	137,074
Total operating expenses		2,360,633	2,625,025
Operating income		1,286,572	881,047
Nonoperating revenues (expenses):			
Investment income		2,114	4,406
Interest expense		(1,266,770)	(1,351,453)
Other		4,090	3,579
Net nonoperating expenses		(1,260,566)	(1,343,468)
Change in net position		26,006	(462,421)
Net position:			
Beginning of year		880,206	1,342,627
End of year	$	906,212	880,206

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, 2015 and 2014

		2015	2014
Cash flows from operating activities:			
Collections from lessees for rent and operating expense reimbursement	$	3,652,128	3,473,070
Payments for expenses of leasing activity		(1,171,924)	(1,402,078)
Payments to service providers and vendors for general corporate operating expenses		(252,365)	(193,842)
Security deposits collected (refunded)		1,450	(4,554)
Net cash provided by operating activities		2,229,289	1,872,596
Cash flows from noncapital financing activities:			
Vending commissions		4,090	3,579
Cash flows from capital and related financing activities:			
Interest paid on notes payable		(1,269,626)	(1,353,660)
Principal repaid on notes payable		(967,945)	(1,001,743)
Purchases of capital assets		(65,095)	(189,084)
Net cash used in capital and related financing activities		(2,302,666)	(2,544,487)
Cash flows from investing activities:			
Payment of leasing commissions		—	(24,026)
Investment income		4,011	5,542
Net cash used in investing activities		4,011	(18,484)
Net change in cash and cash equivalents		(65,276)	(686,796)
Cash and cash equivalents:			
Beginning of year		760,464	1,447,260
End of year	$	695,188	760,464
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	1,286,572	881,047
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense		992,409	1,017,172
Increase (decrease) in operating expense payable to the University of South Alabama		(31,379)	37,349
(Increase) decrease in rent receivables and prepaid expenses		120,529	(94,027)
Increase (decrease) in unrecognized rent revenue		(115,606)	63,120
Decrease in other current liabilities, except current liabilities for items that are not components of operating income		(23,236)	(32,065)
Net cash provided by operating activities	$	2,229,289	1,872,596
Noncash investing and capital and related financing transactions:			
Increase (decrease) in capital assets due from the change in accounts payable and retainage payable related to building renovations	$	143,155	(125,034)
Decrease in interest receivable recognized as a component of investment income		(1,897)	(1,136)
Increase (decrease) in fair value of interest rate swap liability		329,945	(171,350)

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, 2015 and 2014, 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.

(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, 2015 and 2014.

(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.

(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, 2015 and 2014. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements.

(3) Capital Assets

Changes in capital assets for the year ended September 30, 2015 are as follows:

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land improvements	$ 2,199,402	—	—	—	2,199,402
Buildings	27,916,101	6,000	—	—	27,922,101
Tenant improvements	913,787	59,097	—	—	972,884
Other equipment	256,509	—	—	—	256,509
Construction in progress - nondepreciable	—	143,153	—	—	143,153
	31,285,799	208,250	—	—	31,494,049
Less accumulated depreciation for:					
Land improvements	(935,550)	(94,016)	—	—	(1,029,566)
Buildings	(5,866,825)	(717,181)	—	—	(6,584,006)
Tenant improvements	(547,943)	(125,014)	—	—	(672,957)
Other equipment	(141,553)	(25,957)	—	—	(167,510)
	(7,491,871)	(962,168)	—	—	(8,454,039)
Capital assets, net	$ 23,793,928	(753,918)	—	—	23,040,010

Changes in capital assets for the year ended September 30, 2014 are as follows:

	Beginning balance	Additions	Transfers	Reductions	Ending balance
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

(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 year ended September 30, 2015 are as follows:

	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Notes payable	$ 23,284,960	—	(967,945)	22,317,015	1,001,023	21,315,992
Interest rate swap	3,053,276	329,945	—	3,383,221	—	3,383,221
Total	$ 26,338,236	329,945	(967,945)	25,700,236	1,001,023	24,699,213

Changes in noncurrent liabilities for the year ended September 30, 2014 are as follows:

	Beginning balance	Additions	Reductions	Ending balance	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

(6) Notes Payable

(a) Notes Payable

Notes payable consisted of the following at September 30, 2015 and 2014:

	2015	2014
Wells Fargo Bank, N.A. promissory note, one-month LIBOR plus 0.85% (1.043% at September 30, 2015) payable through 2028	$ 13,772,400	14,470,878
PNC Bank promissory note, 4.50%, payable through 2021	8,544,615	8,814,082
	$ 22,317,015	23,284,960

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. During December 2014, the Corporation negotiated a reduction in the interest rate from 4.88% to 4.50%. All other terms of the note remain unchanged. 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 asset additions) and current year change in net position (determined without depreciation, amortization, and interest expenses) by current year debt service. For fiscal 2015, the Corporation's debt service coverage ratio was 1.33 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2015. Further, management believes that, based on existing leases and service contracts and agreements, the debt service coverage ratio for 2016 will still exceed 1 to 1.

(b) Debt Service on Long-Term Obligations

At September 30, 2015, total debt service by fiscal year is as follows:

	Debt service on note and loan		
	Principal	**Interest**	**Total**
2016	$ 1,001,023	1,212,499	2,213,522
2017	1,062,354	1,151,168	2,213,522
2018	1,119,337	1,094,185	2,213,522
2019	1,193,836	1,019,686	2,213,522
2020	1,263,883	949,639	2,213,522
2021–2025	12,822,138	2,243,827	15,065,965
2026–2028	3,854,444	335,928	4,190,372
Total	$ 22,317,015	8,006,932	30,323,947

(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 $725,945 and $762,395 under the interest rate swap agreement for the years ended September 30, 2015 and 2014, respectively, which is reflected as an increase in interest expense.

Fair value. The interest rate swap had a negative fair value of $(3,383,221) and $(3,053,276) at September 30, 2015 and 2014, 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, 2015 and 2014, 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 Aa1 and Aa3 by Moody's Investors Services and AA – and AA – by Standard & Poor's Ratings Services as of September 30, 2015 and 2014, 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, 2015 and 2014, 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, 2015, 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
2016	$	738,017	142,493	690,879	1,571,389
2017		787,266	134,072	650,051	1,571,389
2018		831,611	126,490	613,288	1,571,389
2019		892,892	116,012	562,485	1,571,389
2020		949,114	106,399	515,876	1,571,389
2021–2025		5,719,056	365,544	1,772,343	7,856,943
2026–2028		3,854,444	57,438	278,490	4,190,372
Total	$	13,772,400	1,048,448	5,083,412	19,904,260

(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 seven 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 47,218 and 46,700 square feet at September 30, 2015 and 2014, 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, 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, 2015 and 2014. 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:

2016	$	1,981,611
2017		1,791,807
2018		1,600,613
2019		999,079
2020		652,575
2021–2046		6,262,321
Total	$	13,288,006

(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 2015 and 2014, the Corporation engaged in several transactions with the University. The University was charged $726,596 and $731,429 during the years ended September 30, 2015 and 2014, 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 $156,000 and $163,282 for such services during fiscal years 2015 and 2014, 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 2015 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. During fiscal year 2015 one of those licenses became nonexclusive due to nonpayment of the annual maintenance payment. 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 2015, no conditions occurred causing the third party to either pay to or incur a liability for milestone payments, royalties or a percentage of sublicensing revenues 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.

(9) Significant New (Future) Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides hierarchical guidance for determining a fair value measurement for assets and liabilities for financial reporting purposes and also provides guidance for required disclosures related to fair value measurements. In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Statement No. 76 identifies the hierarchy of generally accepted accounting principles for entities, reduces the GAAP hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment of a transaction is not specified within a source of authoritative GAAP. GASB Statements Nos. 72 and 76 are effective for the Corporation's fiscal year ending September 30, 2016.

The effect of the implementation of GASB Statements Nos. 72 and 76 on the Corporation has not yet been determined.

Report on the

University of South Alabama

Mobile, Alabama

October 1, 2013 through September 30, 2014

Filed: October 2, 2015

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

15-560

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, 2013 through September 30, 2014.

Respectfully submitted,

JoNesia S. Turner
Examiner of Public Accounts

Shelia L. Levins
Examiner of Public Accounts

Sworn to and subscribed before me this the 14th day of September 20 15.

Pamela Dawn Wil
Notary Public

Sworn to and subscribed before me this the 14th day of September, 20 15.

Pamela Dawn Wil
Notary Public

rb

My Commission Expires 4/10/2019

15-560

Table of Contents

Department of
Examiners of Public Accounts

SUMMARY

University of South Alabama
October 1, 2013 through September 30, 2014

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, Computing, 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, 2014.

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: Dr. Tony G. Waldrop, President; Scott Weldon, Assistant Vice-President for Financial Affairs and Polly Stokley, Controller. The following individuals attended the exit conference: Scott Weldon, Assistant Vice-President for Financial Affairs and Polly Stokley, Controller. Representing the Department of Examiners of Public Accounts was JoNesia Turner, Examiner.

COMMENTS

University of South Alabama
October 1, 2013 through September 30, 2014

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, 2013 through September 30, 2014

Board Members		**Term Expires**
Hon. Robert Bentley, Governor	President, Ex-Officio	
Hon. Thomas 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	2019
Hon. James H. Shumock	Secretary	2021
Hon. J. Cecil Gardner	Member	2014
Hon. Samuel L. Jones	Member	2014
Hon. Christie D. Miree	Member	2014
Hon. Bryant Mixon	Member	2017
Hon. Bettye R. Maye	Member	2017
Hon. John M. Peek	Member	2017
Hon. Steven H. Stokes, M.D.	Member	2017
Hon. Chandra B. Stewart	Member	2019
Hon. Robert D. Jenkins, III	Member	2019

Board Members and Officials
October 1, 2013 through September 30, 2014

Board Members		**Term Expires**
Hon. Sandy Stimpson	Member	2019
Hon. Michael P. Windom	Member	2019
Hon. James A. Yance	Member	2021
Hon. Scott A. Charlton, M.D.	Member	2021
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
FOUNDATION

Consolidated Financial Statements as of and for the Years Ended June 30, 2015 and 2014, and Independent Auditors' Report

UNIVERSITY OF SOUTH ALABAMA
FOUNDATION

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
Suite 2400
420 North 20th Street
Birmingham, AL 35203-3289
USA

Tel: +1 205 321 6000
Fax: +1 205 322 2828
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
University of South Alabama Foundation:

We have audited the accompanying consolidated financial statements of the University of South Alabama Foundation (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2015 and 2014, and the results of its activities, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

August 20, 2015

UNIVERSITY OF SOUTH ALABAMA
FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2015 AND 2014
(Dollars in thousands)

	2015	2014
ASSETS		
CASH AND CASH EQUIVALENTS	$ 1,234	$ 670
INVESTMENTS AT FAIR VALUE:		
Equity securities	132,514	133,236
Timber and mineral properties	157,064	156,320
Real estate	66,320	31,007
Other	5,803	6,054
OTHER ASSETS	580	702
TOTAL	$ 363,515	$ 327,989
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 322	$ 163
Note payable—University of South Alabama		3,954
Other liabilities	701	736
Total liabilities	1,023	4,853
NET ASSETS:		
Unrestricted	96,885	62,701
Temporarily restricted	96,033	90,909
Permanently restricted	169,574	169,526
Total net assets	362,492	323,136
TOTAL	$ 363,515	$ 327,989

See notes to consolidated financial statements.

UNIVERSITY OF SOUTH ALABAMA
FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, LOSSES, AND OTHER SUPPORT:				
Net realized and unrealized gains on investments	$ 40,749	$ 5,871	$ -	$ 46,620
Rents, royalties, and timber sales	4,006	168	14	4,188
Interest and dividends	192	1,948	6	2,146
Gifts		3	14	17
Required match of donor contributions	(18)	4	14	-
Interfund interest	(191)	191		-
Net assets released from program restrictions (Note 8)	3,061	(3,061)		-
Total revenues, gains, losses, and other support	47,799	5,124	48	52,971
EXPENDITURES:				
Program services:				
Faculty support	2,440			2,440
Scholarships	1,101			1,101
Other academic programs	1,190			1,190
Total program services	4,731	-	-	4,731
Management and general	1,869			1,869
Other investment expense	1,976			1,976
Depletion expense	4,898			4,898
Depreciation expense	95			95
Interest expense	46			46
Total expenditures	13,615	-	-	13,615
INCREASE IN NET ASSETS	34,184	5,124	48	39,356
NET ASSETS—Beginning of year	62,701	90,909	169,526	323,136
NET ASSETS—End of year	$ 96,885	$ 96,033	$ 169,574	$ 362,492

See notes to consolidated financial statements.

UNIVERSITY OF SOUTH ALABAMA
FOUNDATION

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2014
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, LOSSES, 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 (Note 8)	1,548	(1,548)		-
Total revenues, gains, losses, 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 academic programs	1,117			1,117
Total program services	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
(DECREASE) INCREASE 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 notes to consolidated financial statements.

UNIVERSITY OF SOUTH ALABAMA
FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

	2015	2014
OPERATING ACTIVITIES:		
Increase in net assets	$ 39,356	$ 24,600
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(46,620)	(30,976)
Depletion	4,898	3,882
Depreciation and amortization	116	186
Interest expense	46	171
Changes in operating assets and liabilities:		
Other assets	39	(36)
Accounts payable	159	37
Other liabilities	(35)	59
Net cash used in operating activities	(2,041)	(2,077)
INVESTING ACTIVITIES:		
Purchase of securities	(853)	(881)
Sale of securities	7,532	7,008
Proceeds from sale of real estate	81	
Proceeds from sale of equipment		51
Reforestation of timber property	(155)	(157)
Purchase of furniture, fixtures, and equipment		(174)
Net cash provided by investing activities	6,605	5,847
FINANCING ACTIVITIES—Payment on notes payable	(4,000)	(4,000)
Net cash used in financing activities	(4,000)	(4,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	564	(230)
CASH AND CASH EQUIVALENTS—Beginning of year	670	900
CASH AND CASH EQUIVALENTS—End of year	$ 1,234	$ 670

See notes to consolidated financial statements.

1. ORGANIZATION

The University of South Alabama Foundation (the "Foundation") was incorporated in March 1968 for the purpose of promoting education, scientific research, and charitable purposes, and to assist in developing and advancing the University of South Alabama (the "University") in furthering, improving, and expanding its properties, services, facilities, and activities. Revenues are derived principally from investment income.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying consolidated financial statements include the accounts of the Foundation's wholly owned subsidiaries Knollwood Development, Inc.; Shubuta Timber Services, Inc.; and Brookley Bay Front Properties, LLC (hereinafter BBFP), an Alabama Limited Liability Company. All significant intercompany transactions have been eliminated in consolidation.

Net Assets—In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Foundation, the accounts of the Foundation are maintained on the accrual basis in accordance with the principles of "fund accounting." Thus, resources for various purposes are classified into funds that are in accordance with activities or objectives specified. The Foundation presents its net assets and its revenues, expenses, gains, and losses, based on the existence or absence of donor-imposed restrictions using three classifications: permanently restricted, temporarily restricted, and unrestricted. These three classifications are defined as follows:

- Permanently restricted net assets contain donor-imposed restrictions that stipulate that resources be maintained permanently, but permit the Foundation to use or expend part or all of the income derived from the donated assets for specified or unspecified purposes.

- Temporarily restricted net assets contain donor-imposed restrictions that permit the Foundation to use or expend the donated assets as specified, and are satisfied either by the passage of time or by actions of the Foundation.

- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired.

The Foundation considers all of its assets to be endowment assets for the support of the University. It, therefore, classifies all of its assets as "endowment funds" for purpose of required disclosures for such funds. In the absence of directions imposed by donors to utilize such funds for specific programs or purposes at the University, the Foundation classifies the net assets of such funds as "unrestricted."

Support and Expenses—Contributions received and unconditional promises to give are measured at their fair values and are reported as increases in net assets at the date of receipt. The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods.

When a donor restriction expires; i.e., when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from program restrictions.

The Foundation sometimes receives restricted contributions that are conditional on the Foundation matching the contribution. Upon approval of the Board of Directors, such matches are reported as a reclassification of unrestricted net assets to restricted net assets.

Cash Equivalents—The Foundation considers temporary cash investments with an original maturity date of three months or less when purchased to be cash equivalents. The carrying amounts reported in the accompanying consolidated statements of financial position for cash and cash equivalents approximate their fair value.

Investments in Securities—Investments in marketable equity securities with readily determinable fair market values are maintained and administered in a common pool and are recorded at fair value based on quoted market prices of each security in the accompanying consolidated statements of financial position. Separate accounts are maintained for each fund, as applicable.

Investments in Commonfund—The Commonfund for Nonprofit Organizations ("Commonfund") is a membership corporation that operates endowment funds for the exclusive benefit of institutions eligible for membership in the Commonfund. The Foundation holds investments in the Multi-Strategy Equity Fund and the International Equity Fund of the Commonfund. The objective of the Multi-Strategy Equity Fund is to offer an investment in a single fund to provide all of the strategy and manager diversification that an endowment would normally require for equity allocation. The fund is designed to add value over long periods of time and to reduce volatility. The investment objective of the International Equity Fund is to seek to diversify a U.S. equity portfolio with equity investments in companies domiciled abroad.

The Foundation's units in the Multi-Strategy Equity Fund and the International Equity Fund are valued at their unit values as determined by Commonfund. Commonfund generally determines the unit values of each of its funds by reference to the fair values of the underlying investments, the majority of which consists of exchange-traded equity securities. Commonfund redemptions are paid on the last day of the month, with the request or notification required by the 20th day of the month. Further information about Commonfund's valuation procedures is as follows:

In the Multi-Strategy Equity Fund and the International Equity Fund, as managed by the Commonfund, equity securities listed on securities exchanges are valued at the last sale price, except for those securities reported through the National Association of Securities Dealers Automated Quotation (NASDAQ) system, for which the NASDAQ official closing price is used. In the absence of either, the current bid price is used. Unlisted securities are valued at the current bid prices obtained from reputable brokers. Certain investments held by the funds may be traded by a market maker who may also be utilized to provide pricing information used to value such investments. Investments in units of other funds within Commonfund (known as crossfund investments) are carried at the unit value of the crossfund investment.

In these funds, investments in limited partnerships and other investment funds are valued at fair value, which is generally the latest net asset value made available by the fund manager or administrator prior to the valuation date. Other securities that are not readily marketable are also valued at fair value as deemed appropriate by management of Commonfund in consultation with the respective investment manager, with consideration given to the financial condition and operating results of the issuer, meaningful third-party transactions in the private market, and other factors deemed relevant. The amounts realized upon disposition of these investments may differ from the value reflected in the consolidated financial statements and the differences could be material.

Timber—Timber and timberlands, including logging roads, are stated at fair value, based on an independent appraisal, derived from the application of the cost approach, the sales comparison approach, and the income capitalization approach, less the accumulated depletion for timber when harvested. The Foundation capitalizes timber and timberland purchases and reforestation costs and other costs associated with the planting and growing of timber, such as site preparation, seedling purchases, planting, herbicide application, and thinning of tree stands to improve growth. Timber costs, such as real estate taxes, forest management personnel salaries and fringe benefits, and other costs related to the timberlands, are expensed as incurred.

Timber sale revenues for clear-cut or lump-sum sales are recognized when legal ownership of the timber transfers to the purchaser. Timber deeds set forth the legal rights and responsibilities of the buyer, and at closing, the full amount of the sale is due and payable and recognized at that time. Revenues from thinning of tree stands to improve growth are recognized as revenue as the buyer harvests the timber that is to be thinned. Timberland depletion is calculated on a unit cost basis and recognized when the related revenue is recognized.

Mineral Properties—Mineral properties are stated at estimated fair market value as determined by independent appraisals. Depletion of mineral properties is recognized over the remaining producing lives of the properties based on total estimated production and current-period production.

Real Estate—Real estate held for investment is stated at its estimated fair value based on independent appraisals.

Common Investment Pool—On June 5, 2006, the board of directors of the Foundation approved the establishment of a new investment pool, which consists of (1) all marketable equity securities held by the Foundation and (2) the Foundation's interest in land and timber, consisting of approximately 55,600 acres of timberland, known as the Equitable Tract, which the Foundation acquired in 1997 with financing that was provided, in part, from the Disproportionate Share Hospital Funds (the "DSH Funds") to the Foundation's Equitable Timber Fund.

Investment Income—Investment income or loss (including gains and losses on investments, interest, dividends, rents, royalties, and timber sales) is included in the accompanying consolidated statements of activities and changes in net assets as increases or decreases in unrestricted net assets, unless the income or loss is restricted by donor or law, in which case, it is classified as temporarily or permanently restricted, as appropriate. Interfund interest is recorded at prevailing market rates on loans between funds to maintain the integrity of each fund's net assets.

Income Tax Status—The Internal Revenue Service has determined that the Foundation is a tax-exempt organization under Internal Revenue Code Section 501(c)(3).

Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Foundation's investments include marketable equity securities valued by reference to quoted market prices, investments in Commonfund portfolios valued at unit values based on the fair values of underlying investments and timberland, mineral properties, and other real estate valued by appraisals. Such assets are subject to fluctuation in value due to normal market volatility and to estimation risk in the case of assets for which quoted market values are not available. The values ultimately realized by the Foundation for all such assets may be different from the values reported and these fluctuations may impact the Foundation's consolidated financial statements.

Recent Accounting Pronouncements — In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-07, *Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), Fair Value Measurement (Topic 820).* The new guidance is effective for reporting periods beginning after December 15, 2016 and early adoption is permitted. The ASU is to be applied retrospectively in all periods presented in an entity's financial statements. The Foundation did not early adopt this guidance as of year-end. The adoption will not have a material effect on the Foundation's financial statements. The Foundation management is assessing the impact on the disclosures in the financial statements.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS AND OTHER INVESTMENTS

The following methods and assumptions were used by the Foundation in estimating the fair value of its investments:

- **Cash and Cash Equivalents:** The carrying amount reported in the accompanying consolidated statements of financial position for cash and cash equivalents approximates their fair value.

- **Equity Securities:** Includes investments in marketable equity securities and investments in Commonfund.

  Marketable Equity Securities: Fair values are based on quoted market prices of each security that is actively traded in a public market. The Foundation's investment in such marketable equity securities was $72,836 and $71,080 at June 30, 2015 and 2014, respectively.

  Investments in Commonfund: Fair values are based on unit values, as determined by Commonfund. As more fully described in Note 2, Commonfund determines unit values for each of its portfolios based on the fair values of the underlying assets. The Foundation's investment in Commonfund portfolios was $59,678 and $62,156 at June 30, 2015 and 2014, respectively.

- **Timber, Mineral Properties, and Real Estate:** Fair values of timberland, mineral properties, and real estate are determined by independent third-party appraisers using standard appraisal practices particular to the investment being appraised.

- **Other:** Other consists primarily of the Foundation's interest in the Stallworth Land Company (the "Company"), a timberland management company (see Note 4).

4. INVESTMENTS

Investment income includes not only realized gains (losses), but also unrealized gains (losses) in securities, timberland investments, and real estate. For the year ended June 30, 2015, unrealized gains included an increase in the valuation of the Brookley Complex. At June 30, 2015, the fair market value appraisal of the Brookley Complex was $58,200, an increase of $35,200 from the June 30, 2014, fair market appraisal of the Brookley Complex of $23,000.

Investment income for the years ended June 30, 2015 and 2014, consisted of the following:

	2015	2014
Unrealized gains	$42,901	$28,429
Realized gains	3,719	2,547
Net realized and unrealized gains on investments	46,620	30,976
Timber sales	3,360	3,132
Rents	713	634
Royalties	115	171
Rents, royalties, and timber sales	4,188	3,937
Interest and dividends	2,146	2,079
Total investment income	$52,954	$36,992

Investments consisted of participation in the Foundation's pooled investment funds. Investment-related expenses of $322 and $295 are included in the Foundation's management and general expenses in the accompanying consolidated statements of activities and changes in net assets for the years ended June 30, 2015 and 2014, respectively.

On June 5, 2006, the Board of the Foundation approved the establishment of a New Investment Pool, which consisted of (1) all marketable equity securities held by the Foundation, and (2) the Foundation's interest in the land and timber consisting of approximately 55,600 acres of timberland known as the Equitable tract, which the Foundation acquired in 1997 with financing that was provided, in part, from the DSH Funds to the Foundation's Equitable Timber Fund. Effective June 30, 2006, upon establishment of the Pool, the interest in the Pool allocated to the DSH Funds was equal in value to the sum of (1) the value of the interest that was allocated to the DSH Funds in the Foundation's existing securities pool at June 30, 2006, and (2) the amount of the aggregate receivable in principal and interest owed by the Equitable Timber Fund to the DSH Funds at June 30, 2006. All pooled investment activity subsequent to June 30, 2006, is allocated between DSH Funds and other USAF funds based on each fund's initial share of the Pool, adjusted for subsequent contributions and distributions.

On September 28, 2010, the Foundation entered into an agreement with the University providing for the purchase from the University by the Foundation, acting through its wholly owned subsidiary Brookley Bay Front Properties, LLC (hereinafter BBFP), the Brookley Complex, for a purchase price of $20,000. The Foundation funded the purchase with proceeds realized by it upon the sale of equity investments from the CommonFund Multi-Equity Strategy Fund, within the New Investment Pool.

