UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES MEETINGS
WHIDDON ADMINISTRATION BUILDING - SUITE 130, BOARD ROOM
DECEMBER 4, 2019
1:30 P.M.

AUDIT COMMITTEE ***RON GRAHAM, CHAIR***

Roll Call
Approve: Minutes
5 Report: KPMG Audit Reports, Year Ended September 30, 2019
KPMG Presentation to the Audit Committee
Basic Financial Statements and Supplementary Information
Management Letter and Response
Communication to the Audit Committee (SAS #114 Letter)
Bond Compliance Letter
Agreed-Upon Procedures Report - Series 1999; 2010; 2012-A and 2012-B; 2013-A, 2013-B and 2013-C; 2014-A; 2015; 2016; 2017 and 2019 Bonds
Basic Financial Statements, USA Research and Technology Corporation
Basic Financial Statements, USA Health Care Authority
Management Letter and Response, USA Health Care Authority
6 Report: Alabama Department of Examiners of Public Accounts Compliance Report, Year Ended September 2018
7 Report: External Assessment of the Office of Internal Audit
8 Recommendation to Approve: Office of Internal Audit Charter

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE ***JIM YANCE, CHAIR***

Roll Call
Approve: Minutes
9 Report: Endowment and Investment Performance * Douglas Lane
10 Recommendation to Approve: Evaluation of Endowment and Non-Endowment Investment Policies
11 Recommendation to Approve: Officers and Directors of the Jaguar Athletic Fund, Inc.
12 Report: Development and Alumni Relations

HEALTH AFFAIRS COMMITTEE ***STEVE FURR, M.D.***

Roll Call
Approve: Minutes
13 Recommendation to Approve: USA Hospitals Medical Staff Officers for Calendar Years 2020-2021
14 Report: USA Health and College of Medicine

ACADEMIC AND STUDENT AFFAIRS COMMITTEE ***MIKE WINDOM, CHAIR***

Roll Call
Approve: Minutes
15 Recommendation to Approve: Sabbatical Awards
16 Recommendation to Approve: Faculty Emeritus
17 Recommendation to Approve: Dean Emeritus
18 Recommendation to Approve: Supply Chain Management Courses and Concentration - Mitchell College of Business
19 Report: Academic Affairs
20 Report: Student Affairs
21 Report: Campus Safety
22 Report: Research and Economic Development

BUDGET AND FINANCE COMMITTEE ***LENUS PERKINS, VICE CHAIR***

Roll Call
Approve: Minutes
23 Report: University of South Alabama 2019 Financial Report
24 Recommendation to Approve: Series 2019C Refunding Bonds
25 Recommendation to Approve: Bond Purchase Agreement for Series 2020 Bonds
26 Recommendation to Approve: Authorization to Execute Contract for Construction of a Campus Warehouse Building

COMMITTEE OF THE WHOLE ***JIMMY SHUMOCK, CHAIR***

Roll Call
Approve: Minutes of the Committee of the Whole and the Long-Range Planning Committee
27 Recommendation to Approve: University of South Alabama Security Committee
28 Approve: Executive Session

BOARD OF TRUSTEES
DECEMBER 5, 2019
10:30 A.M.

Roll Call
1 Approve: Minutes
2 Report: University President
3 Report: Faculty Senate President
4 Report: Student Government Association President

CONSENT AGENDA

8 Approve: Office of Internal Audit Charter
11 Approve: Officers and Directors of the Jaguar Athletic Fund, Inc.
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AUDIT COMMITTEE REPORT ***RON GRAHAM, CHAIR***

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE REPORT ***JIM YANCE, CHAIR***

10 Approve: Evaluation of Endowment and Non-Endowment Investment Policies

HEALTH AFFAIRS COMMITTEE REPORT ***STEVE FURR, M.D.***

Report: USA Health Children's & Women's Hospital

ACADEMIC AND STUDENT AFFAIRS COMMITTEE REPORT ***MIKE WINDOM, CHAIR***

18 Approve: Supply Chain Management Courses and Concentration – Mitchell College of Business
Report: *SouthCARES* and *One Stop* Student Initiatives

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OTHER

27 Approve: University of South Alabama Security Committee

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

MEETING SCHEDULE

WEDNESDAY, DECEMBER 4, 2019:

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

THURSDAY, DECEMBER 5, 2019:

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

UNIVERSITY OF SOUTH ALABAMA

BOARD OF TRUSTEES

STANDING COMMITTEES 2019-2022

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

MEETING AGENDA
AND MINUTES

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES MEETINGS
WHIDDON ADMINISTRATION BUILDING - SUITE 130, BOARD ROOM
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21 Report: Campus Safety
22 Report: Research and Economic Development

BUDGET AND FINANCE COMMITTEE ***TOM CORCORAN, CHAIR***

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Roll Call
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BOARD OF TRUSTEES
DECEMBER 5, 2019
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2 Report: University President
3 Report: Faculty Senate President
4 Report: Student Government Association President

CONSENT AGENDA

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OTHER

27 Approve: University of South Alabama Security Committee

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Board of Trustees

DATE: November 25, 2019

TO: USA Board of Trustees

FROM: Alexis Atkins
Secretary, Board of Trustees

SUBJECT: Meeting Minutes

Included herein are the unapproved minutes for meetings of the Board of Trustees and standing committees held on September 12 and 13, 2019. Please review these documents for amendment or approval at the December 4 and 5, 2019, meetings.

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

September 13, 2019
10:30 a.m.

A meeting of the University of South Alabama Board of Trustees was duly convened by Mr. Jimmy Shumock, Chair *pro tempore*, on Friday, September 13, 2019, at 10:31 a.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Alexis Atkins, Chandra Brown Stewart, Scott Charlton, Tom Corcoran, Steve Furr, Ron Graham, Ron Jenkins, Arlene Mitchell, Lenus Perkins, Jimmy Shumock, Ken Simon, Steve Stokes, Margie Tuckson, Mike Windom and Jim Yance.
Member Absent:	Kay Ivey.
Administration & Guests:	Rana and Stephen Azar, Owen Bailey, Nicole Carr, Lynne Chronister, Angela Coleman, Kristin Dukes, Cody Dunlap, Joel Erdmann, Julie Estis, Monica Ezell, Paul Frazier, Mike Haskins, David Johnson, Nick Lawkis, Christian Manganti, John Marymont, Susan McCready (Faculty Senate), Abe Mitchell, Mike Mitchell, Letitia Myers, Jabari Robinson (BSU), Rod Rocconi, Shea Sadler, Jeb Shell (Hargrove Engineers + Constructors), John Smith, Margaret Sullivan, John Usher, Sahilee Waitman (SGA), Tony Waldrop, Scott Weldon and Ada Chaeli van der Zijp-Tan.
Media:	Ebonee Burrell (The Vanguard).

The meeting came to order and the attendance roll was called. Chairman Shumock congratulated Ms. Atkins, Ms. Brown Stewart, Capt. Jenkins, Judge Simon and Mr. Windom for being reappointed to the Board for six-year terms. He recognized Ms. Brown Stewart for her selection to participate in the Leadership Alabama program and Dr. Stokes for his selection to serve on the Alabama Medical Cannabis Commission. He acknowledged Capt. Jenkins for his role in securing the Battle of Mobile Bay painting on display in Shelby Hall.

Chairman Shumock called for adoption of the revised agenda. On motion by Mr. Windom, seconded by Dr. Stokes, the revised agenda was adopted unanimously.

Chairman Shumock called for adoption of the minutes of the meeting held on June 6, 2019, **ITEM 1**. On motion by Mr. Yance, seconded by Mr. Corcoran, the minutes were adopted unanimously.

Chairman Shumock called for a report from Faculty Senate President Dr. Susan McCready, **ITEM 4**. Dr. McCready talked about the work of the Academic Development and Mentoring Committee and the Evaluation Committee, and discussed the faculty's commitment to helping identify solutions aimed at improving enrollment.

Chairman Shumock shared the history of the Board of Trustees Scholarship Program and recognized current *Board of Trustees Scholars* Mr. Christian Manganti, Ms. Ada Chaeli van der Zijp-Tan and Mr. Cody Dunlap. He introduced the 2019-2020 scholarship recipient

Mr. Stephen Azar, **ITEM 2**, as well as his mother, Ms. Rana Azar. Mr. Azar was presented a plaque commemorating the award and he conveyed words of appreciation.

Chairman Shumock called for presentation of the President's Report, **ITEM 3**. President Waldrop introduced Honorary Trustee Mr. Abe Mitchell and BSU President Mr. Jabari Robinson.

President Waldrop advised that South had received the Nappie Award for "Best College" for a sixth straight year, as voted upon by Lagniappe readers.

President Waldrop mentioned recent Week of Welcome (WOW) activities, including Move-In Day, at which he noted a multitude of faculty, staff and student organizations assisted new students and families move belongings into the residence halls. He thanked Ms. Atkins for her participation and Ms. Atkins shared perspective on the experience. President Waldrop asked Dr. Mitchell to provide other details. Dr. Mitchell gave an overview on Move-In Day, Convocation, Get On Board Day and other WOW festivities. He also talked about the implementation of Saturday shuttle service for students to pick up groceries at Publix or Walmart.

President Waldrop shared that Ms. Tucker would be retiring and a search was underway with Dr. Smith and Provost Johnson serving as co-chairs. He called for comments from Dr. Smith. Dr. Smith said the search committee was working with the firm of Parker Executive Search and the position of General Counsel had been advertised. He anticipated the interview process to be completed by the end of November.

President Waldrop called on Provost Johnson for a report. Provost Johnson introduced and shared background on new College of Engineering Dean Dr. John Usher. Dr. Usher expressed enthusiasm for his new role and the opportunities ahead to strengthen the mission of the College.

President Waldrop called on Dr. Frazier, who reported South would soon receive an award from Minority Access, Inc., for its commitment to diversity and inclusion advancement. Dr. Frazier stated the evaluator of South's application, which detailed a range of initiatives designed to enhance diversity among the faculty and student bodies, was impressed with the *PASSAGE USA* program in particular.

President Waldrop announced that Coordinator of Advancement Records Ms. Letitia Myers from the Division of Development and Alumni Relations had been selected as the *Employee of the Quarter*. He presented Ms. Myers with a plaque acknowledging her designation and asked Director of Advancement Information and Analytics Ms. Shea Sadler to read an excerpt from her nomination of Ms. Myers. Ms. Myers expressed appreciation for the recognition and credited her coworkers for their support and teamwork.

Chairman Shumock introduced Student Government Association (SGA) President Ms. Sahilee Waitman for a report, **ITEM 5**. Ms. Waitman talked about the productivity of the SGA Executive Board over the summer term, noting work focused on funding bills, campaigning amendments, finances, a partnership with Lyft, and DoubleMap tracking of JagTran shuttles.

Chairman Shumock called for consideration of consent agenda **ITEMS 9**, **10**, **13**, **17**, **23**, **24** and **27** as follows, all of which were unanimously recommended for Board approval by the respective committee that met on September 12, 2019. (To view approved policies and other authorized documents, refer to **APPENDIX A**.) On motion by Ms. Atkins, seconded by Mr. Corcoran, the Board voted unanimously to approve the resolutions:

RESOLUTION
CHANGES TO THE UNIVERSITY'S ENDOWMENT FUNDS INVESTMENT POLICIES AND GUIDELINES

WHEREAS, the University's Board of Trustees has established the Endowment Funds Investment Policies and Guidelines (the "Guidelines") to provide an investment outline when managing endowment investments, and

WHEREAS, the University's Board of Trustees delegates certain investment authority to the Development, Endowment and Investments Committee to manage the University's endowment investments, and

WHEREAS, the Development, Endowment and Investments Committee will oversee investment activities, monitor investment performance and ensure the prudent control of the endowment funds of the University according to the "Guidelines" approved by the Board of Trustees, and

WHEREAS, said "Guidelines" may be amended from time to time to meet current investment conditions and objectives, and

WHEREAS, the "Guidelines" state that investment managers' performance will be measured against commonly accepted investment benchmarks and will share similar characteristics regarding risk and return as the underlying investment, and

WHEREAS, the investment benchmark serves a crucial role reviewing investment managers' performance, and

WHEREAS, the Development, Endowment and Investments Committee reviewed said "Guidelines" and, after due consideration and deliberation, is recommending an amendment to the investment benchmark used to compare returns for the fixed-income alternatives asset class from 20 percent T-bill + 3 percent to 10 percent HFRI Fund of Funds Conservative Index and 10 percent HFRI Fund of Funds Strategic Index, with the remainder of the index consisting of 40 percent of the S&P 500 Index, 5 percent Russell 2000 Index, 12 percent MSCI EAFE (U.S. Dollar) Index, and 23 percent toward the Barclay's Capital U.S. Aggregate Bond Index remaining unchanged,

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama hereby approves changes to the "Guidelines" for endowment fund investments as recommended by the Development, Endowment and Investments Committee.

RESOLUTION
DIRECTOR OF THE JAGUAR ATHLETIC FUND, INC.

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

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

WHEREAS, the Nominating Committee of the Board of Directors and the Board of Directors of the USAJAF have nominated Ms. Cassandra McAboy for a three-year term pending the approval of the Board of Trustees of the University,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees authorizes Ms. Cassandra McAboy to serve as a member of the Board of Directors of the USAJAF with a three-year term beginning September 2019 and ending September 2022.

RESOLUTION
USA HEALTH COMMUNITY HEALTH NEEDS ASSESSMENT AND IMPLEMENTATION STRATEGIES

WHEREAS, the Patient Protection and Affordable Care Act requires that not-for-profit hospitals conduct community health needs assessments, and

WHEREAS, USA Health has conducted the above-referenced assessment for 2019, and

WHEREAS, USA Health has developed implementation strategies based on the findings of the 2019 community health needs assessment, and

WHEREAS, the Patient Protection and Affordable Care Act further requires that health system governing bodies adopt those implementation strategies developed by the health system to meet the community needs identified through such assessment,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees authorizes the community health needs assessment conducted by USA Health and adopts the implementation strategies developed by USA Health as a result, both of which are attached hereto and incorporated herein.

RESOLUTION
CREATION OF JAGUAR REALTY, LLC - MITCHELL COLLEGE OF BUSINESS

WHEREAS, the University of South Alabama is committed to maintaining high-quality educational and student services programs, and

WHEREAS, the Mitchell College of Business has proposed the creation of Jaguar Realty, LLC, a University-owned real estate company formed and operated for the purpose of providing opportunities to students pursuing the real estate concentration within the Department of Economics and Finance, and

WHEREAS, Jaguar Realty, LLC will offer students the opportunity to obtain a professional real estate license, learn critical skills from some of the area's top performing industry professionals, develop an extensive professional network, and earn money working as a real estate professional, all while still enrolled at the University of South Alabama,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees authorizes the establishment of Jaguar Realty, LLC, as set forth in the attached memoranda.

RESOLUTION
CHANGES TO USA MAIN CAMPUS STREET NAMES

WHEREAS, the University of South Alabama is scheduled to open the much-anticipated Hancock Whitney Stadium for the 2020 football season, and

WHEREAS, street names surrounding and leading to the stadium, and elsewhere on campus, should minimize confusion and allow for clear ingress and egress, and

WHEREAS, the existing Stadium Boulevard runs from Old Shell Road to the traffic circle and does not connect to Hancock Whitney Stadium, and

WHEREAS, Cleverdon Parkway is named after Ernest G. Cleverdon, who played a critical role in the University's founding and served as the Board of Trustees' Chair *pro tempore* from 1963-1982, and currently runs from Old Shell Road to the site of Hancock Whitney Stadium, and

WHEREAS, Cleverdon was joined on the Board by Aubrey D. Green, who followed as Chair *pro tempore* and who has a road named after him that runs along the north edge of campus and is connected to Health Services Drive, and

WHEREAS, Health Services Drive is no longer appropriate as a street name because it does not connect to University health services, and

WHEREAS, the USA National Alumni Association headquarters is relocating with the construction of the new MacQueen Alumni Center and is no longer adjacent to the street currently named Alumni Circle,

THEREFORE, BE IT RESOLVED, pending notification of emergency services and logistical considerations, the University of South Alabama Board of Trustees authorizes:

- the existing Cleverdon Parkway shall be renamed Stadium Drive, and
- the existing Health Services Drive shall be renamed Ernest Cleverdon Drive, which will intersect with Aubrey Green Drive, and
- the existing Stadium Boulevard shall be renamed Jaguar Boulevard, and
- the existing Jaguar Drive shall be renamed Student Services Drive, and
- John Counts Drive, which is adjacent to the stadium site, shall extend to the new road that runs past the intramural fields and to Old Shell Road, and
- Alumni Circle shall be renamed Student Center Circle, and
- the existing Campus Drive shall be renamed Alumni Drive.

RESOLUTION
AMENDMENT AND RESTATEMENT OF THE UNIVERSITY OF SOUTH ALABAMA 403(b) PLAN

WHEREAS, the University of South Alabama in 1964 authorized the participation of all employees in the Teachers' Insurance and Annuity Association (TIAA) pursuant to an elective salary reduction arrangement under Section 403(b) of the Internal Revenue Code, and

WHEREAS, the University of South Alabama 403(b) Plan (the Plan) was in 2008 set forth in written format on a 403(b) plan template supplied by TIAA, which until recently was also supported by TIAA, and

WHEREAS, University management has decided it is in the best interest of the University to restate the Plan on the TIAA volume submitter 403(b) plan document, and

WHEREAS, certain amendments to the Plan are being recommended by University management which will enhance the Plan's provisions with respect to the participants in the Plan and also increase administrative convenience by aligning the Plan's provisions with the provisions of the USA HealthCare Management, LLC 403(b) Defined Contribution

Retirement Plan to the extent possible without increasing the University's costs with respect to the Plan,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees authorizes the amendment and restatement of the University of South Alabama 403(b) Plan as set forth in the attached volume submitter 403(b) plan document, to be effective October 1, 2019.

RESOLUTION
EXECUTIVE COMMITTEE OF THE BOARD OF TRUSTEES

WHEREAS, the Bylaws of the University of South Alabama Board of Trustees provide for the appointment by the Chair *pro tempore* of an Executive Committee, subject to the approval of the Board, for terms concurrent with the term of the Chair *pro tempore*, who shall serve as Chair of the Executive Committee,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees approves the appointment of the following named Trustees to serve on the Executive Committee for terms concurrent with the term of the current Chair *pro tempore.*

- Mr. James H. Shumock
- Ms. Arlene Mitchell
- Ms. Katherine Alexis Atkins
- Mr. E. Thomas Corcoran
- Dr. Steven P. Furr
- Hon. Kenneth O. Simon
- Mr. James A. Yance

Chairman Shumock called for a report from the Audit Committee. Mr. Graham, Committee Chair, stated, at a meeting on September 12, 2019, KPMG partners Mr. Mark Peach and Ms. Ashley Willson presented information pertinent to the audit for fiscal year 2019 and Mr. Davis gave a summation on the independent audit of the USA Foundation (USAF) consolidated financial statements and the disproportionate share hospital funds combined financial statements for the years ended June 30, 2019 and 2018, both of which he said received unqualified opinions.

Chairman Shumock called for a report from the Development, Endowment and Investments Committee. Mr. Yance, Committee Chair, stated, at a meeting on September 12, 2019, a report was delivered on endowment performance for the fiscal year through June 30, 2019, and since inception; Mr. Tom Van Zant of Commonfund discussed the University's investments and shared an economic outlook; the Committee approved replacing South's small-cap value manager with Vanguard's Small Cap Index Fund; and Ms. Sullivan discussed Upward & Onward Campaign results through September 4, 2019, as well as upcoming fundraising activities.

Chairman Shumock called for a report from the Health Affairs Committee. Dr. Charlton, Committee Chair, stated, at a meeting on September 12, 2019, Dr. Marymont introduced Department of Obstetrics and Gynecology Chair Dr. Mimi Munn and Department of Microbiology and Immunology Chair Dr. Kevin Macaluso, and Mr. Bailey recognized Dr. Alan Whaley for his new role as Chief Operating Officer of USA Health and discussed plans to demolish the Springhill Avenue Campus building.

Chairman Shumock called for a report from the Academic and Student Affairs Committee. Mr. Windom, Committee Chair, stated, at a meeting on September 12, 2019, the Committee voted unanimously to recommend approval of **ITEM 15** as follows. On motion by Ms. Atkins, seconded by Mr. Corcoran, the Board voted unanimously to approve the resolution:

RESOLUTION
TENURE

WHEREAS, in accordance with University policy, faculty applications for tenure have been reviewed by the respective faculty peers, departmental chair and college dean, and by the Provost and Senior Vice President for Academic Affairs or the Vice President for Medical Affairs, and the President, and the following individuals are hereby recommended for tenure,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees approves and grants tenure to the following individuals effective September 13, 2019.

COLLEGE OF ENGINEERING:
John M. Usher

COLLEGE OF MEDICINE:
Kevin R. Macaluso

Mr. Windom advised that the Committee voted unanimously to recommend approval of **ITEM 16** as follows. On motion by Dr. Stokes, seconded by Mr. Perkins, the Board voted unanimously to approve the resolution:

RESOLUTION
PAT CAPPS COVEY COLLEGE OF ALLIED HEALTH PROFESSIONS OUT-OF-STATE GRADUATE TUITION

WHEREAS, the University of South Alabama is committed to maintaining high-quality educational and student services programs, and

WHEREAS, the current out-of-state graduate tuition rate for the Master of Physician Assistant Studies, the Master of Occupational Therapy, Master of Speech-Language Pathology, the Doctor of Physical Therapy, and the Doctor of Audiology is significantly lower than that of peer institutions, and

WHEREAS, an increase in out-of-state tuition for these programs will allow for the preparation of additional clinicians who will meet the needs of the state and region, and

WHEREAS, the revised out-of-state tuition rate will remain competitive,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees authorizes the out-of-state graduate tuition rate for the Pat Capps Covey College of Allied Health Professions as set forth in the attached memoranda.

Mr. Windom reported that, during the Committee meeting, Provost Johnson introduced new department chairs; Executive Director of University Libraries Dr. Lorene Flanders advised that Assistant Librarian Ms. Rachael Fenske received the 2019 Michael E. DeBakey Library Services Outreach Award from the Friends of the National Library of Medicine; Associate Dean of Students and Title IX Coordinator Dr. Krista Harrell and Chair of the Department of Dramatic

Arts Dr. Lars Tatom presented USA's Common Read/Common World selection for 2019-2020 When the Emperor Was Divine; and Chair of Civil, Coastal and Environmental Engineering Dr. Kevin White talked about collaborative work to improve problems associated with wastewater in Alabama's Black Belt region.

Mr. Windom called upon Provost Johnson, who gave an update on the University's fifth-year interim report submitted to the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) early in 2019. He stated SACSCOC had completed its assessment and found the University was compliant with all standards. He added that South was among the 16 percent of institutions submitting reports within the year that had not received referrals. He credited Director of Academic Enhancement Dr. Julie Estis, who oversees South's Quality Enhancement Plan that focuses on team-based learning and who produced the fifth-year report, and Associate Vice President for Institutional Effectiveness Dr. Angela Coleman, who insures the University is compliant with SACSCOC standards.

Chairman Shumock called for a report from the Budget and Finance Committee. Mr. Corcoran, Committee Chair, stated, at a meeting on September 12, 2019, Mr. Weldon reported an increase in net position of approximately $25.3 million as reflected in the quarterly financial statements for the period ended June 30, 2019, and discussed plans to refinance Series 2010 bonds for an anticipated 10 percent savings, or an approximate net present value savings of just under $2 million. He said the Board would consider authorization at the December meeting. He stated Mr. Weldon presented a proposed balanced budget for 2019-2020 totaling approximately $1.1 billion, which he noted included a three-percent salary increase for eligible employees, and he moved for the approval of **ITEM 25** as follows. Mr. Yance seconded and the Board voted unanimously to approve the resolution:

RESOLUTION
UNIVERSITY TOTAL BUDGET FOR 2019-2020

BE IT RESOLVED, the University of South Alabama Board of Trustees approves the 2019-2020 University of South Alabama Budget, and

BE IT FURTHER RESOLVED, the University of South Alabama Board of Trustees approves the 2019-2020 Budget as a continuation budget for 2020-2021 in order to be in compliance with bond trust indenture requirements if the budget process cannot be completed prior to beginning the 2020-2021 fiscal year.

Mr. Corcoran moved for the approval of **ITEM 25.A** as follows. Mr. Graham seconded and the Board voted unanimously to approve the resolution:

RESOLUTION
SALARY INCREASE

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

WHEREAS, the proposed 2019-2020 fiscal year budget is a balanced budget made possible by ongoing diligent management of finances, improved patient-care revenues and an increase in State appropriations, and

WHEREAS, this budget includes a three-percent, across-the-board increase for eligible current salaried and hourly University General Division and USA Health staff employees and an average three-percent merit increase for all eligible University General Division faculty and University General Division and USA Health administrative employees hired prior to June 1, 2019, and

WHEREAS, this salary increase would be effective December 1, 2019, for monthly paid employees, and November 24, 2019, for bi-weekly paid employees, and subject to the standard University personnel guidelines and procedures and other adjustments as approved by the President, and

WHEREAS, this salary increase would apply to all eligible employees of the University of South Alabama, including those in the University General Division and USA Health,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama hereby approves a three-percent, across-the-board increase as described herein, for all eligible current salaried and hourly staff employees and an average three-percent merit increase for all eligible faculty and administrative employees hired prior to June 1, 2019.

Chairman Shumock called for a report from the Long-Range Planning Committee. Ms. Brown Stewart, Committee Chair, stated, at a meeting on September 12, 2019, Dr. Coleman presented the University's 2019 scorecard and discussed select data. She said much of the Committee's discussion centered on student success indicators related to first-year retention rates and six-year graduation rates, adding that Associate Vice President for Student Academic Success Dr. Nicole Carr talked about efforts to improve student success rates and reducing equity gaps among student groups. Dr. Carr was asked for a summation of her comments made at the Committee meeting.

Representing Mr. Ralph Hargrove and the firm of Hargrove Engineers + Constructors, USA alumnus Mr. Jeb Shell joined Chairman Shumock and President Waldrop for the presentation of **ITEM 11** as follows. Chairman Shumock read the resolution and, on motion by Mr. Yance, seconded by Mr. Windom, the Board voted unanimously to approve the resolution. Mr. Shell talked briefly about the mutually beneficial partnership between Hargrove and the University and the hope that Hargrove's gift would inspire additional gifts:

RESOLUTION
COMMENDATION OF HARGROVE ENGINEERS + CONSTRUCTORS

WHEREAS, the University of South Alabama pursues the vision of being 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 the Gulf Coast region, and

WHEREAS, the Jaguar Football program supports USA in pursuit of that vision, promoting academic, personal and professional excellence for student-athletes, vitalizing campus life and connecting USA with alumni and friends throughout the nation, and

WHEREAS, for many years Hargrove Engineers + Constructors has shown itself to be a devoted friend of the University and its alumni by providing volunteers and advisers to the College of Engineering and School of Computing, as well as claiming more than 100 USA alumni among its employees, and

WHEREAS, Hargrove Engineers + Constructors has generously supported the University through philanthropic giving to the College of Engineering, the School of Computing, the Jaguar Athletic Fund, the MacQueen Alumni Center, and USA Health entities, including the Mitchell Cancer Institute, Children's & Women's Hospital and University Hospital, and

WHEREAS, Hargrove Engineers + Constructors appreciates the opportunities that building a state-of-the-art football stadium on campus will produce through the competitive advantage to the Jaguar football team, the potential for heightening Mobile's visibility and vitality as a site for championship play and the resulting economic development that will accrue across the region, and

WHEREAS, Hargrove Engineers + Constructors has generously committed $1.5 million to assist the University of South Alabama in building Hancock Whitney Stadium,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees commends and thanks Hargrove Engineers + Constructors for extraordinary, loyal support of the University and the USA Jaguar football program, and

FINALLY, BE IT RESOLVED, that in recognition of the steadfast and generous friendship of Hargrove Engineers + Constructors, the club level at Hancock Whitney Stadium will be known as The Hargrove Club.

Chairman Shumock invited interested Trustees and guests to join a discussion on developments related to the Clotilda and Africatown following the Board meeting.

There being no further business, the meeting was adjourned at 11:26 a.m.

Respectfully submitted:

James H. Shumock, Chair *pro tempore*

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

AUDIT COMMITTEE

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

Audit Committee

September 12, 2019
1:30 p.m.

A meeting of the Audit Committee of the University of South Alabama Board of Trustees was duly convened by Mr. Ron Graham, Chair, on Thursday, September 12, 2019, at 1:31 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Alexis Atkins, Tom Corcoran, Ron Graham, Ron Jenkins and Lenus Perkins. Participating by phone was Ken Simon.
Other Trustees:	Chandra Brown Stewart, Scott Charlton, Steve Furr, Arlene Mitchell, Jimmy Shumock, Margie Tuckson, Mike Windom and Jim Yance.
Administration & Guests:	Owen Bailey, Lynne Chronister, Ken Davis, Kristin Dukes, Joel Erdmann, Monica Ezell, Paul Frazier, Mike Haskins, David Johnson, Nick Lawkis, John Marymont, Susan McCready (Faculty Senate), Mike Mitchell, Mark Peach and Ashley Willson (KPMG), Rod Rocconi, John Smith, Margaret Sullivan, Sahilee Waitman (SGA), Tony Waldrop and Scott Weldon.
Media:	Ebonee Burrell (The Vanguard).

The meeting came to order and the attendance roll was called. Mr. Graham called for consideration of the minutes of the meeting held on June 5, 2019. On motion by Capt. Jenkins, seconded by Mr. Corcoran, the Committee voted unanimously to adopt the minutes.

Mr. Graham called on Mr. Weldon to address **ITEM 6**, a report from KPMG auditors. Mr. Weldon introduced KPMG partners Mr. Mark Peach and Ms. Ashley Willson, who discussed expectations for the audit for the fiscal year ending September 30, 2019. Components addressed included audit scope, deliverables and timeline, risk assessment, audit objectives, KPMG's approach and methodology, KPMG independence and the latest standards issued by GASB (Governmental Accounting Standards Board).

Mr. Graham asked Mr. Davis to discuss the independent audit of the USA Foundation (USAF) consolidated financial statements and the disproportionate share hospital (DSH) funds combined financial statements for the years ended June 30, 2019 and 2018, **ITEM 7**. Mr. Davis said both audits received an unqualified opinion. As to the USAF consolidated financial statements, he stated that net assets totaled approximately $383.5 million, an increase of approximately $9.3 million after distributions to the University totaling just over $10 million. He added that the USAF was under contract to sell a majority of the Brookley property for approximately $45 million and said the potential buyer's due diligence period would end in the fall. Concerning the DSH combined financial statements, he said net assets totaled just over $187.8 million at the end of June 2019 and he shared perspective on DSH fund investments.

There being no further business, the meeting was adjourned at 1:55 p.m.

Respectfully submitted:

William Ronald Graham, Chair

KPMG

University of South Alabama Audit results

Basic financial statements for the year ended September 30, 2019

December 4, 2019

Introduction

To the Audit Committee of the University of South Alabama

We are pleased to have the opportunity to meet with you on December 4, 2019 to discuss the results of our audit of the basic financial statements of the University of South Alabama (the University) as of and for the year ended September 30, 2019. Our audit was conducted in accordance with the terms established in the audit engagement letter dated June 7, 2019.

We are providing this document in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This document should be read in conjunction with our audit plan, presented on September 12, 2019. We will be pleased to elaborate on the matters covered in this document when we meet.

Content

Audit results required communications and other matters summary

Communication topic	Response
Scope of audit	Our audit of the basic financial statements of the University of South Alabama (the University) as of and for the year ended September 30, 2019, was performed 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.
Changes to our planned risk assessment and planned audit strategy	There were no significant changes to our planned risk assessment and planned audit strategy presented to you on September 12, 2019.
Auditors' report	We issued an unmodified auditors' report on the basic financial statements of the University.
Significant accounting policies	The significant accounting policies are described in Note 1 to the financial statements. In 2019, the University adopted the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* which updates the information that is disclosed in the financial statements related to debt. No other new accounting policies were adopted in 2019. The University's accounting policies have been consistently applied. The University's basic financial statements (including disclosures) are in accordance with U.S. GAAP. There were no significant unusual transactions noted during the 2019 audit.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Significant accounting estimates	Significant accounting estimates relate to: • Allowances for uncollectible accounts and contractual adjustments • Valuation of the liabilities associated with the General and Professional Liability Trust Funds and employee health insurance reserves • Valuation of swaps See slide 8 for more information
New accounting pronouncements	In 2019, the University adopted the provisions of GASB Statement No. 88*, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* which updates the information that is disclosed in the financial statements related to debt.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Uncorrected misstatements	No matters to report.
Significant corrected misstatements	No matters to report.
Financial presentation and disclosure omissions	No matters to report.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Control deficiencies	There are no significant matters to report.
Related parties	No significant findings or issues arose during the audit in connection with the University's related parties.
Other information in documents containing audited financial statements	Our responsibility with respect to information in a document does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document. However, we do have a responsibility to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the basic financial statements. As a result of our consideration of the other information, no material inconsistences or material misstatements of facts were identified related to other information.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Illegal acts or fraud	No actual or suspected fraud involving management, employees with significant roles in internal control, or instances where fraud results in a material misstatement in the financial statements were identified during the audit.
Noncompliance with laws and regulations	No matters to report.
Going concern	No matters to report.
Non-GAAP	No significant Non-GAAP matters to report.
Subsequent events	No matters to report.
Other findings or issues	No matters to report.

Communication topic	Response
Significant difficulties encountered during the audit	No matters to report.
Disagreements with management	No matters to report.
Significant findings or issues discussed, or the subject of correspondence, with management	No matters to report.
Management's consultation with other accountants	No matters to report.
Material written communications	Engagement letters, management representation letters and management letter to be distributed under separate covers.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Audit quality & transparency	Refer to page 12 for our internal quality control documents.

Significant accounting estimates

Description of significant accounting estimates

- Allowances for uncollectible accounts and contractual adjustments
- Valuation of the liabilities associated with the General and Professional Liability Trust Funds and employee health insurance reserves
- Valuation of Swaps

Audit findings

Significant assumptions used that have a high degree of subjectivity

- 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 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.
- The fair value of the University's derivatives (swaps) 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.

Conclusions

- We evaluated the key factors and assumptions used in developing these accounting estimates, including possible management bias in developing the estimates, to determine that they are reasonable in relation to the basic financial statements of the University as a whole.

Significant risks and other significant audit matters

Our audit response and findings

Significant risks	Our audit response and findings
Management override of controls	Key inputs and assumptions used in management's estimates were reviewed and did not note any instances of management bias.
Valuation of liabilities associated with the General and Professional Liability Trust Funds Valuation of patient receivables	Obtained the calculation of the professional liability and general liability reserves and performed the following procedures: -Obtained review memorandum from KPMG actuary for the reasonableness of the Professional Liability and General Liability reserves at September 30, 2019. -Obtained the underlying report utilized by the University's actuary, Towers-Watson, in the determination of reserves and tested underlying data for completeness and accuracy. -Agreed both reserves indicated to the amounts reported in the basic financial statements. -Performed substantive procedures on the allowance calculations to ensure mathematical accuracy -Tested inputs into the allowance calculations to ensure agreement with the general ledger and other supporting documentation. -Utilized IDEA and CAATs software to analyze balances, identifying and reviewing significant balances, outliers, significant credit balances, and other unusual activity -Performed substantive analytical procedures to establish the relative reliability of the balances based on historical and correlated balances.
Other significant audit matters	**Our audit response and findings**
Estimates	See slide 8 for documentation of significant accounting estimates, findings, and conclusion.

Internal control related matters

KPMG responsibilities

- The purpose of our audit was to express an opinion on the basic financial statements.
- Our audit included consideration of internal control over financial reporting 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 internal control.
- We are not expressing an opinion on the effectiveness of internal control.
- Our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Material weakness

A deficiency, or a combination of deficiencies, in internal control over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable. Reasonably possible is defined as the chance of the future event or events occurring is more than remote but less than likely. Probable is defined as the future event or events are likely to occur.

Significant deficiency

A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Other matters

- Unmodified auditors' report
- No uncorrected or significant corrected misstatements for the University
- No material weaknesses noted in internal controls for the University
- Separate management letter was issued
- In our professional judgment, KPMG is independent with respect to the University

Enhancing audit quality and transparency

We are providing as supplemental information the following documents:

- **Audit Quality Report**
- **Transparency Report**
- **Transparency Report – Supplement: Assisting Audit Committees in Meeting NYSE Rules on Auditor Communications**

[The firm's internal quality control documents are available at https://home.kpmg/us/en/home/about/kpmg-quality-and-transparency-report.html**]**

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Questions?

For additional information and Audit Committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, please visit KPMG's Audit Committee Institute (ACI) at www.kpmg.com/ACI.

kpmg.com/socialmedia

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

Basic Financial Statements and Single Audit Reporting
in Accordance with the Uniform Guidance

September 30, 2019 and 2018

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
September 30, 2019 and 2018

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UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
September 30, 2019

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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 Health System (USA Health), a division of the University, at September 30, 2019 and 2018, and for the years then ended. This discussion has been 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 either are 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, the University of South Alabama General Liability Trust Fund and the USA HealthCare Management, LLC are reported as blended component units. The University of South Alabama Foundation, the USA Research and Technology Corporation and the University of South Alabama Health Care Authority (HCA) are discretely presented. During fiscal year 2019 several non-profit limited liability companies were formed, with the University as sole member, to manage the complex patient and insurance billings of USA Health. As of September 30, 2019, there has been no activity in these limited liability companies.

HCA was formed in May 2017 by the University as an Alabama public corporation pursuant to the University Authority Act of 2016. Operations commenced on August 1, 2017. HCA enhances the University's provision of patient care by providing it with a corporate structure which allows for greater flexibility and options to achieve goals consistent with the public health mission of the University. HCA provides group medical practices for physicians who strive to make a difference in the lives of those they serve through promoting excellent health care.

Management's discussion and analysis for 2017 does not reflect the impact of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and therefore is not comparable to 2018 and 2019.

Financial Highlights

At September 30, 2019 and 2018, the University had total assets and deferred outflows of $1,413,980,000 and $1,298,365,000, respectively; total liabilities and deferred inflows of $1,321,855,000 and $1,262,967,000, respectively; and net position of $92,125,000 and $35,398,000, respectively. '

As more fully described below, the University has experienced a significant growth in its health care operations with an increase in net patient service revenues of over $75,000,000, or 18% over 2018 results.

An overview of each statement is presented herein along with 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

Statements of Net Position

The statements of net position present the assets, deferred outflows, liabilities, deferred inflows and net position of the University at September 30, 2019 and 2018. Net position is displayed in three parts: net investment in capital assets, restricted and unrestricted. Restricted net position may be either expendable or nonexpendable and is the net position that is restricted by law or external donors. Unrestricted net position is generally designated by management for specific purposes, and is available for use by the University to meet current expenses for any purpose. The statements of net position, along with all of the University's basic financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

Assets included in the statements of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments and net patient receivables. Of these amounts, cash and cash equivalents, investments and net patient receivables comprise approximately 49%, 13% and 24%, respectively, of current assets at September 30, 2019. Noncurrent assets consist primarily of restricted cash and cash equivalents, restricted investments and capital assets.

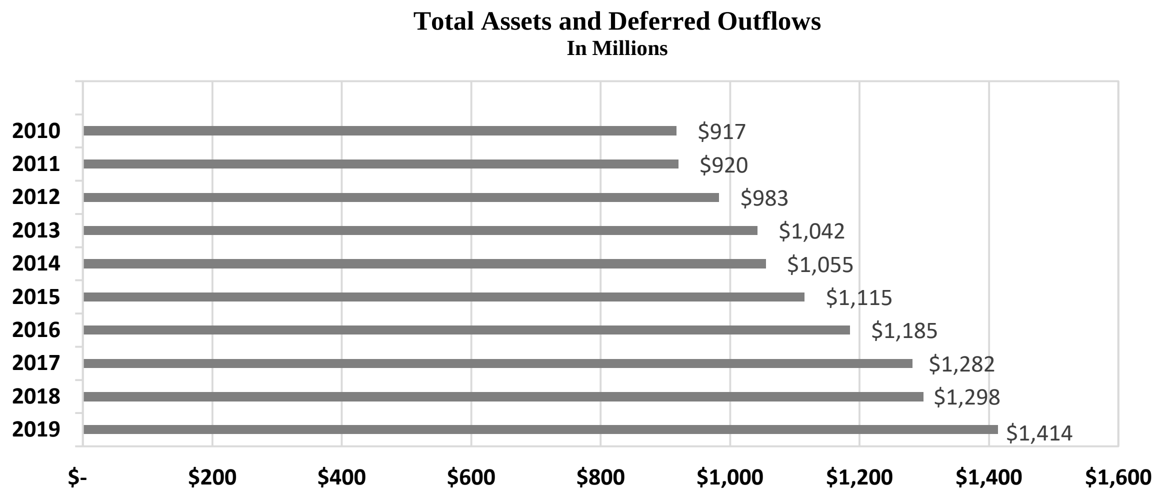
The condensed schedules of net position at September 30, 2019, 2018 and 2017 follow (in thousands):

Condensed Schedules of Net Position

		2019	2018	2017
Assets:				
Current	$	224,156	182,139	261,407
Capital assets, net		759,801	719,816	693,968
Other noncurrent		338,985	308,941	268,116
Total assets		1,322,942	1,210,896	1,223,491
Deferred outflows		91,038	87,469	59,001
Total assets and deferred outflows		1,413,980	1,298,365	1,282,492
Liabilities:				
Current		172,847	157,059	157,803
Noncurrent		1,053,095	1,006,862	818,105
Total liabilities		1,225,942	1,163,921	975,908
Deferred inflows		95,913	99,046	40,765
Total liabilities and deferred inflows		1,321,855	1,262,967	1,016,673
Net position:				
Net investment in capital assets		354,556	337,303	305,898
Restricted, nonexpendable		59,378	58,078	54,961
Restricted, expendable		69,139	68,311	62,676
Unrestricted		(390,948)	(428,294)	(157,716)
Total net position	$	92,125	35,398	265,819

(Continued)

Total assets and deferred outflows of the University as of September 30 is as follows:



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

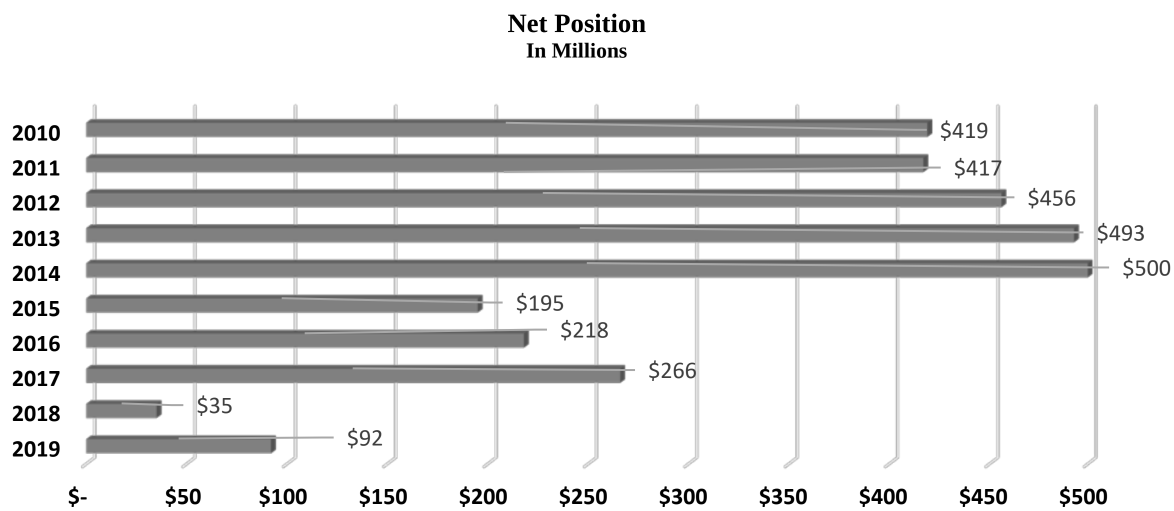
Net investment in capital assets represents the University's capital assets less accumulated depreciation and outstanding principal balances of the debt attributable to the acquisition, construction, or improvement of those assets.

Restricted nonexpendable net position consists primarily of the University's permanent endowment funds. In accordance with the policies of the University, the earnings from these funds may be expended, but the corpus may not be expended 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 student housing and dining services), student programs, capital projects and general operations. Also included in unrestricted net position at September 30, 2019 and 2018 is the impact of the net pension liability recorded pursuant to the requirements of GASB Statement No. 68 and the impact of the net OPEB liability recorded pursuant to the requirements of GASB Statement No. 75.

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



All categories of restricted net position collectively increased by approximately $2,128,000 between September 30, 2019 and 2018, primarily due to the addition of restricted gifts to the University. Unrestricted net position increased from $(428,294,000) to $(390,948,000) between September 30, 2019 and 2018. A summary of unrestricted net position at September 30, 2019 and 2018 is summarized as follows (in thousands):

		2019	2018
Unrestricted net position related to net pension liability	$	(295,765)	(308,910)
Unrestricted net position related to net OPEB liability		(254,530)	(243,690)
Unrestricted net position related to other activity		159,347	124,306
Unrestricted net position	$	(390,948)	(428,294)

Statements of Revenues, Expenses, and Changes in Net Position

Changes in total University net position are based on the activity presented in the statements of revenues, expenses, and changes in net position. The purpose of this statement is to present the changes in net position resulting from operating and nonoperating revenues earned by the University, and operating and nonoperating expenses incurred by the University, 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 patient service revenues (net of provision for bad debts), tuition and fees (net of scholarship allowances), most noncapital grants and contracts, revenues from auxiliary activities and sales and services of educational activities (primarily athletic activities). Operating expenses are those expenses paid or incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University.

Nonoperating revenues have the characteristics of nonexchange transactions because generally no goods or services are provided. Such transactions include investment income, state 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, losses related to the disposition of capital assets, transfers to affiliates to fund operations and transfers to intergovernmental agencies related to medical expenditures.

As noted earlier, the University has experienced significant growth throughout its health care operations. This growth has resulted in increased patient service revenues of over $75,000,000, or 18% between 2018 and 2019 operating results. This increase is due largely to significant increases in hospital days, surgeries and other procedures throughout the health system and is driven by increases in the Health System's primary care physician referral base. This is a trend that management expects to continue in the coming years.