On June 4, 2015, the Board of the Foundation determined that the current value of the investment in the Brookley Complex, $23,000, would continue to be recorded as an asset of the Foundation held as a part of the New Investment Pool. Further, the Board determined that proceeds from a future sale would be used to restore to the holdings of the Foundation in the Commonfund Multi-Strategy Equity Fund the aggregate value of the investments in such fund that were sold by the Foundation to provide the funds paid to the University to acquire the Brookley Complex, and the aggregate cumulative investment return produced by the investment in the Commonfund Multi-Strategy Equity Fund over the period from the date of the sale transactions until the date on which the proceeds are returned to the fund, all as reflected in the resolution adopted on June 4, 2015.

As noted herein, at June 30, 2015, the fair market value appraisal of the Brookley Complex was $58,200. The Brookley Complex consists of 327 acres of land, with approximately 1.25 miles of waterfront on Mobile Bay, adjacent to the Mobile Airport Authority/Brookley Aeroplex, which is the location for the Airbus U.S. Manufacturing Facility for the Airbus 320 family of single-aisle aircraft. The appraised value is included in the land and land improvements—held for investment.

Real estate as of June 30, 2015 and 2014, consisted of the following property held:

	2015	2014
Land and land improvements—held for investment	$65,269	$29,926
Building and building improvements—held for investment	1,051	1,081
Total	$66,320	$31,007

Other—Investments at June 30, 2015 and 2014, include an equity interest in a timberland management company (the "Management Company"). The Management Company's primary asset consists of timberland. The Foundation's proportionate share of the fair value of the Management Company is based upon the valuation of the trustee responsible for the management of the Company and the timber valuation. The equity interest resulted from a bequest known as the Stallworth Gift, which was received through bequest and devise under the Will of N. Jack Stallworth.

The fair value hierarchy classifies the inputs to valuation techniques used to measure fair value as either observable or unobservable inputs. Observable inputs 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. The Foundation's observable inputs consist of investments in exchange-traded equity securities with a readily determinable market price. Other observable inputs are fair value measurements derived either directly or indirectly from quoted market prices. Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable. The Foundation's unobservable inputs 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 as of June 30, 2015 and 2014, are summarized as follows:

	Fair Value Measurements at June 30, 2015			
Description	Observable Inputs Based on Quoted Prices	Other Observable Inputs	Unobservable Inputs	Total
Marketable equity securities	$ 72,836	$ 59,678	$ -	$ 132,514
Timber and mineral properties			157,064	157,064
Real estate			66,320	66,320
Other investments			5,803	5,803
	$ 72,836	$ 59,678	$ 229,187	$ 361,701

Description	Fair Value Measurements at June 30, 2014 Observable Inputs Based on Quoted Prices	Other Observable Inputs	Unobservable Inputs	Total
Marketable 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

For the year ended June 30, 2015, activity in investments valued at fair value based on unobservable inputs is as follows:

	Timber and Mineral Properties	Real Estate	Other Investments	Total
Beginning balance	$ 156,320	$ 31,007	$ 6,054	$ 193,381
Net gains (losses) realized/unrealized	4,667	35,346	(251)	39,762
Dispositions	(81)			(81)
Reforestation	1,056			1,056
Depreciation/depletion	(4,898)	(33)		(4,931)
Ending balance	$ 157,064	$ 66,320	$ 5,803	$ 229,187

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

	Timber and Mineral Properties	Real Estate	Other Investments	Total
Beginning balance	$ 154,332	$ 31,010	$ 6,040	$ 191,382
Net gains 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

Endowment—The Foundation's endowment funds consist of individual funds established for a variety of purposes. Endowment funds include both donor-restricted endowment funds and board-designated endowment funds. Net assets associated with endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of the Law—The Foundation conducts the operations of the Foundation in accordance with the Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA), effective January 1, 2009, and continuing thereafter, unless otherwise determined by the Foundation. The Board of Directors and management of the Foundation interpret UPMIFA as obligating the Foundation to preserve, as donor-restricted assets, each original gift received by the Foundation as donor-restricted endowment funds. The Foundation, accordingly, classifies each such original gift, and any subsequent gifts, as permanently restricted. The remaining portion of any donor-restricted endowment that is not classified as permanently restricted is classified as temporarily restricted net assets, until such time as any of such remaining portion is appropriated for expenditure. In managing each endowment fund held by it, the Foundation considers, if relevant, the duration and preservation of the fund, the purposes of the Foundation and the fund, general economic conditions, any restrictions imposed by the donor, the possible effect of inflation or deflation, the expected total return from income and appreciation of investments, the other resources of the Foundation, and the investment policy of the Foundation.

Endowment net asset composition as of June 30, 2015, by type of fund is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ 75,134	$ 96,033	$ 169,574	$ 340,741
Board-Designated Endowment Funds	21,751			21,751
Total	$ 96,885	$ 96,033	$ 169,574	$ 362,492

Endowment net asset composition as of June 30, 2014, by type of fund is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	$ 40,089	$ 90,909	$ 169,526	$ 300,524
Board-Designated Endowment Funds	22,612			22,612
Total	$ 62,701	$ 90,909	$ 169,526	$ 323,136

Changes in endowment net assets during the year ended June 30, 2015, are as follows:

	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$ 40,089	$ 22,612	$ 90,909	$ 169,526	$ 323,136
Investment return:					
Investment income	4,140	58	2,116	20	6,334
Net unrealized and realized gains	40,554	195	5,871		46,620
Interfund interest	(196)	5	191		-
Total investment return	44,498	258	8,178	20	52,954
Gifts			3	14	17
Required match	(18)		4	14	
Net assets released from restrictions	4,180	(1,119)	(3,061)		
Expenditures	(13,615)				(13,615)
Net change	35,045	(861)	5,124	48	39,356
Ending balance	$ 75,134	$ 21,751	$ 96,033	$ 169,574	$ 362,492

Changes in endowment net assets during the year ended June 30, 2014, are as follows:

	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$ 41,482	$ 22,798	$ 64,862	$ 169,394	$ 298,536
Investment return:					
Investment income	3,873	57	2,072	23	6,025
Net unrealized and realized gains	4,833	787	25,356		30,976
Interfund interest	(170)	5	165		-
Total investment return	8,536	849	27,593	23	37,001
Gifts			2	55	57
Required match	(54)			54	-
Net assets released from restrictions	2,583	(1,035)	(1,548)		-
Expenditures	(12,458)				(12,458)
Net change	(1,393)	(186)	26,047	132	24,600
Ending balance	$ 40,089	$ 22,612	$ 90,909	$ 169,526	$ 323,136

5. NOTE PAYABLE

In an effort to assist the University in furtherance of its tax-exempt purpose and in order to accelerate its support of the Pediatric Expansion of USA Children's and Women's Hospital, the Board of Directors authorized, in a resolution adopted May 27, 2010, the Foundation to negotiate an agreement to purchase the Brookley Center campus owned by the University. The May 27, 2010, resolution revoked the May 22, 2008, resolution as it pertained to the support of the Pediatric Expansion of USA Children's and Women's Hospital. On November 10, 2010, BBFP, an Alabama limited liability company, having as its sole member the Foundation, purchased the Brookley Complex from the University of South Alabama for $20,000 payable in five annual installments of Four Million Dollars ($4,000). BBFP paid the University Four Million Dollars ($4,000) at closing and entered into a non-interest-bearing installment note for Sixteen Million Dollars ($16,000). The installment note was discounted to its present value at the prime interest rate of 3.25%, which approximates the rate at which BBFP could have borrowed the amount payable. Imputed interest expense was approximately $46 for the year ended June 30, 2015.

It is further the intention and expectation of the Board of the Foundation, as reflected in the resolutions adopted May 27, 2010, and September 9, 2010, that upon BBFP's payment to the University of the purchase price, the Foundation would begin funding a three-percent annual target distribution to the University from the DSH Funds held by the Foundation in the fiscal year following the year in which such payment has been completed. In making such distributions, the Foundation, acting in response to requests, proposals or recommendations submitted to it by the University, would seek to distribute to the University, for the benefit of the University's hospitals and clinics, and the other programs of the University that benefit such hospitals and clinics, funding for programs, activities or such other expenditures as shall be designated by the Foundation, in its sole discretion, in amounts that, in each such year, would be not less than three percent of the average net assets of the DSH Funds, which such amounts would include the semiannual distributions from the Hospital Equipment Fund, and subject to certain financial and other conditions as set forth in the resolutions.

During the period of five years from the date of closing the transaction, the University retains ownership of all buildings and improvements on the Brookley Complex property and an exclusive easement over all of the land. Upon the payment of the note, ownership of such buildings and improvements transfers to BBFP at the conclusion of the five-year period unless the parties agree to extend use by the University.

6. TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2015 and 2014, temporarily restricted net assets were available for the following purposes:

	2015	2014
Instruction	$28,765	$28,110
Hospital, clinics, and related programs	43,589	38,406
College of medicine—other than instruction	12,942	12,447
Student aid	6,598	6,749
Other	4,139	5,197
Total	$96,033	$90,909

7. PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2015 and 2014, only the income from the following permanently restricted net assets was permitted to be used for the purposes indicated:

	2015	2014
Hospital, clinics, and related programs	$ 131,586	$ 131,586
Instruction	19,716	19,711
Student aid	9,233	9,207
College of medicine—other than instruction	2,136	2,134
Other	6,903	6,888
Total	$ 169,574	$ 169,526

8. NET ASSETS RELEASED FROM PROGRAM RESTRICTIONS

Expenses were incurred that met temporary purpose-related restrictions on the use of certain net assets, resulting in a reclassification of net assets from temporarily restricted to unrestricted during the years ended June 30, 2015 and 2014, as follows:

	2015	2014
Instruction	$ 1,967	$ 1,288
Student aid	1,030	195
Other	64	65
Total	$ 3,061	$ 1,548

9. OTHER RELATED-PARTY TRANSACTIONS

At June 30, 2015 and 2014, net assets held by the Foundation, irrevocably for the benefit, as determined by the Foundation, of the University's hospitals, clinics, and related programs (Disproportionate Share Hospital Funds) were $175,175 and $169,992, respectively.

10. RETIREMENT PLANS

The Foundation sponsors a contributory defined-contribution retirement plan for certain employees. The Foundation's contributions to the retirement plan were approximately $145 and $144 for the years ended June 30, 2015 and 2014, respectively.

11. SUBSEQUENT EVENTS

The Foundation evaluated subsequent events through August 20, 2015, which represents the date the consolidated financial statements were available to be issued, and made the determination that no events occurred subsequent to June 30, 2015, that would require disclosure in or would be required to be recognized in the consolidated financial statements.

* * * * * *

UNIVERSITY OF SOUTH ALABAMA
FOUNDATION

Disproportionate Share Hospital Funds
Combined Financial Statements as of and
for the Years Ended June 30, 2015 and 2014, and
Independent Auditors' Report

UNIVERSITY OF SOUTH ALABAMA
FOUNDATION

DISPROPORTIONATE SHARE HOSPITAL FUNDS
TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
Suite 2400
420 North 20th Street
Birmingham, AL 35203-3289
USA

Tel: +1 205 321 6000
Fax: +1 205 322 2828
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
University of South Alabama Foundation:

We have audited the accompanying combined financial statements of the Disproportionate Share Hospital Funds (the "DSH Funds") of the University of South Alabama Foundation, which comprise the combined statements of financial position as of June 30, 2015 and 2014, and the related combined statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the DSH Funds' preparation and fair presentation of the combined 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 DSH Funds' 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the DSH Funds as of June 30, 2015 and 2014, and the results of its activities, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

August 20, 2015

UNIVERSITY OF SOUTH ALABAMA
FOUNDATION

DISPROPORTIONATE SHARE HOSPITAL FUNDS
COMBINED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2015 AND 2014
(Dollars in thousands)

ASSETS	2015	2014
INVESTMENTS:		
New Investment Pool — interest in	$ 170,832	$ 165,453
Real estate	3,700	3,700
RECEIVABLE FROM AFFILIATES	643	839
TOTAL	$ 175,175	$ 169,992
NET ASSETS		
NET ASSETS:		
Unrestricted	$ -	$ -
Temporarily restricted	43,589	38,406
Permanently restricted	131,586	131,586
Total net assets	175,175	169,992
TOTAL	$ 175,175	$ 169,992

See notes to combined financial statements.

UNIVERSITY OF SOUTH ALABAMA
FOUNDATION

DISPROPORTIONATE SHARE HOSPITAL FUNDS
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Net realized and unrealized gains on investments	$12	$ 3,903	$ -	$ 3,915
Interest and dividends		1,158		1,158
Interfund interest		122		122
Total revenues, gains, and other support	12	5,183	-	5,195
EXPENDITURES:				
Other investment expense	12			12
Total expenditures	12	-	-	12
INCREASE IN NET ASSETS		5,183		5,183
NET ASSETS AT BEGINNING OF YEAR		38,406	131,586	169,992
NET ASSETS AT END OF YEAR	$ -	$43,589	$131,586	$175,175

See notes to combined financial statements.

UNIVERSITY OF SOUTH ALABAMA
FOUNDATION

DISPROPORTIONATE SHARE HOSPITAL FUNDS
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2014
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Net realized and unrealized gains on investments	$12	$15,413	$ -	$ 15,425
Interest and dividends		1,101		1,101
Interfund interest		101		101
Total revenues, gains, and other support	12	16,615	-	16,627
EXPENDITURES:				
Other investment expense	12			12
Total expenditures	12	-	-	12
INCREASE IN NET ASSETS		16,615		16,615
NET ASSETS AT BEGINNING OF YEAR		21,791	131,586	153,377
NET ASSETS AT END OF YEAR	$ -	$38,406	$131,586	$169,992

See notes to combined financial statements.

UNIVERSITY OF SOUTH ALABAMA
FOUNDATION

DISPROPORTIONATE SHARE HOSPITAL FUNDS
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(Dollars in thousands)

	2015	2014
OPERATING ACTIVITIES:		
Increase in net assets	$ 5,183	$ 16,615
Adjustments to reconcile increase in net assets to Net cash provided by operating activities:		
Net unrealized gains on investments	(3,980)	(15,940)
Loss on sale of investments	65	515
Changes in operating assets and liabilities:		
Receivable from affiliate	196	(305)
Net cash provided by operating activities	1,464	885
INVESTING ACTIVITIES:		
Purchases of securities	(1,979)	(1,242)
Sale of securities	515	357
Net cash used in investing activities	(1,464)	(885)
NET CHANGE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS—Beginning of year	-	-
CASH AND CASH EQUIVALENTS—End of year	$ -	$ -

See notes to combined financial statements.

UNIVERSITY OF SOUTH ALABAMA
FOUNDATION

DISPROPORTIONATE SHARE HOSPITAL FUNDS
NOTES TO COMBINED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(DOLLARS IN THOUSANDS)

1. ORGANIZATION

The University of South Alabama Foundation (the "Foundation" or "USAF") was incorporated in March 1968 for the purpose of promoting education, scientific research, and charitable purposes, and to assist in developing and advancing the University of South Alabama (the "University") in furthering, improving, and expanding its properties, services, facilities, and activities. Revenues are derived principally from investment income and contributions.

The Disproportionate Share Hospital Funds (the "DSH Funds") were matching funds disbursed by the Health Care Financing Administration of the U.S. Department of Health and Human Services to the states through their Medicaid agencies for the purpose of compensating hospitals, such as those operated by the University, that provided medical care and treatment to a disproportionate share of indigent patients in their respective areas.

Access to the DSH Funds for Alabama was made possible by the University of South Alabama Foundation Board, beginning in October 1989, when the Board of the Foundation approved the entry into the matching program. Over a one-year period, the Foundation made a monthly revolving contribution of $2 million, which yielded approximately $24 million in federal grant monies. The Board of Trustees of the University adopted a resolution in March 1990, authorizing the transfer of the DSH Funds to the Foundation to be held by it to preserve and ensure the continued viability of the University of South Alabama Hospitals ("University Hospitals") and their overall mission.

Litigation relating to the transfer of the DSH Funds was settled in November 1993, when an agreement was reached among the Department of Examiners of Public Accounts of the State of Alabama, the Board of Trustees of the University, and the Board of Directors of the Foundation, which required that all Medicaid disproportionate share hospital funds received through September 30, 1994, be transferred to the Foundation and held irrevocably for the benefit, as determined by the Foundation, of the University Hospitals and clinics and the other programs of the University that benefit such hospitals and clinics. Further, the agreement recognized the Foundation as the lawfulholder and owner of the DSH Funds and that the investment and management of the DSH Funds were solely within the authority of the Foundation's Board.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying combined financial statements include the DSH Funds and Knollwood Development, Inc., a wholly owned subsidiary of the Foundation and an affiliate originally funded by DSH Funds. All significant interfund transactions have been eliminated in combination.

Net Assets — In order to ensure observance of limitations and restrictions placed on the use of the resources available to the DSH Funds, the accounts of the DSH Funds are maintained on the accrual basis in accordance with the principles of "fund accounting." Thus, resources for various purposes are classified into funds that are in accordance with activities or objectives specified. The Foundation presents its net assets and its revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions, using three classifications: permanently restricted; temporarily restricted; and unrestricted. These three classifications are defined as follows:

- Permanently restricted net assets contain donor-imposed restrictions that stipulate that resources be maintained permanently but permit the use or expenditure of part or all of the income derived from the donated assets for specified or unspecified purposes.

- Temporarily restricted net assets contain donor-imposed restrictions that permit the use or expenditure of the donated assets as specified and are satisfied either by the passage of time or by actions of the Foundation.

- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired.

Support — Contributions received and unconditional promises to give are measured at their fair values and are reported as increases in net assets at the date of receipt. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities and changes in net assets as net assets released from restrictions.

Investments in Securities — Investments in equity securities are maintained and administered in a common pool by the Foundation. Amounts presented in these combined financial statements represent the DSH Funds' proportionate share of the Foundation's investments.

Investments in Commonfund — The Commonfund for Nonprofit Organizations ("Commonfund") is a membership corporation that operates investment funds for the exclusive benefit of institutions eligible for membership in the Commonfund. The Foundation holds investments in the Multi-Strategy Equity Fund and the International Equity Fund of the Commonfund. The objective of the Multi-Strategy Equity Fund is to offer an investment in a single fund to provide all of the strategy and manager diversification that an endowment would normally require for equity allocation. The fund is designed to add value over long periods of time and to reduce volatility. The investment objective of the International Equity Fund is to seek to diversify a U.S. equity portfolio with equity investments in companies domiciled abroad.

The Foundation's units in the Multi-Strategy Equity Fund and the International Equity Fund are valued at their unit values as determined by Commonfund. Commonfund generally determines the unit values of each of its funds by reference to the fair values of the underlying investments, the majority of which consists of exchange-traded equity securities. Commonfund redemptions are paid on the last day of the month with the request or notification required by the 20th day of the month. Further information about Commonfund's valuation procedures follows.

In the Multi-Strategy Equity Fund and the International Equity Fund, as managed by Commonfund, equity securities listed on securities exchanges are valued at the last sale price, except for those securities reported through the National Association of Securities Dealers

Automated Quotation System (NASDAQ), for which the NASDAQ Official Closing Price is used. In the absence of either, the current bid price is used. Unlisted securities are valued at the current bid prices obtained from reputable brokers. Certain investments held by the funds may be traded by a market maker who may also be utilized to provide pricing information used to value such investments. Investments in units of other funds within Commonfund (known as "crossfund investments") are carried at the unit value of the crossfund investment.

In these funds, investments in limited partnerships and other investment funds are valued at fair value, which is generally the latest net asset value made available by the fund manager or administrator prior to the valuation date. Other securities that are not readily marketable are also valued at fair value as deemed appropriate by management of Commonfund in consultation with the respective investment manager, with consideration given to the financial condition and operating results of the issuer, meaningful third-party transactions in the private market, and other factors deemed relevant. The amounts realized upon disposition of these investments may differ from the value reflected in the financial statements and the differences could be material.

Investment Income — Investment income or loss (including realized and unrealized gains and losses on investments, interest, dividends, rents, royalties, and timber sales) is included in the accompanying combined statements of activities and changes in net assets as increases or decreases in unrestricted net assets, unless the income or loss is restricted by donor or law, in which case it is classified as temporarily or permanently restricted, as appropriate. Interfund interest is recorded at prevailing market rates on loans between funds to maintain the integrity of each fund's net assets.

Income Allocation — The DSH Funds participate in the New Investment Pool (the "Pool") as described in Note 4. Funds that participate in the Pool, including DSH Funds, receive a monthly allocation of income and loss experienced by the Pool. Allocations made by the Pool to its participants are based on the relative participation levels of investment in the Pool by each participating fund.

Income Tax Status — The Internal Revenue Service has determined that the Foundation is a tax-exempt organization under Internal Revenue Code Section 501(c)(3).

Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates. The DSH Funds participate in the Foundation's New Investment Pool (see Note 4). The New Investment Pool consists of the Foundation's investment in marketable securities, valued by reference to quoted market prices; investments in Commonfund portfolios valued at unit values based on the fair values of the underlying investments; and timberland, mineral properties, and other real estate valued by appraisals. Such assets are subject to fluctuation in value due to normal market volatility and to estimation risk in the case of assets for which market values are not available. The values ultimately realized by the Foundation for all such assets may be different from the values reported and these fluctuations may impact the DSH Funds' financial statements.

Recent Accounting Pronouncements — In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2015-07, *Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), Fair Value Measurement (Topic 820)*. The new guidance is effective for reporting periods beginning after

December 15, 2016, and early adoption is permitted. The ASU is to be applied retrospectively in all periods presented in an entity's financial statements. The Foundation did not early adopt this guidance as of year-end. The adoption will not have a material effect on the DSH Funds' financial statements. The Foundation management is assessing the impact on the disclosures in the financial statements.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS AND OTHER INVESTMENTS

The following methods and assumptions were used by the Foundation in estimating the fair value of its investments:

- **Cash and Cash Equivalents:** The carrying amount reported in the accompanying combined statements of financial position for cash and cash equivalents approximates its fair value.

- **Equity Securities:** Includes investments in marketable securities and investments in Commonfund:

  Marketable Equity Securities: Fair values are based on quoted market prices of each security with readily determinable fair values.

  Investments in Commonfund: Fair values are based on unit values, as determined by Commonfund. As more fully described in Note 2, Commonfund determines unit values for each of its portfolios based on the fair values of the underlying assets.

- **Timberland, Mineral Properties, and Real Estate:** Fair values of timberland, mineral properties, and real estate are determined by independent third-party appraisers using standard appraisal practices particular to the investment being appraised.

4. INVESTMENTS

Investment income for the years ended June 30, 2015 and 2014, consisted of the following:

	2015	2014
Unrealized gains	$ 3,980	$ 15,940
Realized losses	(65)	(515)
Interest and dividends	1,158	1,101
Interfund interest	122	101
	$ 5,195	$ 16,627

Investments consisted of participation in the Foundation's pooled investment funds.

On June 5, 2006, the Board of the Foundation approved the establishment of a New Investment Pool, which consisted of (1) all marketable equity securities held by the Foundation, and (2) the Foundation's interest in the land and timber consisting of approximately 55,600 acres of timberland known as the Equitable tract, which the Foundation acquired in 1997 with financing that was provided, in part, from the DSH Funds to the Foundation's Equitable Timber Fund. Effective June 30, 2006, upon establishment of the Pool, the interest in the Pool allocated to the DSH Funds was equal in value to the sum of (1) the value of the interest that was allocated to the DSH Funds in the Foundation's existing securities pool at June 30, 2006, and (2) the amount of the aggregate receivable in principal and interest owed by the Equitable Timber Fund to the DSH Funds at June 30, 2006. All pooled investment activity subsequent to June 30, 2006, is allocated between DSH Funds and other USAF funds based on each fund's initial share of the Pool, adjusted for subsequent contributions and distributions.

On September 28, 2010, the Foundation entered into an agreement with the University providing for the purchase from the University by the Foundation, acting through its wholly owned subsidiary Brookley Bay Front Properties, LLC (hereinafter BBFP), the Brookley Complex, for a purchase price of $20,000. The Foundation funded the purchase with proceeds realized by it upon the sale of equity investments from the Commonfund Multi-Equity Strategy Fund, within the New Investment Pool.

On June 4, 2015, the Board of the Foundation determined that the current value of the investment in the Brookley Complex, $23,000, would continue to be recorded as an asset of the Foundation held as a part of the New Investment Pool. Further, the Board determined that proceeds from a future sale would be used to restore to the holdings of the Foundation in the Commonfund Multi-Strategy Equity Fund the aggregate value of the investments in such fund that were sold by the Foundation to provide the funds paid to the University to acquire the Brookley Complex, and the aggregate cumulative investment return produced by the investment in the Commonfund Multi-Strategy Equity Fund over the period from the date of the sale transactions until the date on which the proceeds are returned to the fund, all as reflected in the resolution adopted on June 4, 2015.

The fair value hierarchy classifies the inputs to valuation techniques used to measure fair value as either observable or unobservable inputs. 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. The New Investment Pool's observable inputs consist of investments in exchange-traded equity securities with a readily determinable market price. Other observable inputs are fair value measurements derived either directly or indirectly from quoted market prices. The New Investment Pool's other observable inputs are an investment in a managed fund held by a third party. Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable. The DSH Funds' unobservable inputs consist of its interest in the New Investment Pool's timberland and real estate with fair values based on extensive independent third-party appraisals performed by qualified appraisers specializing in timber and real estate investments.

The Foundation's Investment Pool assets are summarized as follows:

	Fair Value Measurements at June 30, 2015			
Description	**Observable Inputs Based on Quoted Prices**	**Other Observable Inputs**	**Unobservable Inputs**	**Total**
New Investment Pool interest in marketable equity securities	$ 72,836	$ 59,678	$ -	$ 132,514
New Investment Pool interest in timber			109,600	109,600
New Investment Pool interest in real estate			23,000	23,000
Real estate			3,700	3,700
	$ 72,836	$ 59,678	$ 136,300	$ 268,814

	Fair Value Measurements at June 30, 2014			
Description	**Observable Inputs Based on Quoted Prices**	**Other Observable Inputs**	**Unobservable Inputs**	**Total**
New Investment Pool interest in marketable equity securities	$ 71,080	$ 62,156	$ -	$ 133,236
New Investment Pool interest in timber			108,000	108,000
New Investment Pool interest in real estate			23,000	23,000
Real estate			3,700	3,700
	$ 71,080	$ 62,156	$ 134,700	$ 267,936

For the year ended June 30, 2015, activity in the Foundation's Pooled Investment assets valued at fair value based on unobservable inputs is as follows:

	Investment Pool Interest in Timber	**Investment Pool Interest in Real Estate**	**Real Estate**	**Total**
Beginning balance	$ 108,000	$ 23,000	$ 3,700	$ 134,700
Total realized and unrealized gains	4,595			4,595
Reforestation	257			257
Dispositions	(81)			(81)
Depletion	(3,171)			(3,171)
Ending balance	$ 109,600	$ 23,000	$ 3,700	$ 136,300

For the year ended June 30, 2014, activity in the Foundation's Pooled Investment assets valued at fair value based on unobservable inputs is as follows:

	Investment Pool Interest in Timber	Investment Pool Interest in Real Estate	Real Estate	Total
Beginning balance	$ 105,600	$ 23,000	$ 3,700	$ 132,300
Total realized and unrealized gains	4,933			4,933
Reforestation	352			352
Depletion	(2,885)			(2,885)
Ending balance	$ 108,000	$ 23,000	$ 3,700	$ 134,700

The DSH Funds' holds a proportionate interest in the value of the Foundation's Investment Pool. On June 30, 2015, the value of DSH Funds units in the Pool was $170,832 and at June 30, 2014, the value of DSH Funds units in the Pool was $165,453.

5. RELATED-PARTY TRANSACTIONS

At June 30, 2015 and 2014, receivables from affiliated entities totaled $643 and $839, respectively. These amounts are due to the DSH Funds from other entities owned by the Foundation. These receivables earn interest at a standard market rate, based on the applicable federal rates (rates used for federal tax purposes). Interest income was $122 and $101 for the years ended June 30, 2015 and 2014, respectively. As described in Note 4, effective June 30, 2006, the DSH Funds participate in the Pool of the Foundation and the DSH Funds earn a proportionate share of investment income of the Pool.

In an effort to assist the University in furtherance of its tax-exempt purpose and in order to accelerate its support of the Pediatric Expansion of USA Children's and Women's Hospital, the Foundation's Board of Directors authorized in a resolution adopted on May 27, 2010, the Foundation to negotiate an agreement to purchase the Brookley Center campus owned by the University. The May 27, 2010, resolution revoked the May 22, 2008, resolution as it pertained to the support of the Pediatric Expansion of USA Children's and Women's Hospital. On November 10, 2010, BBFP, an Alabama Limited Liability Company, whose sole member is the University of South Alabama Foundation, purchased the Brookley Complex from the University of South Alabama for Twenty Million Dollars ($20,000) payable in five annual installments of Four Million Dollars ($4,000). BBFP paid the University Four Million Dollars ($4,000) at closing and entered into a non-interest-bearing installment note for Sixteen Million Dollars ($16,000).

It is further the intention and expectation of the Board of the Foundation, as reflected in the resolutions adopted May 27, 2010, and September 9, 2010, that upon BBFP's payment to the University of the purchase price, the Foundation would begin funding a three-percent annual target distribution to the University from the DSH Funds held by the Foundation in the fiscal year following the year in which such payment has been completed. In making such distributions, the Foundation, acting in response to requests, proposals or recommendations submitted to it by the University, would seek to distribute to the University, for the benefit of the University's hospitals and clinics, and the other programs of the University that benefit such hospitals and clinics, funding for programs, activities or such other expenditures as shall be designated by the

Foundation, in its sole discretion, in amounts that, in each such year, would be not less than three percent of the average net assets of the DSH Funds, which such amounts would include the semi-annual distributions from the Hospital Equipment Fund, and subject to certain financial and other conditions as set forth in the resolutions.

During the period of five years from the date of closing the transaction, the University retains ownership of all buildings and improvements on the Brookley Complex property and an exclusive easement over all of the land. Upon the payment of the note, ownership of such buildings and improvements transfers to BBFP at the conclusion of the five-year period, unless the parties agree to extend use by the University.

6. NATURE AND AMOUNT OF TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2015 and 2014, temporarily restricted net assets of $43,589 and $38,406, respectively, were available for the support of hospitals, clinics, and related programs of the University.

7. NATURE AND AMOUNT OF PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2015 and 2014, permanently restricted net assets of $131,586 and $131,586, respectively, are restricted to investments in perpetuity, the income from which may be used for the support of hospitals, clinics, and related programs of the University.

8. ENDOWMENT

Interpretation of the Law — The University of South Alabama Foundation conducts the operations of the Foundation in accordance with the Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA), effective January 1, 2009, and continuing thereafter unless otherwise determined by the Foundation. The Board of Directors and management of the Foundation interpret UPMIFA as obligating the Foundation to preserve, as donor-restricted assets, each original gift received by the Foundation as donor-restricted endowment funds.

The Foundation, accordingly, classifies each such original gift, and any subsequent gifts, as permanently restricted. The remaining portion of any donor-restricted endowment that is not classified as permanently restricted is classified as temporarily restricted net assets, until such time as any of such remaining portion is appropriated for expenditure. In managing each endowment fund held by it, the Foundation considers, if relevant, the duration and preservation of the fund, the purposes of the Foundation and the fund, general economic conditions, any restrictions imposed by the donor, the possible effect of inflation or deflation, the expected total return from income and appreciation of investments, the other resources of the Foundation, and the investment policy of the Foundation.

9. SUBSEQUENT EVENTS

The DSH Funds evaluated subsequent events through August 20, 2015, which represents the date the combined financial statements were available to be issued, and made the determination that no events occurred subsequent to June 30, 2015, that would require disclosure in or would be required to be recognized in the combined financial statements.

* * * * * *

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

BUDGET AND FINANCE

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

BUDGET AND FINANCE COMMITTEE

September 3, 2015
2:52 p.m.

A meeting of the Budget and Finance Committee of the University of South Alabama Board of Trustees was duly convened by Mr. Tom Corcoran, Chair, on Thursday, September 3, 2015, at 2:52 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Tom Corcoran, Jimmy Shumock, Sandy Stimpson and Jim Yance.
Members Absent:	Arlene Mitchell and Steve Stokes.
Other Trustees:	Chandra Brown Stewart, Steve Furr, John Peek, Ken Simon and Mike Windom.
Administration and Others:	Joe Busta, Chris Cannon, Lynne Chronister, Monica Curtis, Mike Finan, Happy Fulford, Stan Hammack, Mike Haskins, David Johnson, Mark Lauteren, Michael Mitchell, Randy Moon, John Smith, Sam Strada, Jean Tucker, Tony Waldrop, Scott Weldon, and Kevin West and Kelly Woodford (Faculty Senate).
Press:	Josh Harland and Lee Peck (Fox 10), Bria Johnson and Alyssa Newton (*Vanguard*) and Jason Johnson (*Lagniappe*).

The meeting came to order and the attendance roll was called. Mr. Corcoran called for adoption of the revised agenda. On motion by Mr. Shumock, seconded by Mr. Yance, the revised agenda was approved unanimously. Mr. Corcoran called for consideration of the minutes of the meeting held on June 4, 2015. On motion by Mr. Shumock, seconded by Mr. Yance, the minutes were approved unanimously.

Mr. Corcoran called on Mr. Weldon to comment on **ITEM 9**, the quarterly financial statements for the nine months ended June 30, 2015. Mr. Weldon said the statements did not contain anything unusual or unexpected that would cause concern.

Mr. Corcoran asked Dr. Smith to address **ITEM 10**, a report on information technology (IT). Dr. Smith advised that, in May, an independent consultant had conducted an assessment of the main campus and USA Health System information networks. He called upon Messrs. Chris Cannon, Executive Director – Information Technology, and Mark Lauteren, Chief Information Officer – USA Health System, to share results. As the Committee viewed materials, Messrs. Cannon and Lauteren described a comprehensive plan for enhancing IT capabilities and services through the oversight of an Information Services Strategic Governance Committee and an Information Security Office, as well as the implementation of Cerner software, through which the Health System Information Services function would be improved. The role and scope of each element was explained. Mr. Peek inquired about hardware needs at the Hospitals. Mr. Lauteren discussed that the replacement of computers is ongoing. Judge Simon remarked on the prevalence of security threats. Mr. Lauteren acknowledged the challenges of maintaining network security and said preparedness is a top priority.

Mr. Corcoran called on Dr. Smith for presentation of **ITEM 11**, a resolution authorizing the Administration to begin Phase I of the infrastructure upgrade and improvement project effective immediately and extending through the 2019 fiscal year (for copies of resolutions, policies and other authorized documents, refer to the minutes of the September 4 Board of Trustees meeting). The resolution further proposes the funding of the project through a combination of approximately $5 million in budgeted funds over the four-year period plus up to $20 million in bonded indebtedness, which would be offered for the Board's consideration perhaps in September 2016. Dr. Smith reminded the Committee that, one year prior, an independent consultant had conducted an extensive analysis of infrastructure needs and Mr. Randy Moon, Associate Vice President – Facilities Management, was charged with prioritizing needs. Mr. Moon presented visual materials demonstrating priorities and projected costs. Mr. Weldon, Assistant Vice President for Finance and Administration, discussed budget implications as well as preliminary options for a bond issue to fund the project. The plan calls for establishing a maintenance fund with regular deposits until a balance of $2.5 million is attained, which will eventually serve as the source for funding for deferred maintenance. Dr. Smith said most of the work would need to be accomplished during summer break. Judge Simon complimented the Administration for taking on this sweeping project. Dr. Smith stated the plan is intended to protect and fortify the Institution well into the future. On motion by Mr. Yance, seconded by Mayor Stimpson, the Committee voted unanimously to recommend approval by the Board of Trustees.

Mr. Corcoran asked Dr. Smith to discuss **ITEM 12**, a resolution authorizing the President to engage the architectural firm of Williams Blackstock to design and bid a new residential building. Dr. Smith called the need for additional housing a good problem for the University, in that it reflects steady enrollment growth. Attesting to the demand, he stated the residence halls were filled to capacity at the beginning of the 2015 fall semester and discussed the challenges associated with accommodating students on the wait list. He said alternate arrangements were possible by leasing beds from The Grove, a privately-owned apartment complex constructed on campus exclusively for USA students. He reminded the Committee of previous renovations to convert private dorm rooms into double-occupancy rooms as a way of alleviating housing constraints. He said a final proposal would be submitted for the Board's consideration in March 2016. On motion by Mr. Yance, seconded by Mr. Shumock, the Committee voted unanimously to recommend approval by the Board of Trustees.

As requested by Mr. Corcoran, Dr. Smith introduced **ITEM 13**, a resolution to adopt the University Total Budget for 2015-2016, which includes the University General Budget and the USA Health System Budget. The resolution further specifies that the 2015-2016 budget would serve as a continuation budget for 2016-2017 to comply with bond trust indenture requirements should the budget process not be completed prior to the 2016-2017 fiscal year. Dr. Smith guided the group through the budget materials and discussed how defining factors, such as fringe benefits changes and proceeds from increased enrollment, affect the bottom line. He said the proposal is a balanced budget in excess of $800 million.

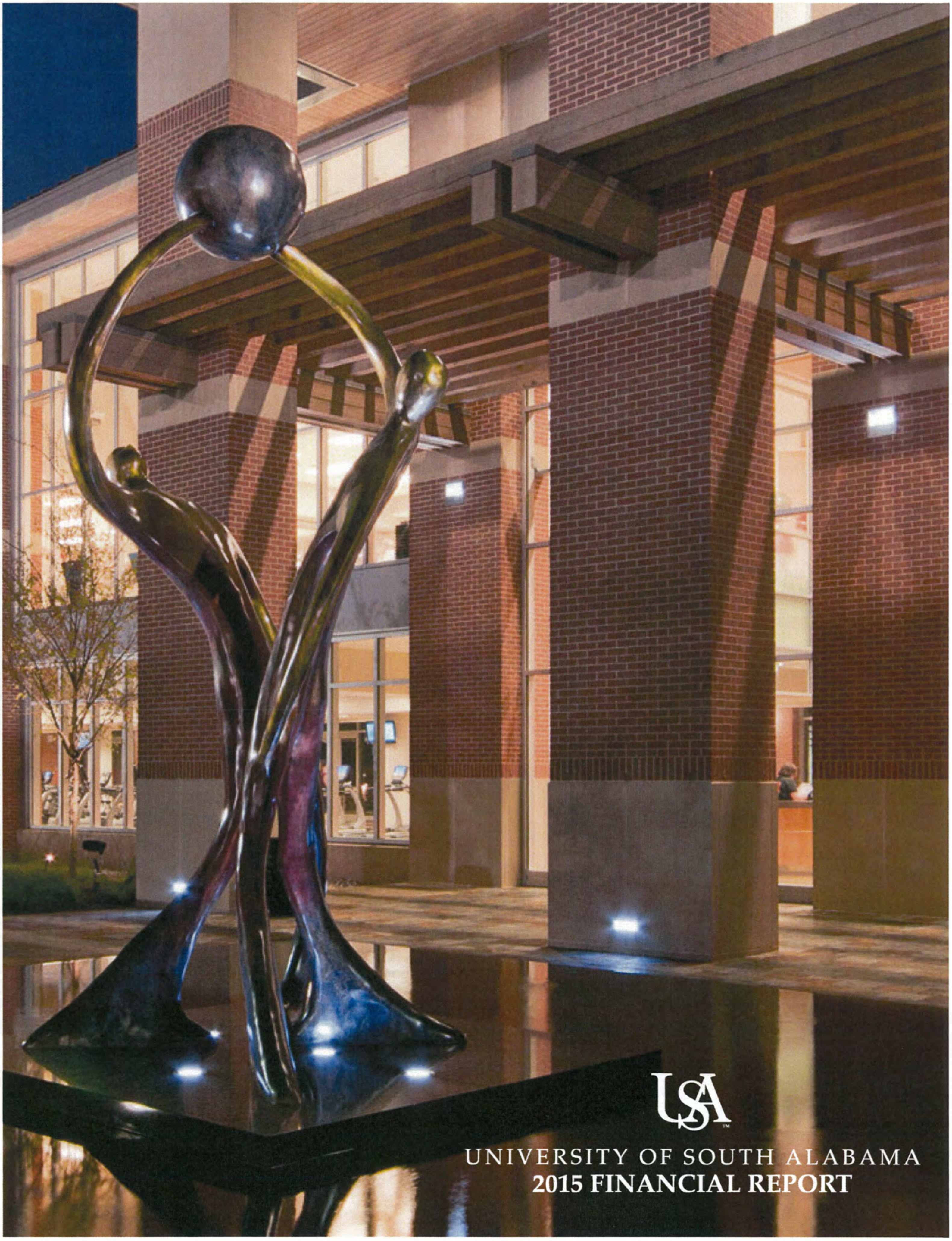
With reference to other institutions, Judge Simon asked how federal grant revenues could be improved. Citing resource limitations, Ms. Chronister shared ideas for increasing extramural dollars, such as investing in research faculty lines and industry outreach. She said USA is committed to the process of building relationships, which would prove beneficial over the long term. Mr. Yance asked about the possibility of proration in the 2015-2016 academic year. Mr. Fulford said proration is not likely unless the education budget experiences significant reductions. On motion by Mr. Shumock, seconded by Mr. Yance, the Committee voted unanimously to recommend approval of the resolutionby the Board of Trustees.

There being no further business, the meeting was adjourned at 3:32 p.m.

Respectfully submitted:

____

E. Thomas Corcoran, Chair



UNIVERSITY OF SOUTH ALABAMA

2015 FINANCIAL REPORT

2015 Financial Report

University of South Alabama Board of Trustees

Pictured from the left, Kenneth O. Simon, Arlene Mitchell, Robert D. Jenkins III, Bettye R. Maye, Michael P. Windom, E. Thomas Corcoran, Dr. Steven P. Furr, Bryant Mixon, James A. Yance, William S. Stimpson, Chandra Brown Stewart, John M. Peek, James H. Shumock, Dr. Scott A. Charlton, Dr. Steven H. Stokes and President Tony G. Waldrop. Not pictured Dr. Robert Bentley.

UNIVERSITY OF
SOUTH ALABAMA

Tony G. Waldrop, Ph.D.
President
University of South Alabama

Message from the PRESIDENT

The mission of the University of South Alabama is to make a difference in the lives of those we serve through promoting discovery, health and learning. At South, we strive to achieve this mission through the establishment of, and adherence to, five institutional strategic priorities: i. student access and success; ii. enhancement of research and graduate education; iii. global engagement; iv. excellence in healthcare and v. University-community engagement. Everything we do at South is with this mission in mind.

As the University continues its growth, it is through a sound financial position that our priorities can be accomplished. Despite the economic challenges of the past several years, the financial position of the University of South Alabama, as demonstrated in this financial report, 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, healthcare and public service programs.

In the fall of 2015, the University enjoyed enrollment growth of approximately 2.5% to a record number of 16,462 students while at the same time elevating academic standards and significantly enhancing support and resources for student advising. This increase in enrollment is a testament to the strength of our academic programs, the quality and dedication of our faculty and staff, and the spirit of our students and alumni.

Along with our record enrollment, campus life is constantly being enhanced and improved as evidenced by an ever-increasing demand for on-campus student housing. More than 200 diverse student clubs and organizations engage students in campus life, while Greek life at the University continues to grow and is an integral part of the campus community. Student leadership development is a continued area of focus in all areas of student life at the University, and the Office of Multicultural Student Affairs actively engages students in conversation and activities that encourage dialog among all students. Our student athletes continue to excel both on the field and in the classroom.

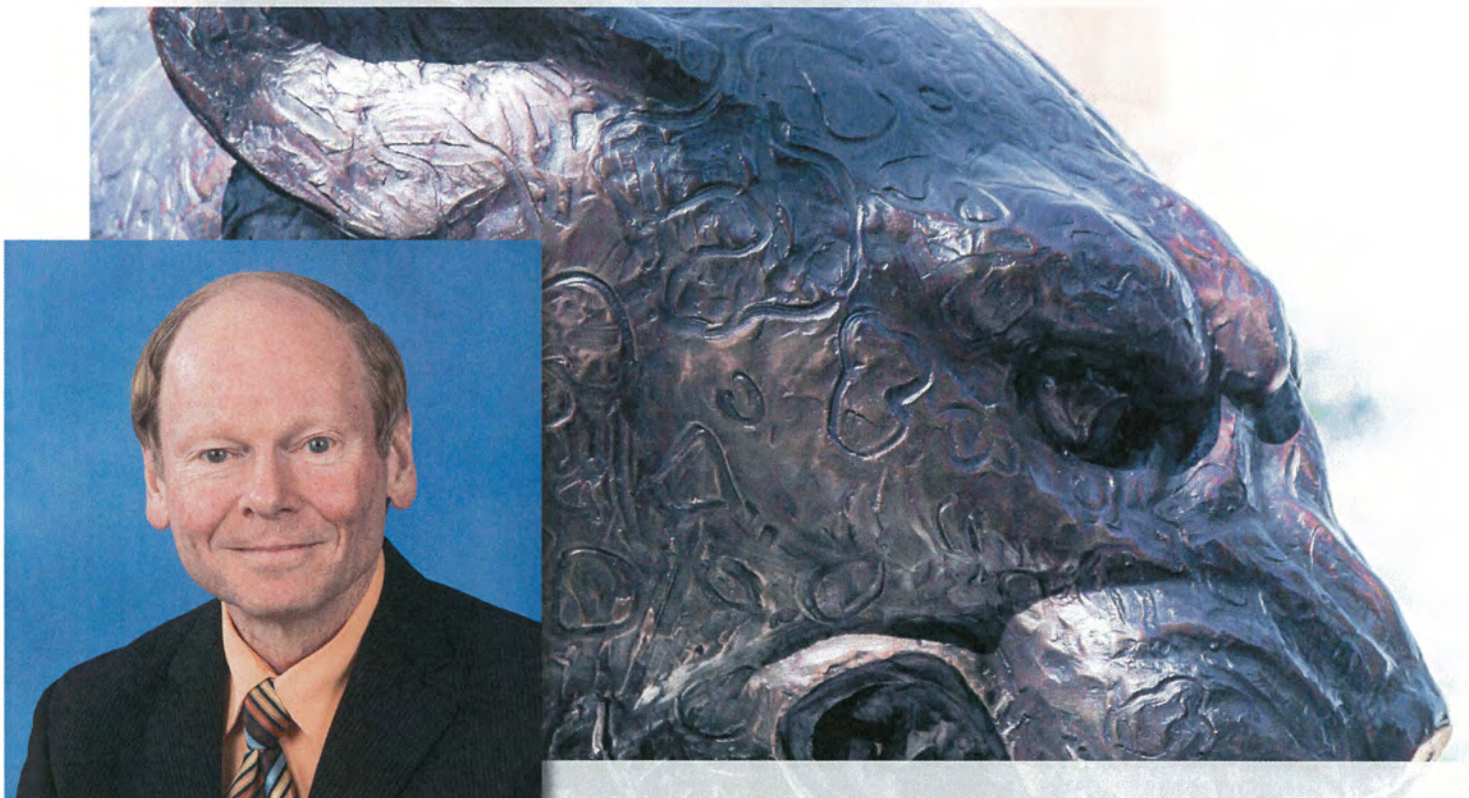
USA students also give back to the community. Hundreds of students participate in service activities throughout the year, including activities such as the annual MLK day of service, which provides students with opportunities to serve by performing numerous community activities. The "Book Your Ride to Troy" project collected almost 1,500 books for rural libraries in the state of Alabama.

This is an exciting time for the University of South Alabama. Despite continued financial challenges, our future is bright and our vision remains true. As we continue to strive to make South more vibrant, more involved and more global, I affirm to you that my focus and the focus of the entire University will be solidly fixed on these objectives and on our students.

Tony G. Waldrop, Ph.D.
President


JAGUARS
50

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 sustaining the success of the University of South Alabama and to ensuring that our core values and priorities are met and maintained. We are committed to the successful achievement of the mission of the University as well as to the success of our students, faculty and staff.

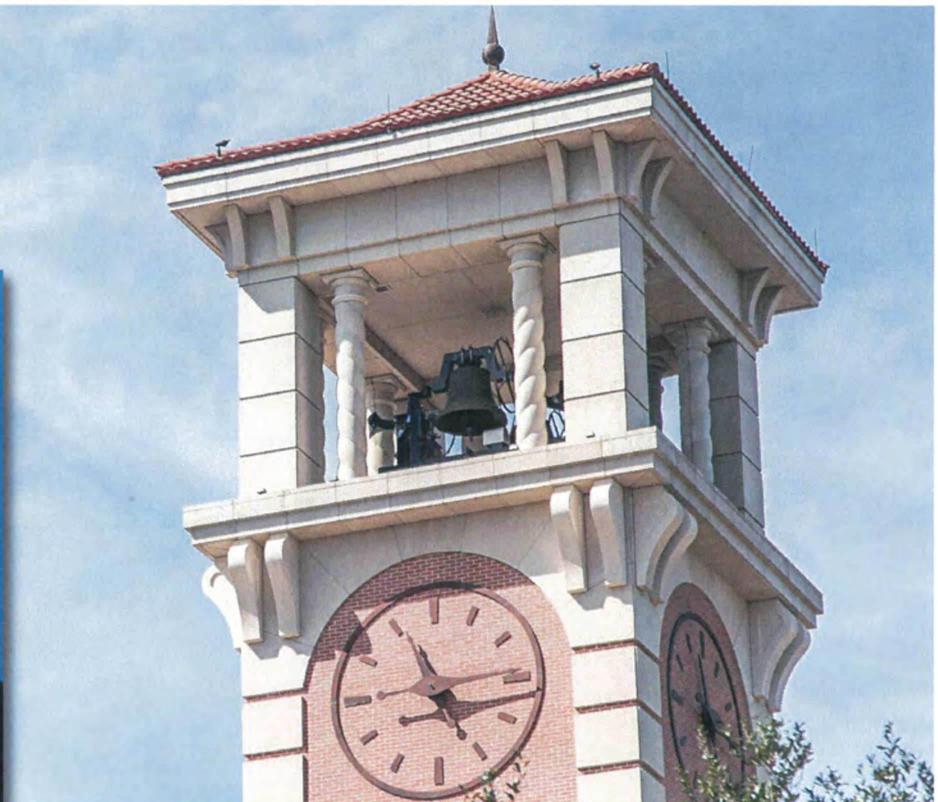
The Board of Trustees takes its responsibility for the stewardship of our financial resources and academic programs very seriously. We constantly strive to improve all aspects of the University and seek to ensure that USA is an intellectual, economic and service leader in the state of Alabama and the 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.