(Continued)

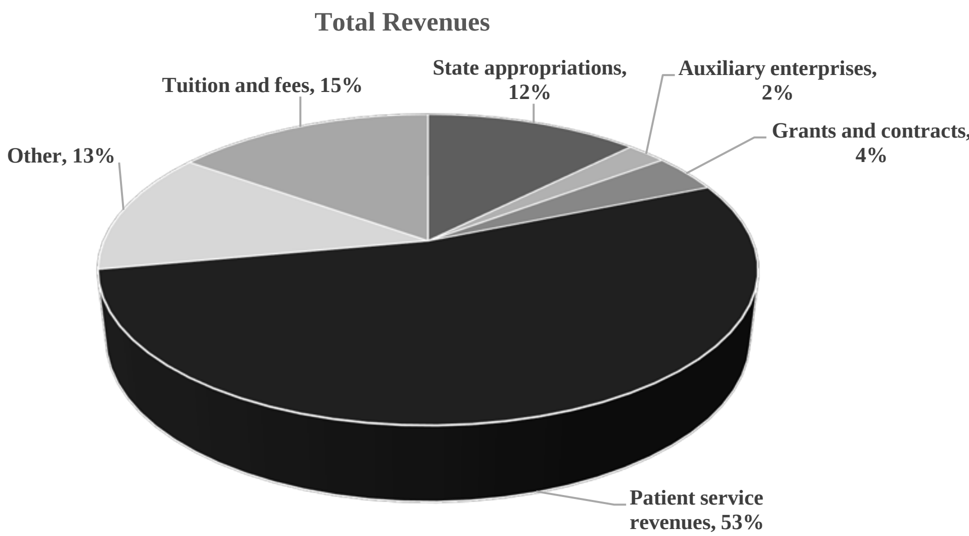
The condensed schedules of revenues, expenses, and changes in net position for the years ended September 30, 2019, 2018 and 2017 follow (in thousands):

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

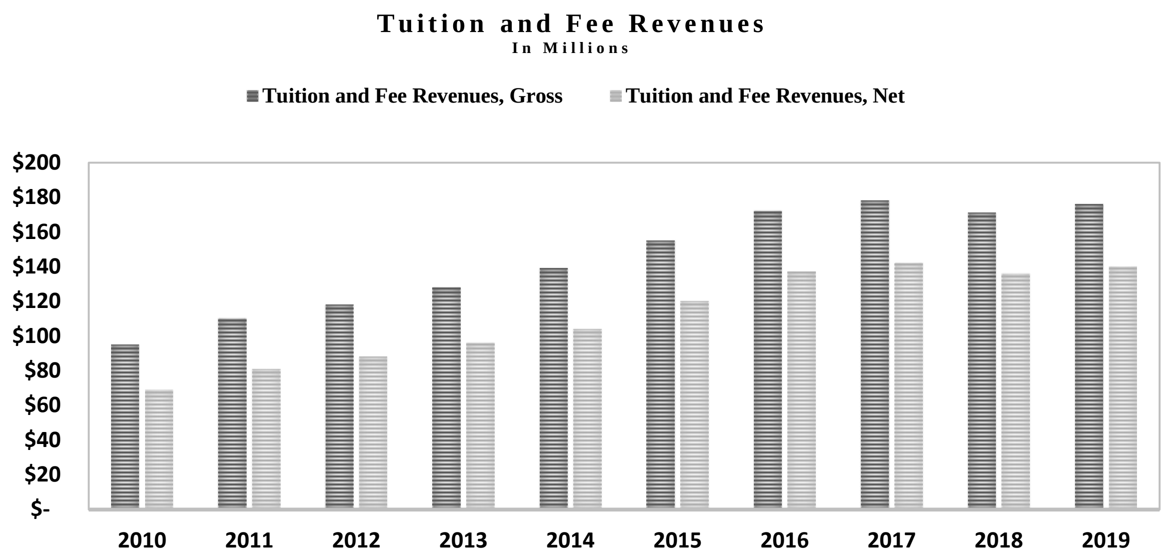
		2019	2018	2017
Operating revenues:				
Tuition and fees, net	$	139,871	136,222	142,024
Patient service revenues, net		491,796	416,034	390,931
Federal, state and private grants and contracts		36,647	34,093	36,853
Other		62,527	66,730	92,674
		730,841	653,079	662,482
Operating expenses:				
Salaries and benefits		495,123	486,156	483,113
Supplies and other services		268,416	255,145	219,362
Other		79,492	78,081	64,942
		843,031	819,382	767,417
Operating loss		(112,190)	(166,303)	(104,935)
Nonoperating revenues and expenses:				
State appropriations		115,209	108,268	107,332
Net investment income		8,203	17,857	18,398
Other, net		25,189	22,674	20,613
Net nonoperating revenues		148,601	148,799	146,343
Income (loss) before capital contributions and grants and additions to endowment		36,411	(17,504)	41,408
Capital contributions and grants and additions to endowment		20,316	16,770	6,417
Increase (decrease) in net position	$	56,727	(734)	47,825
Beginning net position, before cumulative effect of change in accounting principle		35,398	265,819	217,994
Cumulative effect of change in accounting principle		—	(229,687)	—
Beginning net position – as adjusted		35,398	36,132	217,994
Ending net position	$	92,125	35,398	265,819

Approximately 53%, and 49% of total revenues of the University were net patient service revenues in 2019 and 2018, respectively. Excluding patient service revenues, tuition and fees charged to students represent the largest component of total University revenues, approximately 15%, and 16% of total revenues in 2019 and 2018, respectively. Also in 2019 and 2018, state appropriations and grants and contracts (federal, state and private) represented approximately 16% and 17% of total revenues, respectively.

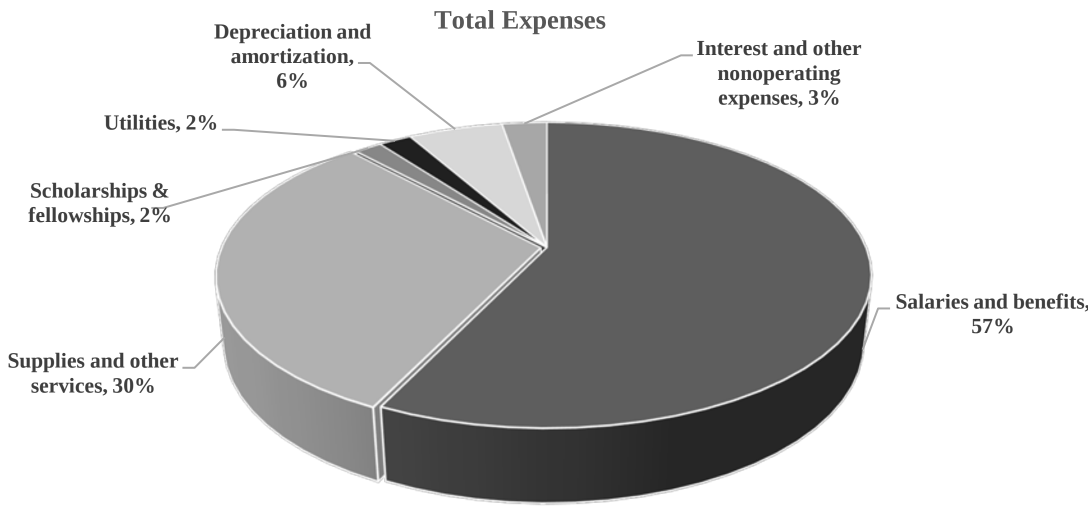
A summary of University revenues for the year ended September 30, 2019 is presented as follows:



Tuition revenues have generally increased until recent years. A decline in enrollment coupled with increases in tuition have caused tuition revenues to remain relatively flat. Additionally, tuition and fees as a percentage of total operating revenues continue to increase, from 15% of operating revenues in 2010 to 19% in 2019. Tuition and fees, gross and net of scholarship allowances, for the past ten fiscal years are as follows:

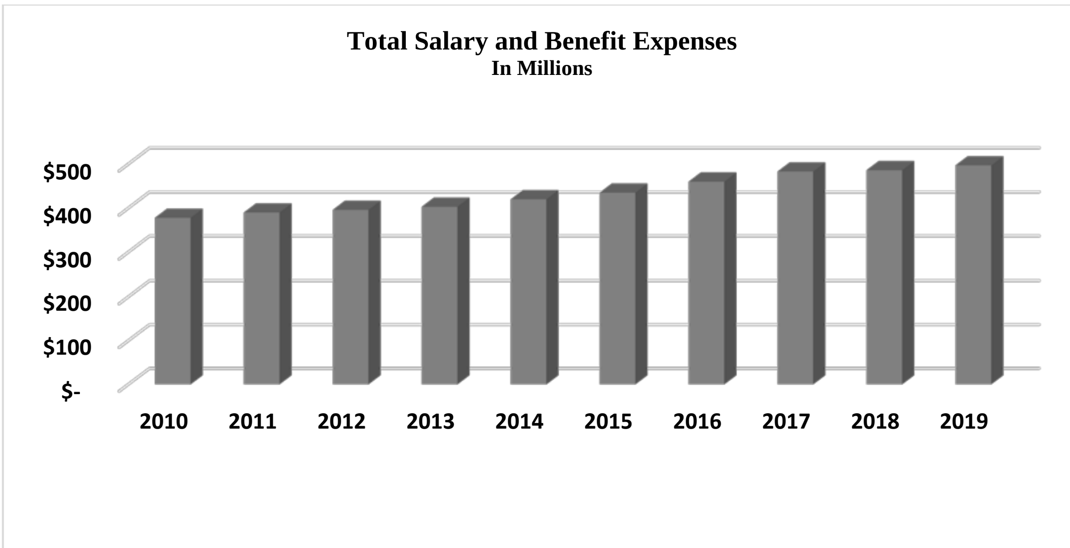


University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2019 is presented as follows:



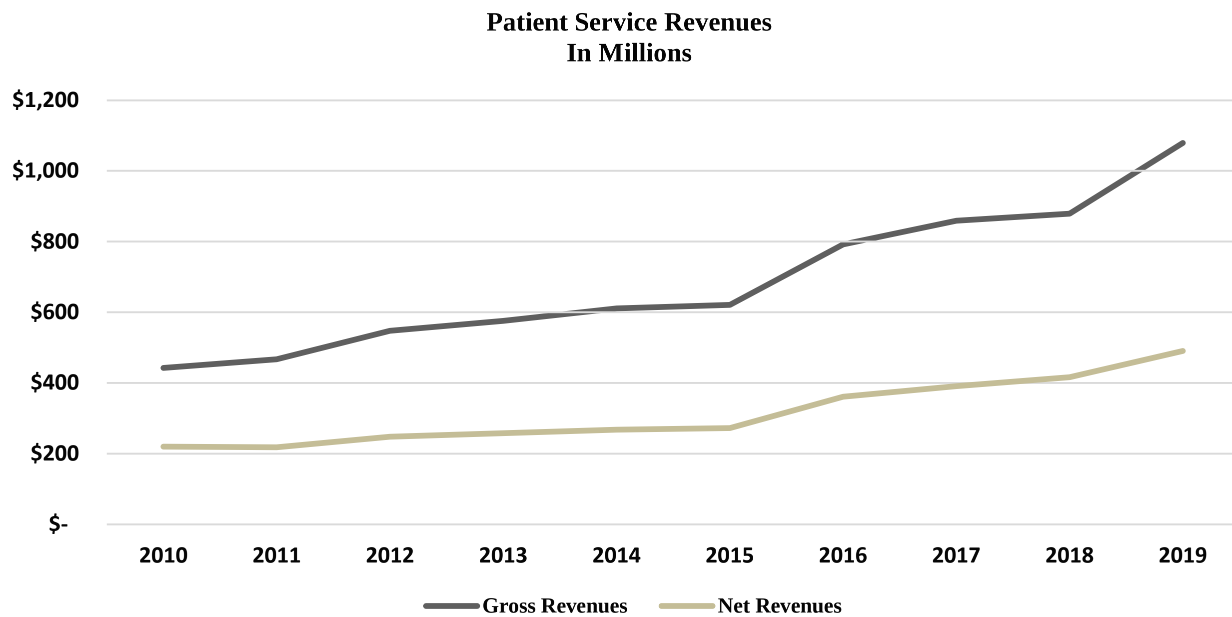
Functional classifications represent expenses categorized based on the function within the University. Such University functions include instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant and scholarships. Expenses related to auxiliary enterprise activities, USA Health and depreciation and amortization are presented separately. Functional expense information is presented in note 17 to the basic financial statements.

In both 2019 and 2018 approximately 59% of the University's total operating expenses were salaries and benefits.



For the years ended September 30, 2019 and 2018, the University reported operating losses of approximately $112,190,000 and $166,303,000, respectively. Operating losses are offset partially by state appropriations, which, as mentioned earlier, are reported as nonoperating revenues. After adding state appropriations and other nonoperating revenues and expenses, the total change in net position was approximately $56,727,000 and ($734,000) for the years ended September 30, 2019 and 2018, respectively.

USA Health represents a significant portion of total University revenues. Operating patient service revenues, gross and net, for the last ten fiscal years are presented as follows:



Statements of Cash Flows

The statements of cash flows present information related to cash flows of the University. The statements present 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

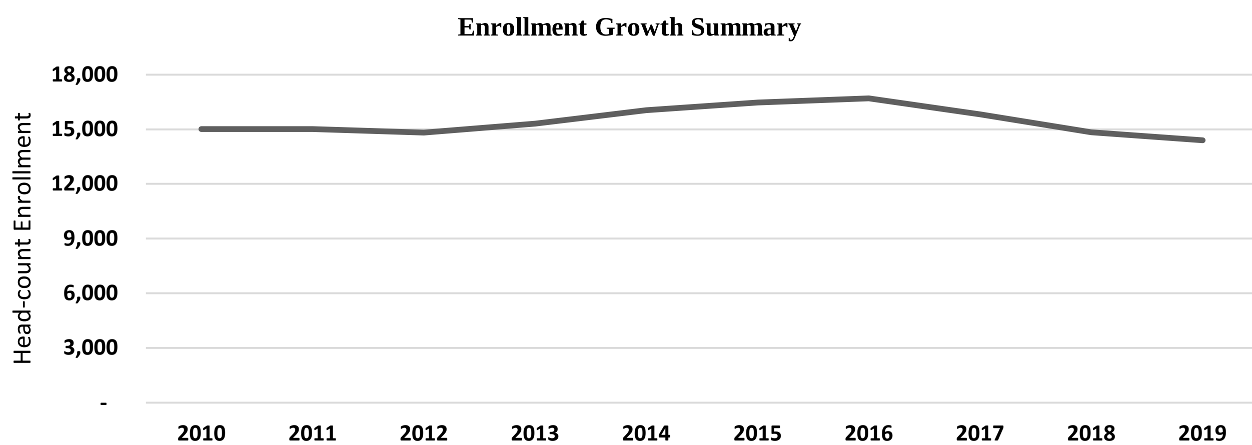
Total capital asset additions for the University were approximately $88,796,000 and $76,087,000 in 2019 and 2018, respectively. Significant construction projects that remain in progress at September 30, 2019 include the Hancock Whitney Stadium, Simulation Lab Building, MacQueen Alumni Center, Jon Leiber Baseball Clubhouse, University Commons Clinic and major upgrades of infrastructure on the University's main campus. Major projects completed and placed into service in fiscal 2019 include a golf practice facility, new intramural fields and an indoor athletic practice facility. At September 30, 2019, the University had outstanding commitments of approximately $42,456,000 for various capital projects. Additional information regarding the University's capital assets is included in note 5.

In February 2019, the University issued its University Facilities Revenue Bonds, Series 2019-A & B, with a face value of $66,190,000. The proceeds from the Series 2019-A & B bonds are being used to construct a football stadium on the campus of the University.

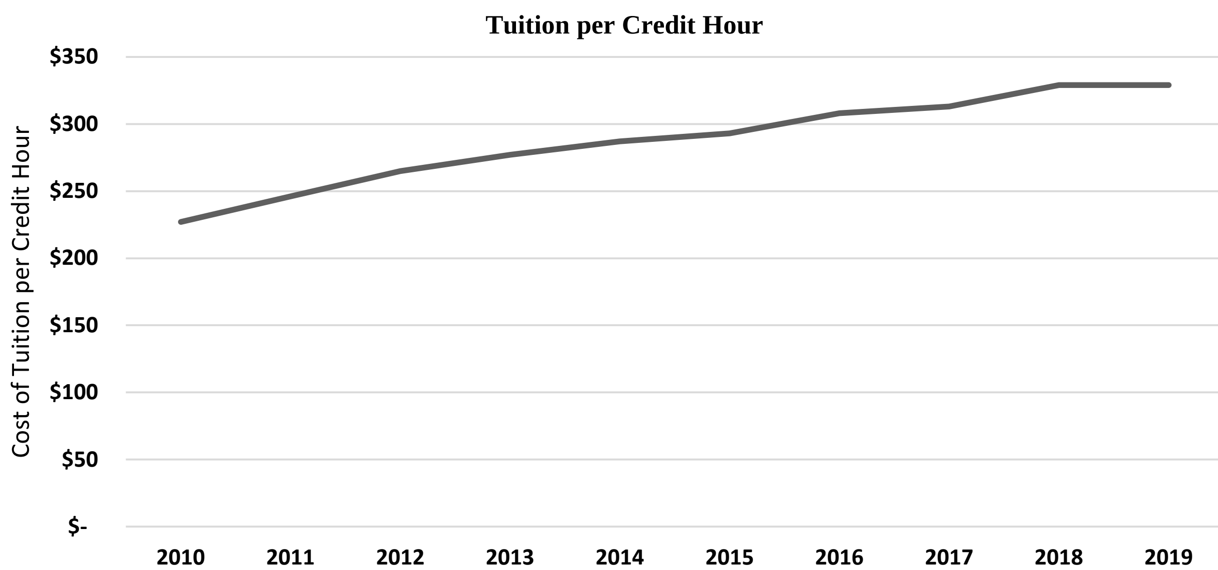
The University's bond credit rating is A1 (Stable) as rated by Moody's Investors Services and A+ (Stable) as rated by Standard and Poor's Rating Services. Neither rating changed during 2019 or 2018. Additional information regarding the University's debt is included in note 7.

Economic Outlook

Tuition and fee rates per credit hour have increased over the past ten years and, until the previous three years, student enrollment has generally increased. The University did experience a decline in enrollment of approximately 6% from Fall 2017 to Fall 2018 and an additional decline of 3% between Fall 2018 and Fall 2019, with declines primarily resulting from a decrease in international student enrollment and a decrease in the number of incoming freshman. The enrollment trend for the University between 2010 and 2019 is as follows:

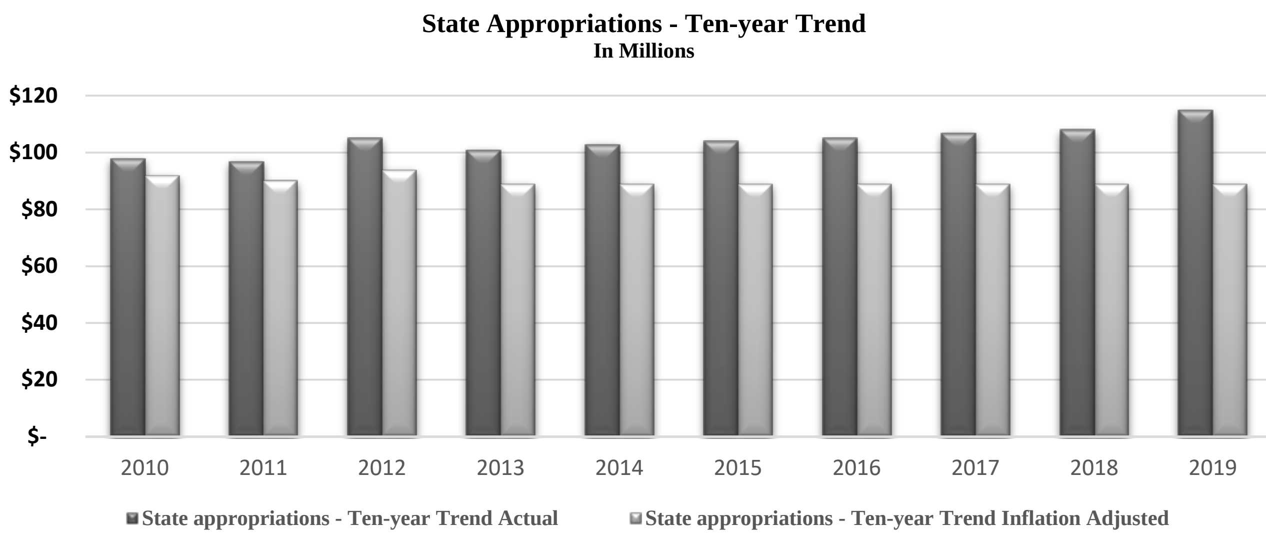


During the same period, in-state tuition per credit hour has increased by approximately 45%. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. The trend of in-state tuition per credit hour between 2010 and 2019 is as follows:



A state appropriation in the amount of approximately $115,209,000 and $108,268,000 was authorized and received for the years ended September 30, 2019 and 2018, respectively. A state appropriation in the amount of $118,299,000, representing an increase of approximately 3%, has been authorized for the year ending September 30, 2020. While no announcement has been made, the University is aware that reductions in the 2020 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 and political conditions in the United States and, specifically, the State of Alabama. Weakening of the economy, as well as changes in federal and state funding policies, could potentially have a 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 2020 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 Administration Building Room 170; Mobile, Alabama 36688. These basic financial statements can be obtained from our website at http:www.southalabama.edu/departments/financialaffairs/businessoffice/statements.html.

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

Independent Auditors' Report

The Board of Trustees
University of South Alabama:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units, as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the 2019 consolidated financial statements of the University of South Alabama Foundation, which represent 93% and 99%, respectively, of the total assets and net assets or net position as of June 30, 2019 and 49% of revenues, gains and other support for the year then ended of the aggregate discretely presented component units. Nor did we audit the 2018 consolidated financial statements of the University of South Alabama Foundation, which represent 94% and 99%, respectively, of the total assets and net assets or net position as of June 30, 2018 and 56% of revenues, gains and other support for the year then ended of the aggregate discretely presented component units. Those statements were audited by other auditors whose report, which included an emphasis of matter paragraph related to the retroactive adoption of the provisions of Accounting Statements Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* effective July 1, 2018, has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University of South Alabama Foundation and the USA Research and Technology Corporation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its aggregate discretely presented component units as of September 30, 2019 and 2018, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1-15, the schedule of the University's proportionate share of the net pension liability, schedule of the University's pension contributions, schedule of the University's proportionate share of the net OPEB liability, and schedule of the University's OPEB contributions on pages 82 - 85 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
November 19, 2019

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Statements of Net Position

September 30, 2019 and 2018

(In thousands)

		2019	2018
Current assets:			
Cash and cash equivalents	$	110,282	79,955
Investments		28,572	24,889
Patient receivables (net of allowance for doubtful accounts of $92,114 and $87,653)		53,104	43,841
Accounts receivable, other		14,479	16,604
Notes receivable, net		8,063	7,800
Prepaid expenses, inventories, and other		9,656	9,050
Total current assets		224,156	182,139
Noncurrent assets:			
Restricted cash and cash equivalents		60,181	16,381
Restricted investments		255,412	245,068
Investments		10,200	43,207
Accounts receivable		6,483	3,299
Other noncurrent assets		6,709	986
Capital assets, net		759,801	719,816
Total noncurrent assets		1,098,786	1,028,757
Total assets		1,322,942	1,210,896
Deferred outflows		91,038	87,469
Total assets and deferred outflows		1,413,980	1,298,365
Current liabilities:			
Accounts payable and accrued liabilities		84,748	65,012
Unrecognized revenues		56,141	58,355
Deposits		3,019	2,926
Current portion of other long-term liabilities		6,374	6,669
Current portion of long-term debt		22,565	24,097
Total current liabilities		172,847	157,059
Noncurrent liabilities:			
Long-term debt, less current portion		420,861	369,534
Net pension liability		282,739	296,654
Net other postemployment benefits liability		259,418	256,178
Other long-term liabilities, less current portion		90,077	84,496
Total noncurrent liabilities		1,053,095	1,006,862
Total liabilities		1,225,942	1,163,921
Deferred inflows		95,913	99,046
Total liabilities and deferred inflows		1,321,855	1,262,967
Net position:			
Net investment in capital assets		354,556	337,303
Restricted, nonexpendable:			
Scholarships		29,028	28,470
Other		30,350	29,608
Restricted, expendable:			
Scholarships		18,490	17,127
Other		50,649	51,184
Unrestricted (deficit)		(390,948)	(428,294)
Total net position	$	92,125	35,398

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit of the University of South Alabama)

Consolidated Statements of Financial Position

June 30, 2019 and 2018

(In thousands)

Assets		**2019**	**2018**
Cash and cash equivalents	$	1,520	1,099
Investments:			
Equity securities		150,796	137,722
Timber and mineral properties		164,307	160,949
Real estate		61,508	69,163
Other		5,809	5,805
Other assets		444	450
Total assets	$	384,384	375,188
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	135	184
Other liabilities		737	794
Total liabilities		872	978
Net assets:			
Without donor restrictions		89,245	97,487
With donor restrictions		294,267	276,723
Total net assets		383,512	374,210
Total liabilities and net assets	$	384,384	375,188

See accompanying notes to basic financial statements.

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

Statements of Net Position

September 30, 2019 and 2018

(In thousands)

		2019	2018
Assets:			
Current assets:			
Unrestricted cash and cash equivalents	$	649	435
Rent receivable		211	235
Prepaid expenses and other current assets		2	5
Total current assets		862	675
Noncurrent assets:			
Intangible assets, net		217	94
Capital assets, net		20,840	21,430
Total noncurrent assets		21,057	21,524
Deferred outflows		1,262	1,442
Total assets and deferred outflows		23,181	23,641
Liabilities:			
Current liabilities:			
Deposits, other current liabilities, and accrued expenses		455	207
Unrecognized rent revenue		393	384
Current portion of notes payable		1,043	727
Total current liabilities		1,891	1,318
Noncurrent liabilities:			
Notes payable, excluding current portion		20,201	20,058
Payable to University of South Alabama		368	1,461
Total noncurrent liabilities		20,569	21,519
Total liabilities		22,460	22,837
Net position:			
Net investment in capital assets		393	627
Unrestricted		328	177
Total net position	$	721	804

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
(Discretely Presented Component Unit of the University of South Alabama)

Statements of Net Position

September 30, 2019 and 2018

(In thousands)

		2019	2018
Assets:			
Current assets:			
Cash and cash equivalents	$	1,188	393
Patient receivables (net of allowance for doubtful accounts of $381 and $36)		2,195	1,827
Inventories		155	228
Other current assets		678	349
Total current assets		4,216	2,797
Noncurrent assets:			
Capital assets		1,602	731
Total assets		5,818	3,528
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities		1,141	620
Accrued salaries and wages		1,439	890
Other current liabilities		307	798
Total current liabilities		2,887	2,308
Total liabilities		2,887	2,308
Net position:			
Net investment in capital assets		1,602	731
Unrestricted		1,329	489
Total net position	$	2,931	1,220

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2019 and 2018

(In thousands)

		2019	2018
Operating revenues:			
Tuition and fees (net of scholarship allowances of $35,767 in 2019 and $35,207 in 2018)	$	139,871	136,222
Patient service revenues (net of provision for bad debts of $99,713 in 2019 and $99,436 in 2018)		491,796	416,034
Federal grants and contracts		20,276	16,411
State grants and contracts		9,513	7,790
Private grants and contracts		6,858	9,892
Auxiliary enterprises (net of scholarship allowances of $1,106 in 2019 and $1,089 in 2018)		21,481	25,907
Other operating revenues		41,046	40,823
Total operating revenues		730,841	653,079
Operating expenses:			
Salaries and benefits		495,123	486,156
Supplies and other services		268,416	255,145
Scholarships and fellowships		13,990	13,394
Utilities		16,877	16,076
Depreciation and amortization		48,625	48,611
Total operating expenses		843,031	819,382
Operating loss		(112,190)	(166,303)
Nonoperating revenues (expenses):			
State appropriations		115,209	108,268
Net investment income		8,203	17,857
Interest expense		(12,106)	(12,119)
Other nonoperating revenues		48,307	48,044
Other nonoperating expenses		(11,012)	(13,251)
Net nonoperating revenues		148,601	148,799
Income (loss) before capital contributions and grants and additions to endowment		36,411	(17,504)
Capital contributions and grants		13,617	8,612
Additions to endowment		6,699	8,158
Increase (decrease) in net position		56,727	(734)
Net position:			
Beginning of year, before cumulative effect of change in accounting principle		35,398	265,819
Cumulative effect of change in accounting principle (note 1 (cc))		—	(229,687)
Beginning balance, as adjusted		35,398	36,132
End of year	$	92,125	35,398

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit of the University of South Alabama)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2019

(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, losses and other support:			
Net realized and unrealized gains (losses) on investments	$ (2,731)	19,146	16,415
Rents, royalties and timber sales	3,080	152	3,232
Interest and dividends	925	1,289	2,214
Gifts	1	4,136	4,137
Required match of donor contributions	(4)	4	—
Interfund interest	(500)	500	—
Other income	335	—	335
Net assets released from program restrictions	7,683	(7,683)	—
Total revenues, gains, losses and other support	8,789	17,544	26,333
Expenditures:			
Program services:			
Faculty support	2,473	—	2,473
Scholarships	1,172	—	1,172
Other academic programs	6,390	—	6,390
Total program service expenditures	10,035	—	10,035
Management and general	2,195	—	2,195
Other investment expense	1,591	—	1,591
Depletion expense	3,170	—	3,170
Depreciation expense	40	—	40
Total expenditures	17,031	—	17,031
Change in net assets	(8,242)	17,544	9,302
Net assets – beginning of year	97,487	276,723	374,210
Net assets – end of year	$ 89,245	294,267	383,512

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION

(Discretely Presented Component Unit of the University of South Alabama)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2018

(In thousands)

		Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, losses and other support:				
Net realized and unrealized gains on investments	$	4,059	15,887	19,946
Rents, royalties and timber sales		3,499	157	3,656
Interest and dividends		743	1,381	2,124
Gifts		75	1,042	1,117
Required match of donor contributions		(6)	6	—
Interfund interest		(367)	367	—
Other income		31	—	31
Net assets released from program restrictions		7,682	(7,682)	—
Total revenues, gains, losses and other support		15,716	11,158	26,874
Expenditures:				
Program services:				
Faculty support		2,242	—	2,242
Scholarships		1,139	—	1,139
Other academic programs		6,507	—	6,507
Total program service expenditures		9,888	—	9,888
Management and general		2,118	—	2,118
Other investment expense		1,752	—	1,752
Depletion expense		4,072	—	4,072
Depreciation expense		77	—	77
Total expenditures		17,907	—	17,907
Change in net assets		(2,191)	11,158	8,967
Net assets – beginning of year		99,678	265,565	365,243
Net assets – end of year	$	97,487	276,723	374,210

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION

(Discretely Presented Component Unit of the University of South Alabama)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2019 and 2018

(In thousands)

		2019	2018
Operating revenues	$	3,607	3,510
Operating expenses:			
Building management and operating expenses		1,189	1,096
Depreciation and amortization		1,125	1,074
Legal and administrative fees		192	185
Insurance		29	35
Total operating expenses		2,535	2,390
Operating income		1,072	1,120
Nonoperating revenues (expenses):			
Donations		—	107
Interest expense		(1,123)	(1,069)
Debt issuance expense		(25)	(82)
Other		(7)	(3)
Net nonoperating expenses		(1,155)	(1,047)
Change in net position		(83)	73
Net position:			
Beginning of year		804	731
End of year	$	721	804

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY

(Discretely Presented Component Unit of the University of South Alabama)

Statements of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2019 and period August 1, 2017 (inception) through September 30, 2018

(In thousands)

		2019	2018
Operating revenues:			
Patient service revenues (net of provision for bad debts of $283 in 2019 and $77 in 2018)	$	22,470	16,863
Other operating revenues		1,098	651
Total operating revenues		23,568	17,514
Operating expenses:			
Salaries and benefits		18,132	13,592
Building and equipment expenses		1,751	1,537
Medical and surgical supplies		6,870	6,791
Other expenses		4,231	3,205
Depreciation and amortization		276	134
Total operating expenses		31,260	25,259
Operating loss		(7,692)	(7,745)
Nonoperating revenues:			
Support from University of South Alabama		9,394	8,953
Other nonoperating revenues		9	12
Total nonoperating revenues		9,403	8,965
Increase in net position		1,711	1,220
Net position at beginning of year		1,220	—
Net position at end of year	$	2,931	1,220

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended September 30, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Receipts related to tuition and fees	$	138,226	139,852
Receipts from and on behalf of patients and third-party payers		478,756	429,955
Receipts from grants and contracts		34,553	32,812
Receipts related to auxiliary enterprises		20,439	25,615
Payments to suppliers and vendors		(267,340)	(262,895)
Payments to employees and related benefits		(506,781)	(464,167)
Payments for scholarships and fellowships		(12,886)	(13,006)
Other operating receipts		51,947	32,069
Net cash used in operating activities		(63,086)	(79,765)
Cash flows from noncapital financing activities:			
State appropriations		115,209	108,268
Endowment gifts		6,699	8,158
Agency funds received		2,443	1,645
Agency funds disbursed		(2,085)	(747)
Student loan program receipts		149,937	151,313
Student loan program disbursements		(148,193)	(152,448)
Other nonoperating revenues		38,518	19,730
Other nonoperating expenses		(10,820)	(13,251)
Net cash provided by noncapital financing activities		151,708	122,668
Cash flows from capital and related financing activities:			
Capital contributions and grants		13,617	8,612
Purchases of capital assets		(89,056)	(68,345)
Proceeds from sales of capital assets		60	153
Proceeds from issuance of capital debt		71,067	—
Principal payments on capital debt		(23,137)	(23,088)
Interest payments on capital debt		(14,203)	(11,931)
Net cash used in capital and related financing activities		(41,652)	(94,599)
Cash flows from investing activities:			
Interest and dividends on investments		2,977	14,950
Purchases of investments		(66,090)	(29,599)
Proceeds from sales of investments		90,270	26,817
Net cash provided by investing activities		27,157	12,168
Net increase (decrease) in cash and cash equivalents		74,127	(39,528)
Cash and cash equivalents (unrestricted and restricted):			
Beginning of year		96,336	135,864
End of year	$	170,463	96,336

(Continued)

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

Statements of Cash Flows

Years ended September 30, 2019 and 2018

(In thousands)

		2019	2018
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(112,190)	(166,303)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization expense		48,625	48,611
Changes in assets and liabilities, net:			
Student receivables		634	2,198
Net patient receivables		(9,263)	5,897
Grants and contracts receivables		(2,562)	661
Other receivables		10,824	(8,794)
Prepaid expenses, inventories, and other		(9,665)	9,647
Accounts payable and accrued liabilities		12,725	29,793
Unrecognized revenues		(2,214)	(1,475)
Net cash used in operating activities	$	(63,086)	(79,765)
Noncash investing, noncapital financing, and capital and related financing transactions:			
Net increase in fair value of investments recognized as a component of investment income	$	9,716	10,424
Addition of capital leases		2,240	4,940
Additional maturity on capital appreciation on bonds payable and other borrowings recorded as interest expense		49	427
Gifts of capital and other assets		204	1,697
Capitalization of construction period interest		2,030	1,105
Increase (decrease) in accounts payable related to capital assets		6,412	(4,666)

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

On May 3, 1963, the Governor of Alabama signed enabling legislation creating the University of South Alabama (the University). The accompanying basic financial statements present the financial position and activities of the University, which is a component unit of the State of Alabama. The financial statements of the University 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*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus,* and GASB Statement No. 80*, Blending Requirements for Certain Component Units,* 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.

GASB Statement No. 61 amended 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, 2019 and 2018, the University reports the University of South Alabama Foundation (USA Foundation), the USA Research and Technology Corporation (the Corporation) and the University of South Alabama Health Care Authority (HCA) as discretely presented component units.

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF), Gulf Coast TotalCare (Gulf Coast) and the University of South Alabama Foundation for Research and Commercialization (FRAC). These entities are considered component units of the University under the provisions of GASB Statements No. 14, 39, 61 and 80. However, these entities are not discretely presented in the accompanying financial statements as the University does not consider them significant enough to warrant inclusion in the University's reporting entity.

GASB 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. Based on these requirements, the University reports the Professional Liability Trust Fund (PLTF), General Liability Trust Fund (GLTF), USA HealthCare Management, LLC (HCM),

(Continued)

USA Health Physician Billing Services, LLC, USA Health Hospital Billing Services, LLC, USA Health Anesthesia Billing Services, LLC and USA Health Reference Lab Billing Services, LLC as blended component units. All significant transactions among the University and its blended component units have been eliminated.

(b) 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 in which the University, HCM, SAMSF and HCA 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, HCM, SAMSF, the Corporation and HCA is maintained and managed in its General Liability Trust Fund for which the University 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).

(c) USA HealthCare Management, LLC

In June 2010, the University's Board of Trustees approved the formation of USA HealthCare Management, LLC. 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 HCM. 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).

(d) USA Health Billing Limited Liability Companies

In fiscal year 2019, the University formed the USA Health Physician Billing Services, LLC, USA Health Hospital Billing Services, LLC, USA Health Anesthesia Billing Services, LLC and USA Health Reference Lab Billing Services, LLC as non-profit limited liability companies, whereby the University is the sole member. These companies were created to assist with the complex patient and insurance billing of USA Health, a division of the University that includes two hospitals and a cancer treatment center. As of September 30, 2019, there has been no activity in these companies.

(e) University of South Alabama Health Care Authority

In May 2017, the University's Board of Trustees approved the formation of the University of South Alabama Health Care Authority (HCA). The HCA is a public corporation created under and pursuant to the provisions of the State of Alabama University Authority Act of 2016. The HCA employs physicians and staff of certain physician practice groups as determined appropriate by the University. Operations commenced on August 1, 2017. During fiscal year 2018 two non-profit limited liability companies were formed to manage the complex patient and insurance billings. The HCA is the sole member of these LLCs. As such, these entities are blended component units of the HCA. Since inception, HCA's operations have been partially funded by the University, with total support amounting to $9,394,000 during the year ended September 30, 2019 and $8,953,000 during the period August 1, 2017 (inception) through September 30, 2018. This support is reported in nonoperating expenses on the University's statements of revenues, expenses, and changes in net position. Due to the significance of the relationship between the University and HCA, the HCA is considered a component unit of the

University. The accompanying statements of net position and statements of revenues, expenses, and changes in net position for HCA as of and for the year ended September 30, 2019 and period August 1, 2017 (inception) through September 30, 2018 are discretely presented.

(f) University of South Alabama Foundation

The University of South Alabama 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 years ended September 30, 2019 and 2018 were $9,755,000 and $9,703,000, respectively, and are included primarily in other nonoperating revenues and capital contributions and grants in the University's statements of revenues, expenses, and changes in net position. The USA Foundation presents its financial statements in accordance with standards issued by the Financial Accounting Standards Board (FASB). The USA Foundation is reported in separate financial statements because of the difference in the financial reporting format since the USA Foundation follows FASB rather than GASB pronouncements. The USA Foundation has a June 30 fiscal year end, which differs from the University's September 30 fiscal year end. In accordance with GASB Statement No. 14 and GASB Statement No. 61, this discretely presented unit has been included with the most recent fiscal year. The accompanying consolidated statements of financial position and consolidated statements of activities and changes in net assets for the USA Foundation as of and for the years ended June 30, 2019 and 2018 are discretely presented.

In 2016, the FASB issued ASU 2016-14, *Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities.* ASU 2016-14 amends existing guidance for financial reporting by not for profit entities. The objectives are to reduce complexity and improve the utility of financial reporting for users of financial statements produced by not for profit entities. The Foundation adopted ASU 2016-14 for the current year. The principal changes required by ASU 2016-14 include eliminating the distinction between temporarily and permanently restricted net assets and enhancing quantitative and qualitative disclosures related to financial performance and the entity's liquidity and use of resources.

(g) USA Research and Technology Corporation

USA Research and Technology Corporation is a not-for-profit corporation that exists for the purpose of furthering the educational and scientific mission of the University by developing, attracting, and retaining technology and research industries in Alabama that will provide professional and career opportunities to the University's students and faculty. Because of the significance of the relationship between the University and the Corporation, the Corporation is considered a component unit of the University. The Corporation presents its financial statements in accordance with GASB. The accompanying statements of net position and statements of revenues, expenses, and changes in net position for the Corporation as of and for the years ended September 30, 2019 and 2018 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*, as amended by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. 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 at the time of purchase and include repurchase agreements and money market accounts.

(k) Investments and Investment Income

The University reports the fair value of investments using the three-level hierarchy established under GASB Statement No. 72, *Fair Value Measurement and Application*. The fair value of alternative investments (low-volatility multi-strategy funds of funds) and certain private equity partnerships 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, typically based on net asset value (NAV) of the partnership or commingled vehicle. 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 net investment income.

(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. At September 30, 2019 and 2018, the University had two hedging derivative instruments, interest rate swaps, in effect. In accordance with hedge accounting, the changes in fair values of the interest rate swaps are reported as changes in deferred inflows and outflows and the fair values of the interest rate swaps are recognized in other long-term liabilities and deferred inflows and outflows on the statements of net position since the interest rate swaps were deemed effective.

(m) Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of employer contributions to the Teacher's Retirement System of Alabama and the Public Education Employees Health Insurance Plan subsequent to the plan's measurement dates, changes in proportion and differences between employer contributions and proportionate share of contributions related to the OPEB plan, changes in actuarial and other assumptions related to the pension plan, fair value of interest rate swaps and the loss on the defeasement of certain bond amounts.

Deferred inflows of resources consist of the proportionate share of the differences between expected and actual experience related to the pension plan, net difference between projected and actual earnings on pension and OPEB plan investments, changes of assumptions in OPEB plan, changes in proportion and differences between employer contributions and proportionate share of contributions in pension and OPEB plans, fair values of interest rate swaps and gain on the refunding of certain bond amounts.

(n) Bond Premiums, Discounts, and Debt Extinguishment Costs

Bond premiums, discounts, and debt extinguishment costs associated with the issuance of certain bond series are capitalized and amortized over the life of the respective bond series on a straight-line basis in accordance with generally accepted accounting principles.

(o) Accounts Receivable

Patient receivables primarily result from hospital and ambulatory patient service revenues. 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 and patient receivables are recorded net of estimated uncollectible amounts.

(p) Inventories

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

(q) Capital Assets

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

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

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

Certain buildings are componentized for depreciation purposes.

Interest costs for certain constructed assets are capitalized as a component of the cost of acquiring those assets. The amount of interest capitalized for the years ended September 30, 2019 and 2018 was approximately $2,030,000 and $1,105,000, respectively.

The University evaluates impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* For the years ended September 30, 2019 and 2018, no impairments were recorded.

(r) Unrecognized Revenues

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

(s) Cost Sharing Multiple-Employer Pension Plan

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

(t) Postemployment Benefits Other Than Pensions (OPEB)

Employees of the University are covered by a cost sharing multiple-employer other post employment benefit plan administered by the Alabama Retired Education Employees Health Care Trust (Trust). The Trust's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the Plan. In accordance with GASB, the Trust is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

(u) 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 for which donors or other outside sources have stipulated, as a condition of the gift instrument, that 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, patient service revenues, 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.

(v) Scholarship Allowances and Student Financial Aid

Student tuition and fees, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount 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 a nonexchange transaction. To the extent that revenues from such programs satisfy tuition and fees and certain other student charges, the University has recorded a scholarship discount and allowance.

(w) 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, of the endowment assets. 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 4.5% of the five-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.

(x) 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; patient service revenues, net of provision for bad debts; most federal, state, and local grants and contracts; and sales and services of auxiliary enterprises, net of scholarship allowances.

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

(y) Gifts and Pledges

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

(z) 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.

(aa) Patient Service Revenues and Electronic Health Records Incentive Program

Patient service revenues are 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. USA Health utilizes a grant accounting model to recognize EHR incentive revenues. EHR incentive revenue is recorded 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.

University Hospital has met the Medicare and Medicaid meaningful use objectives for fiscal year 2018. The hospital also expects to meet meaningful use objectives in fiscal 2019. No meaningful use payment is expected for fiscal year 2018 forward as a result of the transition to the Merit-Based Incentive Payment System, which is an ambulatory Eligible Professional attestation. While University Hospital is moving to Penalty Aversion, it is still in the Meaningful Use program for eligible hospitals. Any payment adjustments for fiscal year 2017 through 2019 will not be paid until 2020.

(bb) Compensated Absences

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

(cc) Recently Adopted Accounting Pronouncements

In 2018, the University adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which updates the reporting guidance for governmental institutions that provide other postemployment benefits by requiring the recognition of the University’s proportionate share of the net OPEB liability, based on an actuarial valuation, and the OPEB expense in the basic financial statements. The statement also enhances financial statement note disclosures. The adoption of the provisions of GASB No. 75 resulted in a restatement of beginning unrestricted net position at October 1, 2017 by decreasing unrestricted net position $229,687,000 (see note 13 for further discussion).

In 2019, the University adopted the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which updates the information that is disclosed in the financial statements related to debt. The University adopted this Statement and applied the effects retroactively. All effected disclosures were updated accordingly. There was no significant impact to the University in the adoption of this statement.

(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, except for HCA, are tax-exempt entities under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). The income of HCA is excluded from federal and state income taxation pursuant to the provisions of Section 115(1) of the Internal Revenue Code. Consistent with these designations, no provision for income taxes has been made in the accompanying discretely presented component unit financial statements.

(3) Cash and Cash Equivalents

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, 2019 and 2018, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately $11.7 and $11.4 billion, respectively. The University had cash and cash equivalents, including restricted cash and cash equivalents, in the pool of $170,463,000 and $96,336,000 at September 30, 2019 and 2018, respectively.

At September 30, 2019, restricted cash and cash equivalents consist of $5,243,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, $42,073,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture, $11,200,000 related to collateral requirements of interest rate swaps, $925,000 related to restricted donations related to certain capital projects, and $740,000 related to endowment funds. At September 30, 2018, restricted cash and cash equivalents consist of $6,411,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, $1,722,000 related to collateral requirements of HCM, $8,189,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture, and $59,000 related to endowment funds.

(4) Investments

(a) University of South Alabama

The investments of the University are invested pursuant to the University of South Alabama "Nonendowment Cash Pool Investment Policies," the "Endowment Fund Investment Policy," and the "Derivatives Policy" (collectively referred to as the University Investment Policies) as adopted by the Board of Trustees. The purpose of the nonendowment cash pool investment policy is to provide guidelines by which commingled 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 The Uniform Prudent Management of Institutional Funds Act (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, 2019 and 2018 (in thousands):

	2019	2018
U.S. Treasury securities	$ 14,681	9,139
U.S. federal agency notes	75,299	103,119
Commingled equity funds	95,925	113,863
Commingled fixed income funds	27,591	38,184
Marketable equity securities	26,207	12,803
Marketable debt securities	9,969	—
Real estate	125	275
Private equity	12,526	2,049
Managed income alternative investments (low-volatility multi-strategy funds of funds)	31,861	33,732
	$ 294,184	313,164

At September 30, 2019 and 2018, restricted investments consist of endowment funds, funds held in the PLTF and GLTF to pay insurance liability claims and funds related to collateral requirements of the interest rate swaps.

At September 30, 2019 and 2018, $22,243,000 and $19,120,000, respectively, of cumulative appreciation in fair value of investments of donor-restricted endowments was recognized and is included in restricted expendable net position in the accompanying statements of net position.

The University invests in several private equity funds. At September 30, 2019, the University had capital commitments to those funds of $5,396,000.

(i) Credit Risk and Concentration of Credit Risk

Nonendowment Cash Pool Investment Policy

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.

Endowment Fund Investment Policy

The University Investment Policies limit investment in fixed income securities to securities with a minimum “BAA” rating, at the time of purchase, by both Moody’s and Standard and Poor’s. 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. 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.

Additionally, the University Investment Policies require that not more than 5% of the Endowment Fund assets of the University be allocated to an individual investment manager and no more than 25% of the Endowment Fund assets be allocated to a “Funds of Funds” or multi-manager fund.

(Continued)

The University's exposure to credit risk and concentration of credit risk at September 30, 2019 and 2018 is as follows:

	2019	
	Credit rating	**Percentage of total investments**
Federal National Mortgage Association	AAA	3.2 %
Federal Home Loan Mortgage Corporation	AAA	3.7
Federal Farm Credit Banks Funding Corporation	AAA	9.8
Common Fund Bond Fund	AAA	7.4
Federal Farm Credit Banks Debenture	AAA/AA+	8.9
PIMCO Pooled Bond Fund	BAA+/AA/A	2.0
US Treasury securities	AAA/AA+	5.0
Marketable debt securities	Various	3.0

	2018	
	Credit rating	**Percentage of total investments**
Federal National Mortgage Association	AAA	9.1 %
Federal Home Loan Mortgage Corporation	AAA	4.6
Federal Farm Credit Banks Funding Corporation	AAA	9.9
Common Fund Bond Fund	AAA	10.4
Federal Farm Credit Banks Debenture	AAA/AA+	8.7
PIMCO Pooled Bond Fund	BAA+/AA/A	1.8
Federal Home Loan Banks Debenture	AAA/AA+	0.6
US Treasury securities	AAA/AA+	2.9

(ii) Interest Rate Risk

At September 30, 2019 and 2018, the maturity dates of the University's fixed income investments are as follows (in thousands):

	2019				
		Years to maturity			
	Fair value	Less than 1	1–5	6–10	More than 10
U.S. Treasury securities	$ 14,681	—	8,543	6,138	—
U.S. federal agency notes	75,299	22,419	42,696	—	10,184
Marketable debt securities	9,969	—	4,679	5,290	—
Commingled fixed income funds	27,591	1,375	1,445	3,128	21,643
	$ 127,540	23,794	57,363	14,556	31,827

	2018				
		Years to maturity			
	Fair value	Less than 1	1–5	6–10	More than 10
U.S. Treasury securities	$ 9,139	9,139	—	—	—
U.S. federal agency notes	103,119	23,819	79,300	—	—
Commingled fixed income funds	38,184	2,936	—	2,707	32,541
	$ 150,442	35,894	79,300	2,707	32,541

Commingled fixed income 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.

(iii) Mortgage-Backed Securities

The University, from time to time, invests in mortgage-backed securities such as the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), and other government sponsored enterprises 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.

(iv) Fair Value Measurement

Fair value measurements represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The University measures and records its investments using fair value measurement guidelines established by GASB Statement No. 72. These guidelines prioritize the inputs of valuation techniques used to measure fair value, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs

The level in the fair value hierarchy that determines the classification of an asset or liability depends on the lowest level input that is significant to the fair value measurement. Observable inputs are derived from quoted market prices for assets or liabilities traded on an active market where there is sufficient activity to determine a readily determinable market price. Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable inputs. The University's assets that have unobservable inputs consist of the investment in real estate, with fair value based on an independent third party appraisal performed by qualified appraisers specializing in real estate investments, and of investments in private capital, with fair value determined by the investment managers and primarily utilizes management assumptions and best estimates after considering internal and external factors. Other assets included in the University's investment portfolio with unobservable inputs are the shares or units in certain partnerships or other commingled funds that do not have readily determinable fair values. For these funds, fair value is estimated using the net asset value reported by the investment managers as a practical expedient to fair value. Such investments have not been categorized within the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of net position.

The following tables summarize the fair value measurements for all investment assets and liabilities carried at fair value as of September 30, 2019 and 2018 (in thousands):

	Asset fair value measurements at September 30, 2019			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. Treasury securities	$ 14,681	—	—	14,681
U.S. federal agency notes	—	75,299	—	75,299
Commingled equity funds	58,570	37,355	—	95,925
Commingled fixed income funds	5,948	21,643	—	27,591
Marketable equity securities	26,207	—	—	26,207
Marketable debt securities	9,969	—	—	9,969
Private equity	—	—	11,513	11,513
Real estate	—	—	125	125
Total investments at fair value	$ 115,375	134,297	11,638	261,310
Investments measured at NAV:				
Private equity				1,013
Managed income alternative investments (low volatility multi-strategy funds of funds)				31,861
Total investments				$ 294,184

	Liability fair value measurements at September 30, 2019			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Interest rate exchange agreements	$ —	45,750	—	45,750

Description		Asset fair value measurements at September 30, 2018			
		Level 1	Level 2	Level 3	Total
U.S. Treasury securities	$	9,139	—	—	9,139
U.S. federal agency notes		—	103,119	—	103,119
Commingled equity funds		66,895	46,968	—	113,863
Commingled fixed income funds		5,642	32,542	—	38,184
Marketable equity securities		12,803	—	—	12,803
Private equity		—	—	1,640	1,640
Real estate		—	—	275	275
Total investments at fair value	$	94,479	182,629	1,915	279,023
Investments measured at NAV:					
Private equity					409
Managed income alternative investments (low volatility multi-strategy funds of funds)					33,732
Total investments					$ 313,164

Description		Liability fair value measurements at September 30, 2018			
		Level 1	Level 2	Level 3	Total
Interest rate exchange agreements	$	—	33,826	—	33,826

A rollforward schedule of amounts for Level 3 financial instruments for the fiscal years ended September 30, 2019 and 2018 is as follows (in thousands):

Description		Private equity and real estate	
		2019	2018
Beginning balance	$	1,915	1,144
Purchases		9,630	665
Net realized/unrealized gains (losses)		598	303
Sales		(505)	(197)
Ending balance	$	11,638	1,915

(b) University of South Alabama Foundation

Investments in securities consist primarily of equity securities totaling $150,796,000 and $137,722,000 at June 30, 2019 and 2018, respectively.

Investment income was comprised of the following for the years ended June 30, 2019 and 2018 (in thousands):

		2019	2018
Unrealized gains	$	13,188	15,736
Realized gains		3,227	4,210
Timber sales		2,505	2,921
Interest and dividends		2,214	2,124
Rents		642	646
Royalties		85	89
	$	21,861	25,726

Investment related expenses in the amounts of $359,000 and $347,000 are included in the USA Foundation's management and general expenses in the accompanying consolidated statements of activities and changes in net assets for the years ended June 30, 2019 and 2018, respectively.

Real estate at June 30, 2019 and 2018 consisted of the following property held (in thousands):

		2019	2018
Land and land improvements – held for investment	$	60,448	68,071
Building and building improvements – held for investment		1,060	1,092
	$	61,508	69,163

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, 2019 and 2018, 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 from the trustee responsible for the management of the company and the timber valuation.

The USA Foundation has adopted Accounting Standards Codification (ASC) 820, *Fair Value Measurement and Disclosures*. 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 USA 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 USA 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 USA Foundation's investment assets at June 30, 2019 and 2018, are summarized based on the criteria of ASC 820 as follows (in thousands):

	Fair value measurements at June 30, 2019			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 96,151	—	—	96,151
Timber and mineral properties	—	—	164,307	164,307
Real estate	—	—	61,508	61,508
Other investments	—	—	5,809	5,809
	$ 96,151	—	231,624	327,775
Investment in Commonfund measured at NAV				54,645
				$ 382,420

	Fair value measurements at June 30, 2018			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 84,072	—	—	84,072
Timber and mineral properties	—	—	160,949	160,949
Real estate	—	—	69,163	69,163
Other investments	—	—	5,805	5,805
	$ 84,072	—	235,917	319,989
Investment in Commonfund measured at NAV				53,650
				$ 373,639

For the years ended June 30, 2019 and 2018, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

		2019			
Description		**Timber and mineral properties**	**Real estate**	**Other investments**	**Total**
Beginning balance	$	160,949	69,163	5,805	235,917
Net unrealized gains (losses)		6,247	(7,620)	4	(1,369)
Reforestation		281	—	—	281
Depreciation/depletion		(3,170)	(35)	—	(3,205)
Ending balance	$	164,307	61,508	5,809	231,624

		2018			
Description		**Timber and mineral properties**	**Real estate**	**Other investments**	**Total**
Beginning balance	$	160,351	69,186	5,808	235,345
Net unrealized gains (losses)		4,533	10	(3)	4,540
Additions		25	7	—	32
Reforestation		112	—	—	112
Depreciation/depletion		(4,072)	(40)	—	(4,112)
Ending balance	$	160,949	69,163	5,805	235,917

As of June 30, 2019, the USA Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of the USA Foundation’s equity securities at June 30, 2019 are considered readily liquid. Timber and mineral properties, real estate, and other investments are generally considered illiquid.

(5) Capital Assets

(a) University of South Alabama

A summary of the University's capital asset activity for the years ended September 30, 2019 and 2018 follows (in thousands):

	2019				
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Land and other	$ 23,106	1,276	—	—	24,382
Construction-in-progress	83,472	69,091	(55,533)	—	97,030
	106,578	70,367	(55,533)	—	121,412
Capital assets being depreciated:					
Land improvements	39,591	2,219	6,598	—	48,408
Buildings, fixed equipment, and infrastructure	786,620	4,459	47,259	(147)	838,191
Other equipment	246,185	7,952	1,676	(12,535)	243,278
Library materials	74,958	3,799	—	—	78,757
	1,147,354	18,429	55,533	(12,682)	1,208,634
Less accumulated depreciation for:					
Land improvements	(23,224)	(1,904)	—	—	(25,128)
Buildings, fixed equipment, and infrastructure	(301,598)	(23,625)	—	123	(325,100)
Other equipment	(151,189)	(19,923)	—	12,418	(158,694)
Library materials	(58,105)	(3,218)	—	—	(61,323)
	(534,116)	(48,670)	—	12,541	(570,245)
Capital assets being depreciated, net	613,238	(30,241)	55,533	(141)	638,389
Capital assets, net	$ 719,816	40,126	—	(141)	759,801

		2018				
		Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:						
Land and other	$	22,840	266	—	—	23,106
Construction-in-progress		130,024	49,188	(94,218)	(1,522)	83,472
		152,864	49,454	(94,218)	(1,522)	106,578
Capital assets being depreciated:						
Land improvements		33,814	361	5,416	—	39,591
Buildings, fixed equipment, and infrastructure		751,117	3,472	32,031	—	786,620
Other equipment		175,916	18,912	56,771	(5,414)	246,185
Library materials		71,070	3,888	—	—	74,958
		1,031,917	26,633	94,218	(5,414)	1,147,354
Less accumulated depreciation for:						
Land improvements		(21,846)	(1,378)	—	—	(23,224)
Buildings, fixed equipment, and infrastructure		(278,953)	(22,645)	—	—	(301,598)
Other equipment		(135,026)	(21,400)	—	5,237	(151,189)
Library materials		(54,988)	(3,117)	—	—	(58,105)
		(490,813)	(48,540)	—	5,237	(534,116)
Capital assets being depreciated, net		541,104	(21,907)	94,218	(177)	613,238
Capital assets, net	$	693,968	27,547	—	(1,699)	719,816

At September 30, 2019, the University had commitments of approximately $42,456,000 related to various construction projects.

(b) USA Research and Technology Corporation

Changes in capital assets for the years ended September 30, 2019 and 2018 are as follows (in thousands):

	2019				
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land	$ 223	—	—	—	223
Land improvements	1,976	9	—	—	1,985
Buildings	28,303	149	—	—	28,452
Tenant improvements	1,840	337	—	(203)	1,974
Other equipment	373	14	—	—	387
Construction in progress - nondepreciable	—	10	—	—	10
	32,715	519	—	(203)	33,031
Less accumulated depreciation for:					
Land improvements	(1,312)	(94)	—	—	(1,406)
Buildings	(8,769)	(733)	—	—	(9,502)
Tenant improvements	(954)	(225)	—	178	(1,001)
Other equipment	(250)	(32)	—	—	(282)
	(11,285)	(1,084)	—	178	(12,191)
Capital assets, net	$ 21,430	(565)	—	(25)	20,840

	2018				
	Beginning balance	**Additions**	**Transfers**	**Reductions**	**Ending balance**
Land	$ 223	—	—	—	223
Land improvements	1,976	—	—	—	1,976
Buildings	28,291	12	—	—	28,303
Tenant improvements	1,155	682	3	—	1,840
Other equipment	275	111	—	(13)	373
Construction in progress - nondepreciable	3	—	(3)	—	—
	31,923	805	—	(13)	32,715
Less accumulated depreciation for:					
Land improvements	(1,218)	(94)	—	—	(1,312)
Buildings	(8,037)	(732)	—	—	(8,769)
Tenant improvements	(759)	(195)	—	—	(954)
Other equipment	(220)	(30)	—	—	(250)
	(10,234)	(1,051)	—	—	(11,285)
Capital assets, net	$ 21,689	(246)	—	(13)	21,430

(Continued)

(6) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the years ended September 30, 2019 and 2018 follows (in thousands):

	2019					
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable	$ 370,201	71,813	(18,385)	423,629	16,211	407,418
Notes payable from direct borrowings	5,160	—	(865)	4,295	892	3,403
Capital lease obligations	18,270	2,240	(5,008)	15,502	5,462	10,040
Total long-term debt	393,631	74,053	(24,258)	443,426	22,565	420,861
Other noncurrent liabilities:						
Net pension liability	296,654	—	(13,915)	282,739	—	282,739
Net OPEB liability	256,178	3,240	—	259,418	—	259,418
Other long-term liabilities	91,165	15,596	(10,310)	96,451	6,374	90,077
Total other noncurrent liabilities	643,997	18,836	(24,225)	638,608	6,374	632,234
Total noncurrent liabilities	$ 1,037,628	92,889	(48,483)	1,082,034	28,939	1,053,095

(Continued)

	2018					
	Beginning balance	**Additions**	**Reductions**	**Ending balance**	**Less amounts due within one year**	**Noncurrent liabilities**
Long-term debt:						
Bonds payable	$ 389,424	427	(19,650)	370,201	18,262	351,939
Notes payable from direct borrowings	5,542	—	(382)	5,160	867	4,293
Capital lease obligations	17,332	4,940	(4,002)	18,270	4,968	13,302
Total long-term debt	412,298	5,367	(24,034)	393,631	24,097	369,534
Other noncurrent liabilities:						
Net pension liability	336,477	—	(39,823)	296,654	—	296,654
Net OPEB liability	—	256,178	—	256,178	—	256,178
Other long-term liabilities	101,992	2,067	(12,894)	91,165	6,669	84,496
Total other noncurrent liabilities	438,469	258,245	(52,717)	643,997	6,669	637,328
Total noncurrent liabilities	$ 850,767	263,612	(76,751)	1,037,628	30,766	1,006,862

Other long-term liabilities primarily consist of self-insurance liabilities, liabilities related to compensated absences and the fair value of derivatives. Amounts due within one year are included in current portion of other long-term liabilities.

During 2017, the University entered into a note payable for a period of ten years payable monthly at $19,000. This agreement commenced in November 2016 to finance improvements of the HVAC system. The amount outstanding on the note at September 30, 2019 and 2018 is $1,605,000 and $1,831,000, respectively, and is reported as long-term debt (and current portion thereof) in the statements of net position.

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 USA Health. The total amount available under the line of credit was $5,000,000 and interest on the outstanding amounts accrued at the rate of the London InterBank Offered Rate (LIBOR) plus 1.00%. In July 2018, the University converted the line of credit into a term loan for a period of five years, with monthly payments of $63,000 and interest accruing at the fixed rate of 3.85% per annum. The amount outstanding at September 30, 2019 and 2018 is $2,690,000 and $3,329,000, respectively, and is reported as long-term debt (and current portion thereof) in the statements of net position.

(a) USA Research and Technology Corporation

(i) Notes Payable

Notes payable from direct borrowings consisted of the following at September 30, 2019 and 2018 (in thousands):

		2019	2018
PNC Bank promissory note, 4.38%, payable through 2028	$	12,640	13,066
PNC Bank promissory note, 4.50%, payable through 2021		7,418	7,719
University of South Alabama, 3.0%, payable through 2023		1,186	—
	$	21,244	20,785

During 2018 a variable interest rate note payable to Wells Fargo Bank, N.A. was refunded with the proceeds of a loan from PNC Bank, N.A. 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. In addition to refunding the Wells Fargo note payable, the refunding proceeds were used to terminate an interest rate swap that was used to fix the interest rate on the Wells Fargo note. Over the term of each note payable, the cash flows required to service the PNC Bank note payable exceed the cash flows required to service the Wells Fargo note payable by $2,352,759. The economic loss due to the refunding was $587,552.

The first promissory note payable to PNC Bank has a 10-year term and amortization is based on a 20-year term. The promissory note payable is secured by an interest in tenant leases for Buildings II and III, and an interest in income received from rental of Buildings II and III. The Corporation agreed to not transfer or encumber the buildings or its leasehold interest in the real estate on which the buildings stand.

The second promissory note payable to PNC Bank has a 10-year term and amortization is based on a 20-year term. 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. The Corporation agreed to not transfer or encumber the buildings or its leasehold interest in the real estate on which the buildings stand.

In connection with each PNC 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 2019, the Corporation's debt service coverage ratio was 1.22 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2019.

(Continued)

During fiscal 2019, the payable to the University at September 30, 2018 was converted into a promissory note payable to the University. It is a fully-amortizing note with a 5-year term.

(ii) *Debt Service on Long-Term Obligations*

At September 30, 2019, total future debt service by fiscal year is as follows (in thousands):

		Debt service on notes		
		Principal	Interest	Total
2020	$	1,043	904	1,947
2021		7,860	654	8,514
2022		786	518	1,304
2023		817	488	1,305
2024		530	460	990
2025–2029		10,208	1,504	11,712
Total	$	21,244	4,528	25,772

(iii) *Derivative Transaction*

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

Under the swap, the Corporation paid Wells Fargo a fixed payment of 6.10% and received a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the Wells Fargo loan bore interest at the one-month LIBOR rate plus 0.85%. The Corporation paid $329,600, under the interest rate swap agreement for the year ended September 30, 2018, which is reflected as an increase in interest expense.

The swap terminated on June 20, 2018 as part of a transaction refunding the Wells Fargo loan with the proceeds of a loan from PNC Bank. The fee paid by the Corporation to Wells Fargo to terminate the swap was $1,478,000. Pursuant to GASB Statement No. 65, the fee is reported in deferred outflows on the statements of net position and amortized to interest expense according to the percentage of annual interest paid on the loan from PNC Bank to the total interest to be paid on that loan over the 118 months that were remaining on the Wells Fargo loan when the swap was terminated. At September 30, 2019 and 2018, the balance was $1,262,000 and $1,442,000 respectively.

(7) Bonds Payable

Bonds payable consisted of the following at September 30, 2019 and 2018 (in thousands):

	2019	2018
Capital Appreciation Series 1999 Bonds, 4.70% to 5.25%, paid in full as of November 2018	$ —	7,496
University Facilities Revenue Capital Improvement Bonds, Series 2010, 3.81%, payable through August 2030	19,086	20,482
University Facilities Revenue Capital Improvement Bonds, Series 2012-A, 2.92% payable through August 2032	17,700	18,842
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2.83% payable through August 2033	24,196	25,589
University Facilities Revenue Capital Improvement Bonds, Series 2013-B, 2.83% payable through August 2033	6,049	6,397
University Facilities Revenue Capital Improvement Bonds, Series 2013-C, 2.78% payable through August 2028	6,485	7,112
University Facilities Revenue Refunding Bonds, Series 2014-A, variable rate payable at 68% of LIBOR plus .73%, 1.87% and 2.21% at September 30, 2019 and 2018, respectively, payable through March 2024	38,365	39,030
University Facilities Revenue Capital Improvement Bonds, Series 2015, 2.47% payable through August 2030	4,125	4,500
University Facilities Revenue Refunding Bonds, Series 2016-A, 3.00% to 5.00% payable through November 2037	83,020	85,605
University Facilities Revenue Refunding Bonds, Series 2016-B, variable rate payable at 68% of one-month LIBOR plus 0.72%, 1.86% and 2.20% at September 30, 2019 and 2018, respectively, payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2021	20,000	20,000
University Facilities Revenue Refunding Bonds, Series 2016-C, variable rate payable at 68% of one-month LIBOR plus 0.77%, 1.91% and 2.25% at September 30, 2019 and 2018, respectively, payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2023	35,000	35,000
University Facilities Revenue Refunding Bonds, Series 2016-D, variable rate payable at 68% of one-month LIBOR plus 0.83%, 1.97% and '2.31% at September 30, 2019 and 2018, respectively, payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2026	45,000	45,000
University Facilities Revenue Bonds, Series 2017, 2.00% to 5.00%, payable through October 2037	34,990	36,230

		2019	2018
University Facilities Revenue Bonds, Series 2019-A, 5.00%, payable through April 2049		47,750	—
University Facilities Revenue Bonds, Series 2019-B, 3.09% to 4.10%, payable through April 2033		18,440	—
		400,206	351,283
Plus unamortized premium		25,155	20,761
Less unaccreted discount		—	(3)
Less unamortized debt extinguishment costs		(1,732)	(1,840)
	$	423,629	370,201

Substantially all student tuition and fee and auxiliary revenues secure University bonds. Additionally, security for all bonds includes Children's and Women's Hospital revenues in an amount not exceeding $10,000,000. Capital Appreciation Series 1999 Bonds were paid in full in November 2018. The Series 2010 Bonds began maturing in August 2011 and are redeemable beginning in February 2020. The Series 2012-A and 2012-B Bonds began maturing in August 2013. The Series 2012-A Bonds are redeemable beginning in August 2021 and the Series 2012-B Bonds were paid in full in February 2018. The Series 2013-A, 2013-B and 2013-C Bonds began maturing in August 2014 and are redeemable beginning in June 2023. The Series 2014-A bonds began maturing in March 2015 and are redeemable by the University at any time. The Series 2015 Bonds began maturing in August 2015 and are redeemable beginning in June 2020. The Series 2016-A Bonds began maturing in November 2018 and are redeemable beginning in November 2026. The Series 2016-B, C & D Bonds will begin maturing in December 2024 and are redeemable at any time. The Series 2017 Bonds began maturing in October 2017 and are redeemable beginning in October 2027. The Series 2019-A and B Bonds will begin maturing in April 2033 and April 2021, respectively, and are redeemable beginning in April 2029.

In September 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016, with a face value of $85,605,000. The proceeds from the Series 2016 Bonds were used to partially defease the Series 2008 Bonds. The funds were deposited into escrow trust funds to provide for the subsequent repayment of the Series 2008 Bonds when they were called in December 2018. Neither the asset of the escrow trust account, nor the defeased indebtedness is included in the accompanying statements of net position. The loss on the defeasement of the Series 2008 Bonds of $7,859,000 was recorded as a deferred outflow and is being amortized over the remaining life of the Series 2016 Bonds and the balance of the related deferred outflow totaled $6,663,000 and $7,051,000, respectively, at September 30, 2019 and 2018. The principal outstanding on all defeased bonds is $93,540,000 at September 30, 2019 and 2018. The undefeased portion of the Series 2008 bonds was paid in full in August 2018.

In December 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016-B, C & D, with a face value totaling $100,000,000. The proceeds refunded the remaining outstanding Series 2006 Bonds. The gain on the refunding of the Series 2006 Bonds of $4,539,000 was recorded as a deferred inflow and is being amortized over the remaining life of the Series 2016-B, C & D Bonds and the balance of the related net deferred inflow at September 30, 2019 and 2018 totaled $3,896,000 and $4,122,000, respectively.

In February 2019, the University issued its University Facilities Revenues Bonds, Series 2019-A and 2019-B, with a face value of $47,750,000 and $18,440,000, respectively. The proceeds from the Series 2019-A and 2019-B are financing a new football stadium on the campus of the University.

During the years ended September 30, 2019 and 2018, the maturity value of the Capital Appreciation Bonds increased $49,000 and $427,000, respectively, over the original principal amount of $19,810,000, reflecting accretion of interest.

Approximately $5,292,000 and $8,189,000 of proceeds from the issuance of the Series 2017 Bonds remained unspent at September 30, 2019 and 2018, respectively, and is included in restricted cash and cash equivalents in the accompanying statements of net position. Approximately $36,781,000 of proceeds from the issuance of the Series 2019-A and B Bonds remained unspent at September 30, 2019 and is included in restricted cash and cash equivalents on the statement of net position. All bond funds are restricted for capital purposes as outlined in the bond indentures.

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, 2019 and 2018, 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, 2019, management believes the University complied with such financial covenants.

Debt Service on Long-Term Obligations

Total debt service (which includes bonds and notes payable) by fiscal years is as follows as of September 30, 2019 (in thousands):

	Debt service on notes and bonds				
	Bonds		Notes Payable from Direct Borrowing		
	Principal	**Interest**	**Principal**	**Interest**	**Total**
2020	$ 16,374	12,853	892	92	30,211
2021	18,349	11,986	918	66	31,319
2022	19,154	11,522	945	39	31,660
2023	20,002	11,036	847	11	31,896
2024	20,869	10,531	227	—	31,627
2025–2029	99,761	44,114	466	—	144,341
2030–2034	101,562	27,913	—	—	129,475
2035-2039	73,705	12,487	—	—	86,192
2040-2044	14,560	6,223	—	—	20,783
2045–2049	15,870	2,337	—	—	18,207
Subtotal	400,206	$ 151,002	4,295	208	555,711
Plus (less):					
Unamortized bond premium	25,155		—		
Unamortized debt extinguishment costs	(1,732)		—		
Total	$ 423,629		4,295		

The principal amount of debt service due on bonds at September 30, 2019 and 2018, includes $49,000 and $427,000, respectively, representing additional maturity value on Capital Appreciation Series 1999 Bonds. These bonds matured during fiscal 2019. 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.

(8) Capital Lease Obligations

The University has entered into various capital leases as a method of financing medical equipment, computer software and hardware, a heat recovery system, and other office equipment.

Future minimum capital lease payments at September 30, 2019 are as follows (in thousands):

Year ending September 30:		
2020	$	5,904
2021		5,672
2022		3,979
2023		485
2024		160
2025-2038		96
		16,296
Less amounts representing interest		(794)
Net minimum lease payments	$	15,502

These amounts are included in long-term debt (and current portion thereof) in the accompanying statements of net position.

(9) Derivative Transactions – Interest Rate Swaps

The University is a party to two derivatives with Wells Fargo Bank, the counterparty. 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 Series 2004 Bonds, the University redeemed those bonds in April 2014 with proceeds from the Series 2014-A Bonds.

In September 2016, Wells Fargo exercised its option with respect to the synthetic advance refunding of the Series 2006 Bonds to enter into an interest rate swap agreement with the University with an effective date of September 1, 2016. The resulting derivative is a “receive-variable, pay-fixed” interest rate swap. As part of the overall plan of the synthetic refunding of the Series 2006 Bonds, the University redeemed those bonds in December 2016 with proceeds from the Series 2016-B, C & D Bonds.

Objective of the transactions. As noted, both interest rate swaps were the result of the original January 2008 synthetic advance refunding of the Series 2004 and Series 2006 Bonds. The objective of these transactions was to realize debt service savings currently from future debt refunding and create an economic benefit to the University.

The 2014 swap will terminate in March 2024, when the Series 2014-A Bonds mature. The notional amount of the swap will at all times match the outstanding principal amount of the bonds. 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 LIBOR plus 0.25%. Conversely, the Series 2014-A Bonds bear interest on a monthly basis at 68% of the one-month LIBOR rate plus 0.73%.

The 2016 swap will terminate in December 2036, when the Series 2016-B, C & D Bonds mature. The notional amount of the swap will at all times match the outstanding principal amount of the bonds. Under the swap, the University pays the counterparty a fixed semi-annual payment based on an annual rate of 5% and receives on a monthly basis a variable payment of 68% of the one-month LIBOR plus 0.25%. Conversely, the Series 2016-B, C & D Bonds bear a weighted average interest on a monthly basis at 68% of the one-month LIBOR rate plus 0.79%.

Fair value. The 2014 interest rate swap had a negative fair value of approximately $(9,138,000) at its inception. This amount, net of any amortization and adjustments to fair market value, is reported as a borrowing arising from the 2014 interest rate swap as other long-term liabilities in the amount of $(3,653,000) and $(3,597,000) in the statements of net position at September 30, 2019 and 2018, respectively. The change in the fair value of the swap of $56,000 and $2,268,000, respectively, during the years ended September 30, 2019 and 2018, is reported as a deferred inflow and contra liability (other long-term liabilities) in the statements of net position since the interest rate swap is a hedging derivative instrument. Net deferred inflows of resources for the 2014 interest rate swap totaled $459,000 and $1,429,000 at September 30, 2019 and 2018, respectively.

The 2016 interest rate swap had a negative fair value of approximately $(48,530,000) at its inception. This amount, net of any amortization and adjustments to fair value, is reported as a borrowing arising from the 2016 interest rate swap as other long-term liabilities in the amount of ($42,097,000) and ($30,229,000) in the statements of net position at September 30, 2019 and 2018, respectively. The change in the fair value of the swap of $11,868,000 and $9,514,000 during the years ended September 30, 2019 and 2018, respectively, is reported as a deferred outflow and contra asset (other noncurrent assets) in the statements of net position in the year ended September 30, 2019 and a deferred inflow and contra liability (other long-term liabilities) in the statements of net position for the year ended September 30, 2018 since the interest rate swap is a hedging derivative instrument. Net deferred inflows and outflows of resources for the 2016 interest rate swap totaled $956,000 of deferred outflows at September 30, 2019 and $13,308,000 of deferred inflows at September 30, 2018.

The fair values of the interest rate swaps were 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.

Risks Associated with these Transactions

Interest rate risk. As the LIBOR rate decreases, the net payments on the swaps increase. 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 payments on the Series 2014-A and Series 2016-B, C & D Bonds. The University’s exposure is limited to 0.48% and 0.54% of the notional amounts, the difference in the payment from the counterparty and the interest payment on the Series 2014-A and Series 2016-B, C & D Bonds.

Credit risk. As of September 30, 2019 and 2018, the University was not exposed to credit risk on the interest rate swaps because they had a negative fair value. However, if interest rates change and the fair value of the derivatives become positive, the University would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa2 by Moody's Investor Services and A+ by Standard & Poor's Ratings Services as of September 30, 2019 and 2018.

Termination risk. The University may be required to terminate the swaps based on certain standard default and termination events, such as failure to make payments, breach of agreements 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 September 30, 2019 and calculating interest for subsequent years using forward rates of one month LIBOR, debt service requirements for the 2014 interest rate swap payments, by fiscal year, are as follows (in thousands):

	Variable rate loan		Interest rate	
	Principal	Interest	swap, net	Total
2020	$ 6,925	534	1,370	8,829
2021	7,280	353	1,163	8,796
2022	7,655	254	855	8,764
2023	8,050	158	522	8,730
2024	8,455	54	177	8,686
Total	$ 38,365	1,353	4,087	43,805

Debt service requirements for the 2016 interest rate swap payments, by fiscal year, are as follows (in thousands):

	Variable rate loan		Interest rate	
	Principal	Interest	swap, net	Total
2020	$ —	1,566	3,974	5,540
2021	—	1,324	4,215	5,539
2022	—	1,316	4,224	5,540
2023	—	1,332	4,208	5,540
2024–2028	24,180	6,346	18,726	49,252
2029–2033	37,890	4,305	11,607	53,802
2034–2037	37,930	1,078	3,204	42,212
Total	$ 100,000	17,267	50,158	167,425

(10) Patient Service Revenues

USA Health has 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 USA Health's billings at established rates for services and amounts reimbursed by third-party payers.

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

Medicare – Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Additionally, USA Health is 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. USA Health is generally paid for certain retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by USA Health and audits by the Medicare fiscal intermediary.

USA Health University Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2014.

USA Health Children's & Women's Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2017.

Revenues from the Medicare program accounted for approximately 14% and 18% of USA Health's net patient service revenues for the years ended September 30, 2019 and 2018, respectively.

Blue Cross – Inpatient services rendered to Blue Cross subscribers are paid at a prospectively determined per diem rate. Outpatient services are reimbursed under a cost reimbursement methodology. For outpatient services, USA Health is paid at a tentative rate with final settlement determined after submission of annual cost reports by USA Health and audits thereof by Blue Cross.

USA Health University Hospital's and USA Health Children's & Women's Hospital's Blue Cross cost reports have been audited by Blue Cross through September 30, 2016. The settlement process changed in April 2017 and future settlements will be based on outpatients for the periods prior to April 2017. Blue Cross cost findings are no longer required and it is not anticipated that settlements will occur for 2019 and future periods.

Revenues from the Blue Cross program accounted for approximately 30% and 28% of USA Health's net patient service revenues for the years ended September 30, 2019 and 2018, respectively.

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.

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

Revenues from the Medicaid program accounted for approximately 29% and 32% of USA Health's net patient service revenues for the years ended September 30, 2019 and 2018, respectively.

Other – USA Health has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments to USA

Health under these agreements include discounts from established charges and prospectively determined daily and case rates.

The composition of net patient service revenues for the years ended September 30, 2019 and 2018 follows (in thousands):

		2019	2018
Gross patient service revenues	$	1,129,815	879,476
Less:			
Provision for contractual and other adjustments		(538,306)	(364,006)
Provision for bad debts		(99,713)	(99,436)
	$	491,796	416,034

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately $465,000 and $5,568,000 in patient service revenues for the years ended September 30, 2019 and 2018, respectively.

(11) 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.

(a) 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.

(b) 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 of 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 from 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.

(c) 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 rates were 12.41% of annual pay for Tier 1 members and 11.35% 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 $22,481,000 and $22,262,000 for the years ended September 30, 2019 and 2018, respectively.

(d) Pension Liabilities, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2019 and 2018, the University reported a liability of $282,739,000 and $296,654,000, respectively, for its proportionate share of the collective net pension liability. At September 30, 2019, the collective net pension liability was measured as of September 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017. The University's proportion of the collective net pension liability is based on the employer's shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At the measurement date of September 30, 2018, the University's proportion of contributions to the pension plan was 2.843720%, which was a decrease of 0.174593% from its proportion measured as of September 30, 2017 of 3.018313%.

For the years ended September 30, 2019 and 2018, the University recognized pension expense of approximately $9,902,000 and $16,792,000, respectively, which is included in salaries and benefits on the statements of revenues, expenses, and changes in net position.

At September 30, 2019 and 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	2019	
	Deferred outflows of resources	**Deferred inflows of resources**
Net difference between projected and actual earnings on pension plan investments	$ —	21,342
Changes of assumptions	15,716	—
Differences between expected and actual experience	6,101	8,613
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	27,369
Employer contributions subsequent to measurement date	22,481	—
	$ 44,298	57,324

	2018	
	Deferred outflows of resources	**Deferred inflows of resources**
Net difference between projected and actual earnings on pension plan investments	$ —	17,737
Changes of assumptions	17,706	—
Differences between expected and actual experience	—	12,718
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	21,769
Employer contributions subsequent to measurement date	22,262	—
	$ 39,968	52,224

At September 30, 2019, approximately $22,481,000 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 for the year ending September 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ending September 30:		
2020	$	(7,674)
2021		(12,860)
2022		(10,894)
2023		(3,876)
2024		(203)
	$	(35,507)

(e) Actuarial Assumptions

The total pension liability as of September 30, 2019 and 2018 was determined by an actuarial valuation as of September 30, 2017 and 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

	2019	2018
Inflation	2.75 %	2.75 %
Investment rate of return*	7.70	7.75
Projected salary increases	3.25–5.00	3.25–5.00

* Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2017 valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015. Mortality rates for TRS were based on the RP-2000 White Collar Mortality Table projected to 2020 using Scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over 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 rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	2019	
	Target allocation	**Long-term expected rate of return***
Fixed income	17.0 %	4.4 %
U.S. large stocks	32.0	8.0
U.S. mid stocks	9.0	10.0
U.S. small stocks	4.0	11.0
International developed market stocks	12.0	9.5
International emerging market stocks	3.0	11.0
Alternatives	10.0	10.1
Real estate	10.0	7.5
Cash equivalents	3.0	1.5
	100.0 %	

* Includes assumed rate of inflation of 2.50%

(f) Discount Rate

The discount rate used to measure the total pension liability as of September 30, 2019 and 2018 was 7.70% and 7.75%, respectively. 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, the pension plan’s fiduciary net position was 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.

(g) 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 7.70%, 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 (6.70%) or 1-percentage point higher (8.70%) than the current rate (in thousands):

		2019	
	1% Decrease (6.70)%	**Current rate (7.70)%**	**1% Increase (8.70)%**
University's proportionate share of collective net pension liability	$ 393,576	282,739	188,988

(h) 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, 2018 as well as prior year reports. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2018. The auditors' report dated August 16, 2019 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, 2018 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

(12) Other Employee Benefits

(a) Other Pension Plans

Certain 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. The plan is administered by the University and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) and Variable Annuity Life Insurance Company (VALIC). Under this plan, contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University contributed $506,000 and $551,000 in 2019 and 2018, respectively, representing 215 and 241 employees for 2019 and 2018, respectively, participating in this Plan.

All employees of HCM working at least half time are eligible to participate in a defined contribution pension plan. The plan is administered by HCM and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, TIAA-CREF and VALIC. Under this plan, contributions by eligible employees are matched equally by HCM up to a maximum of 5% of current annual pay. HCM contributed $4,916,000 and $4,703,000 in 2019 and 2018, respectively, representing 1,403 and 1,369 employees, respectively, participating in this plan. University employees as of September 30, 2010, who later transfer to HCM, are immediately vested in the plan. All other employees do not vest until they have held employment with 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 statements of net position include accruals for vacation pay and paid time off of approximately $12,866,000 and $13,793,000 at September 30, 2019 and 2018, respectively. The accrual is included in other long-term liabilities (and current portion thereof) in the accompanying financial statements. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

(13) Other Postemployment Benefit Plans

Retirees of the University are covered by the Public Education Employees Health Insurance Plan (PEEHIP), which is a cost sharing multiple-employer defined benefit OPEB plan administered by the TRS.

(a) Plan Description

The Alabama Retiree Health Care Funding Act of 2007 authorized and directed the Public Education Employees Health Insurance Board (Board) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in PEEHIP. Active and retiree health insurance benefits are paid through the PEEHIP. The PEEHIP was established in 1983 pursuant to the provisions of the Code of Alabama 1975, Title 16, Chapter 25A to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions and to fund benefits related to the plan. The responsibility for the general administration and operation of the PEEHIP is vested in its Board, which consists of 15 trustees. Title 16-Chapter 25 of the code of Alabama grants the authority to establish and amend the benefit terms to the PEEHIP Board. Effective for the year ended September 30, 2018, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, requires the reporting of the net OPEB liability and the OPEB expense in the financial statements as well as enhanced financial statements note disclosures.

(b) Benefits Provided

PEEHIP offers a basic hospital medical plan to active members and non-Medicare eligible retirees or active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO). In addition to or in lieu of the basic hospital medical plan or HMO, the PEEHIP offers four optional plans: Hospital Indemnity, Cancer, Dental, and Vision. Also, PEEHIP members (only active and non-Medicare eligible) may elect the Supplemental Plan as their hospital medical coverage instead of the PEEHIP Hospital Medical Plan. This

Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer.

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. The Medicare Advantage Prescription Drug (MAPD) plan is fully insured by United Healthcare and members are able to have all of their Medicare Part A, Part B, and Part D in one convenient plan.

(c) Contributions

The employer contribution to the health insurance premium is set forth by the Board annually.

Total employer contributions to the OPEB plan from the University were $7,772,000 and $7,728,000 for the years ended September 30, 2019 and 2018, respectively.

(d) OPEB Liabilities, OPEB Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2019 and 2018, the University reported a liability of $259,418,000 and $256,178,000, respectively, for its proportionate share of the net OPEB liability. At September 30, 2019, the net OPEB liability was measured as of September 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At the measurement date of September 30, 2018, the University's proportion of contributions to the OPEB plan was 3.156420%, which was a decrease of 0.292656% from its proportion measured as of September 30, 2017 of 3.449076%.

For the years ended September 30, 2019 and 2018, the University recognized OPEB expense of approximately $18,634,000 and $21,731,000, respectively, which is included in salaries and benefits on the statements of revenues, expenses, and changes in net position.

At September 30, 2019 and 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	2019	
	Deferred outflows of resources	**Deferred inflows of resources**
Net difference between projected and actual earnings on OPEB plan investments	$ —	1,390
Differences between expected and actual experience	4,884	—
Changes of assumptions	—	12,636
Changes in proportion and differences between employer contributions and proportionate share of contributions	26,465	20,208
Employer contributions subsequent to the measurement date	7,772	—
	$ 39,121	34,234

	2018	
	Deferred outflows of resources	**Deferred inflows of resources**
Net difference between projected and actual earnings on OPEB plan investments	$ —	1,364
Changes of assumptions	—	26,599
Changes in proportion and differences between employer contributions and proportionate share of contributions	32,722	—
Employer contributions subsequent to the measurement date	7,728	—
	$ 40,450	27,963

At September 30, 2019, approximately $7,772,000 reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year ending September 30:		
2020	$	(417)
2021		(417)
2022		(417)
2023		(105)
2024		(1,226)
Thereafter		(303)
	$	(2,885)

(e) Actuarial Assumptions

The total OPEB liability as of September 30, 2019 and 2018 was determined by an actuarial valuation performed as of September 30, 2017 and 2016, respectively, using the following actuarial assumptions, applied to all periods included in the measurement:

	2019	**2018**
Inflation	2.75%	2.75%
Projected salary increases*	3.25%–5.00%	3.25%–5.00%
Long-term investment rate of return**	7.25%	7.25%
Municipal bond index rate at the measurement date	4.18%	3.57%
Municipal bond index rate at the prior measurement date	3.57%	2.93%
Projected year for fiduciary net position to be depleted	2029	2042
Single equivalent interest rate at the measurement date	4.44%	4.63%
Single equivalent interest rate at the prior measurement date	4.63%	4.01%
Healthcare cost trend rate		
Pre-medicare eligible	7.00%	7.75%
Medicare eligible	5.00%	5.00%
Ultimate trend rate		
Pre-medicare eligible	4.75%	5.00%
Medicare eligible	4.75%	5.00%
Year of ultimate trend rate		
Pre-medicare eligible	2026	2022
Medicare eligible	2024	2022

* Includes 3.00% wage inflation

** Compounded annually, net of investment expense, and includes inflation

Rates of mortality for the period after service retirement are according to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015, submitted to and adopted by the TRS on September 13, 2016. The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2017 valuation were based on a review of recent plan experience done concurrently with the September 30, 2017 valuation.

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class are summarized in the following table:

	2019	
	Target allocation	**Long-term expected real rate of return***
Fixed income	30.0 %	4.4 %
U.S. large stocks	38.0	8.0
U.S. mid stocks	8.0	10.0
U.S. small stocks	4.0	11.0
International developed market stocks	15.0	9.5
Cash	5.0	1.5
	100.00 %	

* Geometric mean, includes 2.5% inflation

(f) Discount Rate

The discount rate used to measure the total OPEB liability at September 30, 2018 and 2017 was 4.44% and 4.63%, respectively. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating employers must contribute for each active employee. Approximately 20.307% of the employer contributions were used to assist in funding retiree benefit payments in 2018 and it is assumed that amount will increase by 2.75% per year. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2116. The long-term rate of return is used until the assets are expected to be depleted in 2029, after which the municipal bond rate is used.

(g) Sensitivity of the University's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates and Discount Rates

The following table presents the University's proportionate share of the net OPEB liability calculated using the health care cost trend rate of 7.00%, as well as what the net OPEB liability would be if calculated using 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate (in thousands):

		2019		
		1% Decrease (6.00)%	Current rate (7.00)%	1% Increase (8.00)%
University's proportionate share of collective net OPEB liability	$	213,247	259,418	318,199

The following table presents the University's proportionate share of the net OPEB liability calculated using the discount rate of 4.44%, as well as what the net OPEB liability would be if calculated using 1-percentage point lower 3.44% or 1-percentage point higher 5.44% than the current rate (in thousands):

		2019		
		1% Decrease (3.44)%	Current rate (4.44)%	1% Increase (5.44)%
University's proportionate share of collective net OPEB liability	$	309,894	259,418	218,701

(h) OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the Alabama Retired Education Employees' Health Care Trust's financial statements for the fiscal year ended September 30, 2018 and 2017, respectively. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2018 and 2017. Additional financial and actuarial information is available at www.rsa-al.gov.

(14) Risk Management

The University, HCM, SAMSF and HCA participate in the PLTF and the University, HCM, SAMSF, the Corporation and HCA participate in the GLTF. An independent trustee administers both funds. These trust funds are revocable and use contributions by the University and HCA, together with earnings thereon, to pay liabilities arising from the performance of its employees, trustees and other individuals acting on behalf of the University. Any risk related to the payment of claims is the responsibility of the PLTF and GLTF. If the trust funds are ever terminated, appropriate provision for payment of related claims will be made and any remaining balance may 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, and as such are included in the financial statements of the University for the year ended September 30, 2019 and 2018. 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, HCM and HCA each participate in a separate self-insured health plan administered by unaffiliated entities. Administrative fees paid by the University for such services were approximately $2,287,000 and $2,276,000 in 2019 and 2018, respectively. Contributions by the University and its employees, together with earnings thereon, are used to pay liabilities arising from healthcare claims. It is the opinion of University administration that plan assets are sufficient to meet future plan obligations.

The changes in the total self-insurance liabilities for the years ended September 30, 2019 and 2018 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

		2019	2018
Balance, beginning of year	$	40,405	39,115
Liabilities incurred and other additions		80,930	69,543
Claims, administrative fees paid and other reductions		(81,935)	(68,253)
Balance, end of year	$	39,400	40,405

These amounts are included in other long-term liabilities (and current portion thereof) and in accounts payable and accrued liabilities in the accompanying statements of net position.

(15) Other Related Parties and Related-Party Transactions

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. At September 30, 2019, SAMSF had total assets of $10,632,000, net assets of $9,403,000, and total revenues of $1,806,000. At September 30, 2018, SAMSF had total assets of $12,704,000, net assets of $10,828,000, and total revenues of $1,735,000. SAMSF reimburses the University for certain administrative expenses and other related support services. Total amounts received for such expenses were approximately $412,000 and $759,000 in 2019 and 2018, and are reflected as private grants and contracts in the accompanying statements of revenues, expenses, and changes in net position.

(16) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2019 and 2018, the University had been awarded approximately $36,381,000 and $18,442,000, respectively, in grants and contracts for which resources had not been received and for which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements, as the eligibility requirements of the awards have not been met. Advances are included in unrecognized revenues, and include amounts received from grant and contract sponsors which have not been expended 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 potential adjustment from such audits will not be material.

(b) Letter of Credit

In connection with USA Health's participation in the State of Alabama Medicaid Program, the University has established a $55,382 irrevocable standby letter of credit with Wells Fargo. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds were advanced under this letter during the years ended September 30, 2019 and 2018.

(c) 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, Higher Education Act programs for the 2013-2014 fiscal year and the first two months of the 2015 fiscal year. On October 10, 2017, the University received the final program review determination letter. Management appealed the factual and legal contentions in, and the calculation of the monetary liabilities and interest asserted in and associated with two findings. Management believes there will be no liability to the University beyond the amount currently accrued in the financial statements. The other findings were resolved to the US Department of Education's satisfaction.

(d) Litigation

Various claims have been filed against the University alleging discriminatory employment practices and other matters. University administration and legal counsel are of the opinion the resolution of these matters will not have a material effect on the financial position or the statements of revenues, expenses, and changes in net position of the University.

(e) 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 6). As of September 30, 2019 and 2018, no amounts were payable pursuant to these agreements.

(f) USA Research and Technology Corporation Leases

The Corporation leases space in Building I to five tenants under operating leases. One lease has a 5-year initial term expiring in October 2023 with two 5-year renewal options. The second lease has a 5-year term expiring in April 2024 with no renewal option. The third lease has a 5-year term expiring in July 2024 with no renewal option. The fourth lease has a 5-year initial term expiring in July 2024 with one 5-year renewal option. The fifth lease has a 90-month initial term expiring in June 2025 with two 5-year renewal options.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. The leases have remaining terms varying from month-to-month to five 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 eight 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, 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 (which generally is the first calendar year of the lease term). Under Hub leases, the Corporation must pay all operating expenses of the space, without reimbursement from tenants.

Space under lease to the University was 63,965 and 51,168 square feet at September 30, 2019 and 2018, respectively.

The Corporation owns a building located on the premises of the USA University Hospital, 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, 2019. 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 2036 with four 5-year renewal options. The third lease has a 38.5-year initial term expiring in September 2046 with 20-year and 15-year renewal options.

Minimum future rentals by fiscal year are as follows (in thousands):

2020	$	3,100
2021		2,900
2022		2,733
2023		1,638
2024		1,228
2024–2047		6,136
Total	$	17,735

(17) Functional Expense Information

Operating expenses by functional classification for the years ended September 30, 2019 and 2018 are listed below (in thousands).

		2019	2018
Instruction	$	111,289	113,094
Research		27,944	25,578
Public service		7,245	7,871
Academic support		26,415	25,443
Student services		35,506	34,701
Institutional support		41,354	41,877
Operation and maintenance of plant		31,429	33,573
Scholarships		16,311	14,991
USA Health		482,270	450,748
Auxiliary enterprises		14,643	22,895
Depreciation and amortization		48,625	48,611
	$	843,031	819,382

(18) Blended Component Units

As more fully described in note 1, HCM, PLTF and GLTF are reported as blended component units. Required combining financial information of the aggregate blended component units as of and for the years ended September 30, 2019 and 2018 is presented below (in thousands):

		2019	2018
Current assets	$	15,340	18,243
Noncurrent assets		63,079	60,482
Total assets		78,419	78,725
Current liabilities		44,564	40,616
Noncurrent liabilities		31,816	36,414
Total liabilities		76,380	77,030
Net position	$	2,039	1,695

		2019	2018
Operating revenues	$	206,493	186,467
Operating expenses		(205,883)	(190,872)
Operating loss		610	(4,405)
Nonoperating revenues		47	
Nonoperating expenses		(313)	4,482
Change in net position	$	344	77

(19) Recently Issued Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement is effective for the current reporting period. Statement 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for ARO's. The GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. This statement will be effective for the University beginning with the fiscal year ending September 30, 2020. Statement 84 addresses the criteria for identifying fiduciary activities of all state and local governments. In June 2017, the GASB issued Statement No. 87, *Leases,* which will be effective for the University beginning with the fiscal year ending September 30, 2021. This statement establishes a single model for lease accounting whereby certain leases that were previously classified as operating leases will now be reported on the statements of net position. Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* was issued in March 2018 to enhance note disclosure for debt agreements. This statement is effective for the current reporting period. In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* which will be effective beginning with fiscal year September 30, 2021. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. GASB Statement No. 90, *Majority Equity Interests,* was issued in August 2018. Effective for the University beginning with the fiscal year ending September 30, 2020, this statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method, with certain exceptions, if a government holding of the equity interest meets the definition of an investment. In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, which will be effective beginning with the fiscal year ending September 30, 2022. The objective of this statement is to clarify the definition of conduit debt obligations, establish that conduit debt is not a liability of the issuer, establish standards for reporting additional commitments and voluntary commitments extended by issuers and improve note disclosures.

The effect of the implementation of GASB Statement Nos. 84, 87, 89, 90 and 91 on the University has not yet been determined.

Statement Nos. 83 and 88 did not have a significant impact on the University's financial statements.

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Required Supplementary Information

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

Teachers' Retirement Plan of Alabama

September 30, 2019

(In thousands)

		2019	2018	2017	2016	2015
University's proportion of the net pension liability		2.843720 %	3.018313 %	3.108048 %	3.185471 %	3.322348 %
University's proportionate share of the net pension liability	$	282,739	296,654	336,477	329,294	297,734
University's covered-employee payroll		190,559	191,520	200,464	198,378	201,858
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll		148.37 %	154.89 %	167.85 %	165.99 %	147.50 %
Plan fiduciary net position as a percentage of the total pension liability		72.29 %	71.50 %	67.93 %	67.51 %	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.