Together, we are the University of South Alabama. We are South!

Steven P. Furr, M. D.
Chair Pro Tempore, Board of Trustees
University of South Alabama

Introduction from the VICE-PRESIDENT FOR FINANCIAL AFFAIRS



G. Scott Weldon
Vice President for Finance and Administration
University of South Alabama

I am pleased to present this annual financial report for the University of South Alabama at and for the year ended September 30, 2015. I am confident that the accompanying financial statements fairly present the financial position and results of operations of the University. It is the responsibility of University management to ensure that these financial statements, including management's discussion and analysis and the accompanying notes to the financial statements, are complete and are fairly presented in accordance with U. S. generally accepted accounting principles.

The management of the University of South Alabama also is responsible for the integrity and objectivity of the financial information presented in these statements. We believe that the University's system of internal accounting controls provides reasonable assurance that assets are protected and that all transactions and events are properly recorded. The Board of Trustees of the University, through the Audit Committee, monitors the financial and accounting operations of the University.

G. Scott Weldon
Vice President for Finance and Administration
University of South Alabama


MONTANA
NORTH DAKOTA
SOUTH DAKOTA
IDAHO
MINN.
WYOMING
NEBRASKA
IOWA
Chicago
NEVADA
UTAH
COLORADO

KPMG

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

Basic Financial Statements

September 30, 2015

(With Independent Auditors' Report Thereon)

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

Basic Financial Statements

September 30, 2015

Table of Contents

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

Management's Discussion and Analysis (Unaudited)

September 30, 2015

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, 2015 and 2014 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 (GASB). 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, the USA Research and Technology Corporation, and the Gulf Coast Regional Care Organization are discretely presented.

Because of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in 2015, the University only presented financial statements for 2015 and management's discussion and analysis for 2015 and 2014. Management's discussion and analysis for 2014 does not reflect the impact of the adoption of GASB Statement No. 68 and therefore is not comparative to 2015.

Financial Highlights

At September 30, 2015 and 2014, the University had total assets and deferred outflows of $1,114,951,000 and $1,055,286,000, respectively; total liabilities and deferred inflows of $919,899,000 and $555,736,000, respectively; and net position of $195,052,000 and $499,550,000, respectively. As a result of 2015 activity, net position increased $9,239,000 during the year ended September 30, 2015 compared to an increase of $6,560,000 for the year ended September 30, 2014. Due to the cumulative effect of the change in accounting principle as a result of the adoption of GASB Statement No. 68, there was a decrease in beginning net position of $313,737,000. See Note 12 for a complete explanation of the impact of GASB Statement No. 68.

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, deferred outflows, liabilities, deferred inflows and net position of the University at September 30, 2015. 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 donors. 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 net patient accounts receivable comprise approximately 41%, 26% and 14%, respectively, of current assets at September 30, 2015. Noncurrent assets at September 30, 2015 consist primarily of capital assets, restricted cash and cash equivalents, and restricted investments.

The Condensed Schedules of Net Position at September 30, 2015 and 2014 follow (in thousands):

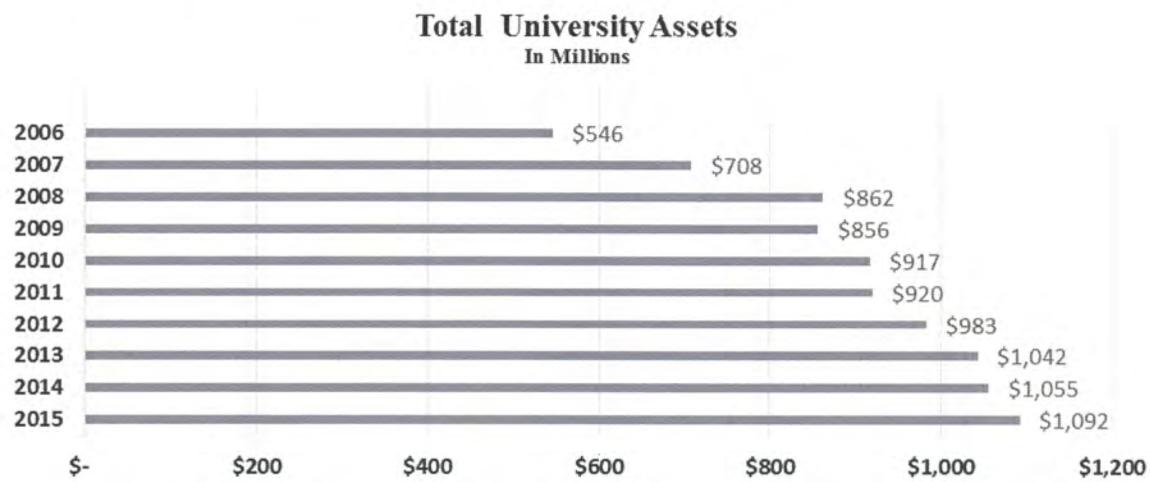
Condensed Schedules of Net Position

		2015	2014
Assets:			
Current	$	233,940	303,272
Capital assets		609,630	578,303
Other noncurrent		248,539	173,711
Total assets		1,092,109	1,055,286
Deferred outflows		22,842	—
Total assets and deferred outflows	$	1,114,951	1,055,286
Liabilities:			
Current	$	132,128	120,646
Noncurrent		751,880	434,913
Total liabilities		884,008	555,559
Deferred inflows		35,891	177
Total liabilities and deferred inflows	$	919,899	555,736
Net position:			
Net investment in capital assets	$	246,567	237,851
Restricted, nonexpendable		43,425	40,191
Restricted, expendable		60,106	60,873
Unrestricted		(155,046)	160,635
Total net position	$	195,052	499,550

University cash, cash equivalents, and investments (current and noncurrent) decreased between September 30, 2014 and 2015 by $3,016,000 to $400,949,000.

(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 amounts 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. Also included in unrestricted net position at September 30, 2015 is the impact of the net pension liability recorded pursuant to the requirements of GASB Statement No. 68.

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

All categories of restricted net position increased by approximately 8% between September 30, 2015 and 2014, primarily due to the addition of restricted gifts to the University. Unrestricted net position decreased from $160,635,000 to $(155,046,000) between September 30, 2015 and 2014 due primarily to the adoption of GASB Statement No. 68. The impact of the implementation of GASB Statement No. 68 on unrestricted net position at September 30, 2015 is summarized below:

Unrestricted net position related to net pension liability	$	(310,827)
Unrestricted net position related to other activity		155,781
Unrestricted net position	$	(155,046)

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total University 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 non-exchange 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 GASB 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, 2015 and 2014 follow (in thousands):

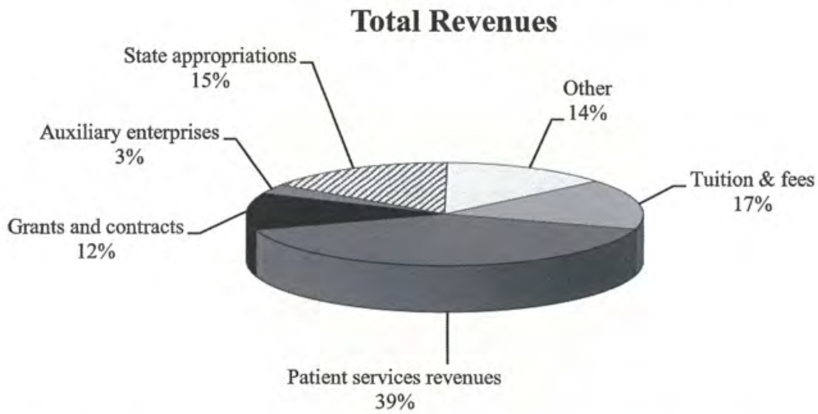
Condensed Schedules of Revenues, Expenses, and Changes in Net Position

		2015	2014
Operating revenues:			
Tuition and fees	$	120,265	104,448
Net patient service revenue		271,655	268,449
Federal, state and private grants and contracts		85,756	76,719
Other		78,845	54,010
		556,521	503,626
Operating expenses:			
Salaries and benefits		433,679	419,966
Supplies and other services		169,873	158,615
Other		57,476	55,397
		661,028	633,978
Operating loss		(104,507)	(130,352)
Nonoperating revenues:			
State appropriations		103,974	103,695
Investment income (loss)		(10,718)	8,206
Other, net		13,259	14,475
Net nonoperating revenues		106,515	126,376
Income (loss) before capital appropriations, capital contributions, grants, and additions to endowment		2,008	(3,976)
Capital appropriations, capital contributions, grants, and additions to endowment		7,231	10,536
Increase in net position		9,239	6,560
Beginning net position, before cumulative effect of change in accounting principle		499,550	492,990
Cumulative effect of change in accounting principle		(313,737)	—
Beginning net position – as adjusted		185,813	492,990
Ending net position	$	195,052	499,550

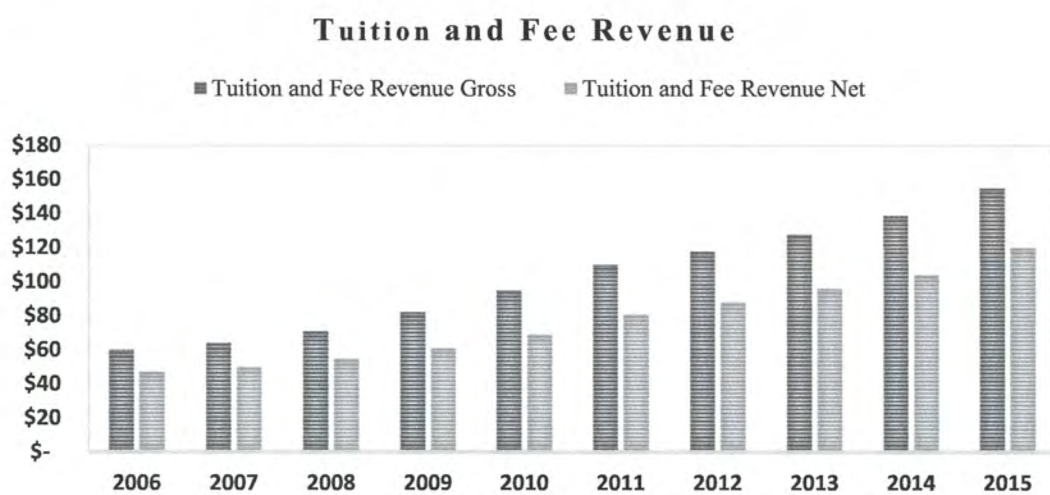
(Continued)

In 2015 and 2014, approximately 39% and 40%, 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 17% of total revenues in fiscal 2015. Also in 2015, state appropriations and grants and contracts (federal, state and private) represented approximately 15% and 12% of total revenues, respectively.

A summary of University revenues for the year ended September 30, 2015 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 2005 to 22% in 2015. Tuition and fees, gross and net of scholarship allowances, for the past ten fiscal years are as follows:

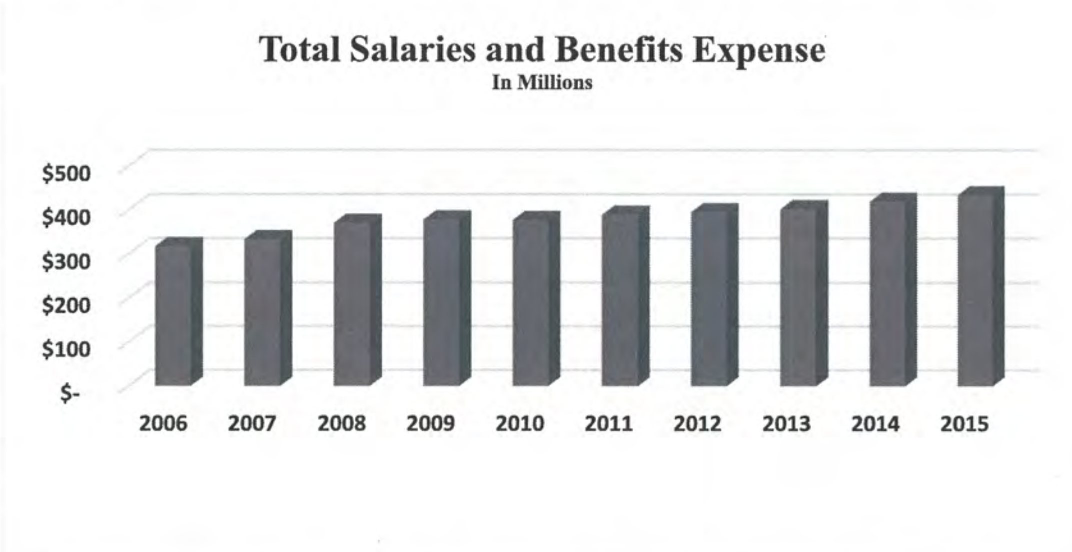


Capital contributions and grants increased from $790,000 in 2014 to $2,784,000 in 2015 due to a increase in grant funds received for construction of Shelby Hall and the ABSL-3 Laboratory Building. The University recognized no capital appropriations in 2015.

University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2015 is presented below:

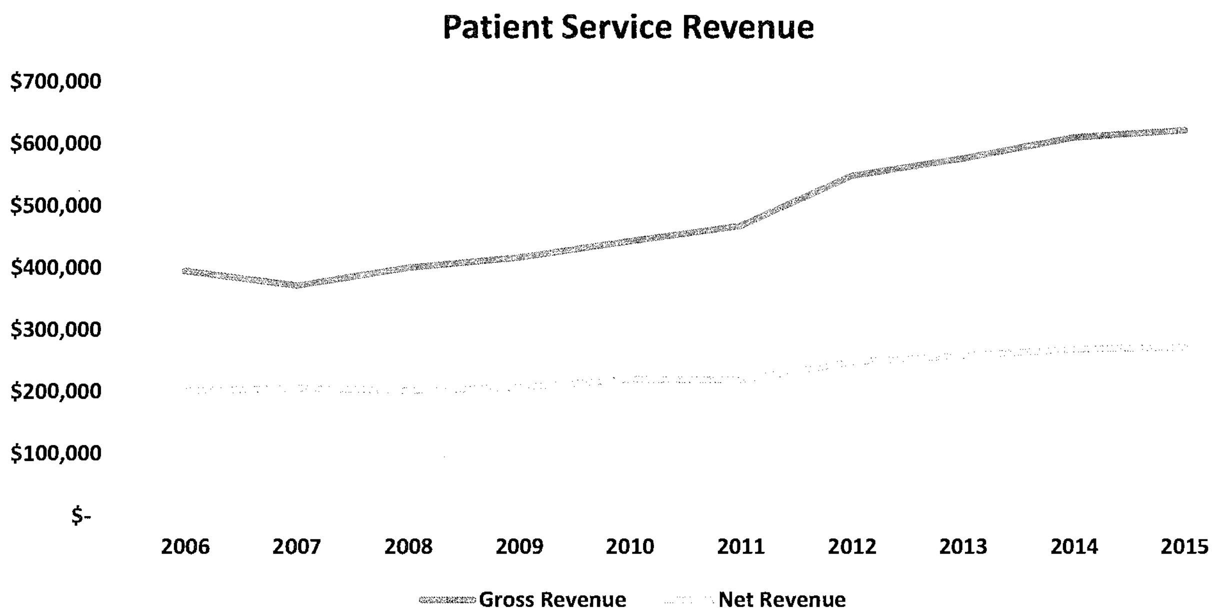
While the University reports its expenses on a natural expense classification basis, functional classifications represent expenses categorized based on the function within the University. Such University functions include instruction, research, public service, academic support, student services, institutional 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 17 to the basic financial statements.

In 2015 and 2014, approximately 62% and 66%, respectively, of the University's total operating expenses were salaries and benefits.



For the years ended September 30, 2015 and 2014, the University reported operating losses of approximately $104,507,000 and $130,352,000, 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), and applying the cumulative effect of the change in accounting principle the total change in net position was approximately $(304,498,000) and $6,560,000, for the years ended September 30, 2015 and 2014, respectively.

The Hospitals represent a significant portion of total University revenues. Operating patient service revenues, gross and net, for the last ten fiscal years are presented below:



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 $65,446,000 in 2015. During 2015, the expansion of USA Children's and Women's Hospital was placed into service. Significant construction projects that remain in progress at September 30, 2015 include a new professional medical office building. Major projects completed and placed into service in fiscal 2014 included New Hall (residence hall) and a major renovation of the Student Center. At September 30, 2015, the University had outstanding commitments of approximately $30,800,000 for various capital projects.

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 June 2015, the University issued the University Facilities Revenue Capital Improvement Bond, Series 2015, with a face value of $6,000,000. The proceeds of this bond are being used to fund the acquisition of certain property and the construction of certain facilities to be used by the USA Mitchell Cancer Institute.

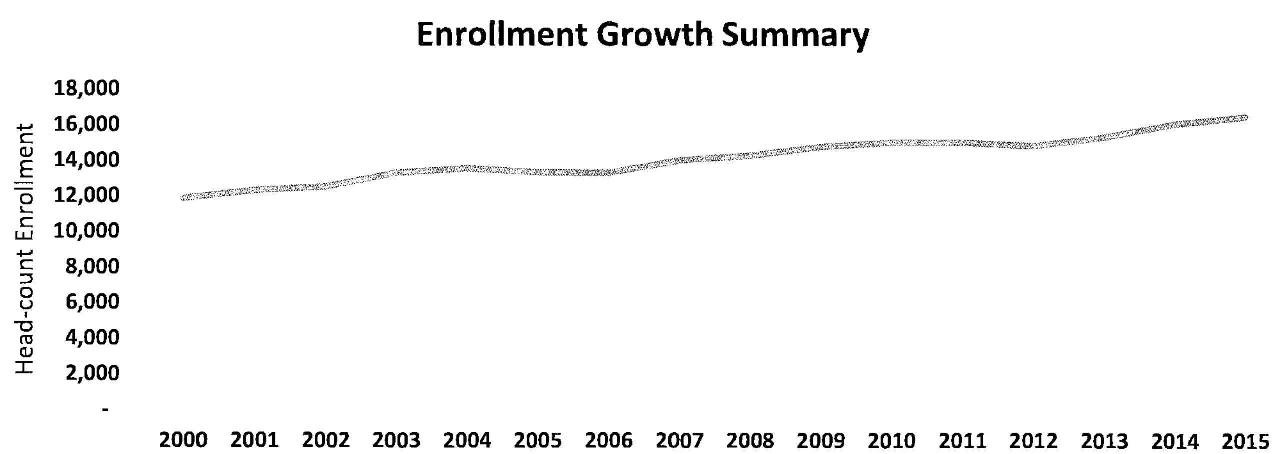
In order to realize debt service savings currently from future debt refunding, in January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to the counterparty 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 (loss) in 2015 and 2014.

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, and issued the 2014-A variable rate bond. As a result of the exercise of the option by the counterparty, the swaption was terminated and 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 2015 swap of $7,768,000 was recognized and is reported in the statement of net position at September 30, 2015.

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 2015.

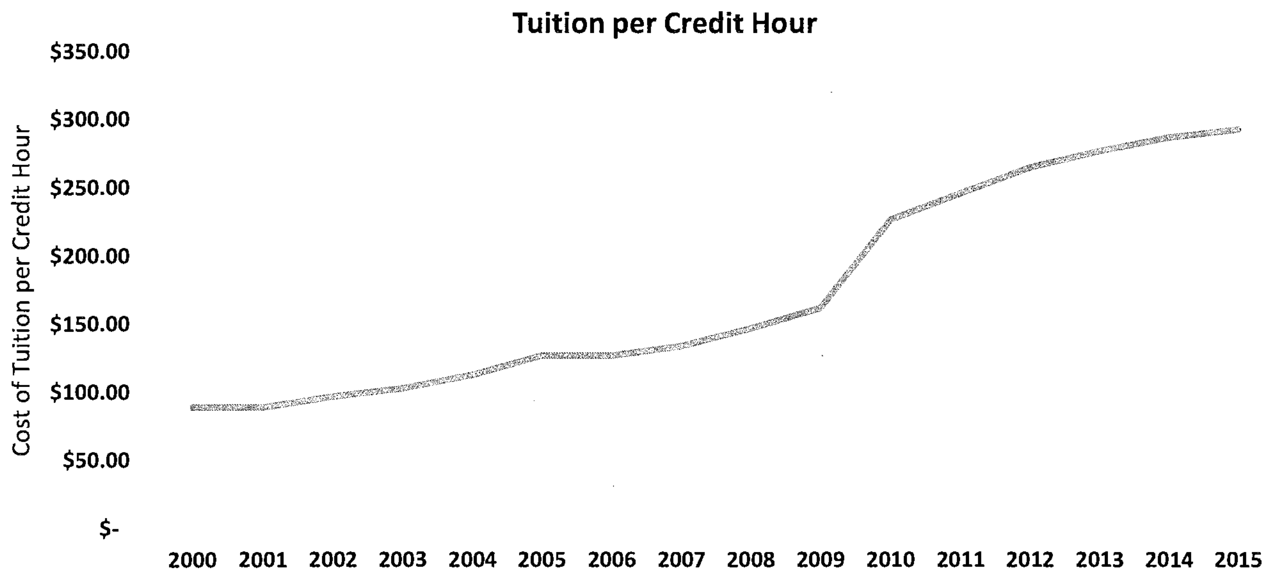
Economic Outlook

Student enrollment and tuition and fee rates have both increased over the past fifteen years. The University has experienced an increase in enrollment between 2000 and 2015, from 11,870 in 2000 to 16,462 for the 2015 Fall semester. The enrollment trend for the University between 2000 and 2015 is as follows:



In that same time period, in-state tuition per credit hour has increased by approximately 229%. 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-state tuition per credit hour between 2000 and 2015 is as follows:



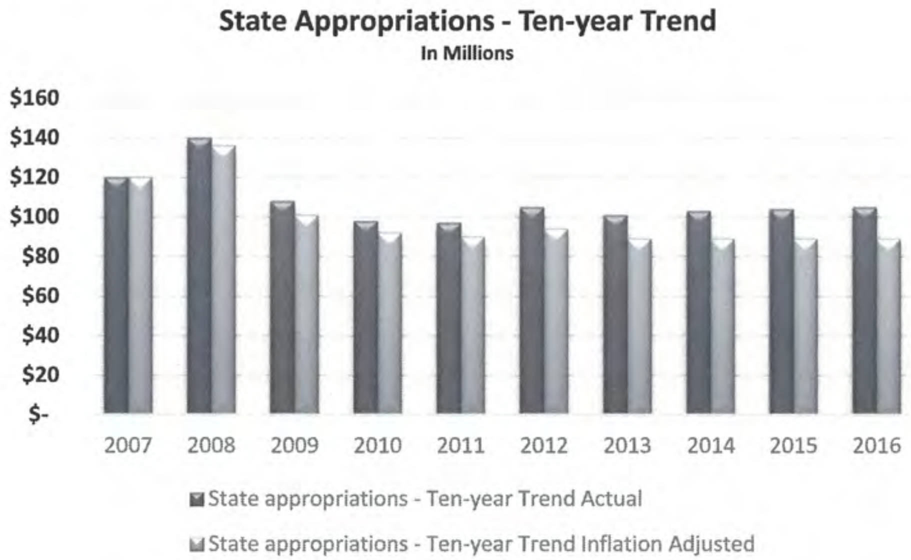
While enrollment and tuition have both increased in recent years, state appropriations prior to 2006 were relatively flat. However, in the 2008, 2007 and 2006 fiscal years, the University experienced increases of 16%, 19% and 17%, respectively, or approximately $19,349,000, $19,185,000 and $14,581,000, 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.

A state appropriation in the amount of approximately $103,974,000 was authorized and received for the year ended September 30, 2015.