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

Required Supplementary Information

Schedule of the University's Pension Contributions (Unaudited)

Teachers' Retirement Plan of Alabama

September 30, 2019

(In thousands)

		2019	2018	2017	2016	2015
Contractually required contribution	$	22,481	22,262	23,664	23,405	23,524
Contributions in relation to the contractually required contribution		22,481	22,262	23,664	23,405	23,524
Contribution deficiency (excess)	$	—	—	—	—	—
University's covered-employee payroll	$	190,559	191,520	200,464	198,378	201,858
Contributions as a percentage of covered-employee payroll		11.80%	11.62%	11.80 %	11.80 %	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.

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

Required Supplementary Information

Schedule of the University’s Proportionate Share of the Net OPEB Liability (Unaudited)

Alabama Retired Education Employees’ Health Care Trust

September 30, 2019

(In thousands)

		2019	2018	2017
University’s proportion of the net OPEB liability		3.156420 %	3.449076 %	2.963813 %
University’s proportionate share of the net OPEB liability	$	259,418	256,178	238,060
University’s covered-employee payroll		190,559	191,520	200,464
University’s proportionate share of the net OPEB liability as a percentage of its covered-employee payroll		136.14 %	133.76 %	118.75 %
Plan fiduciary net position as a percentage of the total OPEB liability		14.81 %	15.37 %	13.38 %

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

See accompanying independent auditors’ report.

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

Required Supplementary Information

Schedule of the University's OPEB Contributions (Unaudited)

Alabama Retired Education Employees' Health Care Trust

September 30, 2019

(in thousands)

		2019	2018	2017
Contractually required contribution	$	7,772	7,728	8,373
Contributions in relation to the contractually required contribution		7,772	7,728	8,373
Contribution deficiency (excess)	$	—	—	—
University's covered-employee payroll	$	190,559	191,520	200,464
Contributions as a percentage of covered-employee payroll		4.08 %	4.04 %	4.18 %

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

See accompanying independent auditors' report.

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

Employees of the University of South Alabama 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 as of September 30, 2019 and 2018 was determined by an actuarial valuation as of September 30, 2017 and 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

	2019	2018
Inflation	2.75 %	2.75 %
Investment rate of return*	7.70	7.75
Projected salary increases	3.25–5.00	3.25–5.00

* Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2017 valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015. Mortality rates for TRS were based on the RP-2000 White Collar Mortality Table projected to 2020 using Scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over 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 rates 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 as of September 30, 2019 and 2018 was 7.70% and 7.75%, respectively. 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, the pension plan’s fiduciary net position was 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)

(2) Summary of OPEB Plan Provisions and Assumptions

Retirees of the University of South Alabama are covered by the Public Education Employees Health Insurance Plan (PEEHIP), which is a cost sharing multiple-employer defined benefit OPEB plan administered by the Teachers Retirement System (TRS) of the State of Alabama.

(a) Changes in Actuarial Assumptions

In 2017, rates of withdrawal, retirement, disability, mortality, spouse coverage, and tobacco usage were adjusted to more closely reflect actual experience. In 2017, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 and later, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females.

(b) Recent Plan Changes

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the Medicare Advantage Prescription Drug plan.

The Health Plan was changed in 2017 to reflect the ACA maximum annual out-of-pocket amounts.

(c) Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, 2014, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule for the years ended September 30, 2019 and 2018:

	2019	**2018**
Actuarial cost method	Entry age normal	Projected unit credit
Amortization method	Level percent of pay	Level percent of pay
Remaining amortization period	26 years	27 year, closed
Asset valuation method	Market value of assets	Market value of assets
Inflation	3.00%	3.00%
Health care cost trend rate:		
Pre-medicare eligible	7.75%	7.50%
Medicare eligible	5.00%	5.75%
Ultimate trend rate:		
Pre-medicare eligible	5.00%	5.00%
Medicare eligible	5.00%	5.00%
Year of ultimate trend rate	2021 for Pre-medicare eligible 2018 for Medicare eligible	2019 for Pre-medicare eligible 2017 for Medicare eligible
Investment rate of return	5.00%, including inflation	5.00%, including inflation

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2019

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to USA expenditures	Total expenditures	Pass-through from USA expenditures
Student Financial Aid Cluster*:							
U.S. Department of Education:							
Federal Supplemental Educational Opportunity Grant Program	84.007			$ 459,273	—	459,273	—
Federal Work Study Program	84.033			545,372	—	545,372	—
Federal Perkins Loan Program	84.038			2,154,876	—	2,154,876	—
Federal Pell Grant Program	84.063			20,122,239	—	20,122,239	—
Federal Direct Student Loan Program	84.268			128,304,135	—	128,304,135	—
Teacher Education Assistance for College and Higher Education	84.379			65,617	—	65,617	—
Nurse Faculty Loan Program	93.264			167,905	—	167,905	—
Total Student Financial Aid Cluster				151,819,417	—	151,819,417	—
Research and Development Cluster*:							
U.S. Department of Agriculture:							
Forestry Research	10.652			224,359	—	224,359	—
Total U.S. Department of Agriculture				224,359	—	224,359	—
U.S. Department of Commerce:							
Measurement and Engineering Research and Standards	11.609			19,703	—	19,703	—
Sea Grant Support	11.417	18-03 548001-1000	Texas A&M University	—	201,021	201,021	105,746
Sea Grant Support	11.417	8006034-01.01 USA-R/HCE-11-PD	University of Southern Mississippi	—	2,018	2,018	—
Total CFDA				—	203,039	203,039	105,746
Marine Fisheries Initiative	11.433			78,131	—	78,131	—
Unallied Management Projects	11.454			34,308	—	34,308	34,308
Meteorologic and Hydrologic Modernization Development	11.467	SUBAWD001579	University Corporation for Atmospheric Research	—	27	27	—
Center for Sponsored Coastal Ocean Research – Coastal Ocean	11.478	17024-USA-001	Florida Gulf Coast University	—	65,457	65,457	38,762
Arrangements for Interdisciplinary Research Infrastructure	11.619	140453	Colorado State University	—	20,776	20,776	—
US Department of Commerce	11.UNK			30,679	—	30,679	—
Total U.S. Department of Commerce				162,821	289,299	452,120	178,816
U.S. Department of Defense:							
Basic and Applied Scientific Research	12.300			94,044	—	94,044	—
Military Medical Research and Development	12.420			160,643	—	160,643	81,185
Basic Scientific Research	12.431			155,458	—	155,458	—
Department of Defense	12.UNK	18-0473	Natural Fiber Welding, Inc.	—	27,406	27,406	—
Department of Defense	12.UNK	170262	Faraday Technology, Inc.	—	36,566	36,566	—
Total U.S. Department of Defense				410,145	63,972	474,117	81,185
U.S. Department of Interior:							
Wildlife Restoration	15.611	18-0044	ADCNR	—	3,592	3,592	—
Wildlife Restoration	15.611	19-0165	ADCNR	—	60,957	60,957	—
Total CFDA					64,549	64,549	—

(Continued)

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to USA expenditures	Total expenditures	Pass-through from USA expenditures
National Cooperative Geologic Mapping Program	15.810			$ 2,785	—	2,785	—
Department of Interior	15.UNK	140D0419-9-0003	Wichita State University	—	111,257	111,257	—
Department of Interior	15.UNK			1,698,117	—	1,698,117	—
Total U.S. Department of Interior				1,700,902	175,806	1,876,708	—
U.S. Department of Justice:							
National Sexual Assault Kit Initiative	16.833	150293	Mobile Police Department	—	7,412	7,412	—
National Sexual Assault Kit Initiative	16.833	18-0054	Mobile Police Department	—	104,545	104,545	—
National Sexual Assault Kit Initiative	16.833	2018-AK-BX-0006	City of Mobile	—	21,042	21,042	—
Total U.S. Department of Justice				—	132,999	132,999	—
U.S. Department of Transportation:							
U.S. Department of Transportation	20.UNK	15-ENG-220178-USA	Auburn University	—	(835)	(835)	—
Highway Planning and Construction	20.205	HSIP-NR18(911)	Alabama Department of Transportation	—	51,021	51,021	—
Highway Planning and Construction	20.205	930-937	Alabama Department of Transportation	—	17,343	17,343	—
Highway Planning and Construction	20.205	#1954 (0X-001954-000)	Alabama Department of Transportation	—	35,533	35,533	—
Highway Planning and Construction	20.205	#1954 (0X-001954-003)	Alabama Department of Transportation	—	69,736	69,736	—
Highway Planning and Construction	20.205	170358	The University of Alabama	—	(3,650)	(3,650)	—
Highway Planning and Construction	20.205	930-917	Alabama Department of Transportation	—	47,838	47,838	—
Highway Planning and Construction	20.205	930-980	Alabama Department of Transportation	—	44,576	44,576	9,141
Total CFDA				—	262,397	262,397	9,141
Total U.S. Department of Transportation				—	261,562	261,562	9,141
National Aeronautics and Space Administration:							
Aerospace Education Services Program	43.001			16,738	—	16,738	—
Aerospace Education Services Program	43.001	19-0026	University of Alabama in Huntsville	—	9,392	9,392	—
Aerospace Education Services Program	43.001	USA 19-001	Von Braun Center for Science & Innovation	—	1,939	1,939	—
Aerospace Education Services Program	43.001	RSA NO.1621208	Jet Propulsion Laboratory	—	17,220	17,220	—
Total CFDA				16,738	28,551	45,289	—
Exploration	43.003	XHAB 2019-09	National Space Grant Foundation	—	10,912	10,912	—
Exploration	43.003	XHAB 2019-10	National Space Grant Foundation	—	29,836	29,836	
Exploration	43.003	18-0175	University of Alabama in Huntsville	—	2,076	2,076	—
Total CFDA				—	42,824	42,824	—
Education	43.008	160195	University of Alabama in Huntsville	—	250,210	250,210	1,079
Education	43.008	2015-055	University of Alabama in Huntsville	—	2,076	2,076	—
Total CFDA				—	252,286	252,286	1,079
NASA	43.UNK			5,070	—	5,070	—
Total National Aeronautics and Space Administration				21,808	323,661	345,469	1,079
National Science Foundation:							
Engineering Grants	47.041			290,195	—	290,195	20,163
Engineering Grants	47.041	2017-91	University of Alabama in Huntsville	—	111,519	111,519	—
Total CFDA				290,195	111,519	401,714	20,163
Mathematical and Physical Sciences	47.049			145,072	—	145,072	—
Geosciences	47.050	17056-NSF-USA-MCI-02	Florida Gulf Coast University	208,225	171,315	379,540	58,266
Computer and Information Science and Engineering	47.070			253,333	—	253,333	40,995
Biological Sciences	47.074			196,852	—	196,852	—

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2019

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to USA expenditures	Total expenditures	Pass-through from USA expenditures
Social Behavioral and Economic Sciences	47.075			$ 65,129	—	65,129	—
Education and Human Resources	47.076			1,464,966	—	1,464,966	—
Polar Programs	47.078	UA 16-052	University of Alabama	—	81,365	81,365	—
International Science and Engineering (OISE) (B)	47.079			870,867	—	870,867	736,887
Office of Integrative Activities	47.083			223,877	—	223,877	—
Total National Science Foundation				3,718,516	364,199	4,082,715	856,311
Department of Veteran Affairs	64.UNK			10,850	—	10,850	—
US Environmental Protection Agency;							
Gulf of Mexico Program	66.475			18,248	—	18,248	—
Total US Environmental Protection Agency				18,248	—	18,248	—
U.S. Department of Energy:							
Basic Energy Sciences University and Science Education	81.049			44	—	44	—
Department of Energy	81.UNK	SC 6905-2186-46	Faraday Technology, Inc.	—	6,140	6,140	—
Total U. S. Department of Energy				44	6,140	6,184	—
U.S. Department of Health and Human Services:							
Biological Response to Environmental Health Hazards	93.113			1,136,166	—	1,136,166	52,605
Biological Response to Environmental Health Hazards	93.113	17056-NIH-USA/MCI-02	Florida Gulf Coast University	—	132,776	132,776	
Biological Response to Environmental Health Hazards	93.113	97220614	University of California, San Diego	—	156,792	156,792	—
Total CFDA				1,136,166	289,568	1,425,734	52,605
Research and Training in Alternative Medicine	93.213			175,481	—	175,481	—
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			6,917	—	6,917	—
Minority Health and Health Disparities Research	93.307			74,754	—	74,754	—
Minority Health and Health Disparities Research	93.307	U54 MD008602-P02USA	Bayou Clinic, Inc.	—	3,229	3,229	—
Total CFDA				74,754	3,229	77,983	—
Trans-NIH Research Support	93.310	170631	University of Alabama at Birmingham	—	(1,985)	(1,985)	—
Trans-NIH Research Support	93.310	18-0083	University of Alabama at Birmingham	—	453,118	453,118	—
Total CFDA				—	451,133	451,133	—
National Center for Advancing Translational Sciences	93.350	UC90631	University of Alabama at Birmingham	—	794	794	—
National Center for Advancing Translational Sciences	93.350	000520679-010	University of Alabama at Birmingham	—	47,760	47,760	—
National Center for Advancing Translational Sciences	93.350	000508606-008	University of Alabama at Birmingham	—	76,752	76,752	—
Total CFDA				—	125,306	125,306	—
Research Infrastructure Programs	93.351			299,327	—	299,327	150,903
Advanced Education Nursing Traineeships	93.358	XIONG/ZHA 001/R01NS140349	Morehouse School of Medicine, Inc.	—	58,539	58,539	—
Cancer Cause and Prevention Research	93.393			1,077,896	—	1,077,896	—
Cancer Cause and Prevention Research	93.393	FCCC#15137-01	Fox Chase Cancer Center	—	80,956	80,956	—
Cancer Cause and Prevention Research	93.393	0050999 (127962-1)	University of Pittsburgh	—	(4,462)	(4,462)	—
Total CFDA				1,077,896	76,494	1,154,390	—
Cancer Treatment Research	93.395			574,031	—	574,031	69,196
Cancer Treatment Research	93.395	170272	Children's Hospital of Philadelphia	—	204	204	—
Cancer Treatment Research	93.395	18-0307	ADT Pharmaceuticals Inc	—	6,894	6,894	—
Cancer Treatment Research	93.395	9500080216-13C WORK ORDER	Children's Hospital of Philadelphia	—	2,288	2,288	—
Cancer Treatment Research	93.395	1 R43 CA217502-01A1	ADT Pharmaceuticals, Inc.	—	17,569	17,569	—
Total CFDA				574,031	26,955	600,986	69,196

(Continued)

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to USA expenditures	Total expenditures	Pass-through from USA expenditures
Cancer Biology Research	93.396			$ 791,836	—	791,836	—
Cardiovascular Diseases Research	93.837			559,949	—	559,949	—
Cardiovascular Diseases Research	93.837	1R43HL142325-01A1	EVAS Therapeutics LLC	—	55,555	55,555	—
Cardiovascular Diseases Research	93.837	180090	University of Alabama at Birmingham	—	7,356	7,356	—
Cardiovascular Diseases Research	93.837	PS#107223	Brigham and Women's Hospital	—	(2,395)	(2,395)	—
Total CFDA				559,949	60,516	620,465	—
Lung Diseases Research	93.838			5,059,549	—	5,059,549	94,975
Lung Diseases Research	93.838	170187	Thomas Jefferson University	—	169,306	169,306	—
Lung Diseases Research	93.838	080-18007-S11201	Thomas Jefferson University	—	29,665	29,665	—
Total CFDA				5,059,549	198,971	5,258,520	94,975
Blood Diseases and Resources Research	93.839	MUSC17-057-8C868	Medical University of South Carolina	—	5,423	5,423	—
Arthritis Musculoskeletal and Skin Diseases Research	93.846			39,632	—	39,632	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	576028	University of Pennsylvania	—	16,233	16,233	—
Clinical Research Related to Neurological Disorders	93.853			465,779	—	465,779	25,545
Allergy Immunology and Transplantation Research	93.855	18-0076	University of Alabama at Birmingham	—	2,660	2,660	—
Pharmacology Physiology and Biological Chemistry	93.859	783K893	University of Wisconsin-Madison	330,091	29,323	359,414	1,249
HIV Prevention Activities Health Department Based	93.940	19-0124	University of Alabama at Birmingham	—	31,328	31,328	—
Medicaid	93.UNK	17-0029	Tatva Biosciences, LLC	—	(358)	(358)	—
Medicaid	93.UNK	19-0062	Florida International University	—	966	966	—
Medicaid	93.UNK	HHSO100201500027C	Stratatech Corporation	—	18,294	18,294	—
National Institute of Health	93.UNK	18038-01	Fox Chase Cancer Center	—	75,296	75,296	—
Total U.S. Department of Health and Human Services				10,591,408	1,469,876	12,061,284	394,473
Total Research and Development Cluster				16,859,101	3,087,514	19,946,615	1,521,005
Other federal assistance:							
U.S. Department of Commerce:							
U.S. Department of Commerce	11.UNK	170364	Museum of Science	—	(20)	(20)	—
U.S. Department of Commerce	11.UNK	170230	Earth Networks, Inc.	—	65,110	65,110	—
Total U.S. Department of Commerce				—	65,090	65,090	—
Department of the Interior:							
National Cooperative Geologic Mapping Program	15.810			5,828	—	5,828	—
National Aeronautics and Space Administration:							
Aerospace Education Services Program	43.001	2015-055/NASA NNX15AJ18H	University of Alabama in Huntsville	—	4,872	4,872	—
Education	43.008	Various	University of Alabama in Huntsville	—	79,361	79,361	—
Total National Aeronautics and Space Administration				—	84,233	84,233	—
National Endowment for the Arts:							
Promotion of the Humanities Federal/State Partnership	45.129	0618-2429MN	Alabama Humanities Foundation	—	1,500	1,500	—
U. S. Environmental Protection Agency:							
Nonpoint Source Implementation Grants	66.460	160431	Alabama Department of Environmental Management	—	72	72	—
Nonpoint Source Implementation Grants	66.460	C80592039	Alabama Department of Environmental Management	—	81,188	81,188	—
Total U.S. Environmental Protection Agency				—	81,260	81,260	—

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2019

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to USA expenditures	Total expenditures	Pass-through from USA expenditures
U.S. Department of Education:							
Undergraduate International Studies and Foreign Language	84.016			$ 66,442	—	66,442	—
TRIO Cluster:							
TRIO Talent Search	84.044			330,405	—	330,405	—
TRIO Upward Bound	84.047			294,028	—	294,028	—
Total TRIO Cluster				624,433	—	624,433	—
Mathematics and Science Partnerships	84.366	U800174	Alabama State Department of Education	—	18,396	18,396	—
Improving Teacher Quality State Grants	84.367	U900532	Alabama State Department of Education	—	19,300	19,300	—
Improving Teacher Quality State Grants	84.367	17-0025	Alabama Commission on Higher Education	—	(2)	(2)	—
Total CFDA				—	19,298	19,298	—
Transition Programs for Students with Intellectual Disabilities into Higher Ed	84.407			460,329	—	460,329	—
Student Support and Academic Enrichment Program	84.242A	19-0083	Mobile County Public Schools System	—	12,512	12,512	
Total U.S. Department of Education			.	1,151,204	50,206	1,201,410	—
U.S. Department of Health and Human Services:							
Alzheimer's Disease Demonstration Grants to States	93.051	13-130338	South Alabama Regional Planning Commission	—	8,957	8,957	—
HIV Demonstration Program for Children, Adolescents	93.153			426,916	—	426,916	—
Substance Abuse and Mental Health Services	93.243			87,318	—	87,318	—
Advanced Education Nursing Grant Programs	93.247			920,493	—	920,493	—
ACA-Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNs)	93.638	18-0365	Vizient, Inc.	—	178,713	178,713	—
Foster Care Title IV-E	93.658	A19-0007-S010	University of Alabama	—	62,390	62,390	—
Medical Student Education	93.680			16,889	—	16,889	—
PPHF-2012 Mental and Behavioral Health Education and Training Grants	93.732			7,687	—	7,687	—
Medicaid Cluster	93.778	Various	Alabama Medicaid Agency	—	281,001	281,001	—
Center for Disease Control and Prevention	93.800	C80113229 (GC-18-382)	State of Alabama Dept of Public Health	—	47,340	47,340	—
Center for Disease Control and Prevention	93.800	19-0438	State of Alabama Dept of Public Health	—	10,040	10,040	—
Total CFDA				—	57,380	57,380	—
Hospital Preparedness Program (HPP) Center for Disease and Prevention	93.817	CEP-3-WD0-19/C90116102	State of Alabama Department of Public Health	—	32,417	32,417	—
Hospital Preparedness Program (HPP) Center for Disease and Prevention	93.817	19-0498	State of Alabama Department of Public Health	—	49,559	49,559	
Total CFDA				—	81,976	81,976	—
Grants for Primary Care Training and Enhancement	93.884			511,440	—	511,440	—
Medical Library Assistance	93.879	1600679	University of Maryland, Baltimore	—	1,700	1,700	—
National Bioterrorism Hospital Preparedness Program	93.889	C80113195 (GC-18-346)	State of Alabama Department of Public Health	—	201,729	201,729	—
National Bioterrorism Hospital Preparedness Program	93.889	C80113204 (GC-18-355)	State of Alabama Department of Public Health	—	740,634	740,634	—
National Bioterrorism Hospital Preparedness Program	93.889	19-0477	State of Alabama Department of Public Health	—	49,781	49,781	—
National Bioterrorism Hospital Preparedness Program	93.889	19-0474	State of Alabama Department of Public Health	—	146,518	146,518	—
Total CFDA				—	1,138,662	1,138,662	—
Cancer Prevention & Control Programs for State, Territorial & Tribal Orgs	93.898	C90116037 (GC-19-077)	State of Alabama Dept of Public Health	—	43,657	43,657	—
Cancer Prevention & Control Programs for State, Territorial & Tribal Orgs	93.898	C80113229 (GC-18-382)	State of Alabama Dept of Public Health	—	31,560	31,560	—
Cancer Prevention & Control Programs for State, Territorial & Tribal Orgs	93.898	C90116193 (GC-19-293)	State of Alabama Dept of Public Health	—	10,511	10,511	—
Cancer Prevention & Control Programs for State, Territorial & Tribal Orgs	93.898	19-0438	State of Alabama Dept of Public Health	—	6,694	6,694	—
Total CFDA				—	92,422	92,422	—
HIV Care Formula Grants	93.917	RW-USAF-1819	United Way of Central Alabama	—	25,215	25,215	—
HIV Care Formula Grants	93.917	190358	United Way of Central Alabama	—	31,492	31,492	—
Total CFDA				—	56,707	56,707	—
Total U.S. Department of Health and Human Services				1,970,743	1,959,908	3,930,651	—

(Continued)

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2018

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity		Direct expenditures	Pass-through to USA expenditures	Total expenditures	Pass-through from USA expenditures
Corporation for National and Community Service:								
AmeriCorp Recovery	94.006			$	24,823	—	24,823	—
Total other federal assistance					3,152,598	2,242,197	5,394,795	—
Total federal expenditures				$	171,831,116	5,329,711	177,160,827	1,521,005

* Indicates major program

See accompanying notes to schedule of expenditures of federal awards.

(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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance*). 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 2019 statement of net position and consist of the following loan programs:

	CFDA #		Outstanding amount at September 30, 2019	Amount advanced in 2019
Federal Perkins Loan Program	84.038	$	1,683,347	—
Nurse Faculty Loan Program	93.264		733,518	167,905
Nurse Faculty Loan Program ARRA	93.408		9,474	—
		$	2,426,339	167,905

For the Federal Perkins Loan Program (FPLP) the accompanying schedule of expenditures of federal awards includes the beginning of the year balance of loans outstanding under the FPLP and current year FPLP loan advances to students totaling $2,154,876 and $0, respectively. No administrative cost allowance was claimed related to the FPLP during 2019.

(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 2019, 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, 2019.

(Continued)

During the year ended September 30, 2019, the University advanced to students the following amounts of new loans under Direct Loan Programs:

	Amount advanced
Stafford loans	$ 19,560,156
Unsubsidized Stafford loans	72,058,837
Parent Loans for Students	36,685,142
Total	$ 128,304,135

(5) Matching

Under the Federal Supplemental Education Opportunity Grant Program, the University matched $202,008 in funds awarded to students for the year ended September 30, 2019 in addition to the Federal share of expenditures included in the Schedule.

(6) Indirect Cost Rate

For the year ended September 30, 2019, the University did not elect to use the 10% De Minimus Indirect Cost Rate permitted by Uniform Guidance, as a negotiated indirect cost rate existed on all grants where indirect costs are applicable.

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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 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 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, 2019, 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 19, 2019. 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 of 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 and the USA Research and Technology Corporation were not audited in accordance with *Government Auditing Standards,* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the University of South Alabama Foundation and the USA Research and Technology Corporation.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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 19, 2019

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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 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, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance 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, 2019.

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

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for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the University and its aggregate discretely presented component units as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated November 19, 2019, 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 the Uniform Guidance 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 19, 2019

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Findings and Questioned Costs
Year ended September 30, 2019

(1) Summary of Auditors' Results

(a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

(b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weaknesses: **No**
- Significant deficiencies: **None reported**

(c) Noncompliance material to the financial statements: **No**

(d) Internal control deficiencies over major programs disclosed by the audit:

- Material weaknesses: **No**
- Significant deficiencies: **None reported**

(e) Type of report issued on compliance for major programs: **Unmodified**

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**

(g) Major programs:

- Student Financial Assistance Cluster – various CFDA numbers
- Research and Development Cluster – various CFDA numbers

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$760,243**

(i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs relating to Federal Awards

None

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

November 19, 2019

Management
University of South Alabama
Mobile, Alabama

Ladies and Gentlemen:

In planning and performing our audit of the basic financial statements of the University of South Alabama (the University) as of and for the year ended September 30, 2019, 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, we considered the University's internal control over financial reporting (internal control) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated November 19, 2019 on our consideration of the University's internal control over financial reporting.

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. During our audit, we identified the following deficiency in internal control:

Calculation of the Allowance for Contractual and Other Adjustments

Management's calculation of the allowance for contractual and other adjustments for University Physicians accounts receivable was determined based on average collections rates over a 24 month period, disaggregated by major payor and service type. However, the books and records of the University were not adjusted to agree to the results of this calculation which resulted in a difference between the general ledger and the allowance calculation of $690,000. Additionally, management calculated the allowance for contractual and other adjustments based on average collection rates over a 12 month period, which would be more representative of current year activities (price increases, payment rates, etc.). However, the results of this analysis were not utilized by management in the recording of the amount to the general ledger which resulted in a difference between the general ledger and the allowance calculation of $1,509,000. We recommend that management establish policies and procedures (including review by someone other than the preparer) to ensure that amounts recorded in the general ledger are adequate, appropriate and supported by calculations performed by management.

This purpose of this letter is solely to describe the deficiency in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

Management's Response to Management Letter

Calculation of the Allowance for Contractual and Other Adjustments

Original Comment

Management's calculation of the allowance for contractual and other adjustments for University Physicians accounts receivable was determined based on average collections rates over a 24 month period, disaggregated by major payor and service type. In addition, the books and records of the University were not adjusted to agree to the results of the calculation. Management also calculated the allowance for contractual and other adjustments based on average collection rates over a 12 month period, which would be more representative of current year activities (price increases, payment rates, etc.). However, the results of this analysis were not utilized by management in the recording of the amount to the general ledger. We recommend that management establish review procedures to ensure that amounts recorded in the general ledger are appropriate and supported by calculations performed by management.

Management's Response

Management prepared the calculation over a 24 month period due to the calculation based on posted charges and posted collections. USA implemented a significant charge increase in fiscal 2019, therefore using a single year does not produce an accurate collection rate. The result would be using posted charges at a high rate for a year, and posted collections, including collections on prior year charges at a lower rate for part of the year. Therefore the blended rate is appropriate in order to more closely match the collections with the charges. In years without price increases, a single year is used by management. This practice has been in place for many years, has not changed, and produced no audit finding. The results of the calculation was used by management to ensure the allowance booked was in an acceptable range. However, the entry was not booked to the exact calculation since the allowance is an estimate and is based on numerous assumptions. In the future, management will book the allowance to the exact calculation.

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

November 19, 2019

Audit Committee of
the Board of Trustees
University of South Alabama
Mobile, 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, 2019 and have issued our report thereon under date of November 19, 2019. 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 opinions 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 (AICPA) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 from 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 (internal control) 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 and Required Supplementary Information.

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.

Unusual Transactions

There have been no unusual transactions that we are aware of that need to be disclosed to you.

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

The preparation of the basic financial statements requires management of the University to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the year.

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. The net pension liability is based on certain assumptions, including the discount rate, mortality, inflation, employee demographics and projected salary increases. The net other postemployment benefits liability is based on certain assumptions, including the discount rate, mortality, inflation, health care cost trends, employee demographics and projected salary increases. Additionally, the fair value of the University's derivatives (swaps) 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, including possible management bias in developing the estimates, to determine that they are reasonable in relation to the basic financial statements as a whole.

Uncorrected and Corrected Misstatements

In connection with our audit of the University's basic financial statements, we have not identified any uncorrected or corrected misstatements related to the University's basic financial statements as of and for the year ended September 30, 2019 and have communicated that finding to management.

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.

Management's 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, 2019.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with you and management each year prior to our retention by you as the University's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Material Written Communications

Attached to this letter please find copies of the following material written communications between management and us:

1. Engagement letters;

2. Management representation letters; and

3. Management letter.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Confirmation of Audit Independence

We hereby confirm that as of November 19, 2019, 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.

Very truly yours,

KPMG LLP

Jackson, Mississippi
November 19, 2019

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

Telephone +1 601 354 3701
Fax +1 601 354 3746
kpmg.com

June 7, 2019

Mr. Scott Weldon
Vice President for Finance and Administration
University of South Alabama
307 University Boulevard, AD180
Mobile, Alabama 36688

Dear Scott,

This letter amends our engagement letter dated March 1, 2018, confirming our understanding to provide professional audit services to the University of South Alabama (the University) by substituting the attached Appendix I for the Appendix I originally attached to our engagement letter.

The University agrees that KPMG may list the University as a client in KPMG's internal and external marketing materials, including KPMG websites and social media, indicating the general services rendered (e.g., "University of South Alabama is an Audit client of KPMG LLP").

The parties agree that the disclosure in the engagement letter referencing "back-office administrative and clerical services" is revised to reference "back-office administrative and clerical, or analytical services."

For purposes of clarification, the paragraph contained in the "Other Matters" section of the engagement letter that addresses the use of services of KPMG Firms and third party service providers is revised to include the following and is subject to the representations and other protective provisions set forth in such paragraph: "In particular, KPMG's audit technologies, software productivity tools and certain technology infrastructure and, necessarily, your confidential information, may be hosted in cloud environments operated by KPMG Firms or such third party service providers. In addition, KPMG Firms may have access to certain of your information in respect to engagement acceptance and other KPMG professional responsibilities such as maintaining independence and performing conflict checks."

The parties further agree that the provision contained in the engagement letter that addresses the use of the University's information for other purposes shall be revised in its entirety to read as follows: "You also understand and agree that the KPMG Firms, with the assistance of third parties as outlined in the engagement letter, may use all the University's information for other purposes consistent with our professional standards, such as improving the delivery or quality of audit and other services or technology to you and to other clients, thought leadership projects, to allow you and other clients to evaluate various business transactions and opportunities, and for use in presentations to you, other clients and non-clients. When your information is used outside of the KPMG Firms or such third parties assisting them as outlined in the engagement letter, the University will not be identified as the source of the information."

It may be necessary or convenient for the University to use KPMG-owned or -licensed software, software agents, scripts, technologies, tools or applications (collectively "KPMG Technology") designed to extract data from the University's electronic books and records systems or other systems (collectively, "Systems"), in connection with the audit. The University understands and agrees that it is solely responsible for following appropriate change management policies, processes and controls relating to use of such technology (including without limitation appropriate backup of the Plan's information and Systems) (collectively, "Change Management Processes") before such KPMG Technology is utilized to extract data from the Systems. In the event the University fails to use such Change Management Processes or if such Change Management Processes prove to be inadequate, the University acknowledges that the Systems and/or KPMG Technology may not function as intended. In consideration of the foregoing, KPMG hereby grants the University the right to use KPMG Technology solely to facilitate the University's necessary or convenient provision of information to KPMG in connection with the audit, and this grant does not extend to any other purposes or use by third parties outside of your organization without our prior written approval, provided that third party contractors of the University having a need to know in order to perform their services to the University are permitted to use KPMG Technology to the extent necessary for such parties to perform such services, so long as the University has technical, legal and/or other safeguards, measures and controls in place to protect such KPMG Technology and the KPMG confidential information therein from unauthorized disclosure or use. Other than as expressly permitted hereby, the University agrees to keep KPMG Technology confidential, using no less than a reasonable standard of care to protect it from unauthorized disclosure or use, and to notify KPMG of any legal compulsions to disclose it, in accordance with the provisions governing legal demand of confidential information which appear in the engagement letter with respect to which the KPMG Technology is being used, mutatis mutandis. If the KPMG Technology is subject to any third party license terms and conditions before being provided to the University, the University may be required to accept such terms and conditions before using the KPMG Technology, in which case KPMG will provide such license terms and conditions to the University in writing before the University elects to use the KPMG Technology.

The attached Appendix I lists the services to be rendered and related fees to provide each specified service for the identified time period. Except as specified in this letter and in the Appendix I attached to this letter, all provisions of the aforementioned engagement letter remain in effect until either the audit committee or we terminate this agreement or mutually agree to the modification of its terms.

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

* * * * * * *

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign in the space provided and return the copy to us.

Very truly yours,

KPMG LLP

Mark P. Peach
Partner

(On the duplicate of the preceding letter, which should be signed in the same manner as the original, type the following):

ACCEPTED:

University of South Alabama

S Scott Weldon

Authorized Signature

VICE PRESIDENT for FINANCE & ADMINISTRATION

Title

6/7/19

Date

Appendix I

Fees for Services

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

	2019	2020
Audits of financial statements and related notes to the financial statements of the University as of and for the years ended September 30, 2019 and 2020 and other reports detailed below (includes KPMG performing the audit of two major programs in connection with the under Uniform Guidance)	$635,000	$635,000

Other Reports:

The other reports that we will issue as part of and upon completion of this engagement are as follows:

Report

Reports issued in connection with Uniform Guidance
Debt covenant compliance report
Debt agreed upon procedures report
South Alabama Medical Science Foundation
USA Research and Technology Corporation
NCAA agreed upon procedures report

The above estimates are 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 appropriately 400 hours of internal audit assistance related to the audit. The fees also assume no significant changes in operations and no significant increase in the purchase of additional alternative investments. The above fees do not consider any time associated with implementing any future GASB pronouncements. Any additional time associated with GASB pronouncements will be billed separately. The above fees also do not include any change in the scope of KPMG's hours related to the NCAA agreed upon procedures report. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

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.

All fees, charges and other amounts payable to KPMG under the Engagement Letter do not include any sales, use, excise, value added, income or other applicable taxes, tariffs or duties, payment of which shall be the University's sole responsibility, excluding any applicable taxes based on KPMG's net income or taxes arising from the employment or independent contractor relationship between KPMG and its personnel.

pwc

Report on the Firm's System of Quality Control

March 21, 2018

To the Partners of KPMG LLP and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [SOC 1 and SOC 2 engagements].

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Deficiency Identified in the Firm's System of Quality Control

We noted the following deficiency during our review:

1. Certain individuals of the firm, including former members of senior management for part of the peer review year ended March 31, 2017, participated in or were aware of improper actions related to audit engagement selections ahead of planned inspections by one of the firm's regulators. These individuals failed to take action to prevent or properly report the knowledge or possession of confidential information by either overriding or failing to enforce controls established by the firm.

Actions by these individuals including the involvement of senior audit management caused us to conclude that the failure of these individuals to comply with the firm's quality control policies and procedures related to leadership responsibilities, relevant ethical requirements and monitoring could have created a situation during the peer review year ended March 31, 2017 in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects. Accordingly, we have concluded that this matter presented a deficiency in the firm's system of quality control during the applicable period. The firm is taking responsive actions to remediate this deficiency.

Opinion

In our opinion, except for the deficiency previously described, the system of quality control for the accounting and auditing practice of KPMG LLP applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2017, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass, pass with deficiency(ies)*, or *fail*. KPMG LLP has received a peer review rating of *pass with deficiency*.

PricewaterhouseCoopers LLP

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

March 21, 2018

To the National Peer Review Committee

Ladies and Gentlemen:

This letter represents our response to the report issued in connection with the Peer Review of the firm's system of quality control for the accounting and auditing practice applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2017.

Quality and integrity are the cornerstones of all the firm stands for, and that includes operating with the utmost respect and regard for the regulatory process. KPMG is committed to the highest standards of professionalism, integrity, and quality, and we are dedicated to the public and our clients. The conduct of these individuals referred to in the Peer Review Report was contrary to the firm's Code of Conduct, what we expect and demand of our people, and intolerable. We have taken appropriate, decisive, and timely remedial actions to ensure that the risk identified in the Peer Review Report that existed during the Peer Review period has been eliminated. The responsive actions of our senior leadership and our Board of Directors clearly demonstrates that the firm's tone at the top is strong and unwaveringly focused on conducting quality audits.

This tone at the top clearly was demonstrated even before the period under review had ended. As soon as firm leadership became aware, through an internal source in February 2017, of the inappropriate use of PCAOB confidential information, we immediately informed the PCAOB and the Securities and Exchange Commission ("SEC"), and opened an investigation conducted by outside counsel. Since then, when information came to the firm's attention which indicated that individuals had engaged in conduct contrary to the letter or the spirit of the regulatory process, our Code of Conduct, or compliance with the firm's system of internal controls, the firm took appropriate remedial action, including separating individuals from the firm.

We strongly believe the potential risk that was identified has been addressed and fully remediated. This included, as noted above, taking personnel action with respect to the individuals referred to in the Peer Review Report who were in leadership positions. This resulted in appointing a new Vice Chair-Audit (a former member of our Board of Directors), a new National Managing Partner-Audit Quality and Professional Practice group ("AQPP") (currently a member of our Board of Directors), and a new Inspections Leader (who previously was with the firm's Office of General Counsel). All were chosen for their roles, first and foremost, because of their demonstrated track record of sound judgment, professionalism, ethics, and integrity and their ability to inspire the trust of our people and instill the confidence of our clients.

In addition, we have taken several other actions to strengthen our culture and ensure the tone set by those at every level of leadership – in word and deed – encourages nothing but the utmost respect for the regulatory process. We are reestablishing and reinforcing integrity as the cultural cornerstone of the firm, with the expectation that every individual is personally responsible for the ethical environment of the firm. For example, we have:

- Changed reporting lines so that our Inspections Group now reports outside our Audit practice to our Vice Chairman - Legal, Risk and Regulatory;
- Changed the hiring practices with respect to personnel from the PCAOB;

KPMG

- Conducted concentrated values and culture sessions with the firm's Board of Directors, Management Committee, and other key leaders;
- Dedicated our 2017 Partners' Meeting and firm-wide Town Halls, involving all 32,000 of our professionals, to values and culture;
- Released a new Code of Conduct to all professionals; and
- Launched a cultural assessment process, to be driven by an internal team and an independent third party.

KPMG is committed to constantly enhancing our system of quality controls, and we take seriously our responsibilities to the public and our clients. We believe these actions, which reinforce the firm's long-standing commitment to audit quality, have remediated the risk identified in the Peer Review Report, which resulted in the deficiency noted. Although unacceptable, we have confidence that the conduct did not impact any of the firm's audit opinions or any client's financial statements.

Respectfully submitted,

KPMG LLP

AICPA® **Peer Review Program**
Administered by the National Peer Review Committee

American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

March 27, 2018

Lynne M Doughtie, CPA
KPMG LLP
345 Park Ave
New York, NY 10154

Dear Ms. Doughtie:

On March 27, 2018, the National Peer Review Committee accepted the peer review report on the most recent System Review of your firm and firm's response thereto.

As you know, the report had a peer review rating of pass with deficiency. The Committee accepted the aforementioned documents with the understanding that the firm has taken the actions outlined in its response to the report. The Committee determined that the corrective actions taken by the firm are sufficient such that no additional remedial action is needed. Compliance with these actions will be monitored during your firm's next review. The due date for your next review is September 30, 2020. This is the date by which all review documents should be completed and submitted to the administering entity.

Your firm's actions as documented in your response demonstrates its commitment to the objectives of the profession's practice-monitoring program.

Sincerely,

Michael Fawley

Michael Fawley
Chair - National PRC
nprc@aicpa.org 919-402-4502

CC: Michael J Wagner; Stephen R Hicks

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

Telephone +1 601 354 3701
Fax +1 601 354 3745
kpmg.com

November 8, 2019

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

Dear Mr. Weldon:

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 Capital Appreciation Series 1999 Bonds, University Facilities Revenue Capital Improvement Bond, Series 2010, University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B, University Facilities Revenue Capital Improvement Bonds, Series 2013-A, Series 2013-B, and Series 2013-C, University Facilities Revenue Refunding Bond, Series 2014-A, University Facilities Revenue Capital Improvement Bond, Series 2015, University Facilities Revenue Refunding Bonds, Series 2016-A, 2016-B, 2016-C and 2016-D, University Facilities Revenue Bonds, Series 2017, and University Facilities Revenue Bonds, Series 2019-A and 2019-B as of September 30, 2019 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, 2019, 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.

Mr. G. Scott Weldon
University of South Alabama
November 8, 2019

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

Mark P. Peach
Partner

MPP:mmg

ACCEPTED

University of South Alabama

Mr. G. Scott Weldon

Vice President for Financial Affairs
Title

11/8/19
Date

UNIVERSITY OF SOUTH ALABAMA

November 19, 2019

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

Ladies and Gentlemen:

We are providing this letter in connection with your audits 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 years ended September 30, 2019 and 2018, for the purpose of expressing opinions as to whether these financial statements 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, in accordance with Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), was to obtain reasonable assurance that the University had complied, in all material respects, with the requirements of federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

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 purpose of appropriately informing ourselves, as of November 19, 2019:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 7, 2019, 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:

BUSINESS OFFICE
AD 380 | 307 University Boulevard, N. | Mobile, Alabama 36688-0002
TEL: (251) 460-6241 | FAX: (251) 460-6647 | southalabama.edu

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; and

d. All minutes of the meetings of the Board of Trustees, and other appropriate committees, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.

3. Except as disclosed to you in writing, there have been no communications from regulatory agencies, governmental representatives, employees, or others concerning noncompliance with laws and regulations in any jurisdiction, or deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.

4. There are no known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

5. All material transactions have been properly recorded in the accounting records and are reflected in the financial statements.

6. There are no side agreements or other arrangements (either written or oral).

7. All events subsequent to the date of the statement of net position and through the date of this letter for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

8. The effects of all known actual or possible litigation and claims have been accounted for and 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.*

9. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

10. The effects of the uncorrected financial statement misstatements, if any, summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements.

11. We acknowledge our responsibility for the design, implementation, and maintenance of programs and controls to prevent, deter, 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" is defined as an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception that results in a misstatement in financial statements that are the subject of an audit.

12. 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 University'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*.

13. 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.

14. 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, or

    c. Others where the fraud could have a material effect on the financial statements.

15. We have no knowledge of any allegations of fraud or suspected fraud affecting the University's financial statements communicated by employees, former employees, analysts, regulators, or others.

16. The University has 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.

17. 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 audit.

18. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

19. We have disclosed to you the identity of our related parties and all the related party relationships and transactions of which we are aware.

20. 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 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. The existence of and transactions with joint ventures and other related organizations.

21. 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.

22. The University has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.

23. The University's reporting entity includes all entities that are material component units of the University.

24. 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.

25. 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.

26. 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.

27. 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*.

28. 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.

29. Inter-fund, internal, and intra-entity activity and balances have been appropriately classified and reported.

30. Billings to third-party payors comply in all material respects with applicable coding guidelines (e.g., ICD-9-CM and CPT-4) and laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse) and only reflect charges for goods and services that were medically necessary, ordered in writing by a treating physician, properly approved by regulatory bodies (for example, the Food and Drug Administration), if required, and properly rendered.

31. 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.

32. 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.

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

34. 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.

35. 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.

36. 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.

37. 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.

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

39. 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.

40. 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.

41. 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.

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

43. 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.

44. 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.

45. The projected employer contributions in the discount rate calculation are prepared in accordance with paragraphs 37-39 of GASB Statement No. 75.

46. The basis for our proportion of the collective pension and OPEB amounts is appropriate and consistent with the manner in which future contributions to the pension and OPEB plan are expected to be made.

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

   d. 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*.

   e. 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.

   f. 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.

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

h. 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.

48. Components of net position (net investment in capital assets; restricted; and unrestricted) and fund balance components (non-spendable; restricted; committed; assigned; and unassigned) are properly classified and, if applicable, approved.

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

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

51. 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.

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

53. 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.

54. 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.

55. Provision, when material, has been made for:

    a. Losses to be sustained from inability to fulfill any sales commitments.

b. Estimated loss to be sustained as a result of retroactive adjustments by third-party payors under reimbursement agreements that are subject to examination, including denied claims, changes to diagnosis-related group (DRG) assignments, or other classification criteria affecting reimbursement.

c. Losses to be sustained as a result of adjustments resulting from review of Medicare or other payor claim data by the Professional Review Organization (PRO) or other payors' reviewers with which the University has agreements.

d. Losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.

e. Losses to be sustained as a result of other-than-temporary declines in the fair value of investments

f. Liabilities for physician and medical services provided to members covered under capitation arrangements. The recorded liability includes both claims received and unpaid as well as an estimate of the claims incurred but not reported and loss to be sustained for commitments to provide medical services to enrollees under capitation agreements.

56. We acknowledge our responsibility for the presentation of the supplementary information, which 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; and

   c. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate.

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

58. 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 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.

59. For investments in alternative investments (including hedge funds, real estate ventures, private equity funds, etc.), management has performed an evaluation to determine whether the investment should be consolidated or accounted for under the equity, fair value, or cost method. Such evaluation included the consideration of various factors, including the legal form of the investment (limited partnership, limited liability Corporation, limited liability partnership, trust arrangements, etc.) The level of ownership in the investment, and the frequency with which the unit value is published and purchase and sale transactions are permitted.

Additionally, we confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purposes of appropriately informing ourselves, as of November 15, 2019, the following representations made to you during your single audit:

60. We are responsible for establishing and maintaining effective internal control over compliance for federal programs that provides reasonable assurance that the University is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards.

61. We are responsible for understanding and complying with the requirements of federal statutes, regulations and the terms and conditions of federal awards related to each of the University's federal programs.

62. We are responsible for taking corrective action on audit findings of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.

63. We are responsible for the design, implementation and maintenance of internal 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.

64. We are responsible for the presentation of the schedule of expenditures of federal awards (SEFA) in accordance with the Uniform Guidance 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.

65. The University is responsible for complying, and has complied, with the requirements of Uniform Guidance.

66. The University has prepared the SEFA in accordance with the requirements of Uniform Guidance and has included all expenditures made during the year ended September 30, 2019 for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

67. The University has complied with requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of its federal programs.

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

69. 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 federal statutes, regulations, and the terms and conditions of the federal award that could have a material effect on its federal program.

70. 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.

71. We have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major federal program.

72. We have made available all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities related to major federal programs.

73. 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.

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

75. 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.

76. We have issued management decisions on a timely basis (within six months of acceptance of the audit report by the FAC) for audit findings that relate to federal awards made to subrecipients. Additionally, management has followed up ensuring that the subrecipient takes timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal awards provided to the subrecipient by the University.

77. We have monitored subrecipients, as necessary, to determine that they have expended subawards in compliance with federal statutes, regulations, the terms and conditions of the

subawards and have met the other pass-through entity requirements of the Uniform Guidance. 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.

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

79. We have disclosed to you any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the compliance requirements over federal programs, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.

80. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.

81. We have made available all documentation related to the compliance requirements, including information related to federal financial reports and claims for advances and reimbursements, for major federal programs.

82. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by Uniform Guidance.

83. If applicable, the University has provided you with all information on the status of the follow-up prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

84. The University has charged costs to federal awards in accordance with the applicable cost principles.

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

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

87. We have disclosed any known noncompliance relating to major federal programs occurring subsequent to the period covered by the audit report.

88. The University has disclosed to you whether any changes in internal control over compliance or other factors that might significantly affect internal control over major federal programs, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent to the period covered by the auditors' report.

89. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance over major federal programs during the reporting period.

90. KPMG LLP assisted management in completing Part II of the data collection form. In accordance with Government Auditing Standards, we confirm that we have reviewed, approved, and accept responsibility for the information included in Part II of the data collection form.

91. The reporting package does not contain protected personally identifiable information.

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

93. The University has made a continuing pledge and will make necessary appropriations to fund all deficits of the University of South Alabama Health Care Authority.

94. The receivable from the USA Research and Technology Corporation of $368,151 at September 30, 2019 is deemed fully collectible and it is the University's intention for this amount to be repaid over a period of time greater than one year.