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 $104,977,000 has been authorized for the year ending September 30, 2016. This represents a $1,003,000 increase from the fiscal 2015 appropriation received. While no announcement has been made, the University is aware that reductions in its 2016 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 2016 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 G. Scott Weldon; Vice-President for Finance and Administration; 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 year ended September 30, 2015, 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 audit. We did not audit the 2015 consolidated financial statements of the University of South Alabama Foundation, which represents 87%, 101%, and 41%, respectively, of the 2015 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, the Gulf Coast Regional Care Organization, 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 audit 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, 2015, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1(y) to the basic financial statements, in 2015, the University adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1-12 and the schedule of the University's proportionate share of the net pension liability and schedule of University's contributions on pages 68 and 69 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 13, 2015, 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 13, 2015

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

Statement of Net Position

September 30, 2015

(In thousands)

Current assets:	
Cash and cash equivalents	$ 95,938
Investments	61,531
Net patient accounts receivable, (net of allowance for doubtful accounts of $62,726)	31,747
Accounts receivable, affiliates	20,169
Accounts receivable, other	8,292
Notes receivable, net	5,365
Prepaid expenses, inventories, and other	10,898
Total current assets	233,940
Noncurrent assets:	
Restricted cash and cash equivalents	31,324
Restricted investments	96,386
Investments	115,770
Accounts receivable	2,345
Notes receivable, net	481
Other noncurrent assets	2,233
Capital assets, net	609,630
Total noncurrent assets	858,169
Total assets	1,092,109
Deferred outflows	22,842
Total assets and deferred outflows	1,114,951
Current liabilities:	
Accounts payable and accrued liabilities	53,244
Unrecognized revenue	58,224
Deposits	2,302
Current portion of long-term debt	18,358
Total current liabilities	132,128
Noncurrent liabilities:	
Long-term debt, less current portion	386,402
Net pension liability	297,734
Other long-term liabilities	67,744
Total noncurrent liabilities	751,880
Total liabilities	884,008
Deferred inflows	35,891
Total liabilities and deferred inflows	919,899
Net position:	
Net investment in capital assets	246,567
Restricted, nonexpendable:	
Scholarships	20,844
Other	22,581
Restricted, expendable:	
Scholarships	12,629
Other	47,477
Unrestricted	(155,046)
Total net position	$ 195,052

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Financial Position

June 30, 2015

(In thousands)

Assets

Cash and cash equivalents	$	1,234
Investments:		
Equity securities		132,514
Timber and mineral properties		157,064
Real estate		66,320
Other		5,803
Other assets		580
Total assets	$	363,515

Liabilities and Net Assets

Liabilities:		
Accounts payable	$	322
Other liabilities		701
Total liabilities		1,023
Net assets:		
Unrestricted		96,885
Temporarily restricted		96,033
Permanently restricted		169,574
Total net assets		362,492
Total liabilities and net assets	$	363,515

See accompanying notes to basic financial statements.

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

Statement of Financial Position

September 30, 2015

(In thousands)

Assets		
Current assets:		
Cash and cash equivalents	$	13
Patient accounts receivable (net of allowance for uncollectible accounts of approximately $5,201)		12,280
Other current assets		1,221
Total current assets		13,514
Interest in assets of University of South Alabama Professional Liability Trust Fund		16,593
Property and equipment, net		2,459
Total assets	$	32,566
Liabilities and Net Deficit		
Current liabilities:		
Accounts payable	$	1,012
Due to affiliates		17,924
Total current liabilities		18,936
Estimated professional liability costs		16,593
Total liabilities		35,529
Net deficit		(2,963)
Total liabilities and net deficit	$	32,566

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statement of Net Position

September 30, 2015

(In thousands)

Assets:		
Current assets:		
Unrestricted cash and cash equivalents	$	695
Rent receivable		143
Prepaid expenses and other current assets		4
Total current assets		842
Noncurrent assets:		
Intangible assets, net		47
Capital assets, net		23,040
Total noncurrent assets		23,087
Deferred outflows		3,383
Total assets and deferred outflows		27,312
Liabilities:		
Current liabilities:		
Deposits, other current liabilities, and accrued expenses		166
Payable to University of South Alabama		162
Unrecognized rent revenue		378
Current portion of notes payable		1,001
Total current liabilities		1,707
Noncurrent liabilities:		
Notes payable, excluding current portion		21,316
Interest rate swap		3,383
Total noncurrent liabilities		24,699
Total liabilities		26,406
Net position:		
Net investment in capital assets		574
Unrestricted		332
Total net position	$	906

See accompanying notes to basic financial statements.

GULF COAST REGIONAL CARE ORGANIZATION
(Discretely Presented Component Unit)

Statement of Net Position

September 30, 2015

(In thousands)

Assets:	
Current assets:	
Cash and cash equivalents	$ 147
Total current assets	147
Total assets	147
Liabilities:	
Noncurrent liabilities:	
Due to affiliate	50
Total noncurrent liabilities	50
Total liabilities	50
Net position:	
Unrestricted	97
Total net position	$ 97

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2015

(In thousands)

Operating revenues:		
Tuition and fees (net of scholarship allowances of $34,910)	$	120,265
Net patient service revenue (net of provision for bad debts of $64,168)		271,655
Federal grants and contracts		16,811
State grants and contracts		8,727
Private grants and contracts		60,218
Auxiliary enterprises (net of scholarship allowances of $1,080)		21,777
Other operating revenues		57,068
Total operating revenues		556,521
Operating expenses:		
Salaries and benefits		433,679
Supplies and other services		169,873
Scholarships and fellowships		8,687
Utilities		15,061
Depreciation and amortization		33,728
Total operating expenses		661,028
Operating loss		(104,507)
Nonoperating revenues (expenses):		
State appropriations		103,974
Investment loss		(10,718)
Interest expense		(15,758)
Other nonoperating revenues		36,669
Other nonoperating expenses		(7,652)
Net nonoperating revenues		106,515
Income before capital contributions, grants and additions to endowment		2,008
Capital contributions and grants		2,784
Additions to endowment		4,447
Change in net position		9,239
Net position:		
Beginning of year, before cumulative effect of change in accounting principle		499,550
Cumulative effect of change in accounting principle		(313,737)
Beginning balance, as adjusted		185,813
End of year	$	195,052

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, 2015

(In thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:					
Net realized and unrealized gains on investments	$	40,749	5,871	—	46,620
Rents, royalties and timber sales		4,006	168	14	4,188
Interest and dividends		192	1,948	6	2,146
Gifts		—	3	14	17
Required match of donor contributions		(18)	4	14	—
Interfund interest		(191)	191	—	—
Net assets released from program restrictions		3,061	(3,061)	—	—
Total revenues, gains, and other support		47,799	5,124	48	52,971
Expenditures:					
Program services:					
Faculty support		2,440	—	—	2,440
Scholarships		1,101	—	—	1,101
Other		1,190	—	—	1,190
Total program service expenditures		4,731	—	—	4,731
Management and general		1,869	—	—	1,869
Other investment expense		1,976	—	—	1,976
Depletion expense		4,898	—	—	4,898
Depreciation expense		95	—	—	95
Interest expense		46	—	—	46
Total expenditures		13,615	—	—	13,615
Increase in net assets		34,184	5,124	48	39,356
Net assets – beginning of year		62,701	90,909	169,526	323,136
Net assets – end of year	$	96,885	96,033	169,574	362,492

See accompanying notes to basic financial statements.

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

Statement of Operations and Changes in Net Assets (Deficit)

Year ended September 30, 2015

(In thousands)

Unrestricted revenues, gains and other support:		
Net patient service revenue	$	76,797
Provision for uncollectible accounts		(14,772)
Net patient service revenue less provision for uncollectible accounts		62,025
Other revenue		11,213
Total unrestricted revenues, gains, and other support		73,238
Expenses:		
Salaries and benefits		55,195
General and administrative		17,072
Depreciation and amortization		1,624
Total expenses		73,891
Operating loss		(653)
Nonoperating gains		1,622
Revenues over expenses		969
Transfer of capital to University of South Alabama, College of Medicine		(6,800)
Change in net assets (deficit)		(5,831)
Net assets at beginning of year		2,868
Net deficit at end of year	$	(2,963)

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2015

(In thousands)

Operating revenues	$	3,647
Total operating revenues		3,647
Operating expenses:		
Building management and operating expenses		1,136
Depreciation and amortization		992
Legal and administrative fees		229
Insurance		3
Total operating expenses		2,360
Operating income		1,287
Nonoperating revenues (expenses):		
Investment income		2
Interest expense		(1,267)
Other		4
Net nonoperating expenses		(1,261)
Change in net position		26
Net position:		
Beginning of year		880
End of year	$	906

See accompanying notes to basic financial statements.

GULF COAST REGIONAL CARE ORGANIZATION

(Discretely Presented Component Unit)

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2015

(In thousands)

Operating revenues:		
Contract revenues	$	1,879
Operating expenses:		
Third party administration expense		1,681
Management company expense		99
Other operating expense		2
Total operating expenses		1,782
Operating income		97
Change in net position		97
Net position:		
Beginning of year		—
End of year	$	97

See accompanying notes to basic financial statements.

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

Statement of Cash Flows

Year ended September 30, 2015

(In thousands)

Cash flows from operating activities:		
Receipts related to tuition and fees	$	120,977
Receipts from and on behalf of patients and third-party payers		276,589
Receipts from grants and contracts		74,765
Receipts related to auxiliary enterprises		24,303
Payments to suppliers and vendors		(181,166)
Payments to employees and related benefits		(413,532)
Payments for scholarships and fellowships		(8,687)
Other operating receipts		59,390
Net cash used in operating activities		(47,361)
Cash flows from noncapital financing activities:		
State appropriations		103,973
Endowment gifts		4,447
Agency funds received		1,221
Agency funds disbursed		(1,226)
Student loan program receipts		142,053
Student loan program disbursements		(142,591)
Other nonoperating revenues		25,864
Other nonoperating expenses		(6,209)
Net cash provided by noncapital financing activities		127,532
Cash flows from capital and related financing activities:		
Capital contributions and grants		2,786
Purchases of capital assets		(48,115)
Proceeds from sale of capital assets		3,846
Proceeds from issuance of capital debt		7,263
Principal payments on capital debt		(15,643)
Interest payments on capital debt		(10,846)
Net cash used in capital and related financing activities		(60,709)
Cash flows from investing activities:		
Interest and dividends on investments		15,028
Purchases of investments		(87,545)
Proceeds from sales of investments		52,068
Net cash used in investing activities		(20,449)
Net decrease in cash and cash equivalents		(987)
Cash and cash equivalents (unrestricted and restricted):		
Beginning of year		128,249
End of year	$	127,262

(Continued)

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

Statement of Cash Flows

Year ended September 30, 2015

(In thousands)

Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(104,507)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense		33,728
Changes in assets and liabilities, net:		
Student receivables		(2,813)
Net patient accounts receivables		(1,403)
Grants and contracts receivables		(10,815)
Other receivables		2,483
Prepaid expenses, inventories, and other		3,644
Accounts payable and accrued liabilities		26,131
Unrecognized revenue		6,191
Net cash used in operating activities	$	(47,361)
Noncash investing, noncapital financing, and capital and related financing transactions:		
Net decrease in fair value of investments recognized as a component of investment income	$	(14,238)
Addition of capital lease		17,226
Additional maturity on capital appreciation on bonds payable and other borrowings recorded as interest expense		1,627
Gifts of capital and other assets		70
Capitalization of construction period interest		390
Increase in accounts payable related to capital assets		722

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.

The University has adopted GASB Statement No. 61, 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, 2015, the University reports the University of South Alabama Foundation (USA Foundation), the University of South Alabama Health Services Foundation (USAHSF), the USA Research and Technology Corporation (the Corporation), and the Gulf Coast Regional Care Organization (RCO) 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 15 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 HCM). The HCM 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 HCM. The HCM commenced operations in October 2010 and is reported as a blended component unit (see note 18 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, HCM and SAMSF are the only participants. In accordance with the bylaws of the PLTF, the president of the University is responsible for appointing members of the PLTF policy committee. Additionally, the general liability of the University, USAHSF, HCM, 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. 18, 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 18 for further discussion of, and disclosure for, these entities).

(d) University of South Alabama Foundation

The USA Foundation is a not-for-profit corporation 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 year ended September 30, 2015 were $4,639,000, and are primarily included in other nonoperating revenues and capital contributions and grants in the University's statement 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 statement of financial position and statement of activities and changes in net assets for the USA Foundation as of and for the year ended June 30, 2015 are discretely presented.

(Continued)

(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 $53,958,000 for the year ended September 30, 2015, and are reflected as private grants and contracts in the accompanying statement of revenues, expenses, and changes in net position of the University. The USAHSF presents its financial statements in accordance with standards issued by the FASB. The accompanying statement of financial position and statement of operations and changes in net assets (deficit) for the USAHSF for the year ended September 30, 2015 is 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 statement of net position and statement of revenues, expenses and changes in net position for the Corporation are discretely presented.

(g) Gulf Coast Regional Care Organization

The RCO is a not-for-profit corporation that exists for the purpose of creating and operating a community-led network to coordinate the heath care of Medicaid patients in a seven county region of southwest Alabama. The RCO commenced operations in April 2015. For the initial eighteen month period between April 1, 2015 and September 30, 2016, the RCO is operating a health home program that provides certain case management services to qualifying Medicaid beneficiaries. Beginning October 1, 2016, it is anticipated that the RCO will be responsible for the care of all Medicaid patients in the region. Because of the significance of the relationship between the University and the RCO, the RCO is considered a component unit of the University. The RCO presents its financial statements in accordance with GASB. The accompanying statement of net position and statement of revenues, expenses and change in net position for the RCO are discretely presented.

(h) 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, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*. 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.

(i) 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.

(j) 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.

(k) Investments and Investment Income

Investments are recorded at fair value. The fair value of alternative investments (low-volatility multi-strategy funds of funds), 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 some of these investments are not readily 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).

(l) 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 10, 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, 2015.

The University determined that as of September 30, 2015, the remaining swaption was not a hedging derivative instrument. As a result of that determination, the swaption is required to be reported as an investment derivative with the change in fair value flowing through the statement of revenues, expenses and changes in net position.

The fair value of the outstanding swaption was $(22,468,000) at September 30, 2015. At September 30, 2015, the fair value of the swaption is included in other long-term liabilities in the accompanying statement of net position. The change in fair value for the year ended September 30, 2015 was $(8,277,000), and was included in investment loss in the accompanying statement of revenues, expenses, and changes in net position for the year ended September 30, 2015. 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 (LIBOR) 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 the fair value of the swap ($44,000 at September 30, 2015) is reported as a deferred outflow and derivative liability on the 2015 statement of net position since the interest rate swap is a hedging derivative. See note 10 for further discussion.

(m) 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.

(n) 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.

(o) 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 statement 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 year ended September 30, 2015, no impairments were recorded.

(p) 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.

(q) Cost Sharing Multi-Employer Pension Plan

Employees of the University are covered by a cost sharing multiple-employer defined benefit pension plan administered by the Teachers' Retirement System of Alabama (TRS). The TRS financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the GASB. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

(r) 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.

(s) 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 statement 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 non-exchange 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.

(t) 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.

(u) 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 non-exchange transactions, such as gifts and contributions, and other revenue sources such as state appropriations and investment income.

(v) 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 Non-exchange 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.

(w) 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.

(x) 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.

The Hospitals recognized Medicare EHR incentive revenues of $5,244,000 for the year ended September 30, 2015. EHR incentive revenues are included in other operating revenues in the accompanying statement of revenues, expenses and changes in net position.

(y) Recently Adopted Accounting Pronouncements

In 2015, the University adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 changes accounting and financial reporting for entities participating in a cost sharing plan. GASB Statement No. 68 required 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 the net pension liability of the TRS. The adoption of the provisions of GASB Statement No. 68 resulted in a restatement of beginning unrestricted net position at October 1, 2014 by decreasing unrestricted net position $313,737,000. See note 12 for a further discussion.

(z) Compensated Absences

The University accrues annual leave for employees as incurred at rates based upon length of service and job 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, 2015, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately $9,690,174,000. The University had cash and cash equivalents totaling $127,262,000 at September 30, 2015.

At September 30, 2015, restricted cash and cash equivalents consist of $2,300,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, $1,689,000 related to collateral requirements of the HCM and $27,335,000 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 "Non-endowment 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 non-endowment 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, certain 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, 2015 (in thousands):

U.S. Treasury notes	$	8,869
U.S. federal agency notes		99,914
Pooled equity mutual funds		82,179
Pooled debt mutual funds		38,740
Managed income alternative investments (low-volatility multi-strategy funds of funds)		29,171
Other		14,814
	$	273,687

At September 30, 2015, $15,052,000 of appreciation in fair value of investments of donor-restricted endowments was recognized and is included in restricted expendable net position in the accompanying statement 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, 2015 is as follows:

	Credit rating	Percentage of total investments
Federal Home Loan Mortgage Corporation	AAA	8.7%
Federal Home Loan Bank Corporation	AAA	7.4
Federal National Mortgage Association	AAA	4.6
Common Fund Bond Fund	A+	12.3
PIMCO Pooled Bond Fund	A/BA/AA	1.9
Federal Farm Credit Banks Funding Corporation	AAA	15.1
Federal Agricultural Mortgage Corporation	AAA	0.8
Common Fund Equity Fund	N/A*	13.9

*Credit rating not applicable.

Interest Rate Risk

At September 30, 2015, 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	$ 8,869	3,698	5,171	—	—
U.S. federal agency notes	99,914	9,388	90,526	—	—
Pooled debt mutual funds	38,740	1,192	33,658	3,890	—
	$ 147,523	14,278	129,355	3,890	—

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, 2015.

At September 30, 2015, restricted investments consist of $46,408,000 related to investments included in the PLTF and GLTF to pay insurance liability claims and $49,978,000 in required collateral related to the 2006 swaption and the interest rate swap.

(b) ***University of South Alabama Foundation***

Investments in securities consist primarily of equity securities totaling $132,514,000 at June 30, 2015.

Investment income was comprised of the following for the year ended June 30, 2015 (in thousands):

Unrealized gains	$	42,901
Realized gains		3,719
Timber sales		3,360
Interest and dividends		2,146
Rents		713
Royalties		115
	$	52,954

Investment related expenses in the amount of $322,000 are included in the USA Foundation's management and general expenses in the accompanying 2015 consolidated statement of activities and changes in net assets.

Real estate at June 30, 2015 consisted of the following property held (in thousands):

Land and land improvements – held for investment	$	65,269
Building and building improvements – held for investment		1,051
	$	66,320

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, 2015, 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, 2015, are summarized based on the criteria of ASC 820 as follows (in thousands):

		Fair value measurements at June 30, 2015			
Description		**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$	72,836	59,678	—	132,514
Timber and mineral properties		—	—	157,064	157,064
Real estate		—	—	66,320	66,320
Other investments		—	—	5,803	5,803
	$	72,836	59,678	229,187	361,701

For the year ended June 30, 2015, 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	$	156,320	31,007	6,054	193,381
Total gains (losses) (realized/unrealized)		4,667	35,346	(251)	39,762
Dispositions		(81)	—	—	(81)
Reforestation		1,056	—	—	1,056
Depreciation/depletion		(4,898)	(33)	—	(4,931)
Ending balance	$	157,064	66,320	5,803	229,187

As of June 30, 2015, the Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of the Foundation's equity securities at June 30, 2015 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 10, in December 2013, the counterparty exercised its option with respect to the 2004 swaption. The University refunded its Series 2004 bonds, and issued the Series 2014-A variable rate bond. As a result of the exercise of the option by the counterparty, the swaption was terminated and 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 statement of revenues, expenses and changes in net position for the year ended September 30, 2014. An original 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 amount of $6,595,000, in the statement of net position at September 30, 2015.

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 2015 statement of net position. Interest is being accreted on, and added to, the borrowings through the expiration date of the

(Continued)

option. For the year ended September 30, 2015, $355,000 was accreted and is included in interest expense in the statement of revenues, expenses, and changes in net position.

The fair value of the embedded investment derivative is reported as an investment asset, if the swaption derivative is an asset, or other noncurrent liability, depending on the fair value of the swaption derivative. The change in the fair market value of the swaption derivative is reported as a component of investment income (loss) in the statement of revenues, expenses and changes in net position. At September 30, 2015, the negative fair value of the swaption derivative is approximately $22,468,000 and is included in other long-term liabilities in the accompanying statement of net position. For the year ended September 30, 2015, the change in the fair value of the derivative was ($8,277,000).

Fair Value

At September 30, 2015, the total of the embedded derivative associated with the outstanding swaption had a negative fair value of $22,468,000. The fair value of this swaption derivative was 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 swap is 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 derivative 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, 2015, the swap counterparty was rated Aa1 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, 2015, 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, 2015 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	108,311	51,300	(76,698)	—	82,913
	130,827	51,300	(76,698)	—	105,429
Capital assets being depreciated:					
Land improvements	31,395	56	956	(46)	32,361
Buildings, fixed equipment, and infrastructure	601,425	4,849	72,109	(1,552)	676,831
Other equipment	150,682	5,909	3,633	(9,563)	150,661
Library materials	60,632	3,332	—	—	63,964
	844,134	14,146	76,698	(11,161)	923,817
Less accumulated depreciation for:					
Land improvements	(18,419)	(871)	27	45	(19,218)
Buildings, fixed equipment, and infrastructure	(221,060)	(18,589)	719	1,282	(237,648)
Other equipment	(110,871)	(11,377)	(746)	9,338	(113,656)
Library materials	(46,308)	(2,786)	—	—	(49,094)
	(396,658)	(33,623)	—	10,665	(419,616)
Capital assets being depreciated, net	447,476	(19,477)	76,698	(496)	504,201
Capital assets, net	$ 578,303	31,823	—	(496)	609,630

At September 30, 2015, the University had commitments of approximately $30,800,000 related to various construction projects.

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

Changes in capital assets for the year ended September 30, 2015 are as follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land improvements	$ 2,199	—	—	—	2,199
Buildings	27,917	6	—	—	27,923
Tenant improvements	913	59	—	—	972
Construction in progress	—	143	—	—	143
Other equipment	256		—	—	256
	31,285	208	—	—	31,493
Less accumulated depreciation for:					
Land improvements	(936)	(94)	—	—	(1,030)
Buildings	(5,867)	(717)	—	—	(6,584)
Tenant improvements	(547)	(125)	—	—	(672)
Other equipment	(141)	(26)	—	—	(167)
	(7,491)	(962)	—	—	(8,453)
Capital assets, net	$ 23,794	(754)	—	—	23,040

(7) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the year ended September 30, 2015 follows (in thousands):

		Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:							
Bonds payable	$	395,306	7,627	(14,579)	388,354	14,978	373,376
Notes payable		—	1,264	—	1,264	1,264	—
Capital lease obligation		—	17,226	(2,084)	15,142	2,116	13,026
Total long-term debt		395,306	26,117	(16,663)	404,760	18,358	386,402
Other non-current liabilities							
Net pension liability		—	337,603	(39,869)	297,734	—	297,734
Other long-term liabilities		65,924	35,228	(26,726)	74,426	6,682	67,744
Total other non-current liabilities		65,924	372,831	(66,595)	372,160	6,682	365,478
Total noncurrent liabilities	$	461,230	398,948	(83,258)	776,920	25,040	751,880

Other long-term liabilities primarily consist of net pension liability, 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, 2015 (in thousands):

University Tuition Revenue Bonds, Series 1999 Capital Appreciation, 4.70% to 5.25%, payable November 2011 through November 2018	$	24,933
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006 5.00%, payable through December 2036		100,000
University Facilities Revenue and Capital Improvement Bonds, Series 2008, 3.00% to 5.00%, payable through August 2038		101,715
University Facilities Revenue and Capital Improvement Bonds, Series 2010, 3.81%, payable through August 2030		24,330
University Facilities Revenue Capital Improvement Bond, Series 2012-A, 2.92% payable through August 2032		22,067
University Facilities Revenue Capital Improvement Bond, Series 2012-B, 2.14% payable through August 2018		3,990
University Facilities Revenue Capital Improvement Bond, Series 2013-A, 2.83% payable through August 2033		29,542
University Facilities Revenue Capital Improvement Bond, Series 2013-B, 2.83% payable through August 2033		7,386
University Facilities Revenue Capital Improvement Bond, Series 2013-C, 2.78% payable through August 2025		8,892
University Facilities Revenue Refunding Bond, Series 2014-A, variable rate payable at 68% of LIBOR plus .73%, payable through March 2024		40,775
University Facilities Revenue Capital Improvement Bond, Series 2015, 2.47% payable through August 2030		5,625
Borrowing arising from swaption, Series 2006 Bonds		6,595
Borrowing arising from interest rate swap		7,768
		383,618
Plus unamortized premium		4,904
Less unaccreted discount		(23)
Less unamortized debt extinguishment costs		(145)
	$	388,354

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 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

(Continued)

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 began maturing in March 2015 and is redeemable at any time. The Series 2015 bond began maturing in August 2015 and is redeemable beginning in June 2020.

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 component is included in long-term debt. As a result of this transaction, the counterparty has the option to compel the University to redeem its 2006 bonds at their respective redemption dates. See note 5 for a complete description of this transaction.

During the year ended September 30, 2015, the maturity value of the Capital Appreciation Bonds increased $1,272,000, over the original principal amount of $19,810,000, reflecting accretion of interest.

Approximately $2,594,000 of proceeds from the issuance of the Series 2012 Bond remained unspent at September 30, 2015 and is included in restricted cash and cash equivalents in the 2015 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

Approximately $20,616,000 of proceeds from the issuance of the Series 2013-A Bond remained unspent at September 30, 2015 and is included in restricted cash and cash equivalents in the 2015 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

Approximately $4,125,000 of proceeds from the issuance of the Series 2015 Bonds remained unspent at September 30, 2015 and is included in restricted cash and cash equivalents in the 2015 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, 2015, 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, 2015, management believes the University was in compliance with such financial covenants.

In April 2015, the University signed a seven-year purchase agreement as a method of financing the purchase of certain computer software and hardware for the USA Health System. Also, in July 2015, the University signed a second seven-year purchase agreement as a method of financing additional laboratory software and hardware for the USA Health System. See Note 9 for further disclosure.

In March 2015, the University entered into a variable interest rate revolving line of credit with Compass Bank to, among other reasons, fund the acquisition of certain real property by the USA Health System. The total amount available under the line of credit is $5,000,000 and interest on the outstanding amounts accrued at the rate of the London Interbank Offered Rate (LIBOR) plus 1.00%. The maturity date is March 26, 2016.

The amount outstanding at September 30, 2015 is $1,264,000 and is reported in current portion of long-term debt in the current liabilities section of the statement of net position. See Note 16(c) for further disclosure.

Debt Service on Long-Term Obligations

Total debt service (which includes bonds and notes payable) by fiscal year is as follows as of September 30, 2015 (in thousands):

	Debt service on note and bonds			
	Principal	**Interest**	**Additional maturity**	**Total**
2016	$ 16,095	14,154	(1,099)	29,150
2017	18,552	13,427	(782)	31,197
2018	18,900	13,081	(427)	31,554
2019	17,831	12,763	(49)	30,545
2020	16,823	12,278	—	29,101
2021-2025	89,772	52,000	—	141,772
2026-2030	88,541	37,588	—	126,129
2031-2035	80,556	19,476	—	100,032
2036-2038	40,169	3,040	—	43,209
Subtotal	387,239	177,807	(2,357)	562,689
Plus (less):				
Additional maturity	(2,357)			
Unamortized bond premium	4,904			
Unaccreted bond discount	(23)			
Unamortized debt extinguishment costs	(145)			
Total	$ 389,618			

The principal amount of debt service due on bonds at September 30, 2015 includes $2,356,000 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, 2015, is $188,000 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, 2015 (in thousands):

Wells Fargo, N.A. promissory note, one-month LIBOR plus 0.85% (1.043% at September 30, 2015) payable through 2028	$	13,772
PNC Bank promissory note, 4.50%, payable through 2021		8,545
	$	22,317

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. During December 2014, the Corporation negotiated a reduction in the interest rate from 4.88% to 4.5%. All other terms of the note remain unchanged. PNC Bank acquired the promissory note as part of its acquisition of RBC Bank (USA) on March 20, 2012. The Corporation agreed not to 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 2015 the Corporation's debt service coverage ratio was 1.33 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2015. Further, management believes that, based on existing leases and service contracts and agreements, the debt service coverage ratio for fiscal 2016 will still exceed 1 to 1.

(Continued)

Debt Service on Long-Term Obligations

At September 30, 2015, total debt service by fiscal year is as follows (in thousands):

		Debt service on note and loan		
		Principal	**Interest**	**Total**
2016	$	1,001	1,212	2,213
2017		1,062	1,151	2,213
2018		1,119	1,094	2,213
2019		1,194	1,020	2,214
2020		1,264	949	2,213
2021–2025		12,822	2,244	15,066
2026–2028		3,855	336	4,191
Total	$	22,317	8,006	30,323

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 $725,945 under the interest rate swap agreement for the year ended September 30, 2015, which is reflected as an increase in interest expense.

Fair value. The interest rate swap had a negative fair value of $(3,383,221) at September 30, 2015. The changes in fair value are reported as deferred outflows on the accompanying statement 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, 2015, 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 Aa1 by Moody's Investors Services and AA- by Standard & Poor's Ratings Services as of September 30, 2015.

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, 2015, 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, 2015, 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
2016	$ 738	142	691	1,571
2017	787	134	650	1,571
2018	832	127	613	1,572
2019	893	116	562	1,571
2020	949	106	516	1,571
2021–2025	5,719	366	1,772	7,857
2026–2028	3,854	57	280	4,191
Total	$ 13,772	1,048	5,084	19,904

(9) Capital Lease Obligation

In April 2015, the University signed a seven-year purchase agreement as a method of financing the purchase of certain computer software and hardware for the USA Health System. Also, in July 2015, the University signed a second seven-year purchase agreement as a method of financing additional laboratory software and hardware for the USA Health System.

Future minimum capital lease payments at September 30, 2015, are as follows (in thousands).

Year ending September 30:		
2016	$	2,609
2017		2,609
2018		2,609
2019		2,609
2020		2,609
Thereafter		3,913
		16,958
Less amounts representing interest		(1,816)
Net minimum lease payments	$	15,142

(10) 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 2015 interest rate swap as long-term-debt in the amount of $7,768,000 the 2015 statement of net position.

The change in the fair value of the swap, $44,000, at September 30, 2015, is reported as a deferred outflow and derivative liability on the statement 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 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, 2015, 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 becomes positive, the University would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa1 by Moody's Investor Services and AA – by Standard & Poor's Ratings Services as of September 30, 2015.

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
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	925	2,775
2020		6,925	1,136	768	8,829
2021–2024		31,440	2,235	1,301	34,976
Total	$	40,775	7,204	6,887	54,866

(11) 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.

(Continued)

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. During fiscal year 2015, USA Medical Center has received a final settled 2010 and 2011 cost report. USA Medical Center's 2012 and 2013 cost reports are still not settled. Audit work has been ongoing during this fiscal year on 2012 with no settlements received. The 2013 cost report was amended and the 2014 cost report was filed. During fiscal year 2015, USA Children's and Women's Hospital's 2011 and 2012 cost reports were resettled. The 2013 cost report was amended and the 2014 cost report was filed. Revenue from the Medicare program accounted for approximately 17% of the Hospitals' net patient service revenue for the year ended September 30, 2015.

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 Blue Cross retroactive settlements for USA Medical Center and USA Children's and Women's Hospital for 2013 were issued in October 2014. 2014 cost reports were filed timely during 2015 and USA Medical Center has been audited and was settled in July 2015. The 2014 cost report for USA Children's and Women's Hospital has been audited but not settled. The settlement due is fully reserved, and repayment is due to begin in November 2015. Revenue from the Blue Cross program accounted for approximately 23% of the Hospitals' net patient service revenue for the year ended September 30, 2015.

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 36% of the Hospitals' net patient service revenue for the year ended September 30, 2015.

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 year ended September 30, 2015 follows (in thousands):

Gross patient service revenue	$	621,147
Less provision for contractual and other adjustments		(285,324)
Less provision for bad debts		(64,168)
	$	271,655

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately $8,010 in net patient service revenue for the year ended September 30, 2015.

(12) Defined Benefit Cost Sharing Pension Plan

Employees of the University are covered by a cost sharing multiple-employer defined benefit pension plan administered by the TRS.

Plan description

The TRS was established in September 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). Title 16-Chapter 25 of the code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Benefits provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after ten years of creditable service. Tier 1 TRS members who retire after age sixty with ten years or more creditable service or with twenty-five years of services (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or formula method, with the member receiving payment under the method that yields the higher monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest three of the last ten years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age sixty-two with ten years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest five of the last ten years) for each year of service. Members are eligible for disability retirement if they have ten years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated form further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status, and eligibility for retirement.

Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered Tier 1 members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2014 was 11.71% of annual pay for Tier 1 members and 11.08% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were $22,798,000 for the year ended September 30, 2015.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the University reported a liability of $297,734,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actual valuation as of September 30, 2013. The University's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2014, the University's proportion was 3.322348%, which was a decrease of 0.167423% from its proportion measured as of September 30, 2013.

(Continued)

For the year ended September 30, 2015, the University recognized pension expense of approximately $19,747,000. At September 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$	—	22,630,000
Changes in proportion and differences between employer contributions and proportionate share of contributions		—	13,261,000
Employer contributions subsequent to measurement date		22,798,000	—
	$	22,798,000	35,891,000

Approximately $22,798,000 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30,		
2016	$	8,741,000
2017		8,741,000
2018		8,741,000
2019		8,741,000
2020		927,000
	$	35,891,000

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2013 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return*	8.00%
Projected salary increases	3.50% - 8.25%

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2013, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of the fiscal year 2012. Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rate of return for each major asset class are as follows:

	Target Allocation	**Long-term Expected Rate of Return***
Fixed Income	25.00%	5.00%
U. S. Large Stocks	34.00	9.00
U. S. Mid Stocks	8.00	12.00
U. S. Small Stocks	3.00	15.00
International Developed Market Stocks	15.00	11.00
International Emerging Market Stocks	3.00	16.00
Real Estate	10.00	7.50
Cash	2.00	1.50
	100.00%	

* Includes assumed rate of inflation of 2.50%

Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate

The following table presents the University's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage point higher (9%) than the current rate (in thousands):

	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
University's proportionate share of collective net pension liability	$405,606	$297,734	$206,305

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2014. The auditors' report dated May 1, 2015 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating entities as of September 30, 2014 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

(13) Other Employee Benefits

(a) Other Pension Plans

Employees of the University also participate in a defined contribution pension plan. 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 $759,000 in 2015, representing 343 employees participating in this Plan.

All employees of the HCM 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 HCM up to a maximum of 5% of current annual pay. The HCM and the employees contributed $3,111,000 in 2015 representing 1,090 employees participating in this plan. University employees as of September 30, 2010 who later transfer to the HCM are immediately vested in the plan. All other employees do not vest until they have held employment with the HCM 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 statement of net position includes accruals for vacation pay and paid time off of approximately $15,163,000 at September 30, 2015. 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 applying 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 year ended September 30, 2015, the University's expense related to PEEHIP was $8,461,000.

(14) Risk Management

The University, USAHSF, HCM and SAMSF participate in the professional liability trust fund and the University, USAHSF, HCM, 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 year ended September 30, 2015. 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 HCM participate in a self-insured health plan, administered by an unaffiliated entity. Administrative fees paid by the University for such services were approximately $1,849,000 in 2015. Contributions by the University and its employees, together with earnings thereon, are used to pay liabilities

(Continued)

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 year ended September 30, 2015 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

Balance, beginning of year	$	29,792
Liabilities incurred and other additions		56,829
Claims, administrative fees paid and other reductions		(63,491)
Balance, end of year	$	23,130

Self-insurance liabilities due within one year are included in accounts payable and accrued liabilities and the noncurrent portion is included in other long-term liabilities in the accompanying statement of net position.

(15) 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, 2015, SAMSF had total assets of $12,986,000, net assets of $9,887,000, and total revenues of $4,062,000. SAMSF reimburses the University for certain administrative expenses and other related support services. Total amounts received for such expenses were approximately $600,000 in 2015, and are reflected as private grants and contracts in the accompanying statement of revenues, expenses, and changes in net position.

(16) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2015, the University had been awarded approximately $23,610,000, 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 year ended September 30, 2015.

(Continued)

(c) Line of Credit

In March 2015, the University entered into a variable interest rate revolving line of credit with Compass Bank to, among other reasons, fund the acquisition of certain real property by the USA Health System. The total amount available under the line of credit is $5,000,000 and interest on the outstanding amounts accrue at the rate of the London Interbank Offered Rate (LIBOR) plus 1.00% with a maturity date of March 26, 2016. The amount outstanding at September 30, 2015 is $1,264,000 and is reported as debt in the current liabilities section of the statement of net position as of September 30, 2015.

(d) Letter of Credit

In connection with RCO participation in the Alabama Medicaid Agency's Home Health Regional Care Organization Program, the HCM has established a $1,689,000 irrevocable standby letter of credit with Hancock Bank. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds were advanced under this letter during the year ended September 30, 2015. As a requirement of the issuance of this letter of credit, the HCM is required to establish collateral in the same amount as the letter of credit. As such, a collateral account in the amount of $1,689,000 has been established and is included in restricted cash and cash equivalents on the statement of net position as of September 30, 2015.

(e) HCM Commitment

In September 2015, the HCM entered into a commitment to the RCO. This letter commits the HCM to contribute cash or other assets to the RCO only upon the execution of a contract between the RCO and the Alabama Medicaid Agency to provide medical services to Medicaid patients on a capitated basis. The amount of the commitment is $6,644,000. As of September 30, 2015, no amounts have been paid to the RCO.

(f) Federal Program Review

In November 2014, the University was the subject of a program review conducted by the U. S. Department of Education. The program review assessed the University's administration of Title IV, HEA programs for the 2013-2014 fiscal year and the first two months of the 2015 fiscal year. A draft report has been subsequently received by the University and a response to this draft has been sent to the U.S. Department of Education. No final report has been issued. Management believes that there will be no liability to the University beyond that which is reported in the financial statements.

(g) 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 statement of revenues, expenses, and changes in net position of the University.

(h) 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, 2015, no amounts were payable pursuant to these agreements.

(i) Sale of Brookley Campus

On September 29, 2010, the University and the USA Foundation executed a 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 was recorded as an installment sale. As such, during the year ended September 30, 2015, the University reported a gain on the sale of $2,289,000, which is reported as other nonoperating revenues in the 2015 statement of revenues, expenses and changes in net position.

(j) USA Research and Technology Corporation 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. 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 47,218 square feet at September 30, 2015.

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 expiring in March 2020 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, 2015. 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 year are as follows (in thousands):

2016	$	1,982
2017		1,792
2018		1,601
2019		999
2020		653
2021–2046		6,262
Total	$	13,289

(17) Functional Expense Information

Operating expenses by functional classification for the year ended September 30, 2015 are listed below (in thousands). In preparing the basic financial statements, all significant transactions and balances among accounts have been eliminated (in thousands).

Instruction	$	125,495
Research		23,132
Public service		44,677
Academic support		20,097
Student services		31,348
Institutional support		29,925
Operation and maintenance of plant		31,503
Scholarships		7,602
Hospital		295,447
Auxiliary enterprises		18,074
Depreciation and amortization		33,728
	$	661,028

(Continued)

(18) Blended Component Units

As more fully described in notes 1(b) and 1(c), the HCM, PLTF and GLTF are considered component units pursuant to the provisions of GASB Statement No. 61. In accordance with that statement, the HCM, PLTF and GLTF are reported as blended component units. Required combining financial information of the aggregate blended component units is presented below (in thousands):

Current assets	$	14,032
Noncurrent assets		48,709
Total assets		62,741
Noncurrent liabilities		62,026
Total liabilities		62,026
Net position	$	715
Operating revenues	$	131,622
Operating expenses		(131,410)
Operating income		212
Nonoperating expenses		(20)
Change in net position	$	192

(19) Significant New (Future) Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides hierarchical guidance for determining a fair value measurement for assets and liabilities for financial reporting purposes and also provides guidance for required disclosures related to fair value measurements and is effective for the University's fiscal year ending September 30, 2016. In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Statement No. 73 establishes requirements for defined benefit and defined contribution pension plans that are not within the scope of Statement No. 68 and, with certain modifications, extends the accounting and reporting approach established in Statement No. 68 to all pensions. GASB Statement No. 73 is effective for the fiscal year ending September 30, 2016. In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 changes accounting and financial reporting for entities which participate in plans providing postemployment benefits other than pensions and will be effective for the University's year ending September 30, 2018. Also in June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Statement No. 76 identifies the hierarchy of generally accepted accounting principles for entities, reduces the GAAP hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment of a transaction is not specified within a source of authoritative GAAP. GASB Statement No. 76 is effective for the University's fiscal year ending September 30, 2016.

The effect of the implementation of GASB Statements Nos. 72, 73, 75 and 76 on the University has not yet been determined.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of the University's Proportionate Share of the Net Pension Liability (Unaudited)

Teachers' Retirement Plan of Alabama

September 30, 2015

University's proportion of the net pension liability		3.322348%
University's proportionate share of the net pension liability	$	297,734,000
University's covered-employee payroll		201,858,000
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll		147.50%
Plan fiduciary net position as a percentage of the total pension liability		71.01%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of University's Contributions (Unaudited)

Teachers' Retirement Plan of Alabama

September 30, 2015

Contractually required contribution	$	23,524,000
Contributions in relation to the contractually required contribution		23,524,000
Contribution deficiency (excess)	$	—
University's covered-employee payroll	$	201,858,000
Contributions as a percentage of covered-employee payroll		11.65%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

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

September 30, 2015

(1) Summary of Cost Sharing Pension Plan Provisions and Assumptions

Employees of the University of South Alabama (the University) are covered by a cost sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement System (TRS) of the State of Alabama.

(a) Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2013 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return*	8.00
Projected salary increases	3.50–8.25

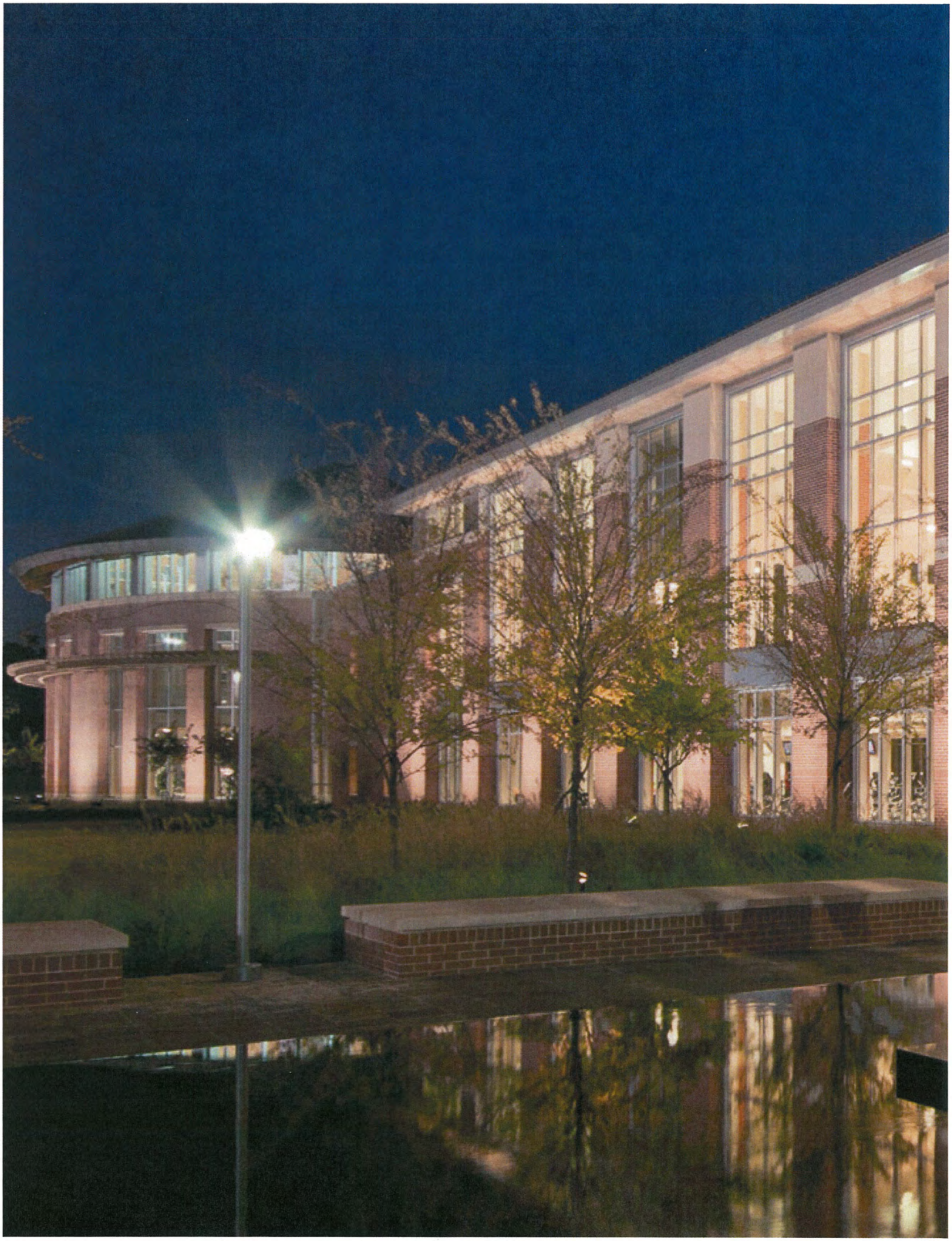
*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2013, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of the fiscal year 2012.

Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females. The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding expected inflation.

(b) Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



RESOLUTION

DIRECTORS FOR THE UNIVERSITY OF SOUTH ALABAMA FOUNDATION FOR RESEARCH AND COMMERCIALIZATION

WHEREAS, pursuant to the bylaws of the University of South Alabama Foundation for Research and Commercialization ("USAFRC") which were approved by the Board of Trustees of the University of South Alabama ("Board") on June 7, 2013, the Board shall elect directors of the Foundation who are not officers, employees, or trustees of the University, and

WHEREAS, Mr. Colby Cooper has been nominated as a new member of the USAFRC Board of Directors, and Mr. David Trent has been nominated as a continuing member of the same, and both have agreed to serve four-year renewable terms beginning December 2015 and ending September 2019,

THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama does hereby appoint and reappoint, respectively, Mr. Colby Cooper and Mr. David Trent to the USAFRC Board of Directors for the aforementioned term.

MEMORANDUM

University of South Alabama
Office of the Vice President for Research

AD 200 • Mobile, AL 36688-0002
Telephone (251) 460-6333 Fax (251) 460-7955

November 19, 2015

To: Tony G. Waldrop, Ph.D.
President

From: Lynne U. Chronister
Vice President for Research and Economic Development

Subject: Agenda Item for December 4, 2015 University of South Alabama Board of Trustees Meeting—Reappointment of Director, University of South Alabama Foundation for Research and Commercialization (USAFRC)

Attached is a resolution for consideration by the Board of Trustees of the University of South Alabama concerning the appointment of Colby Cooper as a member of the Board of Directors of the USAFRC and the reappointment of David Trent as a member of the Board of Directors of the USAFRC. With your approval, this item will be presented to Board of Trustees for approval. Further, I recommend adoption of the resolution by the Board of Trustees.

ssc

Attachment

USA Foundation for Research and Commercialization

FY 2016 Proposed Slate of Directors and Officers

Directors: Bylaws Article III

Dr. Steven P. Furr, Ex-officio member by virtue of holding the position of Chair Pro Tempore of the University of South Alabama Board of Trustees (term expires September 2016)

Dr. Tony G. Waldrop, Ex-officio member by virtue of holding the position of President of the University of South Alabama

Mr. G. Scott Weldon, Ex-officio member by virtue of holding the position of Vice President for Finance and Administration of the University of South Alabama

Ms. Lynne U. Chronister, Ex-officio member by virtue of holding the position of Vice President for Research and Economic Development of the University of South Alabama

Mr. Colby Cooper	Term expires September 2019
Mr. David Trent	Term expires September 2019
Mr. Victor Gaston	Term expires September 2017
Mr. Mark Hoffman	Term expires September 2017
Mr. Bill Sisson	Term expires September 2017

Executive Committee: Bylaws Article V

Dr. Steven P. Furr, Ex-officio member by virtue of holding the position of Chair of the USAFRC Board

Dr. Tony G. Waldrop, Ex-officio member by virtue of holding the position of President of the USAFRC Board

Mr. G. Scott Weldon

Ms. Lynne U. Chronister

Officers: Bylaws Articles IV

Dr. Steven P. Furr, Ex-officio member by virtue of holding the position of Chair Pro Tempore of the University of South Alabama Board of Trustees (term expires September 2016)

Dr. Tony G. Waldrop, President, Ex-officio member by virtue of holding the position of President of the University of South Alabama

Ms. Lynne U. Chronister, Vice Chair — Term expires September 2016

Mr. G. Scott Weldon, Secretary/Treasurer — Term expires September 2016

Contract Officers:

Dr. Tony G. Waldrop

Mr. G. Scott Weldon

Ms. Lynne U. Chronister

Check Signatories: Article IX

Dr. Tony G. Waldrop, President

Mr. G. Scott Weldon, Secretary/Treasurer

Mr. Robert K. Davis

Ms. Kelly D. Peters

Ms. Pauline D. Stokley

RESOLUTION

AWARD OF CONSTRUCTION CONTRACT

WHEREAS, the University of South Alabama (USA) has listed Excellence in Health Care as one of its five institutional priorities, and

WHEREAS, USA provides a unique academic and clinical environment to foster interdisciplinary education, treatment, and research relating to causes, diagnosis, treatment and prevention of disease, including cancer; educate and train USA students, fellows, residents, clinicians, and scientists; and be the region's leader in patients' access to care, improved outcomes, and satisfaction, and

WHEREAS, to assist in meeting its institutional priority of Excellence in Health Care, USA has purchased land in Fairhope, Alabama, as approved by its Board of Trustees on June 5, 2015, on which it plans to construct a medical office building for the purpose of leasing space to various USA affiliates, and

WHEREAS, this new building offers the opportunity to design state-of-the-art space, and

WHEREAS, the construction drawings, technical specifications, and other requisite documentation are being completed and bid packages for construction of the building will be sent to contractors as soon as practicable, with a bid date set for the requisite time after package distribution,

NOW, THEREFORE, BE IT RESOLVED that the Board of Trustees authorizes the USA President to award to and execute a contract with the successful lowest responsible bidder consistent with the applicable laws and within the budgetary constraints of the University.

CAMPUS MEMORANDUM
UNIVERSITY OF SOUTH ALABAMA

Date: November 18, 2015

To: President Tony G. Waldrop TGW

From: G. Scott Weldon GSW

Subject: Awarding of Construction Contract for USA Building

In the June 2015 Board of Trustees meeting, the Trustees approved the issuance of the Series 2015 bonds in the amount of $6 million to, in part, fund the design and construction of a building located in Baldwin County for use by the University.

Attached is a resolution concerning the awarding of the construction contract for that building. I recommend that the resolution be presented to the Board of Trustees for consideration and approval at its December 4, 2015, meeting.