95. 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.

96. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the University's current period financial statements and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.

97. We acknowledge our responsibility for the presentation of the required supplementary information which includes management's discussion and analysis, the schedule of the University's proportionate share of the net pension liability, the schedule of the University's pension contributions, the schedule of the University's proportionate share of the net OPEB liability, and the schedule of the University's OPEB contributions in accordance with the applicable criteria and prescribed guidelines established by the *Governmental Accounting Standards Board* and:

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

b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period; and

c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate in the circumstances.

Very truly yours,

University of South Alabama

Tony G. Waldrop

Dr. Tony G. Waldrop

University President

G. Scott Weldon

G. Scott Weldon

Vice President for Finance and Administration

Robert K. Davis

Robert K. Davis

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

Polly Stokley

Polly Stokley

Associate Vice President of Finance & Administration

November 19, 2019

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

Ladies and Gentlemen:

In connection with your engagement to perform agreed-upon procedures, which were agreed 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 Capital Appreciation Series 1999 Bonds, 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, Series 2013-B, and Series 2013-C, University Facilities Revenue Refunding Bond, Series 2014-A, the University Facilities Revenue Capital Improvement Bond, Series 2015, and University Facilities Revenue Refunding Bonds, Series 2016-A, Series 2016-B, Series 2016-C, and Series 2016-D, University Facilities Revenue Bonds, Series 2017, and University Facilities Revenue Bonds, Series 2019-A and 2019-B as of September 30, 2019, and for the year then ended, we confirm, to the best of our knowledge and belief, as of November 19, 2019 the following representations made to you during your agreed-upon procedures engagement:

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.

2. There are no known matters contradicting the subject matter or assertion there have been no communications from regulatory agencies or others affecting the subject matter or assertion, including communications received between the end of the period addressed in the written assertion and the date of the agreed-upon procedures report.

3. We acknowledge our responsibility for:

   a) The subject matter and the assertion;

   b) Selecting the criteria, when applicable; and

   c) Detemining that such criteria are appropriate for our purposes.

4. We have provided you with access to all records relevant to the subject matter and the agreed upon procedures.

BUSINESS OFFICE
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5. We take responsibility for the sufficiency (nature, timing and extent) of the agreed-upon procedures for our purposes. Further, we understand that 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.

6. We have advised you of all actions taken at meetings of the 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 15, 2019, 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. 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.

9. 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.

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

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

12. 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.

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

14. 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.

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

16. We have provided you with access to all records relevant to the subject matter and the agreed upon procedures.

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

November 19, 2019

Management
University of South Alabama
Mobile, Alabama

Ladies and Gentlemen:

In planning and performing our audit of the basic financial statements of the University of South Alabama (the University) as of and for the year ended September 30, 2019, 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, we considered the University's internal control over financial reporting (internal control) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated November 19, 2019 on our consideration of the University's internal control over financial reporting.

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. During our audit, we identified the following deficiency in internal control:

Calculation of the Allowance for Contractual and Other Adjustments

Management's calculation of the allowance for contractual and other adjustments for University Physicians accounts receivable was determined based on average collections rates over a 24 month period, disaggregated by major payor and service type. However, the books and records of the University were not adjusted to agree to the results of this calculation which resulted in a difference between the general ledger and the allowance calculation of $690,000. Additionally, management calculated the allowance for contractual and other adjustments based on average collection rates over a 12 month period, which would be more representative of current year activities (price increases, payment rates, etc.). However, the results of this analysis were not utilized by management in the recording of the amount to the general ledger which resulted in a difference between the general ledger and the allowance calculation of $1,509,000. We recommend that management establish policies and procedures (including review by someone other than the preparer) to ensure that amounts recorded in the general ledger are adequate, appropriate and supported by calculations performed by management.

This purpose of this letter is solely to describe the deficiency in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

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), as of and for the year ended September 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated November 19, 2019. We did not audit the consolidated financial statements of the University of South Alabama Foundation, which represents 93% and 99%, respectively, of the total assets and net assets or net position, as of June 30, 2019 and 49% of revenues, gains, and other support for the year ended June 30, 2019 of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon, which included an emphasis of matter paragraph related to the retroactive adoption of the provisions of Accounting Statements Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, effective July 1, 2018, 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.

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, as amended, on June 16, 2010, authorizing the issuance of $29,750,000 University Facilities Revenue Capital Improvement Bond, Series 2010, as amended on January 4, 2012, authorizing the issuance of $32,740,000 University Facilities Revenue Capital Improvement Bonds, Series 2012-A, as amended 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, as amended on March 14, 2014, authorizing the issuance of $41,245,000 University Facilities Revenue Refunding Bond, Series 2014-A, as amended on June 15, 2015, authorizing the issuance of $6,000,000 University Facilities Revenue Capital Improvement Bond, Series 2015, as amended on September 14, 2016, authorizing the issuance of $85,605,000 University Facilities Revenue Refunding Bonds, Series 2016-A, as amended on December 7, 2016, authorizing the issuance of $100,000,000 University Facilities Revenue Refunding Bonds, Series 2016-B, 2016-C, and 2016-D, as amended on June 15, 2017, authorizing the issuance of $38,105,000 University Facilities Revenue Bonds, Series 2017, and as amended on February 7, 2019, authorizing the issuance of $66,190,000 University Facilities Revenue Bonds, Series 2019-A and 2019-B, 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 19, 2019

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Independent Accountants' Report on Applying Agreed-Upon Procedures in Connection with
Capital Appreciation Series 1999 Bonds,
University Facilities Revenue Capital Improvement Bond, Series 2010,
University Facilities Revenue Capital Improvement Bonds, Series 2012-A,
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C,
University Facilities Revenue Refunding Bond Series 2014-A,
University Facilities Revenue Capital Improvement Bond, Series 2015,
University Facilities Revenue Refunding Bonds, Series 2016-A, 2016-B, 2016-C and 2016-D,
University Facilities Revenue Bonds, Series 2017, and
University Facilities Revenue Bonds, Series 2019-A and 2019-B

September 30, 2019

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), on the accompanying Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions for the year ended September 30, 2019 and the accompanying Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions as of September 30, 2019 relating to the Capital Appreciation Series 1999 Bonds, University Facilities Revenue Capital Improvement Bond, Series 2010, University Facilities Revenue Capital Improvement Bonds, Series 2012-A, University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C, University Facilities Revenue Refunding Bond Series 2014-A, University Facilities Revenue Capital Improvement Bond, Series 2015, University Facilities Revenue Refunding Bonds, Series 2016-A, 2016-B, 2016-C, and 2016-D, University Facilities Revenue Bonds, Series 2017 and University Facilities Revenue Bonds, Series 2019-A and 2019-B. 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. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated 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 each of 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 amount 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, 2019 (not included herein), which approximated $140 million and compared that amount to the general student fees recorded in the University's general ledger for the year ended September 30, 2019 and found them to be in agreement.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the accompanying Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions for the year ended September 30, 2019 and the accompanying Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions as of September 30, 2019. Accordingly, we do not express such an opinion or conclusion. 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 19, 2019

Exhibit A

UNIVERSITY OF SOUTH ALABAMA

Statement of Changes in Cash and Investments
Held by Trustee Pursuant to the Bond Resolutions
Capital Appreciation Series 1999 Bonds,
University Facilities Revenue Capital Improvement Bond, Series 2010,
University Facilities Revenue Capital Improvement Bonds 2012-A,
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C,
University Facilities Revenue Refunding Bond, Series 2014-A,
University Facilities Revenue Capital Improvement Bond, Series 2015
University Facilities Revenue Refunding Bonds, Series 2016-A, 2016-B, 2016-C, and 2016-D
University Facilities Revenue Bonds, Series 2017
University Facilities Revenue Bonds, Series 2019-A and 2019-B

Year ended September 30, 2019

(In thousands)

Cash and investment transactions:		
Cash receipts:		
Deposits from University of South Alabama for interest and retirement of bonds	$	28,792
		28,792
Cash disbursements:		
Principal payments		17,256
Interest payments		11,536
		28,792
Net change in cash and investments during the year		—
Total cash and investments held by trustee:		
Beginning of year		—
End of year	$	—

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

Exhibit B

UNIVERSITY OF SOUTH ALABAMA

Statement of Cash and Investments
Held by Trustee Pursuant to the Bond Resolutions
Capital Appreciation Series 1999 Bonds,
University Facilities Revenue Capital Improvement Bond, Series 2010,
University Facilities Revenue Capital Improvement Bonds 2012-A,
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C,
University Facilities Revenue Refunding Bond, Series 2014-A,
University Facilities Revenue Capital Improvement Bond, Series 2015
University Facilities Revenue Refunding Bonds, Series 2016-A, 2016-B, 2016-C, and 2016-D
University Facilities Revenue Bonds, Series 2017
University Facilities Revenue Bonds, Series 2019-A and 2019-B

September 30, 2019

(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, 2019 and 2018

(With Independent Auditors' Report Thereon)

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

Table of Contents

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 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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements for the years then ended 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, 2019 and 2018, and the changes in its financial position and its 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 3-7 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 19, 2019

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, 2019 and 2018, 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 University Hospital, and leases one floor of a University-owned, on-campus building. Housing both University and third-party tenants, the area available for lease totals 235,298 square feet of gross leasable space. At September 30, 2019 and 2018, total square feet under lease was 208,179 and 177,523, respectively. 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. During 2018, the derivative was terminated as part of a refinancing transaction. As a result of refinancing transactions, the debt is currently in the form of two promissory notes.

At September 30, 2019 and 2018, the Corporation had total assets and deferred outflows of $23,181,079 and $23,640,750, respectively; total liabilities of $22,460,254 and $22,836,825, respectively; and net position of $720,825 and $803,925, 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.

(Continued)

Condensed Financial Information

Condensed financial information for the Corporation as of and for the years ended September 30, 2019, 2018 and 2017 follows (in thousands):

Condensed Schedules of Net Position

		2019	2018	2017
Assets and deferred outflows:				
Current	$	862	675	380
Capital assets – noncurrent		20,840	21,430	21,689
Other noncurrent assets		217	94	66
Deferred outflows		1,262	1,442	2,252
		23,181	23,641	24,387
Liabilities:				
Current		1,891	1,318	1,710
Noncurrent		20,569	21,519	21,946
		22,460	22,837	23,656
Net position:				
Net investment in capital assets		393	627	876
Unrestricted (deficit)		328	177	(145)
	$	721	804	731

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

		2019	2018	2017
Operating revenues	$	3,607	3,510	3,359
Operating expenses:				
Depreciation and amortization		1,125	1,074	984
Other		1,410	1,316	1,326
Net operating expenses		2,535	2,390	2,310
Operating income		1,072	1,120	1,049
Nonoperating (expenses) revenues:				
Interest expense		(1,123)	(1,069)	(1,145)
Other		(32)	22	3
Net nonoperating expenses		(1,155)	(1,047)	(1,142)
Change in net position		(83)	73	(93)
Beginning net position		804	731	824
Ending net position	$	721	804	731

Analysis of Financial Position and Results of Operations

Statements of Net Position

The statements of net position present the assets and deferred outflows, liabilities, and net position of the Corporation. 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 statements of net position, along with all of the Corporation's basic financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is exchanged.

Current assets consist of cash and cash equivalents, net rent receivable, prepaid expenses, and other current assets at September 30, 2019 and 2018. Noncurrent assets at September 30, 2019 and 2018 consist primarily of capital assets.

Deferred outflows and the noncurrent liability related to the interest rate swap decreased between 2018 and 2017 as a result of the change in the fair value of the swap and the termination of the swap as part of a refinancing transaction. The decrease in deferred outflows between 2019 and 2018 resulted from amortization of the swap termination fee.

Current liabilities primarily consist of unrecognized rent revenue, accrued expenses, and the current portion of long-term debt at September 30, 2019 and 2018. Noncurrent liabilities consist of notes payable, and a payable to the University at September 30, 2019 and 2018.

Net position represents the residual interest in the Corporation's assets and deferred outflows after liabilities are deducted. Net position is classified into one of two categories.

Net investment in capital assets, represents the Corporation's capital assets less accumulated depreciation and the outstanding principal balance of long-term 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 amounts not subject to externally imposed stipulations and are available for use at the discretion of the board of directors for any purpose.

Statements of Revenues, Expenses, and Changes in Net Position

Changes in total Corporation net position as reported in the statements of net position are based on the activity presented in the statements 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 and expenses incurred by the Corporation.

For the years ended September 30, 2019 and 2018, the Corporation reported a change in net position of $(83,100) and $73,079, respectively.

Statements of Cash Flows

The statements of cash flows present information related to the cash flows of the Corporation. This statement presents cash flows by category: operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

Capital Assets and Debt Administration

Total capital asset additions during the years ended September 30, 2019 and 2018 were approximately $518,300 and $805,500, respectively. During the year ended 2018 the promissory note payable to Wells Fargo Bank N.A. was refunded with the proceeds of a loan from PNC Bank, N.A. Also, the proceeds of the PNC loan included $1,478,000 which was paid to Wells Fargo to terminate an interest rate swap. During the year ended 2019, a significant amount of the payable to the University was converted into a promissory note payable over five years. See notes 3, 5, 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, 2019 and estimates of future operating expenses, it is expected that fiscal year 2020 financial performance will be stronger than fiscal year 2019 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 2020 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.

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

Statements of Net Position

September 30, 2019 and 2018

		2019	2018
Assets:			
Current assets:			
Unrestricted cash and cash equivalents	$	649,325	434,629
Rent receivable		210,447	234,932
Prepaid expenses and other current assets		2,068	5,453
Total current assets		861,840	675,014
Noncurrent assets:			
Intangible assets, net		217,389	93,502
Capital assets, net		20,839,632	21,430,374
Total noncurrent assets		21,057,021	21,523,876
Deferred outflows		1,262,218	1,441,860
Total assets and deferred outflows		23,181,079	23,640,750
Liabilities:			
Current liabilities:			
Deposits, other current liabilities, and accrued expenses		455,559	207,072
Unrecognized rent revenue		392,841	384,379
Current portion of notes payable		1,042,887	726,720
Total current liabilities		1,891,287	1,318,171
Noncurrent liabilities:			
Notes payable, excluding current portion		20,200,816	20,057,688
Payable to University of South Alabama		368,151	1,460,966
Total noncurrent liabilities		20,568,967	21,518,654
Total liabilities		22,460,254	22,836,825
Net position:			
Net investment in capital assets		393,142	626,860
Unrestricted		327,683	177,065
Total net position	$	720,825	803,925

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, 2019 and 2018

		2019	2018
Operating revenues	$	3,607,481	3,510,272
Operating expenses:			
Building management and operating expenses		1,188,948	1,095,859
Depreciation and amortization		1,125,270	1,074,308
Legal and administrative fees		192,023	185,238
Insurance		28,964	34,693
Total operating expenses		2,535,205	2,390,098
Operating income		1,072,276	1,120,174
Nonoperating revenues (expenses):			
Donations		—	106,590
Interest expense		(1,123,273)	(1,068,894)
Abandoned tenant improvement costs		(24,660)	—
Debt issuance expense		—	(82,000)
Other		(7,443)	(2,791)
Net nonoperating expenses		(1,155,376)	(1,047,095)
Change in net position		(83,100)	73,079
Net position:			
Beginning of year		803,925	730,846
End of year	$	720,825	803,925

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, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Collections from lessees for rent and operating expense reimbursement	$	3,641,128	3,247,513
Payments for expenses of leasing activity		(1,243,445)	(1,087,922)
Payments to service providers and vendors for general corporate operating expenses		(209,669)	(178,162)
Security deposits collected (refunded)		(724)	3,352
Net cash provided by operating activities		2,187,290	1,984,781
Cash flows from noncapital financing activities:			
Donations		(15,183)	(101)
Vending commissions		4,452	3,915
Net cash (used in) provided by noncapital financing activities		(10,731)	3,814
Cash flows from capital and related financing activities:			
Proceeds from issuance of notes payable		—	13,199,582
Proceeds from advance from University of South Alabama		235,000	335,000
Interest paid on notes payable		(945,052)	(1,036,216)
Principal repaid on notes payable		(1,001,671)	(12,668,812)
Interest rate swap termination fee		—	(1,478,000)
Purchases of capital assets		(221,666)	(132,772)
Debt issuance costs		—	(82,000)
Proceeds from sales of capital assets		—	5,832
Net cash used in capital and related financing activities		(1,933,389)	(1,857,386)
Cash flows from investing activities:			
Investment income		3,129	—
Collection on loan to affiliate		—	1,000
Payment of leasing commissions		(31,603)	(50,638)
Net cash used in investing activities		(28,474)	(49,638)
Net change in cash and cash equivalents		214,696	81,571
Cash and cash equivalents:			
Beginning of year		434,629	353,058
End of year	$	649,325	434,629
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	1,072,276	1,120,174
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense		1,125,270	1,074,308
Decrease in operating expense payable to the University of South Alabama		(21,478)	(877)
(Increase) decrease in rent receivables and prepaid expenses		28,031	(214,105)
Increase (decrease) in unrecognized rent revenue		8,462	(48,309)
Increase (decrease) in other current liabilities, excluding items that are not components of operating income		(25,271)	53,590
Net cash provided by operating activities	$	2,187,290	1,984,781
Noncash investing and capital and related financing transactions:			
Increase in capital assets due from the change in long-term payable to University of South Alabama related to building renovations	$	—	566,094
Increase in current liabilities related to capital assets		296,655	—
Increase in intangible assets due from the change in long-term payable to University of South Alabama		133,151	—
Increase in notes payable from conversion of payable to University of South Alabama to promissory note		1,460,966	—
Abandoned tenant improvement costs		(24,660)	—
Decrease in fair value of interest rate swap liability		—	744,006
Capital assets donated by tenants		—	106,590
Donation of capital assets to University of South Alabama		—	(4,430)
Capital assets sold		—	(8,007)
Interest expense from amortization of deferred cash flows related to debt refinancing		(179,642)	(36,140)

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 not included for 2019 due to the transfer of ownership described in the next paragraph.

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. During 2018, the Corporation transferred ownership of NovALtech to the University of South Alabama Foundation for Research and Commercialization (FRAC). FRAC 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), and is a supporting organization 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*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus:*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units,* 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 through the date of the transfer to FRAC.

The Corporation has adopted GASB Statements No. 39, No. 61, and No. 80, 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. During the year ended 2018, the Corporation reported the fiscal year 2018 activities of NovALtech through the date of the transfer to FRAC as a blended component unit but did not report any assets or liabilities of NovALtech due to the transfer to FRAC. All significant transactions between 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, certificates of deposit 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) Rent receivable

Rent receivable is recorded net of estimated uncollectible amounts.

(f) Capital Assets

All capital expenditures with a cost 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.

(g) 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.

(h) 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 was an interest rate swap entered into to hedge the interest payments on its variable rate Wells Fargo Bank, N.A. note payable. During 2018 the note payable was refunded with the proceeds of a loan from PNC Bank, and the interest rate swap was terminated as part of that refunding transaction.

(i) 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 (including the payable to University of South Alabama related to building renovations) 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. Debt has also been reduced by the principal balance remaining of the debt incurred to provide funds for the swap termination fee.

Unrestricted net position, represents amounts not subject to externally imposed stipulations and are available for use at the discretion of the board of directors for any purpose.

(j) Classification of Revenues

The Corporation has classified its rental revenues as operating revenues, as these 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*.

(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 year ended September 2018. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements.

(3) Capital Assets

Changes in capital assets for the years ended September 30, 2019 and 2018 are as follows:

	September 30, 2019				
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land	$ 223,290	—	—	—	223,290
Land improvements	1,976,112	9,095	—	—	1,985,207
Buildings	28,302,781	148,855	—	—	28,451,636
Tenant improvements	1,840,523	336,629	—	(203,005)	1,974,147
Other equipment	372,755	14,300	—	—	387,055
Construction in progress - nondepreciable	—	9,442	—	—	9,442
	32,715,461	518,321	—	(203,005)	33,030,777
Less accumulated depreciation for:					
Land improvements	(1,311,608)	(94,128)	—	—	(1,405,736)
Buildings	(8,769,406)	(733,294)	—	—	(9,502,700)
Tenant improvements	(953,665)	(224,970)	—	178,345	(1,000,290)
Other equipment	(250,408)	(32,011)	—	—	(282,419)
	(11,285,087)	(1,084,403)	—	178,345	(12,191,145)
Capital assets, net	$ 21,430,374	(566,082)	—	(24,660)	20,839,632

	September 30, 2018				
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land	$ 223,290	—	—	—	223,290
Land improvements	1,976,112	—	—	—	1,976,112
Buildings	28,290,547	12,234	—	—	28,302,781
Tenant improvements	1,154,557	682,483	3,483	—	1,840,523
Other equipment	274,856	110,739	—	(12,840)	372,755
Construction in progress - nondepreciable	3,483	—	(3,483)	—	—
	31,922,845	805,456	—	(12,840)	32,715,461
Less accumulated depreciation for:					
Land improvements	(1,217,594)	(94,014)	—	—	(1,311,608)
Buildings	(8,036,980)	(732,426)	—	—	(8,769,406)
Tenant improvements	(758,823)	(194,842)	—	—	(953,665)
Other equipment	(220,403)	(30,408)	—	403	(250,408)
	(10,233,800)	(1,051,690)	—	403	(11,285,087)
Capital assets, net	$ 21,689,045	(246,234)	—	(12,437)	21,430,374

(4) Property Taxes

The Corporation has received notice from the Mobile County Revenue Commissioner that the property of the Corporation is exempt from property taxes. Accordingly, property taxes have not been recorded in the accompanying basic financial statements.

(5) Noncurrent Liabilities

Changes in noncurrent liabilities for the years ended September 30, 2019 and 2018 are as follows:

	September 30, 2019					
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Notes payable	$ 20,784,408	1,460,966	(1,001,671)	21,243,703	1,042,887	20,200,816
Payable to University of South Alabama	1,460,966	368,151	(1,460,966)	368,151	—	368,151
Total	$ 22,245,374	1,829,117	(2,462,637)	21,611,854	1,042,887	20,568,967

	September 30, 2018					
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Notes payable	$ 20,253,639	13,199,581	(12,668,812)	20,784,408	726,720	20,057,688
Interest rate swap	2,252,005	—	(2,252,005)	—	—	—
Payable to University of South Alabama	559,872	901,094	—	1,460,966	—	1,460,966
Total	$ 23,065,516	14,100,675	(14,920,817)	22,245,374	726,720	21,518,654

(6) Notes Payable

(a) Notes Payable

Notes payable from direct borrowings consisted of the following at September 30, 2019 and 2018:

	2019	2018
PNC Bank promissory note, 4.38%, payable through 2028	$ 12,639,837	13,065,613
PNC Bank promissory note, 4.50%, payable through 2021	7,417,851	7,718,795
University of South Alabama, 3.0%, payable through 2023	1,186,015	—
	$ 21,243,703	20,784,408

During 2018 a variable interest rate note payable to Wells Fargo Bank, N.A. was refunded with the proceeds of a loan from PNC Bank, N.A. 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. In addition to refunding the Wells Fargo note payable, the refunding proceeds were used to terminate an interest rate swap that was used to fix the interest rate on the Wells Fargo note. Over the term of each note payable, the cash flows required to service the PNC Bank note payable exceed the cash flows required to service the Wells Fargo note payable by $2,352,759. The economic loss due to the refunding was $587,552

The first promissory note payable to PNC Bank has a 10-year term and amortization is based on a 20-year term. The promissory note payable is secured by an interest in tenant leases for Buildings II and III, and an interest in income received from rental of Buildings II and III. The Corporation agreed to not transfer or encumber the buildings or its leasehold interest in the real estate on which the buildings stand.

The second promissory note payable to PNC Bank has a 10-year term and amortization is based on a 20-year term. 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. The Corporation agreed to not transfer or encumber the buildings or its leasehold interest in the real estate on which the buildings stand.

In connection with each PNC 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 2019, the Corporation's debt service coverage ratio was 1.22 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2019.

During fiscal 2019, the payable to the University at September 30, 2018 was converted into a promissory note payable to the University. It is a fully-amortizing note with a 5-year term. See note 10 for a subsequent event update.

The Corporation's outstanding notes from direct borrowings with PNC Bank contain a provision that, in the event of default, PNC Bank may take any or all of the following actions: (a) declare the loan due and payable, (b) declare the note in default, and (c) exercise any other remedies or rights which it has under any instrument executed in connection with the loan. Prior to any of these actions, however, PNC Bank will give the University 30 days to cure the default. The Corporation's outstanding note from a direct borrowing with the University contains a provision that, in the event principal payments are not made when due, allows the University to declare the loan due and payable.

(b) Debt Service on Long-Term Obligations

At September 30, 2019, total future debt service by fiscal year is as follows:

	Debt service on notes payable		
	Principal	**Interest**	**Total**
2020	$ 1,042,887	903,836	1,946,723
2021	7,859,695	653,916	8,513,611
2022	786,259	518,330	1,304,589
2023	817,103	487,486	1,304,589
2024	529,807	459,762	989,569
2025-2028	10,207,952	1,504,424	11,712,376
Total	$ 21,243,703	4,527,754	25,771,457

(c) Derivative Transaction

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

Under the swap, the Corporation paid Wells Fargo a fixed payment of 6.10% and received a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the Wells Fargo loan bore interest at the one-month LIBOR rate plus 0.85%. The Corporation paid $329,600 under the interest rate swap agreement for the year ended September 30, 2018, which is reflected as an increase in interest expense.

The swap was terminated on June 20, 2018 as part of a transaction refunding the Wells Fargo loan with the proceeds of a loan from PNC Bank. The fee paid by the Corporation to Wells Fargo to terminate the swap was $1,478,000. Pursuant to GASB Statement No. 65, the fee is reported in deferred outflows on the statements of net position and amortized to interest expense according to the percentage of annual interest paid on the loan from PNC Bank to the total interest to be paid on that loan over the 118 months that were remaining on the Wells Fargo loan when the swap was terminated. At September 30, 2019 and 2018, the balance was $1,262,218 and $1,441,860, respectively.

(7) Leases

The Corporation leases space in Building I to five tenants under operating leases. One lease has a 5-year initial term expiring in October 2023 with two 5-year renewal options. The second lease has a 5-year term expiring in April 2024 with no renewal option. The third lease has a 5-year term expiring in July 2024 with no renewal option. The fourth lease has a 5-year initial term expiring in July 2024 with one 5-year renewal option. The fifth lease has a 90-month initial term expiring in June 2025 with two 5-year renewal options.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. The leases have remaining terms varying from month-to-month to five 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 eight 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, 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 (which generally is the first calendar year of the lease term). Under Hub leases, the Corporation must pay all operating expenses of the space, without reimbursement from tenants.

Space under lease to the University was 63,965 and 51,168 square feet at September 30, 2019 and 2018, respectively.

The Corporation owns a building located on the premises of the USA University Hospital, 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, 2019. 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 2036 with four 5-year renewal options. The third lease has a 38.5-year initial term expiring in September 2046 with 20-year and 15-year renewal options.

Minimum future rental revenues by fiscal year are as follows:

2020	$	3,099,764
2021		2,899,953
2022		2,732,511
2023		1,638,394
2024		1,227,947
2025–2047		6,136,480
Total	$	17,735,049

(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 require its directors to be either University trustees or employees, or approved by the University Board of Trustees.

During fiscal 2019 and 2018, the Corporation engaged in several transactions with the University. The University was charged $931,888 and $804,200 during the years ended September 30, 2019 and 2018, respectively, for rental space as described in note 7. The University provides certain administrative, property management, utilities, and other support services to the Corporation, for which the University charged $743,580 and $620,048 for such services during fiscal years 2019 and 2018, respectively.

Prior to fiscal 2015, the Corporation entered into four 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) Recently Issued Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement is effective for the Corporation in the current reporting period. Statement 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for ARO's. The GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. This statement will be effective for the Corporation beginning with the fiscal year ending September 30, 2020. Statement 84 addresses the criteria for identifying fiduciary activities of all state and local governments. In June 2017, the GASB issued Statement No. 87, *Leases*, which will be effective for the Corporation beginning with the fiscal year ending September 30, 2021. This statement establishes a single model for lease accounting whereby certain leases that were previously classified as operating leases will now be reported on the statements of net position. Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, was issued in March 2018 to enhance note disclosure for debt agreements. The Corporation adopted this new statement in 2019 and retroactively applied the statement in 2018. In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective beginning with the fiscal year ending September 30, 2021. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. GASB Statement No. 90, *Majority Equity Interests*, was issued in August 2018. Effective for the Corporation beginning with the fiscal year ending September 30, 2020, this statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method, with certain exceptions, if a government holding of the equity interest meets the definition of an investment. In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations,* which will be effective beginning with the fiscal year ending September 30, 2022. The objective of this statement is to clarify the definition of conduit debt obligations, establish that conduit debt is not a liability of the issuer, establish standards for reporting additional commitments and voluntary commitments extended by issuer, and improve note disclosures.

The effect of the implementation of GASB Statement Nos. 84, 87, 89, 90 and 91 on the Corporation has not yet been determined.

GASB Statement No. 83 did not have an impact on the Corporation's financial statements.

(10) Subsequent Event

On September 17, 2019, the Corporation's board of directors approved a resolution to consolidate the payable to the University of $368,151 and the outstanding balance of the promissory note payable to the University in the amount of $1,186,015 into a new promissory note payable to the University in the amount of $1,554,166. The new note was signed on October 1, 2019, and is a fully-amortizing note payable over four years at a 3% interest rate.

KPMG

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
(A Component Unit of the University of South Alabama)

Basic Financial Statements

September 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
(A Component Unit of the University of South Alabama)

Basic Financial Statements

September 30, 2019 and 2018

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

Independent Auditors' Report

The Board of Directors
University of South Alabama Health Care Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of South Alabama Health Care Authority (HCA), a component unit of the University of South Alabama, as of September 30, 2019 and 2018, and for the year ended September 30, 2019 and for the period August 1, 2017 (inception) through September 30, 2018, and the related notes to the financial statements, which collectively comprise HCA'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 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.

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 University of South Alabama Health Care Authority as of September 30, 2019 and 2018, and the changes in its financial position and its cash flows for the year ended September 30, 2019 and for the period August 1, 2017 (inception) through September 30, 2018 in accordance with U.S. generally accepted accounting principles.

Other Matter

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–6 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 19, 2019 on our consideration of HCA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HCA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HCA's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
November 19, 2019

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
(A component unit of the University of South Alabama)

Statements of Net Position

September 30, 2019 and 2018

		2019	**2018**
Current assets:			
Cash and cash equivalents	$	1,187,941	393,333
Patient receivables (net of allowance for doubtful accounts of approximately $381,000 and $35,500, respectively)		2,195,449	1,826,796
Inventories		155,403	227,588
Other current assets		677,458	349,885
Total current assets		4,216,251	2,797,602
Noncurrent assets:			
Capital assets		1,601,883	730,589
Total assets	$	5,818,134	3,528,191
Current liabilities:			
Accounts payable and accrued liabilities	$	1,140,839	620,539
Accrued salaries and wages		1,439,410	889,883
Other current liabilities		307,224	797,801
Total current liabilities		2,887,473	2,308,223
Total liabilities	$	2,887,473	2,308,223
Net position:			
Net investment in capital assets	$	1,601,883	730,589
Unrestricted		1,328,778	489,379
Total net position	$	2,930,661	1,219,968

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
(A component unit of the University of South Alabama)

Statements of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2019 and the period August 1, 2017 (inception) through September 30, 2018

		2019	2018
Operating revenues:			
Patient service revenues (net of provision for bad debts of $282,505 and $77,010, respectively)	$	22,469,643	16,863,187
Other operating revenues		1,098,410	650,484
Total operating revenues		23,568,053	17,513,671
Operating expenses:			
Salaries and benefits		18,132,585	13,592,303
Building and equipment expenses		1,750,901	1,537,464
Medical and surgical supplies		6,870,305	6,790,518
Other expenses		4,230,581	3,204,353
Depreciation and amortization		275,544	134,154
Total operating expenses		31,259,916	25,258,792
Operating loss		(7,691,863)	(7,745,121)
Nonoperating revenues:			
Support from University of South Alabama		9,394,306	8,952,926
Other nonoperating revenues		8,250	12,163
Total nonoperating revenues		9,402,556	8,965,089
Increase in net position		1,710,693	1,219,968
Net position at beginning of period		1,219,968	—
Net position at end of period	$	2,930,661	1,219,968

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
(A component unit of the University of South Alabama)

Statements of Cash Flows

Year ended September 30, 2019 and the period August 1, 2017 (inception) through September 30, 2018

		2019	2018
Cash flows from operating activities:			
Receipts from and on behalf of patients and third-party payors	$	22,256,278	15,036,391
Payments to suppliers and vendors		(12,895,765)	(10,764,111)
Payments to employees and related benefits		(17,861,924)	(12,629,777)
Other operating receipts		1,040,301	650,484
Net cash used in operating activities		(7,461,110)	(7,707,013)
Cash flows from noncapital financing activities:			
Support from University of South Alabama		9,394,306	8,952,926
Other nonoperating income		8,250	12,163
Net cash provided by noncapital financing activities		9,402,556	8,965,089
Cash flows from capital and related financing activities:			
Purchases of capital assets		(1,146,838)	(864,743)
Net cash used in capital and related financing activities		(1,146,838)	(864,743)
Net increase in cash and cash equivalents		794,608	393,333
Cash and cash equivalents:			
Beginning of year		393,333	—
End of year	$	1,187,941	393,333
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(7,691,863)	(7,745,121)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense and amortization		275,544	134,154
Changes in assets and liabilities, net:			
Net patient receivables		(368,653)	(1,826,796)
Inventories		72,185	(227,588)
Other current assets		(327,573)	(349,885)
Accounts payable and accrued liabilities		520,300	620,539
Accrued salaries and wages		549,527	889,883
Other current liabilities		(490,577)	797,801
Net cash used in operating activities	$	(7,461,110)	(7,707,013)

See accompanying notes to basic financial statements.

Introduction

The following discussion presents an overview of the financial position and financial activities of the University of South Alabama Health Care Authority (HCA) at September 30, 2019 and 2018, and for the year ended September 30, 2019 and the period August 1, 2017 (inception) through September 30, 2018. This discussion has been prepared by management and should be read in conjunction with the basic financial statements and notes thereto, which follow.

Financial Highlights

Summary of 2019 and 2018 Activities

HCA was incorporated on May 2, 2017 and commenced operations on August 1, 2017. HCA was formed by the University of South Alabama (University) as an Alabama public corporation pursuant to the University Authority Act of 2016. The University's Board of Trustees controls HCA through its appointment of HCA's board of directors (board). The board is composed of five ex-officio members and six other members. The ex-officio members are the chair pro tempore of the University's Board of Trustees, and the President and University employees holding the following University positions: Vice President of Finance and Administration, Vice President for Medical Affairs, and Chief Executive Officer of USA Health. The other six members are all appointed by the University's Board of Trustees.

At September 30, 2019 and 2018, HCA had total assets of $5,818,134 and $3,528,191; total liabilities of $2,887,473 and $2,308,223; and net position of $2,956,583 and $1,219,968, respectively.

HCA's basic financial statements are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is exchanged.

An overview of each financial statement is presented herein along with a financial analysis of the transactions impacting the financial statements.

Condensed Financial Information

Condensed financial information for HCA as of September 30, 2019 and 2018 and for the year ended September 30, 2019 and the period August 1, 2017 (inception) through September 30, 2018 follow (in thousands):

Condensed Schedule of Net Position

		2019	2018
Assets:			
Current	$	4,216	2,797
Capital assets		1,602	731
Total assets		5,818	3,528
Liabilities:			
Current		2,888	2,308
Total liabilities		2,888	2,308
Net position:			
Net investment in capital assets		1,602	731
Unrestricted		1,329	489
Total net position	$	2,931	1,220

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

		2019	2018
Operating revenues:			
Net patient service revenues	$	22,470	16,863
Other operating revenues		1,098	650
Total operating revenues		23,568	17,513
Operating expenses:			
Salaries and benefits		18,133	13,592
Other operating expenses		13,127	11,666
Total operating expenses		31,260	25,258
Operating loss		(7,692)	(7,745)
Nonoperating revenues:			
Support from affiliate		9,395	8,953
Other nonoperating revenues		8	12
Increase in net position		1,711	1,220
Net position at beginning of year		1,220	—
Net position at end of year	$	2,931	1,220

Analysis of Financial Position and Results of Operations

Statements of Net Position

The statements of net position presents the assets, liabilities, and net position of HCA at September 30, 2019 and 2018. Net position is displayed in two parts: net investment in capital assets and unrestricted. Net investment in capital assets represents HCA's capital assets less accumulated depreciation and outstanding principal balances of the debt attributable to the acquisition, construction, or improvement of those assets. Unrestricted net position is available for use by HCA to meet current expenses for any purpose. The statements of net position, along with all of HCA's basic financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by HCA, regardless of when cash is exchanged.

Assets included in the statements of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, and net patient receivables. Of these amounts, cash and cash equivalents comprise approximately 28% and 14%, respectively, of current assets at September 30, 2019 and 2018. Accounts receivable comprise 52% and 65%, respectively, of current assets at September 30, 2019 and 2018. Current assets consist of cash and cash equivalents of $1,187,941 and $393,333, accounts receivable of $2,195,449 and $1,826,796, inventories of $155,403 and $227,588, and other current assets in the amount of $677,458 and $349,885 at September 30, 2019 and 2018, respectively. Noncurrent assets consist of capital assets of $1,601,883 and $730,589 at September 30, 2019 and 2018, respectively.

Current liabilities consist of accounts payable of $1,140,839 and $620,539, accrued salaries and wages of $1,439,410 and $889,883 and other current liabilities of $307,224 and $797,801 at September 30, 2019 and 2018, respectively.

Statements of Revenues, Expenses, and Changes in Net Position

The change in total HCA net position is based on the activity presented in the statements 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 HCA.

For the year ended September 30, 2019 and the period August 1, 2017 (inception) through September 30, 2018, HCA reported an increase in net position of $1,710,693 and $1,219,968, respectively.

Statements of Cash Flows

The statements of cash flows presents information related to cash flows of HCA. The statement presents cash flows by category: operating activities, noncapital financing activities, and capital and related financing activities.

Economic Outlook

The financial outlook for HCA is stable. HCA continues to grow by purchasing existing physician practices and expanding existing practices.

Requests for Information

These basic financial statements are designed to provide a general overview of HCA and to demonstrate HCA's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Mrs. Traci Jones; Chief Financial Officer; University Health; 2451 USA Medical Center Drive, Administration Suite, Mobile, AL 36604.

(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 Health Care Authority (HCA), which is a component unit of the University of South Alabama (the University).

HCA was incorporated on May 2, 2017 and commenced operations on August 1, 2017. HCA enhances the University's provision of patient care by providing it with a corporate structure, which allows for greater flexibility and options to achieve goals consistent with the public health mission of the University. HCA provides group medical practices for physicians who strive to make a difference in the lives of those they serve through promoting excellence in healthcare.

HCA was formed by the University as an Alabama public corporation pursuant to the provisions of the State of Alabama University Authority Act of 2016. The University's Board of Trustees controls HCA through its control of HCA's board of directors (board). The board is composed of five ex-officio members and six other members. The ex-officio members are the chair pro tempore of the University's Board of Trustees, and the President and University employees holding the following University positions – Vice President of Finance and Administration, Vice President for Medical Affairs, and Chief Executive Officer of USA Health. The other six members are all appointed by the University's Board of Trustees.

During fiscal year 2019, two nonprofit limited liability companies (LLCs) were formed, with HCA as the sole member to manage the complex patient and insurance billings of HCA. These LLCs exist solely for billing purposes and the activities of these LLCs are included in the HCA financial statements as blended component units.

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, HCA is considered a special-purpose governmental agency engaged only in business-type activities, as defined by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Accordingly, HCA'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) Statements of Revenues, Expenses, and Changes in Net Position

Transactions deemed to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating revenues.

(d) 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.

(e) 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.

(f) Patient Receivables

Patient receivables primarily result from ambulatory patient service revenues. Patient receivables are recorded net of an allowance for estimated doubtful amounts.

(g) Inventories

Inventories consist of medical supplies and pharmaceuticals, which are stated at the lower of cost (first in, first out method) or market.

(h) Capital Assets

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

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

Leasehold improvements	10 – 20 years
Fixed equipment	10 – 20 years
Major movable equipment	4 – 15 years

(i) Classification of Net Position

HCA’s net position is classified as follows:

- Net investment in capital assets represents HCA’s total investment in capital assets.

- Unrestricted net position represents resources derived from operations and support from the University. While unrestricted net position may be designated for specific purposes, neither management nor the board of directors have designated any part of unrestricted net position for such purposes.

(j) Patient Service Revenues

Net patient service revenues are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, and includes estimated retroactive revenue adjustments (if necessary) 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.

HCA provides a standard discount from gross charges for uninsured patients. Such discounts are subtracted from gross patient service charges to determine net patient service revenues.

For uninsured patients, HCA recognizes revenue based on established rates, subject to certain discounts as determined by HCA. An estimated provision for uncollectible accounts is recorded that results in net patient service revenues being reported at the net amount expected to be received. HCA has determined that patient service revenues are primarily recorded prior to assessing the patient's ability to pay and as such, the entire provision for uncollectible accounts related to patient revenues are recorded as a deduction from patient service revenues in the accompanying statements of revenues, expenses, and changes in net position.

Patient receivables are reduced by an allowance for doubtful accounts. The allowance for doubtful accounts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverage, major payor sources, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for doubtful accounts to establish an appropriate allowance for doubtful accounts. After satisfaction of amounts due from insurance, HCA follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by HCA.

(2) Income Taxes

HCA was incorporated in Alabama as a public corporation. HCA is an instrumentality of the State of Alabama by virtue of its control by the University. The income of HCA is excluded from federal and state income taxation pursuant to the provisions of Section 115(1) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements.

(3) Capital Assets

A summary of HCA's capital assets activity for the year ended September 30, 2019 and the period August 1, 2017 (inception) through September 30, 2018 follows:

	2019				
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Construction in progress	$ 102,553	137,361	—	—	239,914
	102,553	137,361	—	—	239,914
Capital assets being depreciated:					
Leasehold improvements	56,147	—	—	—	56,147
Fixed equipment	183,387	—	—	—	183,387
Major movable equipment	522,656	1,009,477	—	—	1,532,133
	762,190	1,009,477	—	—	1,771,667
Less accumulated depreciation for:					
Leasehold improvements	(4,307)	(8,325)	—	—	(12,632)
Fixed equipment	(12,368)	(26,049)	—	—	(38,417)
Major movable equipment	(117,479)	(241,170)	—	—	(358,649)
	(134,154)	(275,544)	—	—	(409,698)
Capital assets being depreciated, net	628,036	733,933	—	—	1,361,969
Capital assets, net	$ 730,589	871,294	—	—	1,601,883

		2018				
		Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:						
Construction in progress	$	—	102,553	—	—	102,553
		—	102,553	—	—	102,553
Capital assets being depreciated:						
Leasehold improvements		—	56,147	—	—	56,147
Fixed equipment		—	183,387	—	—	183,387
Major movable equipment		—	522,656	—	—	522,656
		—	762,190	—	—	762,190
Less accumulated depreciation for:						
Leasehold improvements		—	(4,307)	—	—	(4,307)
Fixed equipment		—	(12,368)	—	—	(12,368)
Major movable equipment		—	(117,479)	—	—	(117,479)
		—	(134,154)	—	—	(134,154)
Capital assets being depreciated, net		—	628,036	—	—	628,036
Capital assets, net	$	—	730,589	—	—	730,589

(4) Patient Service Revenues

HCA has agreements with governmental and other third-party payors that provide for reimbursement to HCA at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between HCA's billings at established rates and amounts reimbursed by third-party payors. Third-party payor activity for HCA principally involves Blue Cross, Medicare, and Medicaid programs. Services rendered to beneficiaries under these programs are generally paid at prospectively determined procedural rates.

For patient accounts receivables associated with self-pay or uninsured patients, including patients with deductibles and copayment balances for third-party coverage, HCA records an estimated allowance for doubtful accounts. The allowance for doubtful accounts is $381,000 and $35,500, respectively, at September 30, 2019 and 2018.

The composition of net patient service revenues for the year ended September 30, 2019 and the period August 1, 2017 (inception) through September 30, 2018 is as follows:

		2019	2018
Gross patient service revenues	$	35,128,987	27,454,776
Provision for contractual and other adjustments		(12,659,344)	(10,591,589)
Net patient service revenues	$	22,469,643	16,863,187

The composition of gross patient service revenues before the provision for contractual and other adjustments by major payor source follows for the year ended September 30, 2019:

		Gross patient service revenues	Percentage
Medicare Managed Care	$	11,562,145	33 %
Medicare		10,577,294	30
Blue Cross		9,679,262	28
Medicaid		1,755,660	5
Other		1,185,012	3
Self-pay		369,614	1
	$	35,128,987	100 %

The composition of gross patient service revenues before the provision for contractual and other adjustments by major payor source follows for the period August 1, 2017 (inception) through September 30, 2018:

		Gross patient service revenues	Percentage
Medicare Managed Care	$	9,903,808	36 %
Medicare		9,645,872	35
Blue Cross		6,956,281	25
Other		766,087	3
Self-pay		182,728	1
	$	27,454,776	100 %

(5) Related Party Transactions

During the year ended September 30, 2019 and the period August 1, 2017 (inception) through September 30, 2018 the University provided support of $9,394,306 and $8,952,926, respectively, to HCA.

That amount is reflected on the accompanying statements of revenue, expenses, and changes in net position as nonoperating revenue.

(6) Business and Credit Concentrations

HCA grants credit to patients, substantially all of whom reside in HCA's service area. HCA generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, preferred provider arrangements, and commercial insurance policies).

The mix of receivables from patients and third-party payors as of September 30, 2019 and 2018 follows:

	2019	2018
Medicare	18 %	55 %
Medicare Managed Care	25	24
Medicaid	22	—
Blue Cross	18	9
Other	5	7
Self-pay	12	5
	100 %	100 %

(7) Other Employee Benefits

(a) Pension Plans

Employees of HCA participate in a combined deferred compensation plan/money purchase pension plan arrangement. The arrangement covers all eligible employees, and participation by eligible employees is optional. Under this plan, administered by HCA, contributions by eligible nonphysician employees are matched equally by HCA up to a maximum of 5% of current annual pay. Contributions by eligible physician employees up to the 457(b) deferred compensation plan limit are matched at a 25% rate by HCA. HCA contributed $365,349 and $297,075, respectively, for the year ended September 30, 2019 and the period August 1, 2017 (inception) through September 30, 2018, representing 165 and 101 employees, respectively, in this plan.

Physician employees of HCA also have the option to participate in a second money purchase pension plan. This plan is funded entirely by pretax deductions from the participating physicians' salaries.

(b) Compensated Absences

Regular HCA employees accumulate paid time off (PTO). These are subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Employees hired are not eligible for payment of PTO hours upon separation of employment. The accompanying statement of net position includes accruals for PTO of $133,837 and $111,675, respectively, at September 30, 2019 and 2018. The accrual is included in accounts payable and accrued liabilities in the accompanying basic financial statements.

(8) Risk Management

HCA, along with the University and other entities affiliated with the University, participates in the professional liability trust fund and the general liability trust fund. Both funds are administered by an independent trustee. These trust funds are revocable and use contributions by the participating entities, together with earnings thereon, to pay liabilities arising from the performance of employees, trustees and other individuals acting on behalf of the participating entities. Any risk related to the payment of claims is the responsibility of the plan. If the trust funds are ever terminated, appropriate provision for payment of related claims will be made and any remaining balance may be distributed to the participating entities in proportion to contributions made.

HCA, along with the University and other entities affiliated with the University, participates in a self-insured health plan, which is administered by an unaffiliated entity. Contributions by employees and assets of the participating entities, together with earnings thereon, are used to pay liabilities arising from healthcare claims. Any risk related to the payment of claims is the responsibility of the plan. It is the opinion of HCA management that plan assets are sufficient to meet future plan obligations.

(9) Recently Issued Accounting Pronouncements

The GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. GASB Statement 84 addresses the criteria for identifying fiduciary activities of all state and local governments. In June 2017, the GASB issued Statement No. 87, *Leases,* which will be effective for HCA beginning with the fiscal year ending September 30, 2021. This statement establishes a single model for lease accounting whereby certain leases that were previously classified as operating leases will now be reported on the statements of net position. In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

The effect of the implementation of GASB Statement Nos. 84, 87 and 89 is not expected to have an impact on HCA’s financial statements when they become effective.

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 Directors
University of South Alabama Health Care Authority:

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 financial statements of the University of South Alabama Health Care Authority (HCA), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise HCA's basic financial statements, and have issued our report thereon dated November 19, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered HCA'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 opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of HCA's internal control. Accordingly, we do not express an opinion on the effectiveness of HCA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiency described below as item 2019-001 to be a material weakness. A significant deficiency is a deficiency, or a 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. We consider the deficiencies described below as items 2019-002 and 2019-003 to be significant deficiencies.