Attachment

RESOLUTION

ONE-TIME SALARY SUPPLEMENT

WHEREAS, the University of South Alabama ("University") has been subject to substantial budgetary cuts by the state of Alabama since the 2007-2008 fiscal year, and

WHEREAS, as a result of the state cuts and the infrastructure needs of the University, it has been necessary for the University to adjust its budget, and

WHEREAS, due to the above ongoing economic constraints, the University will not be able to give an across-the-board permanent salary increase to its employees for fiscal year 2016, and

WHEREAS, the University has been able to sustain positive momentum in achieving its missions of teaching, research, service and health care through the united efforts of its employees, and

WHEREAS, through the careful approach by the University and its employees in the management of limited resources, the University is in a position to give a one-time salary supplement,

THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama hereby approves a one-time salary supplement for all current salaried or hourly regular faculty, staff and administrative employees in both the University General Division and the Health Division, as defined by USA human resources policies, who were employed prior to June 1, 2015, in a lump sum of $1000, prorated based on such employee's full time equivalent status, to be paid on December 11, 2015, through the payroll system by direct deposit, after mandatory deductions, including taxes and retirement, are made.

CAMPUS MEMORANDUM
UNIVERSITY OF SOUTH ALABAMA

Date: **November 16, 2015**

To: **President Tony G. Waldrop**

From: **G. Scott Weldon** GSW

Subject: **One-time Salary Supplement**

For the fiscal year ended September 30, 2015, the overall financial results of the University were positive due largely to the careful management and dedicated efforts of our employees. Additionally, we continue to experience positive increases in enrollment.

As you recommended, attached to the memorandum is a proposed resolution to present to the Board of Trustees for a lump-sum, $1,000, one-time salary supplement, as more fully described in the resolution. If approved, I propose that the payment to employees be made on December 11, 2015.

With your approval, this will be added to the meeting agenda for consideration by the Board of Trustees at its meeting on Friday, December 4, 2015.

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

HEALTH AFFAIRS

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

HEALTH AFFAIRS COMMITTEE

September 3, 2015
2:00 p.m.

A meeting of the Health Affairs Committee of the University of South Alabama Board of Trustees was duly convened by Ms. Chandra Brown Stewart on behalf of Dr. Steve Stokes, Chair, on Thursday, September 3, 2015, at 2:00 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Chandra Brown Stewart and Scott Charlton (phone).
Members Absent:	Bettye Maye, Arlene Mitchell, Ken Simon and Steve Stokes.
Other Trustees:	Tom Corcoran, Steve Furr, John Peek, Jimmy Shumock, Sandy Stimpson, Mike Windom and Jim Yance.
Administration and Others:	Beth Anderson, Owen Bailey, Joe Busta, Lynne Chronister, Monica Curtis, Mike Finan, Happy Fulford, Stan Hammack, Mike Haskins, David Johnson, Michael Mitchell, John Smith, Sam Strada, Becky Tate, Jean Tucker, Tony Waldrop, and Kevin West and Kelly Woodford (Faculty Senate).
Press:	Josh Harland and Lee Peck (Fox 10), Bria Johnson and Alyssa Newton (*Vanguard*) and Jason Johnson (*Lagniappe*).

The meeting came to order and Chairman Furr asked Mayor Stimpson to comment on breaking news regarding a contract between the city of Mobile and Carnival Cruise Lines. The attendance roll was called and, without a quorum of the Committee members present, the meeting was adjourned at 2:03 p.m.

Respectfully submitted:

Chandra Brown Stewart

On behalf of:

Steven H. Stokes, M.D., Chair

RESOLUTION

USA HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS FOR AUGUST, SEPTEMBER AND OCTOBER 2015

WHEREAS, the Medical Staff appointments and reappointments for August, September and October 2015 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: Tony G. Waldrop, Ph.D.
President

FROM: Stan Hammack Stan

DATE: November 4, 2015

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 2015

- Credentials Report – August, September and October 2015

SKH:kh

Attachments

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
August 2015, September 2015, and October 2015

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
Abordo, Bayani, MD	Reappt.	Consulting	Psychiatry	Reappt.	Consulting	Psychiatry	NA	NA	NA
Adair, Jennifer G., MD	Reappt.	Refer & Follow	Pediatrics	NA	NA	NA	NA	NA	NA
Almalouf, Philip, MD	New Appt.	Active	Internal Medicine	New Appt.	Active	Internal Medicine	New Appt.	Active	Internal Medicine
Almeida, Jr., Oscar D., MD	Reappt.	Active *	OBGYN	Reappt.	Active *	OBGYN	NA	NA	NA
Armstrong, Cinderesa B., CRNP	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine
Ashikyan, Oganes, MD	New Appt.	Active	Radiology	New Appt.	Active	Radiology	New Appt.	Active	Radiology
Awan, Ghulam M., MD	Reappt.	Consulting	Internal Medicine	Reappt.	Active	Internal Medicine	Reappt.	Consulting/Active	Internal Medicine
Batain, Latanja, CRNP	Reappt.	Refer & Follow	Family Medicine	Reappt.	Refer & Follow	Family Medicine	NA	NA	NA
Bauman, Jeffery W., CRNA	New Appt.	Allied	Anesthesiology	New Appt.	Allied	Anesthesiology	NA	NA	NA
Bedgood, Victoria Brooke, DA	New Appt.	Allied	Surgery	NA	NA	NA	NA	NA	NA
Bedsole, Rhonda R., MD	Reappt.	Refer & Follow	Pediatrics	Reappt.	Refer & Follow	Pediatrics	NA	NA	N A
Bell, Raymond L., MD	NA	NA	NA	Reappt.	Courtesy	Internal Medicine	NA	NA	NA
Bhagwandin, Vilma P., MD	Reappt.	Active	Pediatrics	NA	NA	NA	NA	NA	NA
Billett, William J., MD	Reappt.	Consulting	Psychiatry	Reappt.	Consulting	Psychiatry	NA	NA	NA
Bradley, Kevin G., MD	New Appt.	Active	Radiology	New Appt.	Active	Radiology	New Appt.	Active	Radiology
Brewer, Jeffrey L., MD	New Appt.	Active	Orthopaedics	New Appt.	Active	Orthopaedics	New Appt.	Active	Orthopaedics
Broughton, William A., MD	Reappt.	Active	Internal Medicine	Reappt.	Active	Internal Medicine	Reappt.	Active	Internal Medicine
Calametti, Karen L., MD	Reappt.	Refer & Follow	Pediatrics	NA	NA	NA	NA	NA	NA
Carnahan, Gary E., MD	Reappt.	Active	Pathology	Reappt.	Active	Pathology	Reappt.	Active	Pathology
Cepeda, Matthew E., MD	Reappt.	Refer & Follow	Pediatrics	NA	NA	NA	NA	NA	NA
Charaf, Edriss A., MD	NA	NA	NA	Reappt.	Active	Internal Medicine	NA	NA	NA
Cohen, Michael V., MD	Reappt.	Consulting	Internal Medicine	Reappt.	Active	Internal Medicine	Reappt.	Consulting/Active	Internal Medicine
Cole, Kimberly A., DO	Reappt.	Active	Evaluation Center	NA	NA	NA	NA	NA	NA
Cole, Kimberly A., DO	Reappt	Active	Pediatrics	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics
Connelly, Rosina, MD	Reappt.	Active	Pediatrics	NA	NA	NA	Reappt.	Active	Pediatrics
Cooper, Constance, MD	Reappt.	Refer & Follow	OBGYN	Reappt.	Refer & Follow	OBGYN	NA	NA	NA
Crissinger, Karen D., MD	Reappt.	Active	Pediatrics	Reappt.	Consulting	Pediatrics	Reappt.	Active/Consulting	Pediatrics
Daugherty, Jr., Manuel Preston, MD	NA	NA	NA	New Appt.	Active	Orthopaedics	New Appt.	Active	Orthopaedics
Davis, Lorie R., CRNP	Reappt.	Allied	Pediatrics	NA	NA	NA	Reappt.	Allied	Pediatrics
Davis, Shannon Noelle, CRNP	NA	NA	NA	Reappt.	Allied	Surgery	Reappt.	Allied	Surgery
De La Cruz Pena, Julia D., MD	New Appt.	Active	Pediatrics	NA	NA	NA	NA	NA	NA
Detjens, Kathryn, CRNM	Reappt.	Allied	OBGYN	NA	NA	NA	Reappt.	Allied	OBGYN
Donahoe, David K., MD	Reappt.	Courtesy	Orthopaedics	Reappt.	Courtesy	Orthopaedics	NA	NA	NA
Dyess, Donna L., MD	Reappt.	Active	Pediatric Surgery	Reappt.	Active	Pediatric Surgery	Reappt.	Active	Pediatric Surgery
Dyess, Donna L., MD	Reappt.	Active	Trauma Surgery	Reappt.	Active	Trauma Surgery	Reappt.	Active	Surgery
Eberly, Gary A., MD	New Appt.	Refer & Follow	Pediatrics	NA	NA	NA	NA	NA	NA
Eichold, Bernard H., MD	Reappt.	Courtesy	Internal Medicine	Reappt.	Courtesy	Internal Medicine	NA	NA	NA
Figarola, Maria S., MD	Reappt.	Active	Radiology	Reappt.	Active	Radiology	Reappt.	Active	Radiology
Foster, Kendal, MD	Reappt.	Active	OBGYN	NA	NA	NA	NA	NA	NA

* Reappointed for one year.

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
August 2015, September 2015, and October 2015

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Freeman, Andrew, MD	Reappt.	Refer & Follow	Family Medicine	NA	NA	NA	NA	NA	NA
Freno, Daniel R., MD	NA	NA	NA	New Appt.	Contract/Temp	Emergency Med.	NA	NA	NA
Gale, Tammy J., RN	Reappt.	Allied	Pediatrics	NA	NA	NA	Reappt.	Allied	Pediatrics
Gaston, Lashanda U., PCT	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine	NA	NA	NA
Gayle, Carla E., MD	New Appt.	Refer & Follow	Pediatrics	New Appt.	Refer & Follow	Pediatrics	NA	NA	NA
Gelpi, Brian, MD	New Appt.	Active	Anesthesiology	New Appt.	Active	Anesthesiology	NA	NA	NA
Ghelmez, Florin, MD	Reappt.	Consulting	Psychiatry	Reappt.	Consulting	Psychiatry	NA	NA	NA
Greene, Joni, DA	Reappt.	Allied	Surgery	NA	NA	NA	NA	NA	NA
Grindley, Natoya N., MD	Reappt.	Refer & Follow	Pediatrics	NA	NA	NA	NA	NA	NA
Harris, Edna L., CRNP	Reappt.	Refer & Follow	Family Medicine	Reappt.	Refer & Follow	Family Medicine	NA	NA	NA
Heins, Alan E., MD	Reappt.	Active	Evaluation Center	NA	NA	NA	NA	NA	NA
Herrera, Danilo V., MD	Reappt.	Active	OBGYN	NA	NA	NA	NA	NA	NA
Hollensworth, Laura, MD	Reappt.	Refer & Follow	Family Medicine	NA	NA	NA	NA	NA	NA
Holmes, Jonathan M., MD	New Appt.	Refer & Follow	Pediatrics	NA	NA	NA	NA	NA	NA
Huettemann, Catherine W., MD	Reappt.	Refer & Follow	Pediatrics	NA	NA	NA	NA	NA	NA
Huettemann, Richard E., MD	Reappt.	Refer & Follow	Pediatrics	NA	NA	NA	NA	NA	NA
Hurley, Janet, PA	Reappt.	Refer & Follow	Family Medicine	Reappt.	Refer & Follow	Family Medicine	NA	NA	NA
Imran, Hamayun, MD	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics
Inge, George B., MD	Reappt.	Courtesy	OBGYN	NA	NA	NA	NA	NA	NA
Jha, Om P., MD	New Appt.	Active	Pediatrics	New Appt.	Courtesy	Pediatrics	New Appt.	Active/Courtesy	Pediatrics
Kassner, Deborah A., MD	Reappt.	Refer & Follow	Pediatrics	NA	NA	NA	NA	NA	NA
Kelly, Amanda M., CRNP	NA	NA	NA	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine
Khushman, Moh'd, MD	New Appt.	Active	Internal Medicine	New Appt.	Active	Internal Medicine	NA	NA	NA
Kinnard, Christopher M., MD	NA	NA	NA	New Appt.	Active	Surgery	New Appt.	Active	Surgery
Kirkland, Charles E., MD	Reappt.	Refer & Follow	Family Medicine	NA	NA	NA	NA	NA	NA
Kirkland, Lynn, MD	Reappt.	Refer & Follow	Family Medicine	NA	NA	NA	NA	NA	NA
Kleinmann, Michael C., DO	NA	NA	NA	Reappt.	Refer & Follow	Internal Medicine	NA	NA	NA
Linder, Michael, MD	Reappt.	Active	Family Medicine	Reappt.	Active	Family Medicine	Reappt.	Active	Family Medicine
Little, Michael E., DO	Reappt.	Refer & Follow	Pediatrics	NA	NA	NA	NA	NA	NA
Lockhart, Larry, MD	NA	NA	NA	Reappt.	Active	Emergency Med.	NA	NA	NA
Malcolm, Ian G., MD	Reappt.	Active	Radiology	Reappt.	Active	Radiology	Reappt.	Active	Radiology
Martino, Anthony M., MD	Reappt.	Active	Neurosurgery	Reappt.	Active	Neurosurgery	Reappt.	Active	Neurosurgery
Massey, Clara V., MD	Reappt.	Consulting	Internal Medicine	Reappt.	Active	Internal Medicine	Reappt.	Consulting/Active	Internal Medicine
Mattei, Mary Lucy, CRNP	New Appt.	Allied	OBGYN	New Appt.	Allied	OBGYN	New Appt.	Allied	OBGYN
Maxwell, Anne M., Dental Assistant	Reappt.	Allied	Surgery	NA	NA	NA	NA	NA	NA
McAnulty, Kathleen L., Neurotech	New Appt.	Allied	Neurosurgery	New Appt.	Allied	Neurosurgery	NA	NA	NA
McCathran, Charles E., MD	Reappt.	Active	OBGYN	Reappt.	Active	OBGYN	Reappt.	Active	OBGYN
McDonough, Lisa H., MD	Reappt.	Refer & Follow	Pediatrics	NA	NA	NA	NA	NA	NA
McLaughlin, Leon, MD	Reappt.	Refer & Follow	Family Medicine	NA	NA	NA	NA	NA	NA
McPhail, Paula K., MD	Reappt.	Active	Evaluation Center	NA	NA	NA	NA	NA	NA
McPhail, Paula K., MD	Reappt.	Active	Pediatrics	NA	NA	NA	Reappt.	Active	Pediatrics
Minchew, Leigh, CRNP	Reappt.	Allied	OBGYN	NA	NA	NA	Reappt.	Allied	OBGYN
Motley, Carol, MD	Reappt.	Active	Family Medicine	Reappt.	Active	Family Medicine	Reappt.	Active	Family Medicine

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
August 2015, September 2015, and October 2015

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Musselwhite, Charles, CRNA	New Appt.	Allied	Anesthesiology	New Appt.	Allied	Anesthesiology	NA	NA	NA
Nichols, Brandon W., MD	Reappt.	Active	Radiology	Reappt.	Active	Radiology	Reappt.	Active	Radiology
Norman, Cindy, CRNP	Reappt.	Refer & Follow	Family Medicine	Reappt.	Refer & Follow	Family Medicine	NA	NA	NA
Outlaw, Kitti, MD	Reappt.	Courtesy	Surgery	NA	NA	NA	NA	NA	NA
Pack-Mabien, Ardie V., CRNP	Reappt.	Allied	Internal Medicine	Reappt.	Allied	Internal Medicine	Reappt.	Allied	Internal Medicine
Pant, Amit, MD	Reappt.	Refer & Follow	Pediatrics	NA	NA	NA	NA	NA	NA
Parker, Sandra K., MD	Reappt.	Consulting	Psychiatry	Reappt.	Consulting	Psychiatry	NA	NA	NA
Parsell, Karen J., MD	Reappt	Active	Evaluation Center	NA	NA	NA	NA	NA	NA
Parsell, Karen J., MD	Reappt	Active	Pediatrics	NA	NA	NA	NA	NA	NA
Pelekanos, Sharon, PA	Reappt.	Allied	Neurosurgery	Reappt.	Allied	Neurosurgery	Reappt.	Allied	Neurosurgery
Perkins, Robert A., MD	Reappt.	Active	Family Medicine	Reappt.	Active	Family Medicine	Reappt.	Active	Family Medicine
Pettyjohn, Frank S., MD	Reappt.	Active	Evaluation Center	NA	NA	NA	NA	NA	NA
Pettyjohn, Frank S., MD	NA	NA	NA	Reappt.	Active	Emergency Med.	NA	NA	NA
Pettyjohn, Frank S., MD	Reappt.	Active	Internal Medicine	Reappt.	Active	Internal Medicine	Reappt.	Active	Internal Medicine
Ponnambalam, Ananthasekar, MD	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics
Preud'Homme, Daniel L., MD	Reappt	Active	Pediatrics	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics
Price, Martha L., MD	Reappt.	Contract/Temp	Radiology	Reappt.	Contract/Temp	Radiology	NA	NA	NA
Quindlen, Eugene A., MD	Reappt.	Active	Neurosurgery	Reappt.	Active	Neurosurgery	Reappt.	Active	Neurosurgery
Roberts, Norma Faye D., MD	Reappt.	Refer & Follow	Pediatrics	NA	NA	NA	NA	NA	NA
Robinson, Jason M., RN	Reappt.	Allied	Internal Medicine	Reappt.	Allied	Internal Medicine	NA	NA	NA
Roca, Cesar M., MD	Reappt.	Courtesy	Orthopaedics	Reappt.	Courtesy	Orthopaedics	NA	NA	NA
Rosenbohm, Amy M., RN	Reappt.	Allied	Pediatrics	NA	NA	NA	NA	NA	NA
Scherer, III, L. R., MD	Reappt	Contract/Temp	Surgery	Reappt.	Contract/Temp	Surgery	NA	NA	NA
Schrubbe, Benjamin, MD	Reappt.	Refer & Follow	Family Medicine	NA	NA	NA	NA	NA	NA
Schulingkamp, Amy M., CRNP	NA	NA	NA	New Appt.	Allied	Internal Medicine	NA	NA	NA
Sheets, Cindy S., MD	Reappt.	Active	Pediatrics	NA	NA	NA	Reappt.	Active	Pediatrics
Sherman, Craig D., MD	Reappt.	Active	OBGYN	Reappt.	Active	OBGYN	Reappt.	Active	OBGYN
Shropshire, Ali M., CRNP	NA	NA	NA	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine
Stanley, Todd B., MD	Reappt.	Active	Radiology	Reappt.	Active	Radiology	Reappt.	Active	Radiology
Steffler, Brad A., MD	Reappt.	Active	Radiology	Reappt.	Active	Radiology	Reappt.	Active	Radiology
Teplick, Richards, MD	Reappt.	Refer & Follow	Family Medicine	Reappt.	Refer & Follow	Family Medicine	NA	NA	NA
Thompson, Laura, MD	Reappt.	Refer & Follow	Family Medicine	NA	NA	NA	NA	NA	NA
Thompson, Lee W., MD	Reappt.	Active	Surgery	Reappt.	Active	Surgery	NA	NA	NA
Townsend, Laura A., PA	Reappt.	Allied	Orthopaedics	Reappt.	Allied	Orthopaedics	NA	NA	NA
Vu, Mary A., MD	Reappt.	Active	Internal Medicine	Reappt.	Active	Internal Medicine	Reappt.	Active	Internal Medicine
Weinacker, Elizabeth R., MD	Reappt.	Refer & Follow	Pediatrics	NA	NA	NA	NA	NA	NA

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
August 2015, September 2015, and October 2015

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Change Requests									
Bright, Andrew C., DO	NA	NA	NA	Modified Cklist	Active	Surgery	Modified Cklist	Active	Surgery
Brocato, Brian E., DO	Added Priv.	Active	OBGYN	NA	NA	NA	Added Priv.	Active	OBGYN
Lewis, Jr., David F., MD	Added Priv.	Active	OBGYN	NA	NA	NA	Added Priv.	Active	OBGYN
McCathran, Charles E., MD	Added Priv.	Active	OBGYN	NA	NA	NA	Added Priv.	Active	OBGYN
Richards, William O., MD	NA	NA	NA	Added Priv.	Active	Surgery	Added Priv.	Active	Surgery
Retired/Resigned									
Name	Reason	Date	Dept.	Reason	Date	Dept.			
Adams, Megumi S., PCT	Resigned	9/29/2015	Internal Medicine	Resigned	9/29/2015	Internal Medicine			
Barnes, Matthew E., CRNP	Resigned	8/14/2015	Neurology	Resigned	8/14/2015	Neurology			
Britton, Amy, CRNP	Resigned	8/2/2015	Family Medicine	Resigned	8/2/2015	Family Medicine			
Castor, Jr., Kenneth, MD	Retired	8/3/2015	Pediatrics	Retired	8/3/2015	Pediatrics			
Caudill, Jamie, MD	Resigned	7/31/2015	Internal Medicine	Resigned	7/31/2015	Internal Medicine			
Clark, Melanie H., MD	Resigned	6/23/2015	Radiology	Resigned	6/23/2015	Radiology			
Davis, Santana N., DA	Resigned	7/13/2015	Surgery	NA	NA	NA			
Day, Julie, Pathology Assistant	Resigned	8/4/2015	Pathology	Resigned	8/4/2015	Pathology			
Deleon, Gwendolyn, MD	NA	NA	NA	Resigned	7/31/2015	Emergency Med.			
Dooley, Audrea A., CRNP	NA	NA	NA	Resigned	9/18/2015	Internal Medicine			
Flanagan, Ashley, CRNP	Resigned	7/1/2015	Family Medicine	Resigned	7/1/2015	Family Medicine			
Green, Jr., Allan E., MD	Deceased	9/4/2015	Radiology	Deceased	9/4/2015	Radiology			
Gulati, Salil, MD	Resigned	7/15/2015	Surgery	Resigned	7/15/2015	Surgery			
Gulati, Taruna, MD	Resigned	8/31/2015	Anesthesiology	Resigned	8/31/2015	Anesthesiology			
Hamm, Jr., Charles R., MD	Resigned	9/1/2015	Pediatrics	Resigned	9/1/2015	Pediatrics			
Harper, Kristy, RTT	NA	NA	NA	Resigned	8/31/2015	Radiology			
Helvacioglu, Ahmet, MD	Resigned	8/31/2015	OBGYN	NA	NA	NA			
Hundley, Williiam B., MD	Resigned	7/31/2015	Internal Medicine	Resigned	7/31/2015	Internal Medicine			
Hughes, Timothy E., MD	Resigned	10/1/2015	OBGYN	Resigned	10/1/2015	OBGYN			
Ives, Jr., John M., MD	Resigned	7/18/2015	OBGYN	NA	NA	NA			
Kidd-Jackson, Robin, RTT	NA	NA	NA	Resigned	8/31/2015	Radiology			
Laycock, David, MD	Resigned	6/29/2015	Family Medicine	Resigned	6/29/2015	Family Medicine			
Leonhardt, Eric W., DO	Resigned	6/30/2015	Psychiatry	Resigned	6/30/2015	Psychiatry			
Locicero, Joseph, MD	Resigned	4/10/2015	Family Medicine	Resigned	4/10/2015	Family Medicine			
McBane, Amanda C., MD	Resigned	8/10/2015	Family Medicine	NA	NA	NA			
O'Kelley, Bonnie J., DA	Resigned	7/13/2015	Surgery	NA	NA	NA			
Pitruzzello, Frank J., MD	NA	NA	NA	Resigned	8/27/2015	Radiology			
Sadler, Bradley J., MD	Resigned	9/9/2015	Psychiatry	Resigned	9/9/2015	Psychiatry			
Samuels, Derek, MD	Resigned	8/28/2015	Radiology	Resigned	8/28/2015	Radiology			

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
August 2015, September 2015, and October 2015

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Shappley, Courtney, DO	Resigned	7/31/2015	Internal Medicine	Resigned	7/31/2015	Internal Medicine			
Singh, Lalit K., MD	Resigned	6/30/2015	Psychiatry	Resigned	6/30/2015	Psychiatry			
Strong, Yolanda, CNIM	Resigned	7/6/2015	Neurosurgery	Resigned	7/6/2015	Neurosurgery			
Terry, Sr., William J., MD	Deceased	8/7/2015	Surgery	NA	NA	NA			
Wills, Lachaca T., CRNA	Resigned	10/2/2015	Anesthesiology	Resigned	10/2/2015	Anesthesiology			

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEES APPROVAL

August 2015, September 2015, and October 2015

LEGEND:

New Appt.	**New application for medical/allied staff privileges recommended for approval.**
Reappt.	**Reappointment application for medical/ allied staff privileges recommended for approval.**
No Privs.	**No privileges requested**
Change in Status	**Added privileges** **Change Department**
Retired Resigned	**Moved, Retired or Resigned**

RECOMMENDED BY:

Donna Lynn Dyess

Donna Lynn Dyess M.D., Chair of Medical Executive Committee or Chair Elect
USA Children's & Women's Hospital

William O. Richards

William O. Richards, M.D., Chair of Medical Executive Committee or Chair Elect
USA Medical Center

Stanley K. Hammack

Stanley K. Hammack
Vice President, USA Health Systems

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

ACADEMIC AND STUDENT AFFAIRS

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

ACADEMIC AND STUDENT AFFAIRS COMMITTEE

September 3, 2015
2:26 p.m.