2019-001: Monthly Account Reconciliation

During the 2018 financial statement audit of HCA, we noted that management failed to properly perform reconciliation procedures over certain accounts, specifically the cash clearing accounts. This lack of proper internal control over financial reporting resulted in material errors to the financial statements in the prior year. While management prepared monthly account reconciliations and worked to resolve the issue throughout the year, the material weakness was not considered remediated until September 30, 2019. Through management's resolution process, management identified additional corrections to the financial statements that were necessary. We recommend that management continue to review the reconciliation of the cash clearing account monthly to ensure proper recording of all activity within that account in the books and records of HCA.

Management's Response

It is management's response that monthly cash clearing account analysis were completed and recorded as of the fiscal year end. HCA worked with Athena throughout fiscal year 2019 to determine all of the appropriate reports needed to reconcile the cash control account, and were able to use this information to reconcile cash control completely. In addition, increased staffing to support the record keeping of the HCA records will be established. Management is confident all activity will be recorded timely and accurately within the books and records of HCA.

2019-002 Physician Payroll

During our audit of HCA, we noted that management had identified the existence of a certain physician whose monthly pay did not agree to the signed physician employment agreement due to an error in the processing of the personnel action form. As a result, the physician had been overpaid by approximately $110,000. Management's agreement with the physician to repay the overpayment included monthly withholdings from the physician over a three year period. Management failed to record an accounts receivable due from the physician and instead accounted for these repayments as a reduction to payroll expense, as these amounts were withheld from the physician's payroll during the year ended September 30, 2019. As a result of the overpayment error identified by management, we requested that management perform a detailed review of all personnel action forms to ensure that no similar issues or other errors existed. As a result, management identified errors in the calculation of accrued physician payroll, resulting in an understatement of accrued physician payroll by approximately $17,000 which management has corrected in the books and records of HCA for the year ended September 30, 2019. While management does have established review procedures in place to ensure that all executed physician employment agreements agree to the personnel action forms, the control was not operating effectively. We recommend that management review the operating effectiveness of this control and make necessary changes so that it is operating effectively going forward. We recommend management establish procedures to ensure that the calculation of accrued employee payroll is accurate, that inputs are appropriate and that it is reviewed and approved prior to being recorded in the financial statements.

Management's Response

It is management's response that policies and procedures are established for review of the personnel action forms of the physicians. Management will re-educate staff as to the expectation of the review and tying of the physician employment agreement and the personnel action form to one another. In addition, re-education and additional review on month end payroll accruals within the Accounting department will be executed.

2019-003 Calculation of the Allowance for Contractual and Other Adjustments

Management's calculation of the allowance for contractual and other adjustments was determined based on total expected collections for the year with the resulting difference between actual and expected collections being recorded as an allowance for contractual and other adjustments. In the case of one service line, this methodology resulted in more allowance for contractual and other adjustments than accounts receivable. Management also prepared a secondary calculation, disaggregated by major payor, but did not utilize this calculation to record the allowance for contractual and other adjustments within the books and records of HCA although this methodology resulted in a difference of over $900,000 from the first calculation. We recommended in 2018 and again in 2019 that a more precise calculation should be performed to disaggregate the calculation by major payor (Medicare, Blue Cross, etc.) and physician group/service line to more accurately estimate the allowance for contractual and other adjustments. The results of this analysis should be recorded monthly within the books and records of HCA. At our request and our recommendation, management provided a third calculation disaggregated by major payor and physician group/service line based on accounts receivable balances at September 30, 2019. Based on our audit procedures performed over the third calculation, we discovered a mathematical error in the calculation that has been recorded in the books and records of HCA at September 30, 2019. We recommend that management establish review procedures to ensure that amounts recorded in the general ledger are appropriate and supported by calculations that are free of mathematical errors.

Management's Response

In the current year, management implemented a balance sheet calculation, disaggregated by payor as part of the overall allowance methodology based on recommendations from KPMG in the prior year. This was used in conjunction with a historical collections approach, and these two approaches were used to establish an acceptable range for the allowance. While the recorded allowance was in the range, management revised the calculation based on recommendations from KPMG during the audit to calculate a more precise allowance. Management will establish review procedures going forward to ensure that this new revised calculation is free of mathematical errors. Management will compute the allowance and record the precise calculation to the ledger.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HCA's basic financial statements are free from 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.*

HCA's Responses to Findings

HCA's responses to the findings identified in our audit are described previously. HCA's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the responses.

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 results of that testing, and not to provide an opinion on the effectiveness of HCA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HCA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Jackson, Mississippi
November 19, 2019

Management's Response to Management Letter

2019-001 Monthly Account Reconciliation

Original Comment
During the 2018 financial statement audit of HCA, we noted that management failed to properly perform reconciliation procedures over certain accounts, specifically the cash clearing accounts. This lack of proper internal control over financial reporting resulted in material errors to the financial statements in the prior year. While management prepared monthly account reconciliations and worked to resolve the issue throughout the year, the material weakness was not considered remediated until September 30, 2019. Through management's resolution process, management identified additional corrections to the financial statements that were necessary. We recommend that management continue to review the reconciliation of the cash clearing account monthly to ensure proper recording of all activity within that account in the books and records of HCA.

Management's Response
It is management's response that monthly cash clearing account analysis were completed and recorded as of the fiscal year end. HCA worked with Athena throughout fiscal year 2019 to determine all of the appropriate reports needed to reconcile the cash control account, and were able to use this information to reconcile cash control completely. In addition, increased staffing to support the record keeping of the HCA records will be established. Management is confident all activity will be recorded timely and accurately within the books and records of HCA.

2019-002 Physician Payroll

Original Comment

During our audit of HCA, we noted that management had identified the existence of a certain physician whose monthly pay did not agree to the signed physician employment agreement due to an error in the processing of the personnel action form. As a result, the physician had been overpaid by approximately $110,000. Management's agreement with the physician to repay the overpayment included monthly withholdings from the physician over a three year period. Management failed to record an accounts receivable due from the physician and instead accounted for these repayments as a reduction to payroll expense, as these amounts were withheld from the physician's payroll during the year ended September 30, 2019. As a result of the overpayment error identified by management, we requested that management perform a detailed review of all personnel action forms to ensure that no similar issues or other errors existed. As a result, management identified errors in the calculation of accrued physician payroll, resulting in an understatement of accrued physician payroll by approximately $17,000 which Management has corrected in the books and records of HCA for the year ended September 30, 2019. While management does have established review procedures in place to ensure that all executed physician employment agreements agree to the personnel action forms, the control was not operating effectively. We recommend that management review the operating effectiveness of this control and make necessary changes so that it is operating effectively going forward. Finally, an additional adjustment was recorded to properly state accrued employee payroll at September 30, 2019. We recommend management establish procedures to ensure that the calculation of accrued employee payroll is accurate, that inputs are appropriate and that it is reviewed and approved prior to being recorded in the financial statements.

Management's Response

It is management's response that policies and procedures are established for review of the personnel action forms of the physicians. Management will re-educate staff as to the expectation of the review and tying of the physician employment agreement and the personnel action form to one another. In addition, re-education and additional review on month end payroll accruals within the Accounting department will be executed.

2019-003 Calculation of the Allowance for Contractual and Other Adjustments

Original Comment

Management's calculation of the allowance for contractual and other adjustments was determined based on total expected collections for the year with the resulting difference between actual and expected collections being recorded as an allowance for contractual and other adjustments. In the case of one service line, this methodology resulted in more allowance for contractual and other adjustments than accounts receivable. Management also prepared a secondary calculation, disaggregated by major payor, but did not utilize this calculation to record the allowance for contractual and other adjustments within the books and records of HCA although this methodology resulted in a difference of over $900,000 from the first calculation. We recommended in 2018 and again in 2019 that a more precise calculation should be performed to disaggregate the calculation by major payor (Medicare, Blue Cross, etc.) and physician group/service line to more accurately estimate the allowance for contractual and other adjustments. The results of this analysis should be recorded monthly within the books and records of HCA. At our request and our recommendation, management provided a third calculation disaggregated by major payor and physician group/service line based on accounts receivable balances at September 30, 2019. Based on our audit procedures performed over the third calculation, we discovered a mathematical error in the calculation that has been recorded in the books and records of HCA at September 30, 2019. We recommend that management establish review procedures to ensure that amounts recorded in the general ledger are appropriate and supported by calculation that are free of mathematical errors.

Management's Response

In the current year, Management implemented a balance sheet calculation, disaggregated by payor as part of the overall allowance methodology based on recommendations from KPMG in the prior year. This was used in conjunction with a historical collections approach, and these two approaches were used to establish an acceptable range for the allowance. While the recorded allowance was in the range, Management revised the calculation based on recommendations from KPMG during the audit to calculate a more precise allowance. Management will establish review procedures going forward to ensure that this new revised calculation is free of mathematical errors. Management will compute the allowance and record the precise calculation to the ledger.

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

November 19, 2019

Management
University of South Alabama Health Care Authority
Mobile, Alabama

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of University of South Alabama Health Care Authority (HCA) as of and for the year ended September 30, 2019, 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, we considered HCA's internal control over financial reporting (internal control) 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 HCA's internal control. Accordingly, we do not express an opinion on the effectiveness of HCA's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated November 19, 2019 on our consideration of HCA's internal control over financial reporting in which we communicated certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies or material weaknesses and significant deficiencies.

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. During our audit, we identified the following deficiency in internal control:

Patient Refunds

Management's process for unapplied patient balances involves identifying future visits for which the balance may be applied. Business Office staff note this unapplied balance on the patient specific note for point of service check in. This unapplied balance is then used to offset that time of service co-pay. HCA has refunds that may be applied to patient balances over a period of three months, depending on the number of upcoming visits. The number and dollars of patient refunds has increased from 1,613 and $54,096 at September 30, 2018 to 3,810 and $101,192 at September 30, 2019. Management should review this process to differentiate between patient refunds and pending payor remittances in a timely manner to ensure that all funds are handled in accordance with specific escheat regulations in the State of Alabama.

This purpose of this letter is solely to describe the deficiency in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

Management's Response to Management Letter

Patient Refunds

Original Comment

Management's process for unapplied patient balances involves identifying future visits for which the balance may be applied. Business Office staff note this unapplied balance on the patient specific note for point of service check in. This unapplied balance is then used to offset that time of service co-pay. HCA has refunds that may be applied to patient balances over a period of three months, depending on the number of upcoming visits. The number and dollars of patient refunds has increased from 1,613 and $54,096 at September 30, 2018 to 3,810 and $101,192 at September 30, 2019. Management should review this process to differentiate between patient refunds and pending payor remittances in a timely manner to ensure that all funds are handled in accordance with specific escheat regulations in the State of Alabama.

Management's Response

Unapplied patient balances increased by $47,096 from September 30, 2018 to September 30, 2019. This increase is, in part, tied to an increase in the Athena accounts receivable due to an increase in the physicians and practices that were onboarded in FY2019. Management will establish reporting that identifies both unapplied balances and patient refunds in order to appropriately classify patient refunds. Management will review both the policy for refunding patients and routinely review the guarantor balances that are to be escheated to the appropriate State according to the regulations of that State.

Report on the

University of South Alabama

Mobile, Alabama

October 1, 2017 through September 30, 2018

Filed: October 4, 2019

Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner

19-403

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Rachel Laurie Riddle
Chief Examiner

Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, as added by Act Number 2018-129, I submit this report on the results of the examination of the University of South Alabama, Mobile, Alabama, for the period October 1, 2017 through September 30, 2018.

Respectfully submitted,

JoNesia S. Turner
Examiner of Public Accounts

Sworn to and subscribed before me this
the 19th day of September, 20 19.

Kelly D. Mathews
Notary Public

rb

19-403

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SUMMARY

University of South Alabama
October 1, 2017 through September 30, 2018

The University of South Alabama (the "University") is a public institution of higher learning and awards baccalaureate, masters, doctor of business administration, doctor of education, doctor of nursing practice, doctor of systems engineering, doctor of physical therapy, doctor of audiology, doctor of philosophy and doctor of medicine degrees. The University offers studies in ten colleges/schools: Allied Health Professions, Arts and Sciences, Business, Education and Professional Studies, Engineering, Honors, Medicine, Nursing, Computing, and the 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, 2018.

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 41-5A-12, as added by Act Number 2018-129.

Tests performed during the examination did not disclose any significant instances of noncompliance with applicable state laws and regulations.

The following officials/employees were invited to an exit conference: Scott Weldon, Vice-President for Finance and Administration and Polly Stokley, Assistant Vice-President for Finance and Administration. The following individual attended the exit conference: Polly Stokley, Assistant Vice-President for Finance and Administration. Representing the Department of Examiners of Public Accounts was JoNesia Turner, Examiner.

Department of
Examiners of Public Accounts

COMMENTS

University of South Alabama
October 1, 2017 through September 30, 2018

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 campus 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 was established. 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 adjacent to the University of South Alabama Children's and Women's Hospital.

Additional Information

Board Members and Officials
October 1, 2017 through September 30, 2018

Board Members		**Term Expires**
Hon. Kay Ivey, Governor	President, Ex-Officio	
Hon. Kenneth O. Simon	Chair Pro Tempore	2019
Hon. James H. Shumock	Vice-Chair	2021
Hon. Arlene Mitchell	Secretary	2021
Hon. Katherine A. Atkins	Member	2019
Hon. Chandra B. Stewart	Member	2019
Hon. Robert D. Jenkins, III	Member	2019
Hon. Michael P. Windom	Member	2019
Hon. Scott A. Charlton, M.D.	Member	2021
Hon. E. Thomas Corcoran	Member	2021
Hon. James A. Yance	Member	2021
Hon. Steven P. Furr, M.D.	Member	2023
Hon. William R. Graham	Member	2023
Hon. Lenus M. Perkins	Member	2023
Hon. Steven H. Stokes, M.D.	Member	2023
Hon. Margie M. Tuckson	Member	2023

Officials

Dr. Tony G. Waldrop	President
Mr. Scott Weldon	Vice-President for Finance and Administration
Ms. Traci Jones	Health Systems Chief Financial Officer

University of South Alabama External Assessment of the Internal Audit Activity

Full External Assessment by
Warren Averett, LLC

University of South Alabama
External Assessment of the
Internal Audit Activity

October 10, 2019

2500 Acton Road
Birmingham, AL 35243
205.979.4100
warrenaverett.com

EXECUTIVE SUMMARY

The *International Standards for the Professional Practice of Internal Auditing* (the Standards), as issued by the Institute of Internal Auditors (IIA), requires that an external quality assessment (QA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the QA process. The QA can be accomplished through a full external assessment or a self-assessment with independent validation.

The University of South Alabama (the University) is currently without a chief audit executive (CAE); the Executive Vice President and the Vice President of Finance and Administration discussed the form and frequency of the QA, as well as the independence and qualifications of the external assessor (i.e. "assessment team"), including any potential conflicts of interest with the board. Upon consultation and approval by the Board of Trustees, the University selected Warren Averett, LLC as the qualified, independent external assessor to conduct a full external assessment of the internal audit activity (IA) of the University of South Alabama.

The University of South Alabama is a public, national research university located in Mobile, Alabama. The University is divided into various colleges and schools, including one of Alabama's two state-supported medical schools and has an enrollment of approximately 15,000 students. The University operates three campus locations, two hospitals, one cancer clinic, and various other healthcare clinics, with approximately 6,000 employees. The Office of Internal Audit (IA) supports both the academic side and the health system of the University, and had five full-time auditors during most of fiscal year 2019, until the CAE resigned in August 2019. For many years, there was no internal auditor assigned to the health system, but currently there is one auditor assigned; the remaining auditors are assigned to the academic side. IA had four CAEs during the 2006 – 2016 time period. In March 2016, IA began reporting functionally to the Audit Committee of the Board of Trustees, and administratively to the President.

It is our overall opinion that IA partially conforms with the *Standards* and the IIA Code of Ethics. A detailed list of conformance with individual standards and the IIA Code of Ethics (Code of Ethics) is shown in attachment A.

The IIA's *Quality Assessment Manual for the Internal Audit Activity* suggests a scale of three rankings when opining on the internal audit activity: "Generally Conforms," "Partially Conforms," and "Does Not Conform." The ranking of "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards* and the Code of Ethics. "Partially Conforms" means that deficiencies in practice are noted and are judged to deviate from the *Standards* and the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means that deficiencies in practice are judged to deviate from the *Standards* and the Code of Ethics, and are significant enough to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities. A detailed description of the conformance criteria can be found in attachment A.

Objectives, Scope, and Methodology

Objectives

- The principle objective of the QA was to assess IA's conformance with the *Standards* and the Code of Ethics.

- Warren Averett, LLC also evaluated IA's effectiveness in carrying out its mission (as set forth in the internal audit charter and expressed in the verbal expectations of the University's management); identified successful internal audit practices demonstrated by IA; identified gaps in conformance with the *Standards* and the Code of Ethics and identified opportunities for continuous improvement to enhance the efficiency and effectiveness of the infrastructure, processes, and to add value to their stakeholders.

Scope

- The scope of the QA included IA, as set forth in the internal audit charter and approved by the Board, which defines the purpose, authority, and responsibility of IA.

- The QA was concluded on October 10, 2019, and provides senior management and the board with information about IA as of that date.

- The *Standards* and the Code of Ethics in place and effective as of October 10, 2019 were the basis for the QA.

Methodology

- At the request of the University of South Alabama senior management, IA compiled and prepared information in advance of the on-site portion of the QA. IA provided requested information in a detailed planning document checklist and answered questions related to internal audit governance, staff, management, and processes.

- IA and University senior management identified several key stakeholders (IA staff, senior management, the Board, and the external auditors) and surveys were sent to each individual identified. The results were tabulated by Warren Averett, LLC, and Warren Averett, LLC is to maintain confidentiality in sources of responses. Anonymous survey results were shared with University senior management during and after the on-site portion for the QA.

- Prior to commencement of the on-site portion of the QA, the team leader for Warren Averett, LLC held preliminary discussions with IA and University senior management to discuss the items needed for the review, status of preparation of planning materials, identification of key stakeholders to be interviewed during the on-site portion of the review, and finalization of logistics related to the QA.

- To accomplish the objectives, Warren Averett, LLC reviewed information prepared by IA at the team's request; conducted interviews with selected key stakeholders, including the audit committee chair, senior executives of the University, external auditors, and IA management and staff; reviewed a sample of audit projects and associated workpapers and reports; reviewed survey data received from the stakeholders and IA management and staff; and prepared diagnostic tools consistent with the methodology established for a QA in the Quality Assessment Manual for the Internal Audit Activity.

Warren Averett, LLC

Summary of Observations

The IA environment where the external assessment was performed is well-structured, where the *Standards* are understood, but not always implemented, the Code of Ethics is being applied, and management endeavors to provide useful audit tools and implement appropriate practices. Consequently, comments and recommendations are intended to build on this foundation already in place in the IA.

Observations are divided into three categories, and are detailed in the following section of the report:

- **Successful Internal Audit Practices** – Areas where IA is operating in an effective or efficient manner when compared to the practice of internal auditing demonstrated in other internal audit activities at other organizations. The identification of these items is intended to provide IA stakeholders with a view by Warren Averett, LLC on tasks IA is performing in a comparable manner to other internal audit activities at other organizations.

- **Gaps to Conformance with the *Standards* or the Code of Ethics –** Areas identified during the QA where the assessment team has concluded that IA is operating in a manner that falls short of achieving one or more major objectives as specified in the *Standards* or the Code of Ethics that results in an opinion for an individual standard of “partially conforms” or “does not conform.” These items will include recommendations offered by the external assessment team for actions to be implemented for achieving “generally in conformance” with the standard and will include an IA response and an action plan to address the gap.

- **Opportunities for Continuous Improvement** – Observations of opportunities to enhance the efficiency and/or effectiveness of IA’s infrastructure of processes. These items do not indicate a lack of conformance with the *Standards* or the Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the *Standards* or the Code of Ethics. They may also be operational ideas based on the experiences of the external assessment team from working with other internal audit activities. A management response and an action plan to address each opportunity for continuous improvement noted are normally included.

DETAIL – SUCCESSFUL INTERNAL AUDIT PRACTICES

1. Standard 1000 – Purpose, Authority, and Responsibility – The internal audit charter is comprehensive and contains the mandatory elements of The IIA's International Professional Practices Framework (IPPF).

    - The Audit Charter gives unrestrictive access to records, personnel, and physical properties relevant to the performance of engagements.

2. Standard 1100 – Independence and Objectivity – The internal audit activity must be independent, and internal auditors must be objective in performing their work.

    - The internal audit activity is free from conditions that threaten the ability to carry out its internal audit responsibilities in an unbiased manner.
    - The CAE reports functionally to the Board which is a level within the organization that allows the internal audit activity to fulfill its responsibilities.
    - Internal audit is free from interference in determining the scope of internal auditing.
    - The CAE communicates and interacts directly with the Board.
    - Internal auditors have an impartial, unbiased attitude and avoid any conflicts of interest.

3. Standard 1200 –Proficiency and Due Professional Care - Engagements must be performed with proficiency and due professional care.

    - Engagements are performed with proficiency and auditors exercise due professional care.
    - IA personnel enhance their knowledge, skills, and other competencies through encouragement to gain certifications and attend continued professional education training.

4. Standard 2000 – Managing the Internal Audit Activity – The CAE must effectively manage the internal audit activity to ensure it adds value to the organization.

    - The CAE held two educational sessions in 2018 with the Audit Committee. The meeting minutes confirmed that the educational sessions were held and the assessment team reviewed the slide presentations as evidence of the content of the communications.

5. Standard 2100 – Nature of Work - The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach.

    - At the engagement level, the internal audit activity evaluates and contributes to the improvement of the organization's governance, risk management, and control processes.

6. Standard 2200 – Engagement Planning - Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations, which considers the organization's strategies, objectives, and risks relevant to the engagement.

   - IA has created an engagement planning memo to develop and document a plan for each engagement, including the engagement's scope, timing, and resource allocations. The template was created in April 2019.

   - IA establishes objectives prior to beginning each engagement and ensures the established scope is sufficient to achieve the objectives of the engagement.

7. Standard 2300 – Performing the Engagement – Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

   - Internal auditors identify, analyze, evaluate, and document sufficient, reliable, relevant and useful information to achieve the engagement's objectives.

8. Standard 2400 – Communicating Results – Internal auditors must communicate the results of engagements.

   - IA has implemented standardized reporting, using templates for consistency.

   - IA does not indicate that engagements are "conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*" since they are not in full conformance.

DETAIL – GAPS TO CONFORMANCE WITH THE *STANDARDS* OR CODE OF ETHICS

1. Standard 1000 – Purpose, Authority, and Responsibility – The internal audit Charter is comprehensive and contains the mandatory elements of The IIA's International Professional Practices Framework.

    - The IA Charter has not been periodically reviewed and presented to the Board. The last time the Charter was updated was in June 2005.

    - The Charter does not correlate with the current reporting structure of the CAE.

    - Assurance and consulting services are not defined in the Charter.

    - The mandatory elements of the IPPF are not recognized in the Internal Audit Charter.

    IA Response and Action Plan: We concur with the gaps to conformance with the *Standards* as identified by Warren Averett, LLC.

2. Standard 1100 – Independence and Objectivity – The internal audit activity must be independent, and internal auditors must be objective in performing their work.

    - The CAE does not confirm to the board, at least annually, the organizational independence of the internal audit activity.

    - The Audit Committee Charter lacks the following required functional reporting criteria: (1) Board approval of the internal audit charter (2) approval of the internal audit budget and resource plan (3) formal approval regarding the appointment and removal of the CAE (4) approval of the remuneration of the CAE (5) approval of an audit plan that is risk based.

    - The CAE has not (1) presented the Board with a risk-based audit plan to approve (2) communicated to the Board on the internal audit activity's performance relative to its plan and other matters.

    IA Response and Action Plan: We concur with the gaps to conformance with the *Standards* as identified by Warren Averett, LLC.

3. Standard 1200 – Proficiency and Due Professional Care - Engagements must be performed with proficiency and due professional care.

    - With the departure of the CAE, IA does not have a Certified Internal Auditor (CIA) on staff.

    - IA does not have an IT auditor on staff. The current IA staff members have not been trained to identify IT risks, assess the design of controls, and to test the effectiveness of controls within the IT infrastructure.

    - IA does not fully take advantage of technology or use data analysis techniques.

IA Response and Action Plan: We concur with the gaps to conformance with the *Standards* as identified by Warren Averett, LLC.

4. Standard 1300 – Quality Assurance and Improvement Program (QAIP) – The CAE must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

    - The CAE has not developed or implemented a QAIP.
    - Internal assessments have not been completed, and they do not incorporate ongoing monitoring.
    - Ongoing monitoring is not consistently incorporated into the routine policies and practices of the internal activity to ensure conformance with the *Standards* and Code of Ethics.
    - An external assessment or an independent validation of the self-assessment by a qualified independent assessor or assessment team from outside the organization has not been performed since 2006. *The Standards* require this process to be performed every five years.
    - The CAE has been unable to communicate results of the QAIP to the Board and senior management since there is no implemented QAIP.
    - There is no documented evidence that the CAE has reported non-conformance with the Standards to the Board.

    IA Response and Action Plan: We concur with the gaps to conformance with the *Standards* as identified by Warren Averett, LLC.

5. Standard 2000 – Managing the Internal Audit Activity – The CAE must effectively manage the internal audit activity to ensure it adds value to the organization.

    - The IA does not maintain a current charter from which to measure if IA purpose and responsibility have been achieved;
    - The IA does not fully conform to the *Standards* and the Code of Ethics;
    - The IA does not sufficiently consider trends and emerging issues that may impact the organization;
    - The IA does not add value at the level expected by senior management and the board.
    - A risk-based plan has not yet been developed from which the priorities of internal audit activity are determined, consistent with the organization's goals.
    - The CAE communications with senior management and the board concerning the review and approval of internal audit plans, plan changes, and resource requirements are not fully documented.

- Although the CAE strives to allocate resources to each engagement that are appropriate, sufficient, and effectively deployed, IA does not utilize an approved audit plan from which to measure these achievements.

- The IA is currently drafting an audit manual, however, at this point in time, policies and procedures manual for guiding the internal audit activity has not been completed.

- The CAE informally meets with various internal and external assurance providers but does not document the communications that would demonstrate the minimization of a duplication of work efforts.

- CAE discussions with senior management and the board are generally not documented – in regards to the required communications concerning the internal audit charter (Standard 1000), audit activity independence and conformance with the Code of Ethics and Standards (Standard 1100, 1320), performance relative to the audit plan (Standard 2010, 2020), resource requirements (Standard 2030), and significant risk exposures or acceptances (Standard 2060).

- The responsibility of the organization to maintain an effective internal audit activity cannot be demonstrated through the QAIP because a QAIP has not been implemented.

IA Response and Action Plan: We concur with the gaps to conformance with the *Standards* as identified by Warren Averett, LLC.

6. Standard 2100 – Nature of Work - The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach.

   - Internal audit activity evaluates and contributes to the improvement of the organization's governance, risk management, and control processes on an engagement level but lacks an overall systematic risk-based methodology.

   IA Response and Action Plan: We concur with this gap to conformance with the *Standards* as identified by Warren Averett, LLC.

7. Standard 2200 – Engagement Planning - Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations, which considers the organization's strategies, objectives, and risks relevant to the engagement.

   - There is no evidence that IA considers the organization's strategies, objectives, and risks relevant to the engagement in the planning stage.

   - There is no evidence that IA has considered: (1) the strategies and objectives of the activity being reviewed and the means by which the activity controls its performance (2) the significant risks to the activity's objectives, resources, and operations, and the means by which the potential impact of risk is kept to an acceptable level (3) the adequacy and effectiveness of the activity's governance, risk management, and control processes, compared to a relevant framework or model (4) the opportunities for making significant improvements to the activity's governance, risk management, and control processes.

- IA does not consistently document considerations of the probability of significant errors, fraud, noncompliance, and other exposures when developing engagement objectives.

- IA does not consistently discuss inadequate criteria with management and/or the Board in the planning stage of the engagement.

- There is no documented evidence that consulting engagement objectives are consistent with the organization's values, strategies and objectives.

- Although a scope and objective are often determined for significant consulting opportunities that arise during an assurance engagement, they are often not documented and agreed upon in accordance with consulting standards.

- Work programs are not always approved by the CAE prior to implementation or the start of fieldwork.

IA Response and Action Plan: We concur with the gaps to conformance with the *Standards* as identified by Warren Averett, LLC.

8. Standard 2300 – Performing the Engagement – Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

- IA does not have a policy or procedure in place regarding the control of workpapers or the protocol for releasing such records to external parties.

- IA does not have a policy or procedure in place regarding the custody and retention of documents.

- There is not consistent evidence of engagement supervision documented and retained.

IA Response and Action Plan: We concur with the gaps to conformance with the *Standards* as identified by Warren Averett, LLC.

9. Standard 2400 – Communicating Results – Internal auditors must communicate the results of engagements.

- Communications of results often lack evidence that the engagement's objectives, scope, and results were included (particularly when communicated verbally by CAE).

- Verbal communications of results often lack evidence that they are complete or that they occurred (particularly when communicated by CAE).

- Communications of results are often communicated to clients in an untimely manner.

- There are no policies/procedures in place for next steps when a final communication contained a significant error or omission.

- There is not consistent documentation/ evidence that the CAE has communicated results to the appropriate parties for assurance or consulting engagements.

- There is not consistent documentation that whenever significant governance, risk management, and control issues are identified during engagements that they are always communicated to senior management and the board.

- There is no written documentation available that demonstrates the CAE provides an overall opinion related to any of the internal audit activities. Verbal opinions are provided.

IA Response and Action Plan: We concur with the gaps to conformance with the *Standards* as identified by Warren Averett, LLC.

10. Standard 2500 – Monitoring Progress – The CAE must establish and maintain a system to monitor the disposition of results communicated to management.

- The CAE purchased an audit software which has a follow-up module to monitor the disposition of results communicated to management in 2016; however the module has not been implemented within IA

- Follow-up policies and procedures have not been established by the CAE to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking actions for assurance and consulting engagement results.

IA Response and Action Plan: We concur with the gaps to conformance with the *Standards* as identified by Warren Averett, LLC.

DETAIL – OPPORTUNITIES FOR CONTINUOUS IMPROVEMENT

1. Standard 1000 – Purpose, Authority, and Responsibility – The internal audit Charter is comprehensive and contains the mandatory elements of The IIA's International Professional Practices Framework.

   - The CAE role should be filled as soon as practical.

   - A new Internal Audit Charter should be generated and approved by the Board that includes all required elements of the IPPF and accurately describes the current reporting structure.

   IA Response and Action Plan: Standard 1000: An Internal Audit Charter draft will be prepared based on IIA guidelines to be presented by the Interim CAE to the Board of Trustees for approval at its December 2019 meeting.

2. Standard 1100 – Independence and Objectivity – The internal audit activity must be independent, and internal auditors must be objective in performing their work.

   - A new Audit Committee Charter should be approved to include all required elements of the IPPF and accurately describe the current reporting structure.

   - There should be documentation/evidence of the reporting that takes place between the CAE and the Board. Reporting should include independence confirmation, communication of a risk-based audit plan, and communication of IA's performance relative to its plan.

   IA Response and Action Plan: Standard 1100: (1) An audit committee charter template as provided by the IIA, which includes all required elements, will be provided to the Audit Committee Chair for consideration. (2) The Internal Audit activity will complete a risk-based plan for the remainder of fiscal year 2020 to be presented to the Audit Committee of the Board for approval in 2020.

3. Standard 1200 –Proficiency and Due Professional Care - Engagements must be performed with proficiency and due professional care.

   - All IA staff should work toward obtaining the CIA or other appropriate certifications.

   - IA should consider adding at a minimum one IT auditor to the staff.

   - IA should increase the use of technology-based audits and other data analysis techniques.

   IA Response and Action Plan: Standard 1200: (1) Debra Marchand and Brittney McAllister are currently pursuing the Certified Internal Auditor (CIA) certification. Cynthia Holland is pursuing the Certified Healthcare Internal Audit Professional (CHAIP) certification. (2) An IT auditor position will most likely not be filled in the immediate future due to the lack of funding. Management intends to eventually add this position funding to the department. As an interim step, Internal Audit will begin seeking the expertise of external resources as well as those within the University, such as the newly formed

Security Department, to assist in IT aspects within each audit. (3) Data analysis options already owned by the University will be identified and utilized by Internal Audit staff where applicable. Additional data analysis resource needs will be identified and acquired in the future, based on available funding.

4. Standard 1300 – Quality Assurance and Improvement Program – The CAE must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

   - The CAE should develop and document a QAIP that covers all aspects of the internal audit activity to enable the evaluation of the internal audit activity's conformance with the *Standards* and the Code of Ethics.

   - The CAE should ensure that the required internal assessment includes sufficient ongoing monitoring to ensure compliance with the Code of Ethics and the *Standards*. The monitoring activities must be adequately documented.

   - The CAE should have an external assessment performed for the department every five years and should conduct internal assessments annually.

   - The CAE should report to the Board and ensure documentation is made in the Board minutes that the OIA is not in compliance with the Standards.

   IA Response and Action Plan: Standard 1300: (1) Internal Audit is currently developing a QAIP, which will be presented to the Board in March 2020. Once approved, Internal Audit staff will begin implementing aspects of the QAIP to become more in line with the Standards. (2) Internal Audit staff have already begun to implement ongoing monitoring into projects and will continue to do so going forward. (3) An external assessment was completed by Warren Averett in October 2019; therefore, the next external assessment will be due in October 2024. Self-assessments will be performed annually to determine improvement and compliance. (4) The results of the external assessment performed by Warren Averett will be presented to the Board by the Interim CAE at either the December 2019 or March 2020 meeting and documented in the Board minutes.

5. Standard 2000 – Managing the Internal Audit Activity – The CAE must effectively manage the internal audit activity to ensure it adds value to the organization.

   - The CAE should manage the internal audit activity to ensure it adds values to the organization by ensuring IA fully conforms to the *Standards* and the Code of Ethics and considering trends and emerging issues that may impact the organization in developing an internal audit risk-based audit plan.

   - The CAE should develop a risk-based plan from which the priorities of internal audit activity are determined, consistent with the organization's goals.

   - The CAE should demonstrate communication with senior management and the board with written evidence. Communication with the board should be evidenced by including in board meeting materials, the audit plans and reports received from the CAE. Individual discussions with senior management should be documented and retained in the workpapers through memos, emails, or notes.

- Once an approved audit plan is obtained, the CAE could conduct a post-audit comparison of budgeted hours to actual hours to validate that resources were deployed sufficiently and effectively. Client assessments could also be used to measure the performance of the internal audit activity.

- The CAE should establish policies and procedures to guide the internal audit active ty in a form that is appropriate for the size and structure of the audit department and the complexity of its work.

- The CAE should document notes from meetings with various internal and external assurance providers about information shared and roles and responsibilities determined to minimize the duplication of work efforts, etc.

- The CAE discussions with senior management and the Board that are considered required communications according to the various Standards should be documented. Documentation should be included in the minutes of board meetings and include copies of reports and presentations with signed attendance lists. Meetings with senior management should also be documented. The CAE could maintain a communication checklist that documents the frequency of reporting as evidence of conformance.

IA Response and Action Plan: Standard 2000: Internal Audit agrees and will communicate these recommendations to the Audit Committee of the Board at a future meeting.

6. Standard 2100 – Nature of Work - The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach.

   - IA needs a charter which states internal audit's roles and responsibilities related to governance, risk management, and control, and the internal audit plan.

IA Response and Action Plan: Standard 2100: (1) The Internal Audit Charter draft will state IA's roles and responsibilities related to governance, risk management, and control. (2) Under the guidance of the Interim IA Director, the IA staff is creating the 2020 audit plan using a risk-based approach. To stay in line with organizational objectives, the IA staff is interviewing key management to determine what they see as the significant risks in their areas and assessing those responses so that IA can issue relevant engagement reports with value-added results.

7. Standard 2200 – Engagement Planning - Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations, which considers the organization's strategies, objectives, and risks relevant to the engagement.

   - IA should document in an engagement planning memo consideration of the organization's strategies, objectives, and risks relevant to the engagement.

   - IA should add engagement planning considerations to the newly designed engagement planning memo.

- Policies and procedures should be established that require IA to formally document their considerations of the probability of significant errors, fraud, noncompliance and other exposures when developing engagement objectives.

- Policies and procedures should be established that require inadequate criteria to be discussed by OIA with management and/or the Board in the planning stage of an engagement rather than following fieldwork during reporting.

- OIA should formally document in their working papers how consulting engagement objectives are consistent with the organization's values strategies and objectives.

- When significant consulting opportunities arise during an assurance engagement, written documentation of the objectives, scope, responsibilities, and other expectations should be documented in writing and consulting standards should be followed.

- A policy/procedure should be established defining the process that requires work programs to be approved prior to implementation or the start of fieldwork.

IA Response and Action Plan: Standard 2200: (1) Internal Audit has added all required considerations to the planning memo template. The template was implemented in August 2019 and will be used for all engagement planning going forward. (2) Internal Audit will also begin to ensure that, for significant consulting engagements, a written understanding with the client is documented during the planning stage. (3) Internal Audit staff will also work towards approving all work programs prior to the start of fieldwork.

8. Standard 2300 – Performing the Engagement – Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

- The CAE should implement policies and procedures regarding the control of workpapers and the protocol for releasing such records to external parties.

- The CAE should implement policies and procedures regarding the retention of documents.

- Engagement workpapers must be reviewed throughout the audit, and in a timely manner, by the CAE, or designee. Documentation can be noted by either electronic signoff and/or an engagement workpaper review checklist.

IA Response and Action Plan: Standard 2300: Internal Audit staff will begin cross-reviewing each other's work in a timely manner. When a new CAE is hired, official policies and procedures will be developed and implemented for workpaper custody, retention and the protocol for releasing workpapers to external parties.

9. Standard 2400 – Communicating Results – Internal auditors must communicate the results of engagements.

- Policies should be established within IA that provide detailed guidance on how internal auditors or the CAE will communicate observations during the engagement and final results. The workpapers should indicate which communications were made verbally, and which were made in writing.

- Policies should be established within IA to ensure timely communication of results of engagements to clients and senior management.

- IA should implement policies/procedures regarding next steps if a final communication contained a significant error or omission.

- The CAE should prepare and obtain documentation of all written and verbal communication of final results to assurance engagement and consulting engagement clients.

- The CAE should always maintain documentation of communication to senior management and the Board whenever significant governance, risk management, and control issues are identified during consulting engagements.

- Overall opinions delivered verbally by the CAE should be documented to demonstrate conformance the *Standards*. Such evidence may include the CAE's outlines, speaking notes, slides, or similar documents. Additional evidence may include memos, emails, meeting agendas and meeting minutes.

IA Response and Action Plan: Standard 2400: Internal Audit agrees with this recommendation and will ensure that these procedures are implemented, before, during, and after engagements.

10. Standard 2500 – Monitoring Progress – The CAE must establish and maintain a system to monitor the disposition of results communicated to management.

- The CAE should utilize the system established to monitor the disposition of results communicated to management. (I.e. issue tracking module in MKInsight).

- The CAE should establish a policies and procedures regarding a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action for the results and recommendations of assurance and consulting engagements.

IA Response and Action Plan: Standard 2500: The Internal Audit activity plans to implement the use of the issue tracking module in the MKinsight audit software already owned by the department which allows for a robust, documented follow-up process.

11. Standard 2600 – Communicating the Acceptance of Risks – When the CAE concludes that management has accepted a level of risk that may be unacceptable to the organization, the CAE must discuss the matter with senior management and/or the Board.

- The CAE should document discussions with management and the Board regarding the process of communicating the acceptance of risk.

IA Response and Action Plan: Internal Audit agrees with this recommendation and will ensure its implementation immediately.

ATTACHMENT A – EVALUATION SUMMARY AND RATING DEFINITIONS

	GC	PC	DNC
Overall Evaluation	81	91	51

Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	2	3	4
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	0	1	1
1100	Independence and Objectivity	5	0	0
1110	Organizational Independence	5	2	5
1111	Direct Interaction with the Board	1	0	0
1112	Chief Audit Executive Roles Beyond Internal Auditing	2	0	0
1120	Individual Objectivity	1	0	0
1130	Impairment to Independence or Objectivity	6	0	0
1200	Proficiency and Due Professional Care	1	0	0
1210	Proficiency	6	1	0
1220	Due Professional Care	10	1	0
1230	Continuing Professional Development	1	0	0
1300	Quality Assurance and Improvement Program	0	0	5
1310	Requirements of the Quality Assurance and Improvement Program	0	0	1
1311	Internal Assessments	0	3	1

1312	External Assessments	0	1	4
1320	Reporting on the Quality Assurance and Improvement Program	0	0	6
1321	Use of "Conforms with the *International Standards for the Professional Practice of Internal Auditing*"	1	0	0
1322	Disclosure of Nonconformance	0	1	0

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	1	3	1
2010	Planning	0	3	4
2020	Communication and Approval	0	2	0
2030	Resource Management	0	0	3
2040	Policies and Procedures	0	0	2
2050	Coordination and Reliance	0	2	0
2060	Reporting to Senior Management and the Board	1	9	1
2070	External Service Provider and Organizational Responsibility for Internal Auditing	0	0	1
2100	Nature of Work	0	1	1
2110	Governance	2	6	1
2120	Risk Management	2	10	4
2130	Control	1	5	1

2200	Engagement Planning	0	2	0
2201	Planning Considerations	2	2	1
2210	Engagement Objectives	3	3	0
2220	Engagement Scope	4	1	0
2230	Engagement Resource Allocation	1	0	0
2240	Engagement Work Program	3	1	0
2300	Performing the Engagement	1	0	0
2310	Identifying Information	5	0	0
2320	Analysis and Evaluation	1	0	0
2330	Documenting Information	1	2	1
2340	Engagement Supervision	0	2	0
2400	Communicating Results	0	1	0
2410	Criteria for Communicating	0	4	0
2420	Quality of Communications	0	6	1
2421	Errors and Omissions	0	1	0
2430	Use of "Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*"	1	0	0
2431	Engagement Disclosure of Nonconformance	3	0	0
2440	Disseminating Results	4	4	0
2450	Overall Opinions	0	7	0

2500	Monitoring Progress	0	1	2
2600	Communicating the Acceptance of Risks	1	0	0

Code of Ethics		GC	PC	DNC
	Code of Ethics	3	0	0

RATING DEFINITIONS

GC – "Generally Conforms" means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual Standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – "Partially Conforms" means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

DNC – "Does Not Conform" means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity's effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

RESOLUTION

OFFICE OF INTERNAL AUDIT CHARTER

WHEREAS, the purpose of the University of South Alabama's Office of Internal Audit is to provide independent, objective assurance and consulting services that are guided by a philosophy of adding value to improve the operations of the University, and

WHEREAS, the Office of Internal Audit is subject to guidance promulgated by the Institute of Internal Auditors, and

WHEREAS, such guidance by the Institute of Internal Auditors directs the Office of Internal Audit to establish a charter, and

WHEREAS, the purpose of such charter is to address the authority, independence, objectivity, scope of services and responsibilities of the Office of Internal Audit, and

WHEREAS, the most recent Office of Internal Audit Charter was approved in the 2005 fiscal year,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees approves the attached University of South Alabama Office of Internal Audit Charter.

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Finance and Administration

DATE: November 21, 2019

TO: President Tony G. Waldrop

FROM: G. Scott Weldon

SUBJECT: Resolution to Adopt an Office of Internal Audit Charter

Attached is a resolution for consideration by the Board of Trustees for adoption of an Office of Internal Audit Charter, which accompanies the resolution. This Charter addresses the authority and independence of the Office of Internal Audit. In order to ensure the integrity of the operations of the Office of Internal Audit, I recommend that this resolution be presented to the Board for approval at its meeting on December 5, 2019.

GSW/cbm

Attachment

University of South Alabama
Office of Internal Audit Charter

Purpose and Mission

The purpose of the University of South Alabama's Office of Internal Audit (OIA) is to provide independent, objective assurance and consulting services designed to add value and improve the University of South Alabama's operations. The mission of the OIA is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The OIA helps the University of South Alabama (main campus and USA Health) accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing

The OIA will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The Executive Director of Internal Audit (Executive Director) will report periodically to senior administration and the Audit Committee of the Board of Trustees (Audit Committee) regarding the OIA's conformance to the Code of Ethics and the *Standards*.

Authority

The Executive Director will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the University of South Alabama President. To establish, maintain, and assure that the University of South Alabama's OIA has sufficient authority to fulfill its duties, the Audit Committee will:

- Approve the OIA's charter.
- Approve the risk-based Internal Audit plan.
- Approve the OIA's Quality Assurance and Improvement Program.
- Receive communications from the Executive Director on the OIA's performance relative to its plan and other matters.
- Ratify decisions regarding the appointment and removal of the Executive Director.
- Make appropriate inquiries of management and the Executive Director to determine whether there is inappropriate scope or resource limitations.

The Executive Director will have unrestricted access to, and communicate and interact directly with, the Audit Committee, including private meetings without senior administration present.

The Audit Committee authorizes the OIA to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information at both the main campus and USA Health.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the University of South Alabama, as well as other specialized services from within or outside the University of South Alabama, in order to complete the engagement.

Independence and Objectivity

The Executive Director will ensure that the OIA remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased and independent manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Executive Director determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the University of South Alabama or its affiliates.
- Initiating or approving transactions external to the OIA.
- Directing the activities of any University of South Alabama employee not employed by the OIA, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Executive Director has, or is expected to have, roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Executive Director will confirm to the Audit Committee, at least annually, the organizational independence of the Office of Internal Audit.

The Executive Director will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities

Assurance Services: The scope of Internal Audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, administration, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the University of South Alabama. Internal Audit assessments include evaluating whether:

- Risks relating to the achievement of the University of South Alabama's strategic objectives are appropriately identified and managed.
- The actions of the University of South Alabama's officers, directors, employees, and contractors are in compliance with the University of South Alabama's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that impact the University of South Alabama.
- Information and the means used to identify, measure, analyze, classify, and report

such information are reliable and have integrity.

- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Executive Director will report periodically to senior administration and the Audit Committee regarding:

- The OIA's purpose, authority, and responsibility.
- The OIA's plan and performance relative to its plan.
- The OIA's conformance with The Institute of Internal Auditors' (IIA) Code of Ethics and *Standards,* and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by senior administration that may be unacceptable to the University of South Alabama.

The Executive Director also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of administration.

Consulting Services: The OIA provides consulting services in an advisory capacity. Consulting may range from formal engagements with defined scopes and objectives to advisory activities such as providing informal guidance in response to general inquiries, or participating on University committees. However, in all cases, Internal Audit functions only as an advisor, with management being responsible for final decisions.

Responsibilities of Executive Director

The Executive Director has the responsibility to:

- Submit, at least annually, to senior administration and the Audit Committee a risk-based internal audit plan for review and approval.
- Evaluate, on an annual basis, the department's adherence to the Internal Audit Charter and report such adherence, or lack thereof, to senior administration and the Audit Committee.

- Communicate to senior administration and the Audit Committee any significant interim changes to the Internal Audit Plan.
- Periodically evaluate the performance of all staff auditors and provide opportunities for development of staff.

Quality Assurance and Improvement Program

The OIA will maintain a Quality Assurance and Improvement Program covering all aspects of its operations. The program will include an evaluation of the OIA's conformance with the *Standards* and an evaluation of whether or not internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the OIA and identify opportunities for improvement.

The Executive Director will communicate to senior administration and the Audit Committee on the OIA's Quality Assurance and Improvement Program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the University of South Alabama.

Approval/Signatures

Executive Director of Internal Audit	Date
Audit Committee Chair	Date
University of South Alabama President	Date

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

Development, Endowment and Investments Committee

September 12, 2019
1:55 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 12, 2019, at 1:55 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Chandra Brown Stewart, Scott Charlton, Arlene Mitchell, Margie Tuckson, Mike Windom and Jim Yance.
Member Absent:	Steve Stokes.
Other Trustees:	Alexis Atkins, Tom Corcoran, Steve Furr, Ron Graham, Ron Jenkins, Lenus Perkins and Jimmy Shumock. Participating by phone was Ken Simon.
Administration & Guests:	Terry Albano, Owen Bailey, Lynne Chronister, Kristin Dukes, Joel Erdmann, Monica Ezell, Kevin Fralicks, Paul Frazier, Mike Haskins, David Johnson, Nick Lawkis, John Marymont, Susan McCready (Faculty Senate), Mike Mitchell, Norman Pitman, Rod Rocconi, John Smith, Margaret Sullivan, Tom Van Zant (Commonfund), Sahilee Waitman (SGA), Tony Waldrop and Scott Weldon.
Media:	Ebonee Burrell (The Vanguard).

The meeting came to order and the attendance roll was called. Mr. Yance called for consideration of the minutes of the meeting held on June 5, 2019. On motion by Mr. Windom, seconded by Ms. Mitchell, the Committee voted unanimously to adopt the minutes.

Mr. Yance called on Mr. Albano to present **ITEM 8**, a report on endowment and investment results. Mr. Albano advised of a 2.76 percent return vs. the relative index of 3.51 percent for the fiscal year through June 30, 2019, an underperformance by 75 basis points. He discussed individual manager performance and Mr. Pitman provided insight on market factors influencing underperformance. Mr. Albano addressed asset allocation and noted the endowment was valued at close to $160 million by the end of June 2019. He reported that the annualized performance since inception was 5.35 percent vs. an index of 4.5 percent.

Mr. Albano referenced in-depth discussions with Committee members about removing the University's small-cap value manager and adding a Vanguard Small-Cap Index Fund. Mr. Yance called for a vote and, on motion by Ms. Mitchell, seconded by Mr. Windom, the Committee voted unanimously to approve the action as recommended.

Mr. Albano explained **ITEM 9**, a resolution authorizing changes to the Endowment Funds Investment Policies and Guidelines to reflect an amendment to the investment benchmark used to compare returns for the fixed-income alternatives asset class from 20 percent T-bill + three percent to 10 percent HFRI Fund of Funds Conservative Index and 10 percent HFRI Fund of Funds Strategic Index, with the remainder of the index remaining unchanged. (To view approved resolutions, policies and other authorized documents, refer to the minutes of the Board of Trustees meeting held on September 13, 2019.) On motion by Dr. Charlton, seconded by Ms. Tuckson, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Mr. Albano introduced Mr. Tom Van Zant of Commonfund for a report. Mr. Van Zant talked about the University's portfolio and Commonfund's investment strategies and he shared perspective on the economy and the market.

Mr. Yance called on Dr. Erdmann for presentation of **ITEM 10**, a resolution authorizing Ms. Cassandra McAboy to serve as a member of the Board of Directors of the Jaguar Athletic Fund, Inc., for a three-year term ending September 2022. Dr. Erdmann shared background on Ms. McAboy. On motion by Dr. Charlton, seconded by Mr. Windom, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Mr. Yance called on Ms. Sullivan for introduction of **ITEM 11**, a resolution recognizing and thanking Hargrove Engineers + Constructors for loyal support of the University and the USA Jaguar football program and for a recent commitment of $1.5 million to assist the University with construction of Hancock Whitney Stadium, and designating the club level at Hancock Whitney Stadium as The Hargrove Club. On motion by Ms. Mitchell, seconded by Mr. Windom, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Mr. Yance asked Ms. Sullivan for an update on the activities of the Division of Development and Alumni Relations, **ITEM 12**. Ms. Sullivan introduced and gave background on new Associate Vice President for University Development Mr. Kevin Fralicks. Ms. Sullivan reported approximately $20.9 million in gifts and pledges for the Upward & Onward Campaign for fiscal year 2019 through September 4, for an overall total of approximately $144.2 million raised, or 96 percent of the $150 million goal. She presented other campaign highlights, such as $10.8 raised from new donors and advised of upcoming fundraising events and celebrations planned for continued momentum over the final year of the campaign, such as an alumni reunion weekend in conjunction with the second home football game at Hancock Whitney Stadium in 2020. Mr. Yance thanked Ms. Sullivan and the Development team for their diligent efforts, as well as everyone who has contributed.

There being no further business, the meeting was adjourned at 2:22 p.m.

Respectfully submitted:

James A. Yance, Chair

University of South Alabama Endowment Investment Performance Review/Analysis

Fiscal Year 2019

USA Endowment Fund Performance

October 1, 2018 to September 30, 2019

- Total USA Endowment returned 3.02% versus its blended benchmark return of 2.68%, outperforming 0.34%.

USA Endowment Activity Fiscal Year 2019

October 1, 2018 to September 30, 2019

- Beginning market value: $155,545,720.
- Net Additions/Withdrawals: $1,728,803.
- Ending market value: $160,885,234.
- Investment earnings and appreciation: $3,610,711.
- Quarter one of fiscal year 2019 (October through December) saw a decline of $13,178,000 in market value.
- Quarters two through four of fiscal year 2019 (January thought September) saw an increase of $16,874,000 in market value.

USA Endowment Total Fund and Manager Performance

October 1, 2018 to September 30, 2019

Total Fund versus Index Performance:

- Fiscal year to date: USA returned 3.02% versus its blended benchmark return of 2.68%, outperforming 0.34%.

Individual Manager versus Index performance:

- Commonfund: 5.79% versus its benchmark return of 6.08%.
- Charles Schwab: -0.66% versus its benchmark return of 0.89%.
- Douglas Lane: 8.52% versus its benchmark return of 4.26%.
- Gerber Taylor: 0.57% versus its benchmark return of 0.53%.
- Forester Capital: -1.17% versus its benchmark return of 0.53%.
- Gerber Taylor International: 2.90% versus its benchmark return of 5.85%.
- Hancock Whitney: 2.33% versus its benchmark return of 2.27%.

- JP Morgan: 2.73% versus its benchmark return of -3.87%.

USA Endowment Asset Allocation Breakdown

As of September 30, 2019

- Money Market - $740,299 or 1% of invested assets.
- Large Cap Equity – $57,088,586 or 35% of invested assets.
- Small Cap Equity - $7,053,569 or 4% of invested assets.
- International Equity - $17,612,846 or 11% of invested assets.
- Fixed Income - $42,860,188 or 27% of invested assets.
- Private Equity - $3,657,363 or 2% of invested assets.
- Hedge Investments - $31,872,384 or 20% of invested assets.
- Invested assets total $160,885,234 as of September 30, 2019.

USA Endowment Performance Since Inception

March 31, 2000 to September 30, 2019

- USA returned 5.30% versus its blended benchmark return of 4.07%, outperforming 1.23%.

USA Endowment Activity Since Inception

March 31, 2000 to September 30, 2019

- Beginning market value: $5,700,000.
- Net Additions/Withdrawals: $69,300,753.
- Ending market value: $160,885,234.
- Investment earnings and appreciation: $85,884,481.

Value of a Dollar Since Inception

March 31, 2000 to September 30, 2019

- Value of a dollar on March 31, 2000: $1.00
- Lowest value since inception on September 30, 2002: $0.86
- Highest value pre-2008 financial crisis on October 31, 2007: $1.57
- Lowest value post-2008 financial crisis on February 28, 2009: $1.01
- Return to pre-2008 financial crisis highest value on February 28, 2011: $1.56
- Current and highest value on September 30, 2019: $2.74

RESOLUTION

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

WHEREAS, the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) requires that investment policies 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, the Board of Trustees of the University of South Alabama hereby acknowledges and accepts the current year annual evaluation of both policies by the Development, Endowment and Investments Committee and the Committee's recommendation that no changes be made to either policy at this time.

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 40 percent in favor of the S&P 500 Index, 5% Russell 2000 Index, 12% MSCI EAFE (US Dollar) Index, 23 percent toward the Barclay's Capital US Aggregate Bond Index, 10% HFRI Fund of Funds Conservative Index and 10% HFRI Fund of Funds Strategic Index.

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, an equity component and a private 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%	50%
Private Equity	0-10%	5%
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, private equity, venture capital, leveraged buyout investments, equity real estate, reorganization securities, exchange traded index funds**,** etc. Investments made in such less liquid equity investments should be made through funds offered by professional investment managers.

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 and the private equity fund. The equity fund should normally represent approximately 35-75 percent of total Endowment Funds assets at market value. The private equity fund should normally represent approximately 0-10 percent of total Endowment Fund assets at market value. Although the actual percentage of equities will vary with market conditions, levels outside these ranges 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	**42%**	**30-60%**
Large/Mid-Cap	35%	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%
PRIVATE EQUITY	**5%**	**0-10%**
TOTAL EQUITY COMPONENT	**57%**	**35-75%**
ALTERNATIVE INVESTMENTS	**20%**	**10-30%**
Absolute Return	15%	12-205
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 <u>dedicated</u> 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 Private Equity or

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. Private Equity

6. 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.

(Is now covered under the derivative section)
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
NON-ENDOWMENT CASH POOL INVESTMENT POLICIES

Purpose

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

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

INVESTMENT OBJECTIVES

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

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

Maintenance of Adequate Liquidity

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

Return on Investments

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

DELEGATION OF AUTHORITY

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

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

IMPLEMENTATION OF THE INVESTMENT POLICY

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

AUTHORIZED INVESTMENT INSTRUMENTS

Short-Term Operational Funds

Safety of Capital

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

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

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

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

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

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

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

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

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

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

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

Intermediate-Term Investment of Operational Funds

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

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

From time to time management may have the opportunity to invest Operational Funds designated by the President to achieve higher earnings over a longer time horizon. These funds will be invested based on the Non-endowment Equity and Alternative Investment Pool Guidelines referenced in Appendix A.

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 judgment 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.

Appendix A

University of South Alabama

Non-Endowment Equity and Alternative Investment Pool Guidelines

Purpose

The purpose of the University's Non-Endowment Equity and Alternative Investment Pool (Equity and Alternative Pool) is to maximize returns for those operating funds that are not utilized for day to day cash management needs. These funds will have a seven- to ten- year time horizon. The goal of the Equity and Alternative Pool is to provide revenue while preserving principal to fund University projects as set forth by the University President.

Return on Investments

The University seeks to optimize return on these investments within the constraints of the Equity and Alternative Pool guidelines. The portfolio strives to provide a return consistent with each investment category.

Oversight and Delegation of Authority

The Equity and Alternative Pool will be governed by the Non-Endowment Cash Pool Investment Policy. The Board of Trustees is ultimately responsible for the Non-Endowment Cash Pool Investment Policy. Investment oversight will be delegated to the President or Vice President for Finance and Administration or other such persons as may be authorized to act on their behalf.

Investment Objectives

In order to meet its needs, the investment strategy of the Equity and Alternative Pool is to emphasize long-term growth; that is, the aggregate return from capital appreciation. The Equity and Alternative Pool shall be monitored for return relative to objectives, consistency of investment philosophy, and investment risk.

Portfolio Composition and Risk

A. To achieve its investment objective, the Equity and Alternative Pool assets are considered as divided into two parts; an alternative investment component or hedged strategy and an equity component. Total Equity and Alternative Pool assets should not exceed 25% of all non-endowment cash and cash-equivalents of the University as of September 30th of the prior fiscal year. This percentage will be reassessed periodically and any changes will be communicated to the Board. The Equity and Alternative Pool commitment to these funds shall be as follows:

	Range	Long-term neutral
Equity	45-85%	70%
Alternative Investment	10-35%	30%

B. The purpose of the equity component is to provide appreciation of principal that more than offsets inflation and to provide a growing stream of capital appreciation and 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, exchange traded index funds**,** etc.

C. The purpose of the alternative investment component is to provide the Equity and Alternative Pool a source of returns with low to negative 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 alternative investment component should normally represent approximately 10-35 percent of the total Equity and Alternative Pool.

D. Any assets not committed to the alternative investment component shall be allocated to the equity fund. The equity fund should normally represent approximately 45-85 percent of total the Equity and Alternative Pool assets at market value. Although the actual percentage of equities will vary with market conditions, levels outside this range should be closely monitored.

E. The Equity and Alternative Pool includes investments in several categories:

Asset Class	Long-Term Strategic Target (%) of Funds	Range
DOMESTIC EQUITY	**55%**	**40-70%**
Large Cap	40%	30-65%
Mid Cap	10%	5-15%
Small Cap	5%	3-10%
INTERNATIONAL STOCKS	**15%**	**5-25%**
Developed Markets	10%	3-20%
Emerging Markets	5%	0-10%
TOTAL EQUITY COMPONENT	**70%**	**45-85%**
ALTERNATIVE INVESTMENTS	**30%**	**10-35%**
Absolute Return	30%	10-35%
TOTAL ALTERNATIVE COMPONENT	**30%**	**10-35%**
TOTAL	**100%**	

F. Within the equity fund, certain investments can be included to provide a hedge against unanticipated, rapidly accelerating inflation. These include cash, real estate and oil and gas investments.

G. The Equity and Alternative Pool investments shall be diversified both by asset class (e.g., equities and alternative investment 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.

Spending Policy

It shall be the policy of the Equity and Alternative Pool to preserve and maintain the real purchasing power of the principal of the Fund. The current spending policy of the Equity and Alternative Pool will be determined annually by the University President. The spending guideline is based on an expected total return over the long-term less expected inflation and will use the excess return over the inflation adjusted principal using a 3 year moving average to help fund the operating needs of the University.

Line of Credit

At times of extreme volatility related to the Equity and Alternative Pool a Line of Credit (LOC) will be utilized to meet day to day management of the University's operating needs. A LOC of up to $30,000,000 will be established and available to meet those periods when operating cash is low due to seasonal tuition revenue. The LOC will be repaid in full as soon as sufficient cash is available. The Investment Manager will be required to inform the Vice-President for Finance and Administration, Treasurer and President and obtain appropriate approval of any draws and repayments on the LOC and will be required to provide them with balance reports throughout the year.

RESOLUTION

OFFICERS AND DIRECTORS OF THE JAGUAR ATHLETIC FUND, INC.

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

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

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

WHEREAS, the Nominating Committee of the JAF Board of Directors has nominated the following individuals to serve as JAF officers and/or directors for calendar-year terms as specified,

OFFICERS IN 2020

• James H. Shumock	Corporation President
• C.L. "Skipper" Walters	Corporation Vice President
• Jeffry M. Nichols	Corporation Secretary

DIRECTORS (Three-Year Terms)

• Katherine Alexis Atkins	Football	2019-2021
• William J. Cox	Football	2019-2021
• Jeffry M. Nichols	Tennis	2019-2021
• Brian Munger	Volleyball	2019-2021
• William Scott McNair	Men's Golf	2019-2021
• Anthony Paul Beard	Softball	2019-2021
• Miles Ball	Women's Soccer	2019-2021
• Wesley Hinkle	Baseball	2018-2020
• Amy Morris	Men's Basketball	2018-2020
• James H. Shumock	Men's Basketball	2018-2020
• Bobby Marks	Men's Basketball	2018-2020
• Alex Pastore	Baseball	2018-2020
• C.L. "Skipper" Walters	Baseball	2018-2020

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees does hereby approve the officers and directors of the Jaguar Athletic Fund, Inc., as set forth.

Department of Athletics

November 19, 2019

TO: Dr. Tony Waldrop
University President

FROM: Dr. Joel Erdmann
Director of Athletics

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

This is to request the attached Resolution be presented to the USA Board of Trustees for consideration at its next meeting on December 5, 2019.

The intent of the Resolution is for the University of South Alabama Board of Trustees to ratify the elected JAF Board members and officers.

JWE/els

Attachment

University of South Alabama • 6001 USA Drive South Suite 35 • Mobile, Alabama 3668802
Office: (251) 460-7121 • Fax: (251) 460-6505

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

HEALTH AFFAIRS COMMITTEE

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

Health Affairs Committee

September 12, 2019
2:22 p.m.

A meeting of the Health Affairs Committee of the University of South Alabama Board of Trustees was duly convened by Dr. Scott Charlton, Chair, on Thursday, September 12, 2019, at 2:22 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Chandra Brown Stewart, Scott Charlton, Steve Furr, Arlene Mitchell, Margie Tuckson and Jim Yance.
Member Absent:	Steve Stokes.
Other Trustees:	Alexis Atkins, Tom Corcoran, Ron Graham, Ron Jenkins, Lenus Perkins, Jimmy Shumock and Mr. Windom. Participating by phone was Ken Simon.
Administration & Guests:	Owen Bailey, Michael Chang, Lynne Chronister, Kristin Dukes, Joel Erdmann, Monica Ezell, Paul Frazier, Mike Haskins, David Johnson, Nick Lawkis, Kevin Macaluso, John Marymont, Susan McCready (Faculty Senate), Mike Mitchell, Mimi Munn, Rod Rocconi, John Smith, Margaret Sullivan, Sahilee Waitman (SGA), Tony Waldrop, Scott Weldon and Alan Whaley.
Media:	Ebonee Burrell (The Vanguard).

The meeting came to order and the attendance roll was called. Dr. Charlton called for consideration of the minutes of the meeting held on June 5, 2019. On motion by Mr. Yance, seconded by Ms. Tuckson, the Committee voted unanimously to adopt the minutes.

Dr. Charlton called on Mr. Bailey, who explained **ITEM 13**, a resolution authorizing the community health needs assessment recently conducted by USA Health and adoption of the implementation strategies developed as a result of the assessment. (To view approved resolutions, policies and other authorized documents, refer to the minutes of the Board of Trustees meeting held on September 13, 2019.) Mr. Bailey stated that the Affordable Care Act required not-for-profit hospitals to conduct a community needs health assessment every three years. He discussed assessment components, adding that Associate Professor Dr. Thomas Shaw and his team in the Department of Political Science and Criminal Justice completed the polling and analysis processes. He said efforts are underway to address needs involving challenges faced by infants and mothers, diabetes, respiratory cancers, disease prevention and public education on health care. Dr. Charlton emphasized that for-profit hospitals were not required to complete this type of assessment. On motion by Ms. Mitchell, seconded by Ms. Brown Stewart, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Dr. Charlton called for a report on the activities of the USA Health and the College of Medicine, **ITEM 14**. Dr. Marymont introduced and discussed the credentials of Professor and Locke

Distinguished Chair of the Department of Microbiology and Immunology Dr. Kevin Macaluso and Professor and Chair of the Department of Obstetrics and Gynecology Dr. Mimi Munn. Drs. Macaluso and Munn made brief remarks.

Dr. Marymont called for comments from Mr. Bailey. Mr. Bailey discussed the demolition of the Springhill Avenue Campus -- a facility of roughly 500,000 square feet that has exceeded its usefulness -- as early as October 2019 and plans to develop the property as a green space. He said the demolition would take four to five months to complete. Dr. Marymont said removal of the building would eliminate upkeep costs totaling approximately $2 million annually. Mr. Bailey stated building materials and equipment would be repurposed as possible and he answered questions about tenants and the future of the property.

Mr. Bailey announced that Dr. Alan Whaley had assumed the role of USA Health Chief Operating Officer and would work in dyadic partnership with Chief Medical Officer Dr. Michael Chang. He added that Dr. Whaley was responsible for much of the growth of USA Health amid restructuring. Dr. Whaley conveyed pride for the positive momentum of USA Health.

Dr. Marymont mentioned the October 15 *A Night Honoring Heroes* benefit for the Fanny Meisler Trauma Center at University Hospital. He recognized Ms. Sullivan and the Development staff for their assistance and thanked Mr. Lawkis for his help coordinating Governor Ivey's attendance.

There being no further business, the meeting was adjourned at 2:40 p.m.

Respectfully submitted:

Scott A. Charlton, Chair

RESOLUTION

USA HOSPITALS MEDICAL STAFF OFFICERS FOR CALENDAR YEARS 2020-2021

WHEREAS, the following slate of officers nominated at the General Medical Staff meeting on October 24, 2019, are recommended by the Medical Executive Committees, General Medical Staff and the Executive Committee of the University of South Alabama Hospitals,

USA HEALTH CHILDREN'S & WOMEN'S HOSPITAL

Chair, Medical Executive Committee	Craig Sherman, M.D.
Chair-elect Secretary, Medical Executive Committee	Richard Whitehurst, M.D.

USA HEALTH UNIVERSITY HOSPITAL

Chair, Medical Executive Committee	Edward Panacek, M.D.
Chair-elect Secretary, Medical Executive Committee	William H. Barber IV, M.D.

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees approves the nominations as submitted.

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

USA Health

DATE: November 6, 2019

TO: Tony G. Waldrop, PhD
President

FROM: Owen Bailey, Chief Executive Officer

SUBJECT: Board Meeting Documents

Attached for review and approval by the Health Affairs Committee and the Board of Trustees is:

Resolution – University of South Alabama Hospitals General Medical Staff Meeting Nomination of Officers for the calendar years 2020 – 2021

OB/kh

Attachments

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

ACADEMIC AND STUDENT AFFAIRS COMMITTEE

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

Academic and Student Affairs Committee

September 12, 2019
2:40 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, Chair, on Thursday, September 12, 2019, at 2:40 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Scott Charlton, Steve Furr, Ron Graham, Ron Jenkins, Lenus Perkins, Margie Tuckson and Mike Windom.
Other Trustees:	Alexis Atkins, Chandra Brown Stewart, Tom Corcoran, Arlene Mitchell, Jimmy Shumock and Jim Yance. Participating by phone was Ken Simon.
Administration & Guests:	Todd Andel, Owen Bailey, Lynne Chronister, Angela Clark, Reid Cummings, Kristin Dukes, Joel Erdmann, Monica Ezell, Paul Frazier, Krista Harrell, Mike Haskins, David Johnson, Nick Lawkis, John Marymont, Susan McCready (Faculty Senate), Mike Mitchell, Laura Moore, Nancy Rice, Rod Rocconi, John Smith, Margaret Sullivan, Lars Tatom, Paige Vitulli, Sahilee Waitman (SGA), Tony Waldrop, Scott Weldon, Kevin White, Bob Wood and Theresa Wright.
Media:	Ebonee Burrell (The Vanguard).

The meeting came to order and the attendance roll was called. Mr. Windom called for consideration of the minutes of the meeting held on June 5, 2019. On motion by Dr. Charlton, seconded by Mr. Perkins, the Committee voted unanimously to adopt the minutes.

Mr. Windom called for presentation of **ITEM 15**, a resolution granting tenure to new faculty Dr. John Usher, dean of the College of Engineering, and Dr. Kevin Macaluso, chair of the Department of Microbiology and Immunology. (To view approved resolutions, policies and other authorized documents, refer to the minutes of the Board of Trustees meeting held on September 13, 2019.) Provost Johnson advised that the candidates recently filled administrative roles. He and Dr. Marymont shared information on the candidates and the internal processes through which tenure candidates are vetted and approved prior to Board recommendation. On motion by Mr. Perkins, seconded by Ms. Tuckson, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Mr. Windom asked Provost Johnson to address **ITEM 16**, a resolution authorizing out-of-state tuition rates for graduate students enrolled in the Pat Capps Covey College of Allied Health Professions. Provost Johnson explained that the current tuition rates were below market norms and the proposal was one of the strategies previously discussed to increase enrollment in the clinical graduate programs. He stated the current out-of-state student premium would be adjusted from 2.0 to 2.33 effective with the 2020 summer term and anticipated additional adjustments over time. On motion by Charlton, seconded by Ms. Tuckson, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Mr. Windom called for consideration of **ITEM 17**, a resolution authorizing the establishment of Jaguar Realty, LLC. Provost Johnson introduced Mitchell College of Business (MCOB) Dean Dr. Bob Wood and Director of USA's Center for Real Estate and Economic Development Dr. Reid Cummings for an overview. Dr. Cummings discussed the premise and advantages of forming Jaguar Realty, LLC, emphasizing that students could earn real estate licenses at a reduced out-of-pocket cost and receive paid internships with real estate firms to gain real-world experience prior to graduating. He further asserted the MCOB would benefit from expanded program awareness, enrollment and community outreach and added that Jaguar Realty, LLC, would not be a competitor in the real estate market. He recognized Mr. Abe Mitchell for having matched $40,000 in seed money for the program. Dean Wood attested to the uniqueness of this model in the state and nation and said the program fit with the MCOB ideology of impact, innovation and engagement advancement. On motion by Mr. Perkins, seconded by Ms. Atkins, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Mr. Windom called on Provost Johnson to address **ITEM 18**, a report on the activities of the Division of Academic Affairs. Provost Johnson introduced new chairs Dr. Todd Andel – Department of Computer Science; Ms. Angela Clark – Department of Information Systems and Technology; Dr. Laura Moore – Department of Music: Dr. Nancy Rice – Department of Biomedical Sciences; Dr. Paige Vitulli – Department of Integrative Studies; and Dr. Theresa Wright – Department of Adult Health Nursing. He also introduced Executive Director of University Libraries Dr. Lorene Flanders for a report. Dr. Flanders advised that Outreach and Instruction Librarian in the Biomedical Library Ms. Rachael Fenske had been honored with the prestigious 2019 Michael E. DeBakey Library Services Outreach Award from the Friends of the National Library of Medicine at a ceremony in Washington, D.C.

Mr. Windom called on Dr. Mitchell to report on the activities of the Division of Student Affairs, **ITEM 19**. Dr. Mitchell remarked on a collaboration with the Division of Academic Affairs and introduced Dr. Lars Tatom, Chair of the Department of Theatre and Dance, and Dr. Krista Harrell, Associate Dean of Students/Title IX Coordinator, to give insight. Drs. Tatum and Harrell gave a summation on South's 2019-2020 Common Read/Common World selection "When the Emperor Was Divine" by Japanese-American author Julie Otsuka. Video footage promoting the book to students attending convocation was shown. Dr. Harrell invited Trustees and guests to campus on October 17 to hear the author speak and to visit the Archaeology Museum's corresponding exhibit from the Smithsonian Institute's traveling collection *I Want the Wide American Earth – An Asian Pacific American Story*. Marketing and Communications' Creative Services team members Ms. Diana Nichols and Mr. James Palomo were credited for their work on the video.

Mr. Windom asked Ms. Chronister to present **ITEM 20**, a report on the activities of the Division of Research and Economic Development. Ms. Chronister introduced Chair of Civil, Coastal and Environmental Engineering Dr. Kevin White to discuss his research. Dr. White reported on wastewater inefficiencies that had exposed communities of Alabama's Black Belt region to hazardous sewage. He talked about collective efforts underway to address this problem, which led to the formation of the Alabama Rural Water/Wastewater Consortium. He listed a wide array of academic institutions, state and federal agencies and elected officials that have become involved in this mission. Ms. Chronister credited Dr. White for his leadership on this project and advised of extramural funding received as a result, inclusive of a recent $800,000 grant award from the Environmental Protection Agency. President Waldrop stated that Dr. White had also consulted with local commissioners and mayors about storm water management and he characterized Dr. White's research as a service to the community.

Ms. Chronister referenced a card with information on upcoming research forums, internal funding opportunities, and activities offered that support faculty research development. She advised that, for each dollar the University has invested in internal grants, $30 was returned in external grant proceeds.

There being no further business, the meeting was adjourned at 3:24 p.m. Chairman Shumock said the Budget and Finance Committee meeting would convene at 3:30 p.m.

Respectfully submitted:

Michael P. Windom, Chair

RESOLUTION

SABBATICAL AWARDS

WHEREAS, in accordance with University policy, proposals for sabbatical awards have been reviewed and recommended by the respective faculty committees, department chair and college dean, and by the Provost and Senior Vice President for Academic Affairs and the President,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees approves sabbatical awards as set forth herein for Fall 2020 through Spring 2021.

NAME	DISCIPLINE	TIME PERIOD
Benjamin Hill	Psychology	Fall 2020
Albert Gapud	Physics	Fall 2020
Cornelius Pillen	Mathematics & Statistics	Spring 2021
Eleanor ter Horst	Modern and Classical Languages and Literature	Fall 2020
Alma Hoffmann	Art and Art History	Fall 2020
Jingshan Huang	Computer Science	Spring 2021
David Nelson	Mechanical Engineering	Fall 2020
Alvin Williams	Marketing	Spring 2021

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Academic Affairs

DATE: November 20, 2019

TO: Tony Waldrop

FROM: G. David Johnson, Provost and Senior Vice President, Acader

SUBJECT: Sabbatical Recommendations for Fall 2020 – Spring 2021

I recommend that the individuals whose names are listed below be granted a sabbatical for the period of time as indicated.

NAME	**DISCIPLINE**	**TME PERIOD**
Benjamin Hill	Psychology	Fall 2020
Albert Gapud	Physics	Fall 2020
Cornelius Pillen	Mathematics & Statistics	Spring 2021
Eleanor ter Horst	Modern and Classical Languages and Literature	Fall 2020
Alma Hoffmann	Art and Art History	Fall 2020
Jingshan Huang	Computer Science	Spring 2021
David Nelson	Mechanical Engineering	Fall 2020
Alvin Williams	Marketing	Spring 2021

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.

SABBATICAL RECOMMENDATIONS
Fall 2020 – Spring 2021

College of Arts and Sciences

1. Benjamin Hill, Department of Psychology
   Sabbatical Request: Fall 2020 at full pay

   Dr. Benjamin Hill plans to travel to the Pennington Biomedical Research Center at Louisiana State University to continue and expand his multifaceted research on obesity. In addition to the publications that he expects to emerge from this sabbatical work, there is also promise of closer ties between USA and LSU's network of research/clinical institutes. Dr. Hill's research and resultant connections will benefit USA's own Obesity Research Network and Center for Generational Studies, and this award may also result in additional research funding for USA.

2. Albert Gapud, Department of Physics
   Sabbatical Request: Fall 2020 at full pay

   Dr. Albert Gapud plans to travel to and collect scientific data at the National High Magnetic Field Lab (MagLab) at Florida State University. The data collected while conducting the measurements in Tallahassee is necessary for completion of his research. Dr. Gapud's sabbatical work will strengthen the USA Physics Department, involve students, produce an NSF proposal and an article, and strengthen ties with MagLab.

3. Cornelius Pillen, Department of Mathematics & Statistics
   Sabbatical Request: Spring 2021 at full pay

   Dr. Cornelius Pillen plans to visit with established collaborators and deliver presentations at three different universities, participate in a conference on mathematical symmetry theory at Princeton University, and publish some articles as a result of his research. His work will increase USA's visibility and address a number of longstanding mathematical research questions. Dr. Pillen's proposal explains the impact and importance of possible research outcomes and future collaborations with several other universities.

4. Eleanor ter Horst, Department of Modern and Classical Languages and Literature
   Sabbatical Request: Fall 2020 at full pay

   Dr. Eleanor ter Horst plans to use her sabbatical to write a book on eighteenth-century German literature, related to her previous work on Goethe and Schiller. Dr. ter Horst plans to build upon and extend her previous research and publications about the influence of the classics on eighteenth-century German Literature, in order to propose and begin writing a scholarly book for publication.

5. Alma Hoffmann, Department of Art and Art History
   Sabbatical Request: Fall 2020 at full pay

   Dr. Alma Hoffman proposes a semester-long sabbatical to study and learn typesetting, develop two new unique typefaces that mimic handwriting, and complete a past project, possibly also resulting in a future book. Dr. Hoffman's research would center on the relationship between calligraphy, handwriting and typeface design with the potential to make important short- and long-term contributions to her field.

School of Computing

6. Jingshan Huang, Professor of Computer Science
   Sabbatical Request: Spring 2021 at full pay

   Dr. Jingshan Huang plans to join Baidu Research Big Data Lab co-located in Silicon Valley, Seattle and Beijing to focus on fundamental research in artificial intelligence. Dr. Huang will continue his established research on using machine intelligence and data semantics to help extract knowledge from large amounts of bio data. Dr. Huang's ultimate research goal is to investigate effective computational methods to help fully integrate large-scale, next generation genomics and transcriptomics into the clinic, furthering the understanding of the basis of disease and discovering relevant genetic hallmarks to enable people to live longer, healthier lives.

College of Engineering

7. David Nelson, Professor of Mechanical Engineering
   Sabbatical Request: Fall 2020 at full pay

   Dr. David Nelson is applying for a Fulbright Foundation fellowship and his participation is contingent on being awarded the fellowship. Dr. Nelson's intention is to work at the National Research Council of Canada, Centre for Air Travel Research in Ottawa on a collaborative research project entitled, "Autonomous Comfort Sensing and Microclimate Management." This project will be a multi-institutional collaboration involving NRC research staff members as well as R&D staff at ThermoAnalytics, Inc. (Calumet, MI) and Airbus Americas. Dr. Nelson's expectation is to develop a major research proposal to NSF from the work he completes during the sabbatical. His participation will help expand our relationship with Airbus and establish a new, international research collaboration with NRC. As well, Airbus has indicated they are willing to fund his "administrative stipend" over the period of the sabbatical.

SABBATICAL RECOMMENDATIONS
Fall 2020 – Spring 2021

Mitchell College of Business

8. Alvin Williams, Professor of Marketing
   Sabbatical Request: Spring 2021 at full pay

   Dr. Alvin Williams proposes to travel to India to interact with faculty members at Pondicherry University to examine the importance of using marketing tools and analysis to strengthen the interface between business schools and the broader business community. Dr. Williams will be able to assist a significant Indian university in establishing relations with the broader business community using marketing tools and analysis as well as assisting the Mitchell College of Business in broadening its interface with the upper Gulf Coast business community.

RESOLUTION

FACULTY EMERITUS

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

ACADEMIC AFFAIRS:
- Harold W. Baldwin, Associate Professor of Philosophy
- David R. Battiste, Assistant Professor of Chemistry
- Patricia A. Brewer, Senior Instructor of Radiologic Sciences
- Murlene W. Clark, Associate Professor of Earth Sciences
- Samuel H. Fisher, Associate Professor of Political Science and Criminal Justice
- James D. Henderson, Associate Professor of Physician Assistant Studies
- Jie Li, Senior Librarian
- J. Keith Nicholls, Associate Professor of Political Science and Criminal Justice

COLLEGE OF MEDICINE:
- Susan Parsons LeDoux, Ph.D., Professor of Cell Biology and Neuroscience/
- Associate Dean for Medical Education and Student Affairs
- Wiltz W. Wagner, Jr., Ph.D., Professor of Pharmacology
- David Oliver Wood, Ph.D., Professor of Microbiology and Immunology

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; in serving to positively inspire students; and, regarding those with clinical backgrounds, for dedication to the treatment and healing of patients; all for which, in accordance with University policy, the respective faculty committees, departmental chair and college dean, the Provost and Senior Vice President for Academic Affairs or the Vice President for Medical Affairs, and the President have duly recommended the aforementioned faculty retirees be appointed to the rank of Professor Emeritus, Associate Professor Emeritus, Assistant Professor Emeritus, Senior Instructor Emeritus or Senior Librarian Emeritus,

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, Assistant Professor Emeritus, Senior Instructor Emeritus or Senior Librarian 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 significant contributions and dedicated service to the University of South Alabama.

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Academic Affairs

DATE: November 30, 2019

TO: Tony Waldrop

FROM: G. David Johnson, Provost and Senior Vice President, Academ

SUBJECT: Emeritus Recommendations

In accordance with recommendations by the faculty, 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, Associate Professor Emeritus, Instructor Emeritus and Senior Librarian Emeritus appropriate for their respective rank at retirement effective upon approval by you and the Board of Trustees.

- Harold W. Baldwin, Associate Professor of Philosophy (Associate Professor Emeritus)
- David R. Battiste, Assistant Professor of Chemistry (Assistant Professor Emeritus)
- Patricia A. Brewer, Senior Instructor of Radiologic Sciences (Senior Instructor Emeritus)
- Murlene W. Clark, Associate Professor of Earth Sciences (Associate Professor Emeritus)
- Samuel H. Fisher, Associate Professor of Political Science and Criminal Justice (Associate Professor Emeritus)
- James D. Henderson, Associate Professor of Physician Assistant Studies (Associate Professor Emeritus)
- Jie Li, Senior Librarian (Senior Librarian Emeritus)
- J. Keith Nicholls, Associate Professor of Political Science and Criminal Justice (Associate Professor Emeritus)

Thank you.

Approved: ______________________________

Disapproved: ______________________________

GDJ/rmh

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Office of the Dean/College of Medicine

DATE: October 23, 2019

TO: Dr. Tony G. Waldrop
President, University of South Alabama

FROM: Dr. John V. Marymont
Vice-President for Medical Affairs and Dean of the College of Medicine

SUBJECT: College of Medicine Emeritus Recommendations, 2019

I recommend awarding the rank of professor emeritus to retired College of Medicine faculty as specified below. Information for each faculty member is being forwarded for your review. With your approval, I request presentation of the recommendation to the Board of Trustees at the December meeting.

- Susan Parsons LeDoux, Ph.D., Professor of the Division of Medical Education
- Wiltz W. Wagner, Jr., Ph.D., Professor of the Department of Pharmacology
- David Oliver Wood, Ph.D., Professor of the Department of Microbiology and Immunology

RESOLUTION

DEAN EMERITUS

WHEREAS, Dr. John Steadman, Dean of the College of Engineering from 2003-2019, has reverted to faculty status, and

WHEREAS, in recognition of his honorable and distinguished service to the University through extraordinary accomplishments in administrative leadership and scholarship, for which, in accordance with University policy, the Faculty Senate, the Provost and Senior Vice President for Academic Affairs, and the President have duly recommended Dr. Steadman be designated as Dean Emeritus,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama hereby designates Dr. John Steadman as Dean Emeritus with the rights and privileges thereunto appertaining, and

BE IT FURTHER RESOLVED, the University of South Alabama Board of Trustees conveys deep appreciation to Dr. Steadman in recognition of his extraordinary leadership and dedicated service.

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Academic Affairs

DATE: November 20, 2019

TO: Tony Waldrop

FROM: G. David Johnson, Provost and Senior Vice President, Aca

SUBJECT: Dean Emeritus Recommendation for John Steadman

I recommend that Dr. John Steadman be granted the status of Dean Emeritus effective upon approval by you and the Board of Trustees.

Thank you.

Approved: ______________________________

Disapproved: ______________________________

GDJ:rmh

RESOLUTION

SUPPLY CHAIN AND LOGISTICS MANAGEMENT MAJOR PREMIUM TUITION MITCHELL COLLEGE OF BUSINESS

WHEREAS, the University of South Alabama is committed to creating, implementing, and maintaining high-quality educational and student services programs, and

WHEREAS, the Mitchell College of Business at the University of South Alabama has recognized the local, regional, national, and international demand for supply chain and logistics management major graduates, and

WHEREAS, the Mitchell College of Business is in an excellent position to provide educational, internship, co-op, and employment opportunities in supply chain and logistics management, and

WHEREAS, offering supply chain and logistics management courses will enhance the educational and employment opportunities for all students in the College, and

WHEREAS, the Mitchell College of Business has proposed to the Alabama Commission on Higher Education the creation of a Supply Chain and Logistics major within the Department of Marketing and Quantitative Methods, open to student enrollment beginning fall 2020, and

WHEREAS, the proposed program will require two new supply chain and logistics management faculty members, and

WHEREAS, the two new faculty members hired by the Mitchell College of Business will teach core business courses required of all College students in addition to required and elective courses in the Supply Chain and Logistics Management major, and

WHEREAS, a modest increase in the Mitchell College of Business undergraduate tuition will be sufficient to fund the program,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees authorizes, effective beginning fall semester 2020, an increase of $10 per credit hour for in-state undergraduate tuition and $20 per credit hour for out-of-state undergraduate tuition for courses offered in the Mitchell College of Business at the University of South Alabama.

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Academic Affairs

DATE: April 26, 2019

TO: Tony Waldrop

FROM: Dr. G. David Johnson, Provost and Senior Vice President for Academic Affairs

SUBJECT: Supply Chain and Logistics Management Major

After reviewing the attached request from Dr. Bob Wood, I recommend approval of the differential tuition increase for the Mitchell College of Business.

Effective August 2020, the proposed increase for in-state student tuition is $10 per credit hour and $20 per credit hour for out-of-state students. All proceeds of the differential tuition increase would accrue to O&M to fund salaries and benefits for two supply chain faculty members.

Please note, there is significant interest and support for us to be able to offer a Supply Chain major and it fits very well with the needs of the region. Also note, faculty that will be hired will teach courses that support all majors in Mitchell College of Business. We anticipate students from other majors taking these courses to support their programs of study.

I also request that, if approved, you include this differential tuition increase for the Mitchell College of Business to the Board of Trustees for approval at their December 2019 meeting.

Thank you for consideration of this request.

Approved: ______________________________

Disapproved: ______________________________

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Academic Affairs

DATE: April 26, 2019

TO: Dr. G. David Johnson, Provost and Senior Vice President for Academic Affairs

FROM: Dr. Bob G. Wood, Dean, Mitchell College of Business Bob Wood

SUBJECT: Supply Chain and Logistics Management Major

Following discussions with AACSB peer review team members, advisory council members, and other external constituents, the College has developed a Supply Chain and Logistics Management (SCLM) major. Letters supporting the implementation of the new major (see Appendix in the report) have been received from the Continental Aerospace Technologies and the Mobile Area Chamber of Commerce. Additional letters are forthcoming from Airbus, the Alabama State Port Authority, Austal, and Ingalls.

We request approval to hire two tenure-track assistant professors to teach courses in the SCLM major and other MCOB core courses in marketing and quantitative methods. These positions are necessary to provide the expertise to offer supply chain and logistics courses; none of the current College faculty have said expertise.

Our proposal is to fund these positions through an increase charged for business courses. The attached report demonstrates that needed funding levels may be reached if the tuition is increased $10.00 per credit hour for in-state students; the tuition is increased $20.00 for out-of-state students. All proceeds of the differential tuition increase would accrue to O&M to fund salaries and benefits for two supply chain faculty members. If approved, the tuition increase would be effective August 2020.

I request that you support this request and seek President Waldrop's commitment to have this approved by the Board of Trustees by their June 2020 meeting. If approved by ACHE, the major would be implemented August 2020.

Approved: G. David Johnson

Disapproved: ______________________________

AIRBUS

April 26, 2019

Robert G. Wood, PhD
Dean
Mitchell College of Business
MCOB 106
5811 USA Drive South
Mobile, AL 36688-0002

Re: Establishment of Supply Chain/Logistics Major

Dear Dean Wood,

Thank you for the opportunity to weigh-in on a possible Supply Chain/Logistics Major at the University Of South Alabama Mitchell College Of Business, an idea that we fully support. Airbus has made major investments in Mobile over the past years to benefit from its gulf coast location on our global supply chain. Mobile's deep-water sea port, railways, and its proximity to one of the longest interstate highways make it very appealing location.

The value of such a practical major goes well beyond what a global company like Airbus does in this region. The expertise of graduates for such a program is sought after within a wide variety of industries. As much of Airbus locating in Mobile revolves around the designing and building of the aircraft, it is the supply chain & logistics services that ensure parts are strategically sourced, produced to demanding quality standards, delivered to the right place, and routed to its end-use in the most efficient way possible. All skills which a major in supply chain & logistics could help foster for the next generation of skilled workforce.

Other points to consider are:

- The aerospace industry relies heavily on a global supply chain and more skilled graduates in supply chain will be very appealing for Airbus and its suppliers.
- Thousands of parts are flowing through the Airbus US Manufacturing Facility every day. Without skilled supply chain & logistics professionals, our carefully orchestrated procession of parts would not be possible.
- The education of skills required to source and negotiate extremely complex contracts would be a major asset to Airbus.

Airbus Americas
Engineering Center
1801 S. Broad Street
Mobile, AL 36615

Phone: +1 251 434 7300
Email: david.trent@airbus.com
Web: airbus.com
Follow us on twitter: twitter.com/Airbus

- Mobile might be a great test case area for new logistics solutions due to its size and geographic logistics advantages. New innovations or ideas first implemented in Mobile can become test cases for other cities.

Airbus would also like to take part in any industry advisory capacity that you need going forward.

Thank you again for the opportunity to support this initiative by the College. Airbus is in full support and look forward to its initiation and success.

Best regards,

David Trent
Site Director
Airbus Engineering Center
Airbus Americas, Inc.

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CONTINENTAL
AEROSPACE TECHNOLOGIES

23 April 2019

Bob G. Wood, PhD
Dean, Mitchell College of Business
MCOB 106
5811 USA Drive South
Mobile, AL 36688-0002

Dear Dr. Wood:

I am pleased to provide this letter lending support to the University of South Alabama's goal to establish a Business Major in the Supply Chain Management discipline. As a manufacturer with 3 separate sites spread between North America, Europe and China, as well as a supply chain that sources parts from every continent, Continental Aerospace Technologies (Continental®) views supply chain as one of its most critical areas to improve.

The historic role of supply chain was to simply buy product for the lowest price. Today, the position requires a clear understanding of global economics, monetary structures, logistics, and scheduling aimed at ensuring the correct part is at the correct location at the correct time. This must be accomplished while keeping inventory as low as possible and quality as high as possible. Further, the cost of parts is of tantamount concern, but still finds itself secondary to the costs associated with a line stoppage due to a part shortage or poor quality.

Continental® has been upgrading its Supply Chain team over the past few years. Having a local source for new Supply Chain specialists would greatly improve the skill sets of Continental® and the community as a whole. I fully endorse the addition of a Supply Chain specific major to the offerings at South Alabama.

I am happy to discuss this further and to lend my voice to your efforts.

Best Regards,

Rhett Ross
President & CEO

MOBILE AREA
CHAMBER OF COMMERCE

April 10, 2019

Dr. Bob G. Wood
University of South Alabama
Mitchell College of Business
5811 USA Drive South
Mobile, AL 36688-0002

Dear Bob:

The Mobile Area Chamber of Commerce's Economic Development team works to create investment opportunities and recruit jobs to the Mobile area. Our team is able to do this with the cooperation and assistance of Team Mobile, which is made up of many entities. A key partner in Team Mobile is the University of South Alabama (USA). A strong university partner is vital to our efforts, especially as it relates to our workforce development efforts. Many of our employers in the area have taken advantage of the world-class programs that USA has to offer.

One emerging market for the Mobile area is warehousing and logistics. Because of the robust transportation infrastructure in the Mobile area, the Port of Mobile has continued to grow at an exceptional rate. APM Terminals, Mobile's containerized cargo facility, will be able to ship 1.5 million containers at the completion of a five-phase construction project. Within the last few years, partners like the Port of Mobile and APM Terminals have helped the Chamber's efforts to recruit top warehousing and logistic operations such as the Walmart Import Distribution Center, Amazon Sortation Center, and MTC Logistics. Collectively, these three operations represent more than 1,000 jobs and over $300 million of new capital investment in Mobile. Our team fully expects and is preparing for more warehousing and logistic operation projects in the future.

Having programs offered by USA to support supply chain and logistics is integral to keeping up with the demand in our area as it relates to workforce development. We feel confident that the jobs within this sector will continue to grow, especially as the Port of Mobile continues to expand.

Please let me know if I can provide additional information or assistance as you develop this very important programming.

Sincerely,

William B. Sisson
President and CEO

sm

ACCREDITED

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

BUDGET AND FINANCE COMMITTEE

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

Budget and Finance Committee

September 12, 2019
3:32 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 12, 2019, at 3:32 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Alexis Atkins, Chandra Brown Stewart, Tom Corcoran, Ron Graham, Lenus Perkins. Participating by phone was Ken Simon.
Member Absent:	Steve Stokes.
Other Trustees:	Scott Charlton, Steve Furr, Ron Jenkins, Arlene Mitchell, Jimmy Shumock, Margie Tuckson, Mike Windom and Jim Yance.
Administration & Guests:	Owen Bailey, Lynne Chronister, Ken Davis, Kristin Dukes, Joel Erdmann, Monica Ezell, Paul Frazier, Mike Haskins, David Johnson, Nick Lawkis, John Marymont, Susan McCready (Faculty Senate), Mike Mitchell, Kelly Peters, Rod Rocconi, John Smith, Margaret Sullivan, Sahilee Waitman (SGA), Tony Waldrop and Scott Weldon.
Media:	Ebonee Burrell (The Vanguard).

The meeting came to order and the attendance roll was called. Mr. Corcoran called for adoption of the revised agenda. On motion by Ms. Brown Stewart, seconded by Mr. Graham, the Committee voted unanimously to adopt the revised agenda.

Mr. Corcoran called for consideration of the minutes of the meeting held on June 5, 2019. On motion by Ms. Atkins, seconded by Ms. Brown Stewart, the Committee voted unanimously to adopt the minutes.

Mr. Corcoran called on Mr. Weldon to present **ITEM 21**, a report on the quarterly financial statements for the nine months ended June 30, 2019. Mr. Weldon said, despite a decrease in investment income of between $7.5 to $8 million in 2018 and 2019 and a decline in fall enrollment, the University's net position increased by just under $25.3 million, whereas in 2018 the increase in net position was just under $4.7 million. He attributed the bulk of this upturn to efforts by USA Health over recent years to improve financial operations, and to main campus budget cuts and rightsizing as appropriate.

Mr. Corcoran asked Mr. Weldon to address **ITEM 22**, a report on bonded indebtedness. Mr. Weldon discussed plans to refinance Series 2010 bonds that have an outstanding balance of close to $20 million, carry a coupon interest rate of 3.81 percent and are callable in February 2020. Based upon early market indicators that point to a possible two percent interest rate, he said refinancing the bonds could result in an approximate 10 percent savings, or a net present value savings of up to $1.9 million. He reported the transaction may involve the issuance of private bonds. He noted that the current rates for private issues compared favorably with those for publically issued bonds and stated private bond transactions were generally less complex and costly. He anticipated that the Board would be asked to consider a recommendation in December.