A meeting of the Academic and Student Affairs Committee of the University of South Alabama Board of Trustees was duly convened by Mr. Mike Windom on behalf of Ms. Bettye Maye, Chair, on Thursday, September 3, 2015, at 2:26 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Chandra Brown Stewart, Scott Charlton (phone) and Mike Windom.
Members Absent:	Ron Jenkins, Bettye Maye and Bryant Mixon.
Other Trustees:	Tom Corcoran, Steve Furr, John Peek, Jimmy Shumock, Ken Simon, Sandy Stimpson and Jim Yance.
Administration and Others:	Joe Busta, Nicole Carr, Lynne Chronister, Monica Curtis, Courtney Diener, Mike Finan, Happy Fulford, Stan Hammack, Krista Harrell, Mike Haskins, David Johnson, Christopher Lynch, Michael Mitchell, John Smith, Sam Strada, Jean Tucker, Tony Waldrop, and Kevin West and Kelly Woodford (Faculty Senate).
Press:	Josh Harland and Lee Peck (Fox 10), Bria Johnson and Alyssa Newton (*Vanguard*) and Jason Johnson (*Lagniappe*).

The meeting came to order and the attendance roll was called. Without a quorum of the Committee members present, the meeting was adjourned at 2:27 p.m.

Respectfully submitted:

____
Michael P. Windom

On behalf of:

____
Bettye R. Maye, Chair

RESOLUTION

HONORARY DOCTORATE DEGREE FOR UNITED STATES CONGRESSMAN JOHN LEWIS

WHEREAS, the University of South Alabama seeks to honor exceptional individuals who have devoted a substantial part of their lives to the service of others and who have distinguished themselves throughout their professional careers, and

WHEREAS, United States Congressman John Lewis is a native of the state of Alabama and grew up in Pike County, and

WHEREAS, Congressman Lewis is among the most influential leaders of the Civil Rights Movement and, while a student at Fisk University, he was one of the architects of and a keynote speaker at the historic *March on Washington* on August 28, 1963, and

WHEREAS, during his college years, Congressman Lewis helped to establish and served as Chairman of the Student Nonviolent Coordinating Committee (SNCC), which promoted student activism such as sit-ins, and, during the *Mississippi Freedom Summer* in 1964, Congressman Lewis spearheaded SNCC efforts to sponsor voter registration drives and community action programs, and

WHEREAS, Congressman Lewis helped guide one of the most pivotal moments of the Civil Rights Movement as he, with other notable Civil Rights leaders, led more than 600 peaceful protestors across the Edmund Pettus Bridge in Selma, Alabama, on March 7, 1965, and

WHEREAS, Congressman Lewis continued in his pursuits for civil justice as Associate Director of the Field Foundation, as a participant in the Southern Regional Council's voter registration programs, and as Director of the Voter Education Project (VEP), which transformed the national political climate by adding nearly four million minorities to the voter rolls, and

WHEREAS, Congressman Lewis was appointed by President Jimmy Carter to direct more than 250,000 volunteers of *ACTION* and was elected to the Atlanta City Council, through which he was an advocate for neighborhood preservation and ethics in government, and

WHEREAS, Congressman Lewis has served with distinction in the United States House of Representatives for the Fifth Congressional District of the state of Georgia since 1986, and serves as a member of the House Ways and Means Committee, for which he is a ranking member of its Oversight Subcommittee and a member of its Human Resources Subcommittee, and

WHEREAS, for his extraordinary work to advance human rights and equality, Congressman Lewis has been recognized by numerous eminent organizations and institutions and is the recipient of many distinguished awards, including the *Presidential Medal of Freedom*, the United States' highest civilian honor,

THEREFORE, BE IT RESOLVED, for his commitment to serving all citizens of the United States of America, and for his dedication to a strong, prosperous and just nation, and for his constant efforts in the interest of those he represents, the Board of Trustees of the University of South Alabama is proud to bestow upon Congressman John Lewis, this day, the degree of Doctor of Humane Letters (L.H.D.), *honoris causa*.

MEMORANDUM

University of South Alabama | Office of Academic Affairs

October 20, 2015

TO: Tony Waldrop

FROM: David Johnson

SUBJECT: Honorary Doctorate Committee Recommendation

The University Honorary Doctorate Committee recommends, by majority vote, awarding an honorary degree to Congressman John Lewis.

Therefore, on behalf of the Honorary Doctorate Committee, I am pleased to forward to you the following recommendation:

- That the University of South Alabama award to Congressman John Lewis the honorary degree of Doctor of Humane Letters (L.H.D.), *honoris causa* on the occasion of its Fall Commencement, 2015.

Thank you.

GDJ:njc

RESOLUTION

PROFESSORS EMERITUS

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

ACADEMIC AFFAIRS:

Larry B. Christensen, Ph.D., Professor of Psychology
William B. Davis, Ph.D., Professor of Biomedical Sciences
Alvin P. Rainosek, Ph.D., Professor of Mathematics and Statistics *(Posthumous)*
Sue B. Walker, Ph.D., Professor of English
Susan P. Youngblood, Ph.D., Assistant Professor of Philosophy

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 committee, departmental chair and college dean, and the Provost and Senior Vice President for Academic Affairs 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 Assistant 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 conveys its deep appreciation to these individuals in recognition of their extraordinary accomplishments and dedicated service to the University of South Alabama

MEMORANDUM

University of South Alabama | Office of Academic Affairs

REC'D
Office of the President
NOV 06 2015
University of South Alabama

November 5, 2015

Approved tjw

TO: Tony Waldrop

FROM: G. David Johnson

SUBJECT: Emeritus Recommendations

In accordance with recommendations by the faculties, chairs and deans of the respective disciplines and colleges I recommend that the retired University of South Alabama faculty members listed below be granted the status of *Professor Emeritus and Assistant Professor Emeritus,* as indicated, effective upon approval by you and the Board of Trustees.

- Dr. Larry B. Christensen, Professor of Psychology
- Dr. William B. Davis, Professor of Biomedical Sciences
- Dr. Sue B. Walker, Professor of English
- Dr. Susan P. Youngblood, Assistant Professor of Philosophy

In addition, I also recommend that

- Dr. Alvin P. Rainosek, Professor of Mathematics and Statistics

be granted posthumously the title of *Professor Emeritus,* as indicated, effective upon approval by you and the Board of Trustees.

Thank you.

GDJ/nc

RESOLUTION

SABBATICAL AWARDS

WHEREAS, in accordance with University policy, proposals for Sabbatical Awards have been reviewed and recommended by the respective faculty committee, departmental chair and college dean, and by the Provost and Senior Vice President for Academic Affairs and the President,

THEREFORE, BE IT RESOLVED that the University of South Alabama Board of Trustees approves said Sabbatical Awards on this date, December 4, 2015, for the 2016-2017 academic year.

NAME	DISCIPLINE	TIME PERIOD
Nicole Amare	English	Fall 2016
Brian Axsmith	Biology	Fall 2016
Larry Beason	English	Spring 2017
Andra Bohnet	Music	Spring 2017
David Durant	Music	Fall 2016
C. Diane Gibbs	Visual Arts	Spring 2017
Susan McCready	Foreign Languages and Literatures	Spring 2017
Henry "Mel" McKiven	History	Fall 2016
Harrison Miller	History	Spring 2017
Corina Schulze	Political Science and Criminal Justice	Academic Year 2016-17
Benjamin Shamback	Visual Arts	Fall 2016
James Swofford	Economics	Fall 2016

MEMORANDUM

University of South Alabama | Office of Academic Affairs

November 11, 2015

TO: Tony G. Waldrop TW

FROM: G. David Johnson

SUBJECT: Sabbatical Recommendations for Academic Year 2016-17

REC'D
Office of the President
NOV 12 2015
University of South Alabama

I recommend that the individuals whose names are listed below be granted a sabbatical for the period of time as indicated.

Nicole Amare	English	Fall 2016
Brian Axsmith	Biology	Fall 2016
Larry Beason	English	Spring 2017
Andra Bohnet	Music	Spring 2017
David Durant	Music	Fall 2016
C. Diane Gibbs	Visual Arts	Spring 2017
Susan McCready	Foreign Languages and Literatures	Spring 2017
Henry Mel McKiven	History	Fall 2016
Harrison Miller	History	Spring 2017
Corina Schulze	Political Science and Criminal Justice	Academic Year 2016-17
Benjamin Shamback	Visual Arts	Fall 2016
James Swofford	Economics	Fall 2016

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.

GDJ/njc

SABBATICAL RECOMMENDATIONS
2016-2017

College of Arts and Sciences

1. Dr. Nicole Amare, Professor of English

   Sabbatical Request: Fall 2016 @ full pay

   Dr. Amare plans to use her sabbatical to visit archives in Hartford, Connecticut and at the University of California at Berkeley to draft four chapters of her book manuscript. This project is interdisciplinary in nature and will offer a significant contribution to American literature as well as to the larger field of American Studies as a whole.

2. Dr. Harrison Miller, Professor of History

   Sabbatical Request: Spring 2017 @ full pay

   Dr. Miller intends to use this time to finish writing his historical novel based on seventeenth-century China. Based on his previous publications of the same subject matter, it is anticipated his current project will also be well received.

3. Dr. Susan McCready, Associate Professor of Foreign Languages and Literatures

   Sabbatical Request: Spring 2017 @ full pay

   Dr. McCready plans to continue her work which includes a book project on the theater of World War I and translating a collection of plays written about the that war. During the sabbatical she will travel to Kentucky to meet with her co-author and to France to consult archival materials. This project will include an accompanying website affiliated with the Center for War and Memory.

4. Dr. Henry Mel McKiven, Associate Professor of History

   Sabbatical Request: Fall 2016 @ full pay

   Dr. McKiven's sabbatical leave will be used to finish his book on the Civil War experience of the Pickens Family of Greene County, AL. His research is based on the McCall papers recently acquired by USA. The manuscript is currently under contract with Louisiana State University Press.

SABBATICAL RECOMMENDATIONS
2016-2017

5. Dr. Larry Beason, Professor of English

   Sabbatical Request: Spring 2017 @ full pay

   Dr. Beason plans to pursue a book project that examines the discursive techniques used in post-apocalyptic novels. This project is timely due to current popularity of the genre and has a strong likelihood in increasing recruitment for the English Department. It is expected that the monograph will be ready to submit for publication at the end of the sabbatical.

6. Dr. Corina Schulze, Associate Professor of Political Science and Criminal Justice

   Sabbatical Request: 2016-2017 Academic Year @ half pay

   Dr. Schulze's sabbatical leave will be used to complete and revise a book manuscript that is under provisional acceptance from Lynne Riennier Publishers. She will also use the time to conduct research for a comparative project on the role of gender in German and US police forces and will guest lecture at the University of Bamberg in Germany.

7. Dr. David Durant, Professor of Music

   Sabbatical Request: Fall 2016 @ full pay

   Dr. Durant intends to complete two large composition projects. The first is a piece commissioned by a New York University professor that is a composition of tarogato and digital media. The other is the seventh, and final piece, in a collection of solo piano compositions. This collection will be performed by Dr. Jerry Bush during the 2017-18 season.

8. Dr. Brian Axsmith, Professor of Biology

   Sabbatical Request: Fall 2016 @ full pay

   Dr. Axsmith will submit a grant proposal to the National Science Foundation in January 2016. If he receives the grant he will use the sabbatical to pursue research related to the plant fossil record of the Triassic period in the Southeastern United States. If he does not receive the grant he will utilize the time to rewrite the grant proposal for resubmission and submit at least five manuscripts to peer-review journals.

9. Dr. Andra C. Bohnet, Professor of Music

   Sabbatical Request: Spring 2017 @ full pay

   Dr. Bohnet's sabbatical leave will be used for three projects. The highest priority is to complete and publish a book (*The Flutes, Compositions and Pedagogical Works of John Clinton)* that has been in progress since 2002. She is one of three authors on the project. Additionally she plans to work on a comparative study of three 19^{th} century flutes and an assessment of the mechanical control of pitch variations in an 1851 eight-key flute.

10. Ms. C. Diane Gibbs, Associate Professor of Visual Arts

    Sabbatical Request: Spring 2017 @ full pay

    Ms. Gibbs intends to focus on and expand her illustration skills by taking online courses on Skillshare. This time will also be used to raise her online profile in an effort to obtain editorial illustration projects for use in national publications. She also plans to produce a series of illustrations that will be submitted to juried competitions.

11. Mr. Benjamin Shamback, Professor of Visual Arts

    Sabbatical Request: Fall 2016 @ full pay

    Mr. Shamback plans to paint a series of landscape paintings that continues a series started this year. He intends to submit his paintings to juried competitions once the series is completed. It is expected that the focus on this genre will hone his pedagogical expertise in the field and positively impact recruitment and instruction of students in the department.

<u>Mitchell College of Business</u>

1. Dr. James Swofford, Professor of Economics

   Sabbatical Request: Fall 2016 @ full pay

   Dr. Swofford's sabbatical will be used to extend his work on statistical test of optimization in Hjertstrand and Swofford (2014). He plans to travel to the University of Birmingham in Birmingham, UK and the Research Institute of Industrial Economics in Stockholm, Sweden to collaborate with scholars there for part of this work.

College / Unit	AWARDS FY 14	AWARDS FY 15	Total Funding FY 14	Total Funding FY 15	Differential
Allied Health Professions	5	3	$ 554,951	$ 509,214	$ (45,737)
Arts & Sciences	91	91	$ 8,690,476	$ 6,729,696	$ (1,960,780)
Mitchell College of Business	1	1	$ 6,500	$ 7,000	$ 500
Computing	24	27	$ 2,219,393	$ 1,936,664	$ (282,729)
Continuing Education	9	9	$ 231,274	$ 44,858	$ (186,416)
Education	19	23	$ 5,054,354	$ 6,580,948	$ 1,526,594
Engineering	31	31	$ 1,754,773	$ 1,300,019	$ (454,754)
Medicine	70	61	$ 14,138,915	$ 13,131,849	$ (1,007,066)
Nursing	5	6	$ 1,242,013	$ 1,231,301	$ (10,712)
Mitchell Cancer Institute	20	25	$ 2,373,707	$ 3,657,167	$ 1,283,460
subtotal	275	277	$ 36,266,356	$ 35,128,716	$ (1,137,640)
Other					
Office of the President	0	0			
Financial Affairs	1	1	$ 19,819,247	$ 20,873,121	$ 1,053,874
Hospitals and Clinics	2	2	$ 2,403,707	$ 2,407,518	$ 3,811
Academic Affairs	0	0			
Library	1	1	$ 1,200	$ 5,000	$ 3,800
Research Administration	2	0	$ 1,155,781		$ (1,155,781)
Campus Police	0	0			
Student Services	2	2	$ 553,243	$ 553,243	$ -
subtotal	8	6	$ 23,933,178	$ 23,838,882	$ (94,296)
Total	**283**	**283**	**$60,199,534**	**$ 58,967,598**	**$ (1,231,936)**

	Proposals Submitted		Differential
College / Unit	**FY 14**	**FY 15**	
Allied Health Professions	8	10	2
Arts & Sciences	148	156	8
Mitchell College of Business	2	3	1
Computing	39	54	15
Continuing Education	9	11	2
Education	33	27	-6
Engineering	68	72	4
Medicine	133	117	-16
Nursing	9	7	-2
Mitchell Cancer Institute	51	54	3
subtotal	500	511	11
Other			
Office of the President	0	2	2
Financial Affairs	1	1	0
Hospitals and Clinics	2	2	0
Academic Affairs	0	4	4
Library	2	1	-1
Research Administration	2	2	0
Campus Police	0	1	1
Student Services	2	2	0
subtotal	9	15	6
Total	**509**	**526**	**17**

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

LONG-RANGE PLANNING

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

LONG-RANGE PLANNING COMMITTEE

June 4, 2015
2:43 p.m.

A meeting of the University of South Alabama Board of Trustees Long-Range Planning Committee was duly convened by Mr. Jimmy Shumock, Chair, on Thursday, June 4, 2015, at 2:43 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Chandra Brown Stewart, Bettye Maye, Bryant Mixon, John Peek, Jimmy Shumock and Mike Windom.
Member Absent:	Sandy Stimpson.
Other Trustees:	Scott Charlton, Tom Corcoran, Steve Furr, Ron Jenkins, Arlene Mitchell, Ken Simon and Jim Yance.
Administration and Others:	Joe Busta, Lynne Chronister, Monica Curtis, Kristin Dukes, Joel Erdmann, Julie Estis (Faculty Senate), Stan Hammack, Mike Haskins, David Johnson, Ravi Rajendra (SGA), John Smith, Tony Waldrop and Kevin West (Faculty Senate).
Press:	Cassie Fambro (al.com) and Alyssa Newton (*Vanguard*).

The meeting came to order and the attendance roll was called. Mr. Shumock called for consideration of the minutes of the meeting held on March 5, 2015. On motion by Mr. Windom, seconded by Mr. Peek, the minutes were adopted unanimously.

Mr. Shumock called upon Provost Johnson for discussion of **ITEM 12**, a report on USA's Strategic Plan (Plan). Provost Johnson updated the Committee on progress in advancing the five institutional priorities announced by President Waldrop in 2014. He said working groups have been diligent in their efforts to incorporate the priorities and make improvements to the Plan, noting the emergence of new objectives and the discarding of others. He stated drafts were submitted to the senior leadership for feedback and added the University Committee on Planning, Assessment and Finance and the greater University community will have the opportunity to review and make recommendations. The final draft will be delivered to the Long-Range Planning Committee and the Board of Trustees for consideration. He reminded the group of intentions to cancel the 2014-2017 Plan effective December 31, 2015, and to immediately execute the replacement Plan, which will cover the period January 2016 to December 2020. He shared that one recommendation, received through the evaluation process, was for the Plan to be flexible with regard to shifting the compass and redirecting resources as needed. Mr. Peek asked about community involvement. Provost Johnson said feedback from the public is welcome and will be solicited.

There being no further business, the meeting was adjourned at 2:57 p.m.

Respectfully submitted:

James H. Shumock, Chair

RESOLUTION

UNIVERSITY OF SOUTH ALABAMA STRATEGIC PLAN, 2016-2020

WHEREAS, in 2003 the University of South Alabama adopted long-range institutional goals and objectives for the period 2003-2008, and

WHEREAS, in 2008 the University of South Alabama adopted long-range institutional goals and objectives for the period 2008-2013, and

WHEREAS, in 2013 the University of South Alabama adopted the University of South Alabama Strategic Plan for the period 2013-2017, and

WHEREAS, the University of South Alabama is committed to ongoing, integrated, and institution-wide planning and evaluation processes that incorporate a systematic review of institutional mission, goals, and outcomes, resulting in continuing improvement in institutional quality, and that demonstrate that the institution is effectively accomplishing its mission, and

WHEREAS, as evidence of this commitment, the University mission, vision, goals and outcomes have been reviewed by the University Committee on Planning, Assessment and Finance, and

WHEREAS, after soliciting input from University stakeholders, the University Committee on Planning, Assessment and Finance has proposed a revision to the University Strategic Plan to address future challenges and opportunities,

NOW, THEREFORE BE IT RESOLVED, the Board of Trustees adopts the attached planning report titled *University of South Alabama Strategic Plan, 2016-2020*.

MEMORANDUM

University of South Alabama Office of Academic Affairs

November 6, 2015

From: David Johnson, Provost and Senior VPAA and Chair of the University Committee on Planning, Assessment and Finance

To: Tony Waldrop, President

Re: University Strategic Plan Revision

The University Committee on Planning, Assessment, and Finance (UCPAF) was charged during the fall 2015 semester to revise the University's strategic plan such that it aligned with the University's priorities. The committee met for the first time in September and approved a draft plan. In October, feedback was gathered from faculty, staff, students, and community partners. Based on those comments, revisions were made to the plan. On November 3, the UCPAF met, and the members present unanimously approved a revised strategic plan for presentation to the Board of Trustees Long Range Planning Committee at its meeting December 3-4, 2015 (see UCPAF attendance below).

Attached is the approved plan. I recommend that the plan be presented to the Long Range Planning Committee for their consideration.

Present:

1. Jeb Shell
2. Tony Waldrop
3. John Smith
4. David Johnson
5. Charlie Guest
6. Lynne Chronister
7. Joe Busta
8. Jimmy Shumock
9. Sam Fisher
10. Kevin West
11. Stan Hammack
12. Beth Anderson
13. Bob Wood
14. Cheryl Williams
15. Debra Davis
16. Kelly Peters
17. Mary Townsley
18. Michael Mitchell
19. Thomas Corcoran
20. Angela Coleman

Absent:

1. Dewitt Ford
2. Gina Gregory
3. Don Devore
4. Ravi Rajendra
5. Steve Stokes
6. Steve Furr
7. William Gillis

University of South Alabama Strategic Plan
2016-2020

Mission: The University of South Alabama, with a global reach and special focus on the Gulf Coast, strives to make a difference in the lives of those it serves through promoting discovery, health, and learning.

Core Values: The University of South Alabama affirms the following core values as essential to the accomplishment of its mission:

- Diversity and a Global Perspective
- Excellence
- Freedom in the Pursuit of Knowledge
- Integrity
- Transparency and Participation in Decision-Making

Vision: The University of South Alabama will be 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.

Essential activities: While the Strategic Plan highlights those areas of work upon which the University will place special emphasis, success in any area is dependent also upon effectively engaging in the following activities:

- Engaging and developing faculty and staff and supporting their efforts in advancing the mission and priorities
- Being fiscally responsible
- Meeting our development and fund-raising targets
- Implementing our marketing and communications strategies
- Engaging our alumni

The University of South Alabama Strategic Plan is organized around five institutional priorities:

1. **Student Success and Access**
2. **Enhancement of Research and Graduate Education**
3. **Global Engagement**
4. **Excellence in Health Care**
5. **University-Community Engagement**

Student Success and Access: To develop, implement, and assess initiatives and practices to insure all students are offered the resources, structure, and relationships necessary for high-quality learning, academic persistence, and degree completion.

Objective 1.1: Increase the persistence, progression, and degree completion of undergraduate and graduate students.

Objective 1.2: Ensure students are meeting learning outcomes established by the faculty.

Objective 1.3: Ensure recruitment and admission of a high-quality, diverse student body that is well prepared for college study and representative of the racial/ethnic, gender, and social class diversity of the region.

Objective 1.4: Increase students' access to a diverse faculty and staff among whom students may find exemplars and mentors.

Objective 1.5: Increase faculty and student engagement through excellence in instruction, advising, and academic/professional mentorship.

Objective 1.6: Offer student programming that increases student engagement with the University and meets co-curricular learning outcomes established by Student and Academic Affairs.

Objective 1.7: Provide a safe and civil environment.

Objective 1.8: Increase enrollment in a fiscally responsible manner while strengthening academic standards for admission.

Enhancement of Research and Graduate Education: To increase USA productivity in discovery, research, scholarship, and creative activities and ensure excellence in graduate education.

Objective 2.1: Increase resources and infrastructure to support faculty research and scholarly activity.

Objective 2.2: Increase the recognition for excellence of graduate programs.

Objective 2.3: Increase opportunities for undergraduate and graduate students to participate with faculty in research, discovery, and creative activities.

Objective 2.4: Provide support for Health System and University partnerships in inter-disciplinary collaborative research projects, grants, contracts, and translational research projects.

Objective 2.5: Increase the number of regional, national, and international collaborations in research, scholarly, and creative activities.

Objective 2.6: Advance entrepreneurial activities that support the development of new technologies.

Objective 2.7: Increase the dissemination and impact of research and scholarship produced by USA faculty and postdoctoral fellows on Mobile, nationally, and internationally.

Objective 2.8: Increase faculty participation in making application for and securing external funding.

Global Engagement: To strengthen the connections and collaborations between the University and the larger world by enhancing faculty, staff, and students' international experiences and their understanding of other societies and cultures among faculty, staff, and students.

Objective 3.1: Increase the diversity of the international student body.

Objective 3.2: Increase the incorporation of global perspectives into the educational environment.

Objective 3.3: Increase engagement with international businesses and organizations especially those with a local presence.

Excellence in Health Care: To actively participate in research, to educate healthcare professionals, and to be the region's leader in patients' access to care, outcomes, and satisfaction by providing health care that uses an interprofessional approach, is efficient, and is informed by research and education

Objective 4.1: Achieve exceptional patient quality and satisfaction for the USA Hospitals, Clinics and the Mitchell Cancer Institute in comparison to peer groups.

Objective 4.2: Adapt to reimbursement changes based on patient outcomes and value to provide financial stability and a quality teaching environment.

Objective 4.3: Ensure excellence in the educational outcomes for health professionals.

University-Community Engagement: To define, support, and strategically advance the University of South Alabama's commitment to ongoing, permanent, sustainable, and mutually beneficial partnerships with the communities it serves.

Objective 5.1: Increase experiential learning opportunities for USA students in the private and public sectors.

Objective 5.2: Increase strategic engagement of faculty, staff, and students with business, government, non-profit and other organizations directly involved in regional economic, civic, and cultural development.

Objective 5.3: Increase University outreach to encourage community participation in University-life.