Mr. Corcoran called for consideration of **ITEM 23**, a resolution to rename main campus streets as set forth. (To view approved resolutions, policies and other authorized documents, refer to the minutes of the Board of Trustees meeting held on September 13, 2019.) Mr. Weldon presented a diagram of the streets with recommended name changes and explained the practicality of the revisions in preparation for the opening of Hancock Whitney Stadium. On motion by Mr. Perkins, seconded by Ms. Atkins, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees. Mr. Haskins explained the processes for updating public safety agencies and mapping services.

Mr. Corcoran called on Mr. Davis to discuss **ITEM 24**, a resolution authorizing the amendment and restatement of the University's 403(b) plan as set forth in an accompanying volume submitter 403(b) plan document, to become effective October 1, 2019. Mr. Davis shared context on South's supplemental 403(b) elective retirement plan administered by TIAA (Teachers' Insurance and Annuity Association) and on TIAA and Internal Revenue Service interactions that prompted reassertion of South's plan using TIAA's volume submitter 403(b) plan document. He stated, while doing so, South took the opportunity to enhance plan provisions for participants in certain cases without cost to the University, as well as to optimize consistency between the 403(b) plans of the University and the HCM (USA HealthCare Management, LLC) for administrative reasons. On motion by Ms. Atkins, seconded by Ms. Brown Stewart, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Mr. Corcoran called on Mr. Weldon for presentation of **ITEM 25**, a resolution authorizing the University budget for 2019-2020 and further stipulating the 2019-2020 budget as the continuation budget for 2020-2021 to satisfy bond trust indenture requirements should the budget process not be completed prior to the 2020-2021 fiscal year. Mr. Weldon noted the proposed budget totaling just under $1.1 billion was balanced and he gave an overview on chief budget factors, among which he noted a 2.95 percent decline in enrollment; a 6.5 percent increase in state appropriations; a 2.1 percent increase in housing rates; a two percent increase in dining rates; a 2.9 percent increase in employee health insurance premiums; and a proposed three percent salary increase. He also detailed changes in budgeted revenues and expenses. Following discussion and on motion by Ms. Atkins, seconded by Ms. Brown Stewart, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Mr. Corcoran called for consideration of **ITEM 25.A**, a resolution authorizing a three-percent, across-the-board salary increase for all eligible current salaried and hourly employees and an average three-percent merit increase for all eligible faculty and administrative employees hired prior to June 1, 2019, as allowable under general personnel guidelines and inclusive of other adjustments approved by the President, to be effective on November 24, 2019, for employees paid biweekly and on December 1, 2019, for employees paid monthly. On motion by Ms. Brown Stewart, seconded by Ms. Atkins, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees. President Waldrop conveyed appreciation for the ability to recognize the employees with an ongoing raise despite budget challenges.

Mr. Weldon advised of the retirement of Senior Associate Vice President for Finance and Administration Ms. Kelly Peters on October 1, 2019. Ms. Peters shared remarks about the meaningful relationships forged during her tenure at South Alabama spanning close to four decades.

There being no further business, the meeting was adjourned at 4:06 p.m.

Respectfully submitted:

E. Thomas Corcoran, Chair

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Finance and Administration

DATE: November 22, 2019

TO: President Tony G. Waldrop TGW

FROM: G. Scott Weldon Scott

SUBJECT: Resolution to Authorize Issuance of the 2019 C Private Placement Bond

Attached is a resolution for consideration by the Board of Trustees concerning the University's 2019C Private Placement Bond (2019C Bond) that will refund our existing 2010 Private Placement Bonds (2010 Bonds). This resolution will inform the Board of Trustees the name of the winning bidder for the Bonds and will provide authorization to execute any necessary documents for the issuance of the Bonds.

This transaction refinances existing debt and will not increase debt service.

Some of the specifics of the 2010 Bonds and 2019C Bonds are:

2010 Bonds:

- **Original Amount**: $29,750,000
- **Maturity:** 20 Years
- **Issuer:** BBVA Compass Bank
- **Rate:** 3.81%
- **Outstanding Amount:** $19,086,000

2019C Bonds:

- **Issue Amount:** $19,086,000
- **Maturity:** 10 Years
- **Issuer:** PNC Bank, NA
- **Rate:** 1.870%
- **NPV Savings:** 9.439% - $1,801,645.82

With your consent, this item will be presented to the Board of Trustees for discussion and approval. Further, I recommend the adoption of the resolution by the Board of Trustees.

Attachment

A RESOLUTION AUTHORIZING THE ISSUANCE OF THE

$19,086,000 UNIVERSITY FACILITIES REVENUE BOND, SERIES 2019-C

BE IT RESOLVED by the Board of Trustees (herein called the "Board") of the **UNIVERSITY OF SOUTH ALABAMA** (herein called the "University") as follows:

Section 1. (a) Findings.
The Board has determined and hereby finds and declares that the following facts are true and correct:

(1) The University has heretofore issued its $29,750,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2010, dated June 16, 2010, presently outstanding in the aggregate principal amount of $19,086,000 (herein called the "Series 2010 Bond") and maturing in annual installments on August 1 of the following years and in the following amounts:

Year	Principal Amount Maturing
2020	$1,456,000
2021	1,518,000
2022	1,584,000
2023	1,654,000
2024	1,724,000
2025	1,800,000
2026	1,878,000
2027	1,958,000
2028	2,044,000
2029	2,132,000
2030	1,338,000

(2) Due to the current interest rate environment, the University has determined it is necessary, wise and in the best interest of the University and the public to redeem and retire the Series 2010 Bond.

(3) The University has undertaken a competitive bidding process for loans to refinance the Series 2010 Bond, and in connection therewith on November 22, 2019 received bids from various financial institutions including (i) PNC Bank, NA, (ii) Regions Capital Advantage, Inc., (iii) Key Government Finance, Inc., (iv) JPMorgan Chase Bank, (v), Sterling National Bank, (vi) Iberia Bank, and (vii) Capital One Public Funding, LLC.

(4) The Vice President for Finance and Administration of the University has reported, upon the advice and determination by PFM Financial Advisors, LLC, that the bid submitted by PNC Bank, NA (herein called "PNC") presents the lowest proposed rate of interest and cost of funds to the University for the refinancing of the Series 2010 Bond and, accordingly, the bid submitted by PNC has been recommended as the winning bid.

(5) It is necessary, advisable, in the best interest of the University to accept the bid of PNC and sell and deliver to PNC the University's $19,086,000 University Facilities Revenue Bond, Series 2019-C (herein called the "Series 2019-C Bond") to pay the principal portion and redemption price of the Series 2010 Bond.

(b) Series 2019-C Bond to be Issued as an Additional Bond Under the Indenture; Special Findings Under Section 8.2(b) of the Indenture. The Series 2019-C Bond shall be issued as an additional parity bond under Article VIII of the Indenture hereinafter referred to. In accordance with the provisions of Section 8.2(b) of the Indenture, the Board hereby finds and declares as follows:

(1) the University is not now in default under the Indenture, and no such default is imminent;

(2) the Series 2019-C Bond shall be designated Series 2019-C;

(3) PNC is the person or entity to whom the Series 2019-C Bond is to be delivered;

(4) the Series 2019-C Bond is to be issued by sale in accordance with Section 6 hereof;

(5) the sale price of the Series 2019-C Bond shall be the initial par amount thereof ($19,086,000);

(6) the only bonds that have previously been issued by the University under the Indenture are its (i) $31,680,000 original principal amount University Tuition Revenue Refunding and Capital Improvement Bonds, Series 1996, dated February 15, 1996 (herein called the "Series 1996 Bonds"), which were issued under and pursuant to the Trust Indenture dated as of February 15, 1996 further described in Section 2 hereof; (ii) $7,055,000 original principal amount University Tuition Revenue Refunding Bonds, Series 1996B, dated October 15, 1996 (herein called the "Series 1996B Bonds"), which were issued under and pursuant to the First Supplemental Trust Indenture dated as of October 15, 1996; (iii) $40,130,000.70 original principal amount University Tuition Revenue Bonds, Series 1999, dated March 1, 1999 (herein called the "Series 1999 Bonds"), which were issued under and pursuant to the Second

Supplemental Trust Indenture dated as of October 15, 1999; (iv) $51,080,000 original principal amount Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, dated March 15, 2004 (herein called the "Series 2004 Bonds"), which were issued under and pursuant to the Fourth Supplemental Trust Indenture dated March 15, 2004; (v) $100,000,000 original principal amount University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, dated December 1, 2006 (herein called the "Series 2006 Bonds"), which were issued under and pursuant to the Fifth Supplemental Trust Indenture dated as of December 1, 2006; (vi) $112,885,000 original principal amount University Facilities Revenue Capital Improvement Bonds, Series 2008, dated September 1, 2008 (herein called the "Series 2008 Bonds"), which were issued under and pursuant to the Sixth Supplemental University Facilities Revenue Trust Indenture dated as of September 1, 2008; (vii) $29,750,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2010, dated June 16, 2010 (herein called the "Series 2010 Bond"), which was issued under and pursuant to the Seventh Supplemental University Facilities Revenue Trust Indenture dated as of June 16, 2010 and will be paid with proceeds of the Series 2019-C Bond hereinafter authorized; (viii) $25,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-A, dated January 4, 2012 (herein called the "Series 2012-A Bond"), which was issued under and pursuant to an Eighth Supplemental University Facilities Revenue Trust Indenture dated as of January 4, 2012 (herein called the "Eighth Supplemental Indenture"); (ix) $7,740,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-B, dated January 4, 2012 (herein called the "Series 2012-B Bond"), which was issued under and pursuant to the Eighth Supplemental Indenture; (x) $32,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-A, dated June 28, 2013 (herein called the "Series 2013-A Bond"), which was issued under and pursuant to the Ninth Supplemental University Facilities Revenue Trust Indenture dated June 28, 2013 (herein called the "Ninth Supplemental Indenture"); (xi) $8,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-B, dated June 28, 2013 (herein called the "Series 2013-B Bond"), which was issued under and pursuant to the Ninth Supplemental Indenture; (xii) $10,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-C, dated June 28, 2013 (herein called the "Series 2013-C Bond"), which was issued under and pursuant to the Ninth Supplemental Indenture; (xiii) $41,245,000 original principal amount University Facilities Revenue Refunding Bond, Series 2014-A, dated March 14, 2014 (herein called the "Series 2014-A Bond"), which was issued under and pursuant to the Tenth Supplemental University Facilities Revenue Trust Indenture dated March 14, 2014; (xiv) $6,000,000 University Facilities Revenue Capital Improvement Bond, Series 2015, dated June 15, 2015 (herein called the "Series 2015 Bond"), which was issued under and pursuant to the Eleventh Supplemental University Facilities Revenue Trust Indenture dated June 15, 2015; (xv) $85,605,000 University Facilities Refunding Revenue Bonds, Series 2016, dated September 14, 2016 (herein called the "Series 2016 Bonds") which were issued under and pursuant to the Twelfth Supplemental University Facilities Revenue Trust Indenture dated as of March 14, 2014; (xvi) $20,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-B, dated December 7, 2016 (herein called the "Series 2016-B Bond") which was issued under and pursuant to the Thirteenth Supplemental University Facilities Revenue Trust Indenture dated as of December 7, 2016 (herein called the "Thirteenth Supplemental Indenture"), (xvii) $35,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-C, dated December 7, 2016 (herein called the "Series 2016-C Bond") which was issued under the Thirteenth Supplemental Indenture, (xviii) $45,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-D, dated December 7, 2016 (herein called the "Series 2016-D Bond") which was issued under the Thirteenth Supplemental Indenture, (xix) $38,105,000 original principal amount University Facilities Revenue Bonds, Series 2017, dated June 15, 2017 (herein called the "Series 2017 Bonds") which were issued under a Fourteenth Supplemental University Facilities Revenue Trust Indenture dated June 15, 2017; (xx) $47,750,000 original principal amount University Facilities Revenue Bonds, Series 2019-A, dated February 7, 2019 (herein called the "Series 2019-A Bonds") which were issued under a Fifteenth Supplemental University Facilities Revenue Trust Indenture dated February 7, 2019 (herein called the "Fifteenth Supplemental Indenture"), and (xxi) $18,440,000 original principal amount Taxable University Facilities Revenue Bonds, Series 2019-B, dated February 7, 2019 (herein called the "Series 2019-B Bonds") which were issued under the Fifteenth Supplemental Indenture. The Series 2010 Bond, the Series 2012-A Bond, the Series 2013-A Bond, the Series 2013-B Bond, the Series 2013-C Bond, the Series 2014-A Bond, the Series 2015 Bond, the Series 2016 Bonds, the Series 2016-B Bond, the Series 2016-C Bond, the Series 2016-D Bond, the Series 2017 Bonds, the Series 2019-A Bonds and the Series 2019-B Bonds are herein collectively called the "Outstanding Bonds");

(7) In Article VIII of the Indenture, the University has reserved the right to issue additional bonds, secured by a pledge of the Pledged Revenues on a parity with the Outstanding Bonds and with such additional bonds as shall have thereafter been issued thereunder, upon compliance with the applicable provisions of said Article VIII;

(8) the Outstanding Bonds are the only bonds heretofore issued under the Indenture that are at this time and upon issuance of the Series 2019-C Bond will be outstanding under the Indenture; and

(9) the Series 2019-C Bond will be issued for the purposes described in Section 8 hereof.

The Trustee is hereby requested to authenticate and deliver the Series 2019-C Bond to PNC.

Section 2. Authorization of the Series 2019-C Bond.

For the purposes specified in Section 1 of this resolution, the University does hereby sell to PNC the University's University Facilities Revenue Bond, Series 2019-C, dated December 12, 2019, in a principal amount of $19,086,000, under the terms, conditions and provisions set out in a Sixteenth Supplemental University Facilities Revenue Trust Indenture dated the date of the Series 2019-C Bond, between the University and The Bank of New York Mellon Trust Company, N.A., as trustee (herein called the "Trustee"), which is supplemental to the University Facilities Revenue Trust Indenture between the University and the Trustee dated as of February 15, 1996 (the said Trust Indenture, as heretofore supplemented and amended and as further supplemented and amended by the said Sixteenth Supplemental University Facilities Revenue Trust Indenture, herein called the "Indenture"). All the provisions of the Indenture respecting the Series 2019-C Bond are hereby adopted as a part of this resolution as fully as if set out at length herein.

Section 3. Source of Payment of the Series 2019-C Bond.

The principal of and the interest on the Series 2019-C Bond shall be payable solely from the Pledged Revenues as defined in the Indenture. Nothing contained in this resolution, in the Series 2019-C Bond or in the Indenture shall be deemed to impose any obligation on the University to pay the principal of or the interest on the Series 2019-C Bond except from and to the extent of the Pledged Revenues. The Series 2019-C Bond shall not represent or constitute an obligation of any nature whatsoever of the State of Alabama (the "State") and shall not be payable out of moneys appropriated to the University by the State. The agreements, covenants and representations contained in this resolution, in the Series 2019-C Bond and in the Indenture do not and shall never constitute or give rise to any personal or pecuniary liability or charge against the general credit of the University, and in the event of a breach of any such agreement, covenant or representation, no personal or pecuniary liability or charge payable directly or indirectly from the general revenues of the University shall arise therefrom. Neither the Series 2019-C Bond nor the pledge or any agreement contained in the Indenture or in this resolution shall be or constitute an obligation of any nature whatsoever of the State, and neither the Series 2019-C Bond nor any obligations arising from the aforesaid pledge or agreements shall be payable out of any moneys appropriated to the University by the State. Nothing contained in this section shall, however, relieve the University from the observance and performance of the several covenants and agreements on its part herein contained and contained in the Indenture.

Section 4. Series 2019-C Bond Payable at Par.

With respect to the Series 2019-C Bond, all remittances of principal of and interest on such bond to the holder thereof shall be made at par without any deduction for exchange or other cost, fees or expenses. The bank at which the Series 2019-C Bond shall at any time be payable shall be considered by acceptance of its duties under the Indenture to have agreed that it will make or cause to be made remittances of principal of and interest on the Series 2019-C Bond, out of the moneys provided for that purpose, in bankable funds at par without any deduction for exchange or other cost, fees or expenses. The University will pay to such bank all reasonable charges made and expenses incurred by it in making such remittances in bankable funds at par.

Section 5. Authorization of Sixteenth Supplemental University Facilities Revenue Trust Indenture.

The Board does hereby authorize and direct the President of the University to execute and deliver, for and in the name and behalf of the University, to The Bank of New York Mellon Trust Company, N.A., as Trustee under the aforesaid Indenture, a Sixteenth Supplemental University Facilities Revenue Trust Indenture dated the date of the Series 2019-C Bond, in substantially the form presented to the meeting at which this resolution is adopted and attached as Exhibit I to the minutes of said meeting (which form is hereby adopted in all respects as if set out in full in this resolution), and does hereby authorize and direct the Secretary of the Board to affix to the Sixteenth Supplemental University Facilities Revenue Trust Indenture the corporate seal of the University and to attest the same.

Section 6. Sale of the Series 2019-C Bond.

The University does hereby sell to PNC the Series 2019-C Bond at and for a price equal to the initial principal amount of such bond ($19,086,000). The Series 2019-C Bond shall bear such date, shall mature in annual installments at such times and in such manner, shall bear such rate of interest, shall be payable at such place, shall be in such denomination, and shall be in such form and contain such provisions as are set out in the Sixteenth Supplemental University Facilities Revenue Trust Indenture authorized in Section 5 above.

Section 7. Execution and Delivery of the Series 2019-C Bond.

The Board does hereby authorize the President of the University to execute the Series 2019-C Bond, in the name and on behalf of the University, by manually signing said bond, and does hereby authorize the Secretary of the Board to cause the corporate seal of the University to be imprinted or impressed on the Series 2019-C Bond and to attest the same by signing the Series 2019-C Bond, and the President of the University is hereby authorized to deliver the Series 2019-C, subsequent to its execution as provided herein and in the Indenture, to the Trustee under the Indenture, and to direct the Trustee to authenticate the Series 2019-C Bond and to deliver it to PNC (as purchaser thereof).

Section 8. Application of Proceeds.

The entire proceeds derived from the sale of the Series 2019-C Bond shall be remitted directly to the Trustee for deposit into the Bond Fund created under the Indenture for payment of the redemption price of the Series 2010 Bond on the Redemption Date hereinafter defined. The University shall also remit and pay to the Trustee such amounts determined by the Vice President for Finance and Administration as shall be necessary to cover accrued interest on the Series 2010 Bond to the Redemption Date and any other amounts such officer determines necessary to cause sufficient funds to be on deposit in the said Bond Fund to redeem and pay the Series 2010 Bond on the Redemption Date.

Section 9. Call of Series 2010 Bond for Redemption.

(a) The Board does hereby elect to redeem and pay, and does hereby call for redemption and payment, on February 1, 2020 (herein called the "Redemption Date"), the Series 2010 Bond, at and for a redemption price equal to 100% of the principal amount of the outstanding Series 2010 Bond plus accrued interest thereon to the Redemption Date.

(b) The Trustee is hereby authorized and directed to give notice of and effect said redemption of the Series 2010 Bond in the manner provided in the Indenture, and to take all such other actions as shall be necessary or desirable to carry-out the redemption and payment of the Series 2010 Bond as aforesaid. The Board does herby further authorize and direct that funds deposited by the University for the redemption and payment of the Series 2010 Bond be invested in U.S. treasury securities, overnight or other depository accounts, or such other investments as shall be permitted by applicable state law, identified by PFM Financial Advisors, LLC, as financial advisor to the University, and approved by the Vice President for Finance and Administration of the University.

Section 10. Resolution Constitutes Contract; Severability.

The provisions of this resolution shall constitute a contract between the University and the holder of the Series 2019-C Bond. The various provisions of this resolution are hereby declared to be severable. In the event any provision hereof shall be held invalid by a court of competent jurisdiction, such invalidity shall not affect any other portion of this resolution.

Section 11. General Authorization; Authorization of Vice President for Finance and Administration.

The President of the University, the Vice President for Finance and Administration of the University, and the Secretary of the Board are hereby authorized to execute such further agreements, certifications, instruments or other documents, and to take such other actions as any of them may deem appropriate or necessary, for the consummation of the transactions covered by this resolution and to the end that the Series 2019-C Bond may be executed, issued and delivered, and the Series 2010 Bond redeemed and retired on the Redemption Date. The Chair Pro Tempore of the Board and the Vice President for Finance and Administration of the University, or either of them, is hereby further authorized to (i) sign and deliver the Series 2019-C Bond, the Sixteenth Supplemental University Facilities Revenue Trust Indenture, and such other documents as have been authorized for signature by the President of the University in the event the said President is unavailable for such purpose, and (ii) affix the seal of the University to, and to attest the Series 2019-C Bond, the Sixteenth Supplemental University Facilities Revenue Trust Indenture, and such other documents as the Secretary of the Board has been so authorized in the event the said Secretary is unavailable for such purpose.

EXHIBIT I

FORM OF SIXTEENTH SUPPLEMENTAL

UNIVERSITY FACILITIES REVENUE TRUST INDENTURE

SIXTEENTH SUPPLEMENTAL UNIVERSITY FACILITIES

REVENUE TRUST INDENTURE

between

UNIVERSITY OF SOUTH ALABAMA

and

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.

Dated December 12, 2019

SIXTEENTH SUPPLEMENTAL UNIVERSITY FACILITIES REVENUE TRUST INDENTURE between the **UNIVERSITY OF SOUTH ALABAMA**, a public body corporate under the laws of the State of Alabama (herein called the "University"), and **THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.** (as successor Trustee to AmSouth Bank of Alabama and being herein called the "Trustee"), a national banking association in its capacity as Trustee under the Trust Indenture of the University dated as of February 15, 1996, as heretofore supplemented and amended (herein called the "Indenture")

R E C I T A L S

The University makes the following findings as a basis for the undertakings herein contained:

(a) Pursuant to the provisions of the Indenture, the University has issued and sold its (i) $31,680,000 original principal amount of University Tuition Revenue Refunding and Capital Improvement Bonds, Series 1996, dated February 15, 1996, which are no longer outstanding, (ii) $7,055,000 original principal amount University Tuition Revenue Refunding Bonds, Series 1996B, dated October 15, 1996, which are no longer outstanding, (iii) $40,130,000.70 original principal amount University Tuition Revenue Bonds, Series 1999, dated March 1, 1999, which are no longer outstanding (the "Series 1999 Bonds"), (iv) $51,080,000 original principal amount Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, dated March 15, 2004, which are no longer outstanding, (v) $100,000,000 original principal amount University Tuition Refunding and Capital Improvement Bonds, Series 2006, dated December 1, 2006 (the "Series 2006 Bonds"), which are no longer outstanding, (vi) $112,885,000 original principal amount University Facilities Revenue Capital Improvement Bonds, Series 2008, dated September 1, 2008 (the "Series 2008 Bonds"), which are no longer outstanding, (vii) $29,750,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2010, dated June 16, 2010 (the "Series 2010 Bond"), (viii) $25,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-A, dated January 4, 2012 (the "Series 2012-A Bond"), (ix) $7,740,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-B, dated January 4, 2012, which is no longer outstanding (the "Series 2012-B Bond"), (x) $32,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-A, dated June 28, 2013 (the "Series 2013-A Bond"), (xi) $8,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-B, dated June 28, 2013 (the "Series 2013-B Bond"), (xii) $10,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-C, dated June 28, 2013 (the "Series 2013-C

Bond"), (xiii) $41,245,000 original principal amount University Facilities Revenue Refunding Bond, Series 2014-A, dated March 14, 2014 (the "Series 2014-A Bond"), (xiv) $6,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2015, dated June 15, 2015 (the "Series 2015 Bond"), (xv) $85,605,000 original principal amount University Facilities Revenue Refunding Bonds, Series 2016, dated September 14, 2016 (the "Series 2016 Bonds"), (xvi) $20,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-B, dated December 7, 2016 (the "Series 2016-B Bond"), (xvii) $35,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-C, dated December 7, 2016 (the "Series 2016-C Bond"), (xviii) $45,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-D, dated December 7, 2016 (the "Series 2016-D Bond"), (xix) $38,105,000 original principal amount University Facilities Revenue Bonds, Series 2017, dated June 15, 2017 (the "Series 2017 Bonds"); (xx) $47,750,000 original principal amount University Facilities Revenue Bonds, Series 2019-A, dated February 7, 2019 (the "Series 2019-A Bonds"), and (xxi) $18,440,000 original principal amount Taxable University Facilities Revenue Bonds, Series 2019-B, dated February 7, 2019 (the "Series 2019-B Bonds").

(b) In Article VIII of the Indenture, the University has reserved the right to issue Additional Bonds, secured by a pledge of the Pledged Revenues on a parity with all Additional Bonds outstanding under the Indenture, including the Series 2010 Bond, the Series 2012-A Bond, the Series 2013-A Bond, the Series 2013-B Bond, the Series 2013-C Bond, the Series 2014-A Bond, the Series 2015 Bond, the Series 2016 Bonds, the Series 2016-B Bond, the Series 2016-C Bond, the Series 2016-D Bond, the Series 2017 Bonds, the Series 2019-A Bonds and the Series 2019-B Bonds (collectively, the "Outstanding Bonds"), and with such Additional Bonds as shall hereafter be issued upon compliance with the applicable provisions of said Article VIII.

(c) The Series 2010 Bond is subject to redemption and payment at the option of the University on and after February 1, 2020, and due to the currently favorable interest rate environment the University has determined it is necessary, wise and in the best interest of the University to refund, on a current basis, the Series 2010 Bond.

(d) The University has determined to obtain a loan (the "Loan") to pay the costs of refunding the Series 2010 Bond, and has undertaken a competitive bidding process to identify the lender that offers the most optimal terms and financing costs for the Loan.

(e) PNC Bank, NA (the "Lender") submitted the bid that provides the best terms and lowest financing costs to the University for refunding the Series 2010 Bond.

(f) This Sixteenth Supplemental University Facilities Revenue Trust Indenture is being executed to provide for the issuance of the Series 2019-C Bond as an Additional Bond under the Indenture, which such Series 2019-C Bond will evidence the Loan and the obligation of the University to pay principal and interest thereon to the Lender.

Additional Definitions

The following definitions are in addition to those contained in the Indenture:

"Determination of Taxability" shall mean a determination that interest on the Series 2019-C Bond is includable for federal income tax purposes in the gross income (as defined in Section 61 of the Internal Revenue Code of 1986, as amended, or any successor provision thereto) of the registered owner or any former registered owner of the Series 2019-C Bond upon the first to occur of the following, but if and only if such occurrence is the result of an action or failure to act on the part of the University:

(a) the date on which the University is advised in writing by the Commissioner or any District Director of the Internal Revenue Service that, based upon any filings of the University, or upon any review or audit of the University, the interest on the Series 2019-C Bond is includable in the gross income of each registered owner or former registered owner thereof;

(b) the date on which the University receives notice from the registered owner or any former registered owner of the Series 2019-C Bond in writing that the registered owner or former registered owner of the Series 2019-C Bond has received from the Internal Revenue Service a statutory notice of deficiency or similar notice which asserts in effect that the interest on Series 2019-C Bond is includable in the gross income of the registered owner or former registered owner of the Series 2019-C Bond;

(c) the date on which the University is advised in writing by the Commissioner or any District Director of the Internal Revenue Service or otherwise receives notice that there has been issued a public or private ruling of the Internal Revenue Service or a technical advice memorandum issued by the national office of the Internal Revenue Service that the interest on the Series 2019-C Bond is includable for federal income tax purposes in the gross income of the registered owner or former registered owner of the Series 2019-C Bond; or

(d) the date on which the University is advised in writing that a final determination, from which no further right of appeal exists, has been made by a court of competent jurisdiction in the United States of America that the interest on the Series 2019-C Bond is includable in the gross income of the registered owner or former registered owner of the Series 2019-C Bond;

provided, however, (i) interest on the Series 2019-C Bond shall not be deemed includable for federal income tax purposes in the gross income of a registered owner or former registered owner of the Series 2019-C Bond because interest is includable in the calculation of income for purposes of an alternative minimum tax or any other type of taxation other than regular federal tax imposed on income, and (ii) no Determination of Taxability shall occur under subparagraph (a), (b) or (c) of this definition unless the University has been afforded the opportunity, at the expense of the University, to contest any such conclusion and/or assessment. The University shall be deemed to have been afforded the opportunity to contest if it shall have been permitted to commence and maintain any action in the name of the registered owner or any former registered owner of the Series 2019-C Bond to judgment and through any appeals therefrom or other proceedings related thereto.

"**Interest Payment Date**" means each April 1 and October 1, commencing April 1, 2020.

"**Lender**" means PNC Bank, NA, as lender for the Loan and purchaser of the Series 2019-C Bond.

"**Series 2019-C Bond**" means the $19,086,000 University Facilities Revenue Bond, Series 2019-C, dated December 12, 2019, and authorized to be issued to the Lender hereunder.

NOW, THEREFORE, THIS SIXTEENTH SUPPLEMENTAL UNIVERSITY FACILITIES REVENUE TRUST INDENTURE

W I T N E S S E T H:

It is hereby agreed among the University, the Trustee and its successors in trust under the Indenture and the holder at any time of the Series 2019-C Bond hereinafter referred to and the Outstanding Bonds each with each of the others, as follows:

ARTICLE I: SERIES 2019-C BOND

Section 1.1 Description of the Series 2019-C Bond.

(a) Authorization and General Description.

There is hereby authorized to be issued and delivered by the University under the Indenture one University Facilities Revenue Bond, Series 2019-C, dated December 12, 2019, in the principal amount of $19,086,000. Principal installments of the Series 2019-C Bond shall mature and become payable on April 1 in the years and amounts shown below, and interest shall be payable on April 1, 2020, and on each Interest Payment Date thereafter, at the per annum rate equal to 1.87% (or, following a Determination of Taxability, at the per annum rate equal to 2.26%), computed on the basis of the actual number of days between each Interest Payment Date (and, with respect to the interest payment due April 1, 2020, the actual number of days from the date of the Series 2019-C Bond (*i.e.,* December 12, 2019) to April 1, 2020), on a 360 day year, all as set forth in the following amortization schedule; provided, following a

Determination of Taxability, the amount owed as interest on each Interest Payment Date shall be computed as set forth above:

Date	Principal	Interest	Total
04/01/2020	$1,456,000.00	$110,046.70	$1,566,046.70
10/01/2020	--	167,587.84	167,587.84
04/01/2021	1,518,000.00	166,672.06	1,684,672.06
10/01/2021	--	153,157.99	153,157.99
04/01/2022	1,584,000.00	152,321.06	1,736,321.06
10/01/2022	--	138,100.75	138,100.75
04/01/2023	1,654,000.00	137,346.10	1,791,346.10
10/01/2023	--	122,378.10	122,378.10
04/01/2024	1,724,000.00	122,378.10	1,846,378.10
10/01/2024	--	105,990.04	105,990.04
04/01/2025	1,800,000.00	105,410.86	1,905,410.86
10/01/2025	--	88,879.54	88,879.54
04/01/2026	1,878,000.00	88,393.86	1,966,393.86
10/01/2026	--	71,027.59	71,027.59
04/01/2027	1,958,000.00	70,639.46	2,028,639.46
10/01/2027	--	52,415.17	52,415.17
04/01/2028	2,044,000.00	52,415.17	2,096,415.17
10/01/2028	--	32,985.24	32,985.24
04/01/2029	2,132,000.00	32,804.99	2,164,804.99
10/01/2029	--	12,718.81	12,718.81
04/01/2030	1,338,000.00	12,649.30	1,350,649.30

In the event of a discrepancy between the computation of interest on the Series 2019-C Bond as described above and the amortization schedule set forth above, the payments due under the amortization schedule shall control unless a Determination of Taxability shall have occurred.

(b) Interest Payment Dates.

In the event an Interest Payment Date is not a Business Day, the principal or interest due on such date shall be payable on the then next succeeding Business Day.

Section 1.2 Optional Redemption.

The Series 2019-C Bond shall not be subject to redemption at the option of the University.

Section 1.3 Method of Payment.

Principal installments of the Series 2019-C Bond shall be payable when due at the designated office of the Trustee in the City of Birmingham, Alabama. Principal and interest on the Series 2019-C Bond shall be payable by wire transfer or by check or draft mailed or otherwise delivered by the Trustee to the Lender at its address as it appears on the registry books of the Trustee pertaining to the registration of the Series 2019-C Bond. Upon final payment of such principal and interest that is due on April 1, 2030 (or the sooner redemption, if in full, of the Series 2019-C Bond), the Lender shall surrender the

Series 2019-C Bond to the Trustee. All installments of principal of and interest on the Series 2019-C Bond shall bear interest after the respective maturities of such principal and interest until paid or until moneys sufficient for payment thereof shall have been deposited for that purpose with the Trustee, whichever first occurs, at the rate of interest borne by the Series 2019-C Bond.

Section 1.4 Form of Series 2019-C Bond.
The Series 2019-C Bond and the Trustee's Authentication Certificate applicable thereto shall be in substantially the following forms, respectively, with such insertions, omissions and other variations as may be necessary to conform to the provisions hereof:

THIS SERIES 2019-C BOND MAY BE TRANSFERRED ONLY TO AN "ACCREDITED INVESTOR" OR "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN THE SECURITIES AND EXCHANGE ACT OF 1933 AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER THAT DELIVERS TO THE UNIVERSITY A LETTER CERTIFYING THE SAME, AND ONLY UPON COMPLIANCE WITH APPLICABLE STATE AND FEDERAL SECURITIES LAWS AND WITH THE INDENTURE REFERRED TO HEREIN.

UNITED STATES OF AMERICA

STATE OF ALABAMA

UNIVERSITY OF SOUTH ALABAMA
University Facilities Revenue Bond
Series 2019-C

For value received, the **UNIVERSITY OF SOUTH ALABAMA**, a public body corporate under the laws of the State of Alabama (herein called the "University"), will pay, solely from the sources hereinafter referred to, to PNC BANK, NA (the "Lender"), the principal sum of **NINETEEN MILLION EIGHTY SIX THOUSAND DOLLARS ($19,086,000)**, in annual installments at the times, in the amounts and as set forth below.

The principal hereof shall mature and become payable in annual installments on April 1 in the years and amounts shown below, and interest shall be payable on April 1, 2020, and on each October 1 and April 1 thereafter (each, an "Interest Payment Date") at the per annum rate equal to 1.87% (or, following a Determination of Taxability, at the per annum rate equal to 2.26%), computed on the basis of the actual number of days between each Interest Payment Date (and, with respect to the interest payment due April 1, 2020, the actual number of days from the date of this bond (*i.e.*, December 12, 2019) to April 1, 2020), on a 360 day year, all as set forth in the following amortization schedule, provided, following a Determination of Taxability, amounts owed as interest on each Interest Payment Date shall be computed as set forth above:

Date	Principal	Interest	Total
04/01/2020	$1,456,000.00	$110,046.70	$1,566,046.70
10/01/2020	--	167,587.84	167,587.84
04/01/2021	1,518,000.00	166,672.06	1,684,672.06
10/01/2021	--	153,157.99	153,157.99
04/01/2022	1,584,000.00	152,321.06	1,736,321.06
10/01/2022	--	138,100.75	138,100.75
04/01/2023	1,654,000.00	137,346.10	1,791,346.10
10/01/2023	--	122,378.10	122,378.10
04/01/2024	1,724,000.00	122,378.10	1,846,378.10
10/01/2024	--	105,990.04	105,990.04
04/01/2025	1,800,000.00	105,410.86	1,905,410.86
10/01/2025	--	88,879.54	88,879.54
04/01/2026	1,878,000.00	88,393.86	1,966,393.86
10/01/2026	--	71,027.59	71,027.59
04/01/2027	1,958,000.00	70,639.46	2,028,639.46
10/01/2027	--	52,415.17	52,415.17
04/01/2028	2,044,000.00	52,415.17	2,096,415.17
10/01/2028	--	32,985.24	32,985.24
04/01/2029	2,132,000.00	32,804.99	2,164,804.99
10/01/2029	--	12,718.81	12,718.81
04/01/2030	1,338,000.00	12,649.30	1,350,649.30

In the event of a discrepancy between the computation of interest as described above and this amortization schedule, the payments due under this amortization schedule shall control unless a Determination of Taxability has occurred. As used herein, "Determination of Taxability" shall mean a determination that interest on this bond is includable for federal income tax purposes in the gross income (as defined in Section 61 of the Internal Revenue Code of 1986, as amended, or any successor provision thereto) of the registered owner or any former registered owner hereof upon the first to occur of the following, but if and only if such occurrence is the result of an action or failure to act on the part of the University:

(a) the date on which the University is advised in writing by the Commissioner or any District Director of the Internal Revenue Service that, based upon any filings of the University, or upon any review or audit of the University, the interest on this bond is includable in the gross income of each registered owner or former registered owner thereof;

(b) the date on which the University receives notice from the registered owner or any former registered owner of this bond in writing that the registered owner or former registered owner of this bond has received from the Internal Revenue Service a statutory notice of deficiency or similar notice which asserts in effect that the interest on this bond is includable in the gross income of the registered owner or former registered owner of this bond;

(c) the date on which the University is advised in writing by the Commissioner or any District Director of the Internal Revenue Service or otherwise receives notice that there has been issued a public or private ruling of the Internal Revenue Service or a technical advice memorandum issued by the national office of the Internal Revenue Service that the interest on this bond is includable for federal income tax purposes in the gross income of the registered owner or former registered owner of this bond; or

(d) the date on which the University is advised in writing that a final determination, from which no further right of appeal exists, has been made by a court of competent jurisdiction in the United States of America that the interest on this bond is includable in the gross income of the registered owner or former registered owner of this bond;

provided, however, (i) interest on this bond shall not be deemed includable for federal income tax purposes in the gross income of a registered owner or former registered owner hereof because interest is includable in the calculation of income for purposes of an alternative minimum tax or any other type of taxation other than regular federal tax imposed on income, and (ii) no Determination of Taxability shall occur under subparagraph (a), (b) or (c) of this definition unless the University has been afforded the opportunity, at the expense of the University, to contest any such conclusion and/or assessment. The University shall be deemed to have been afforded the opportunity to contest if it shall have been permitted to commence and maintain any action in the name of the registered owner or any former registered owner of this bond to judgment and through any appeals therefrom or other proceedings related thereto.

In the event of a Determination of Taxability at any time (including without limitation at any time following full payment of this bond) the University shall pay, upon demand, to each registered owner or former registered owner of this bond as to which the Determination of Taxability is applicable, the amount of any additions to federal income tax and any penalties which shall have been paid or are payable by such registered owners as a result of the failure to include interest on this bond in the gross income thereof for federal income tax purposes, which obligation of the University shall survive payment in full of this bond.

Principal and interest on this bond are payable by check or draft mailed by the Trustee to the Lender on the applicable Interest Payment Date and at the address of the Lender shown on the registry books of the Trustee pertaining to this bond as of the close of business on the March 15 or September 15, as the case may be, next preceding the date of payment of such principal or interest; provided, if an Interest Payment Date is not a Business Day (as defined in the Indenture), the interest or principal due on such date shall be payable on the next succeeding Business Day.

Principal and interest payments that are due with respect to this bond and that are made by check or draft shall be deemed timely made if such check or draft is mailed by the Trustee on or before the due date of such principal or interest. Both the principal of and the interest on this bond shall bear interest after their respective maturities until paid or until moneys sufficient for payment thereof have been deposited with the Trustee at the per annum rate stated above. The Indenture provides that all payments by the University or the Trustee to the Lender at the address for the Lender shown on the registry books of the Trustee shall to the extent thereof fully discharge and satisfy all liability for the same. Any permitted transferee of this bond takes it subject to all payments of principal and interest in fact made with respect hereto.

This bond is herein entitled "University Facilities Revenue Bond, Series 2019-C" and has been issued under a University Facilities Revenue Trust Indenture dated as of February 15, 1996, as heretofore supplemented and amended and as further supplemented and amended by a Sixteenth Supplemental University Facilities Revenue Trust Indenture dated the date of this bond (the said Trust Indenture, as so supplemented and amended, being herein called the "Indenture"), between the University and The Bank of New York Mellon Trust Company, N.A., as trustee (herein called the "Trustee"). The principal of and the interest on the Series 2019-C Bond is payable solely out of and are secured by a lien upon and pledge of (a) certain fees from students levied by the University, (b) the gross revenues derived from certain auxiliary enterprises services furnished by the University, including food services, housing, college stores, dining, concessions and other similar services, as such revenues are shown as a separate item on the audited financial statements of the University, (c) additional fees and revenues, if any, that may be subjected to the lien of the Indenture pursuant to a Supplemental Indenture, and (d) an amount not exceeding $10,000,000 in any fiscal year of the University of the gross revenues derived from that certain hospital facility owned and operated by the University and known as USA Children's and Women's Hospital (herein called the "Pledged Revenues"), and shall not be payable from any other funds or revenues, on a parity of lien with (I) the University's (a) $29,750,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2010, dated June 16, 2010, (b) $25,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-A, dated January 4, 2012, (c) $32,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-A, dated June 28, 2013, (d) $8,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-B, dated June 28, 2013, (e) $10,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-C, dated June 28, 2013, (f) $41,245,000 original principal amount University Facilities Revenue Refunding Bond, Series 2014-A, dated March 14, 2014, (g) $6,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2015, dated June 15, 2015, (h) $85,605,000 original principal amount University Facilities Revenue Refunding Bonds, Series 2016, dated September 14, 2016, (i) $20,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-B, dated December 7, 2016, (j) $35,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-C, dated December 7, 2016, (k) $45,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-D, dated December 7, 2016, (l) $38,105,000 original principal amount University Facilities Revenue Bonds, Series 2017, dated June 15, 2017, (m) $47,750,000 original principal amount University Facilities Revenue Bonds, Series 2019-A, dated February 7, 2019, (n) $18,440,000 original principal amount Taxable University Facilities Revenue Bonds, Series 2019-B, dated February 7, 2019, and (II) any Additional Bonds hereafter issued pursuant to Article VIII of the Indenture.

Reference is hereby made to the Indenture for a description of the nature and extent of the security afforded thereby, the rights and duties of the University and the Trustee with respect thereto, the rights of the Lender of this bond and the terms and conditions on which additional series of bonds may be issued on a parity of lien with this bond. The Indenture provides, inter alia, (a) that in the event of default by the University in the manner and for the time therein provided, the Trustee may declare the principal of and the interest accrued on this bond immediately due and payable, whereupon the same shall thereupon become immediately due and payable and the Trustee shall be entitled to pursue the remedies provided in the Indenture, (b) that the holder of this bond shall have no right to enforce the provisions of the Indenture except as provided therein and then only for the equal and pro rata benefit of the holders of all the Bonds, and (c) that if this bond shall not be presented for payment when due (whether by maturity or otherwise) and if funds sufficient for such payment shall have been made available to the Trustee therefore, all liability of the University to the holder of such bond and all rights of such holder against the University under such bond or under the Indenture shall cease and terminate and that the sole right of such holder shall thereafter be against the said funds so made available, which the Trustee is required to set aside and hold, subject to any applicable escheat or other similar law, for the benefit of such holder. The Indenture also provides that the University and the Trustee, with the written consent of the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding under the Indenture, may at any time and from time to time amend the Indenture or any indenture supplemental thereto, provided that no such amendment shall (1) without the consent of the holder of each Bond affected, reduce the principal of, the rate of interest on any Bond, or (2) without the consent of the holders of all the Bonds then outstanding under the Indenture, extend the maturity of any installment of principal or interest on any of the Bonds, make any change in the schedule of required sinking fund or other similar payments with respect to any series of the Bonds, create a lien or charge on the Pledged Revenues ranking prior to or (except in connection with the issuance of additional parity bonds under the Indenture) on a parity with the lien or charge thereon contained in the Indenture, effect a preference or priority of any Bond over any other Bond or reduce the aggregate principal amount of Bonds the holders of which are required to consent to any such amendment.

This bond shall not be subject to redemption at the option of the University.

This bond is not a general obligation of the University, and the covenants and representations herein contained or contained in the Indenture do not and shall never constitute a personal or pecuniary liability or charge against the general credit of the University. This bond is not an obligation or debt of the State of Alabama nor are the faith and credit of said state pledged for payment thereof, and neither the principal of nor interest on this bond is payable out of any moneys provided for or appropriated to the University by the State of Alabama.

It is hereby certified that all conditions, actions and things required by the Constitution and laws of Alabama to exist, be performed and happen precedent to or in the issuance of this bond do exist, have been performed and have happened in due and legal form.

The Trustee shall not be required so to transfer or exchange this bond during the period of fifteen days next preceding any interest payment date with respect thereto.

Execution by the Trustee of its authentication certificate hereon is essential to the validity hereof and is conclusive of the due issue hereof under the Indenture.

IN WITNESS WHEREOF, the University has caused this bond to be executed in its name and behalf with the signature of its President, has caused a facsimile of its corporate seal to be hereunto imprinted, has caused this bond to be attested by the signature of the Secretary of its Board of Trustees, and has caused this bond to be dated December 12, 2019.

UNIVERSITY OF SOUTH ALABAMA

By: ____
President
University of South Alabama

[S E A L]

Attest:

____
Secretary of the
Board of Trustees

Form of Trustee's Authentication Certificate

Date of Authentication and Registration:

The within bond is one of those described in the within-mentioned Trust Indenture.

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A.,
Trustee

By: _______________________________________
Its Authorized Officer

Section 1.5 Execution and Delivery of the Series 2019-C Bond.

The Series 2019-C Bond shall be forthwith executed and delivered to the Trustee and shall be authenticated and delivered by the Trustee from time to time upon receipt by the Trustee of an order signed on behalf of the University by its President, requesting such authentication and delivery and designating the person or persons to receive the same or any part thereof.

Section 1.6 Application of Proceeds from the Sale of the Series 2019-C Bond.

The entire proceeds from the sale of the Series 2019-C Bond shall be remitted and deposited into a special fund or account held by the Trustee for redemption and payment of the Series 2010 Bond. The President of the University and the Vice President for Finance and Administration are each hereby authorized to establish such funds or accounts with the Trustee, and to enter such agreements with the Trustee, as shall be necessary for the Trustee to hold and invest proceeds of the Series 2019-C Bond pending application thereof for redemption and payment of the Series 2010 Bond on the date called for redemption.

ARTICLE II: CONCERNING THE CODE

Section 2.1 Concerning the Code.

(a) General.

The University recognizes that the Code imposes certain conditions to the exemption from federal income taxation of interest income on the Series 2019-C Bond. Accordingly, the University agrees that it will continually comply with all requirements imposed by the Code as a condition to the exemption from federal income taxation of the interest income on the Series 2019-C Bond. With respect to any question arising under this Section 2.1, the University may rely upon an opinion of nationally recognized bond counsel acceptable to it.

(b) Series 2019-C Bond not to be "Private Activity Bonds".

The University will not apply the proceeds of the Series 2019-C Bond in any manner that would cause the Series 2019-C Bond to be a "private activity bond" within the meaning of Section 141(a) of the Code.

(c) Concerning the Arbitrage Provisions of the Code.

The University agrees that it will comply with all provisions of the Code necessary to preclude the Series 2019-C Bond from being considered an "arbitrage bond" within the meaning of Section 148 of the Code.

(d) Provisions Respecting Registration of Series 2019-C Bond to Comply with Provisions of Code.

The University and the Trustee recognize that the provisions of the Code require that the Series 2019-C Bond be in "registered form" and that, in general, the Series 2019-C Bond must be registered as to both principal and interest and any transfer of the Series 2019-C Bond must be effected only by the surrender of the old bond and either by the reissuance of the old bond to a new Holder or the issuance of a new bond to a new Holder. The Trustee may conclusively rely upon an opinion of nationally recognized bond counsel with respect to any question which may arise pertaining to the transfer, exchange or reissuance of the Series 2019-C Bond.

ARTICLE III: CONCERNING PLEDGED REVENUES; CONFIRMATION OF INDENTURE, AS SUPPLEMENTED

Section 3.1 Confirmation of Indenture.

All the terms, covenants and conditions of the Indenture, as supplemented hereby, are hereby in all respects ratified and confirmed, and the Indenture as so supplemented shall continue in full force and effect. In addition, each of the Trustee and the University confirms that the Trustee shall have no duties, express or implied, respecting the proceeds of the Series 2019-C Bond during any time when the Trustee is not the depository of such amounts.

Section 3.2 Confirmation of Pledges.

The provisions of the Indenture, wherein the Pledged Revenues are pledged for payment of all Bonds issued under the Indenture, are hereby ratified and confirmed.

Section 3.3 Construction of Sixteenth Supplemental University Facilities Revenue Trust Indenture.

No provisions of this Sixteenth Supplemental University Facilities Revenue Trust Indenture shall be construed to limit or restrict, either expressly or impliedly, the obligations of the University contained in the Indenture or the powers of the Trustee thereunder, nor shall the provisions of this Sixteenth Supplemental University Facilities Revenue Trust Indenture be construed in any manner inconsistent with the provisions of the Indenture or in any manner that would adversely affect the interest of the Lender as holder of the Series 2019-C Bond.

Section 3.4 Special Covenants in Favor of Lender.

So long as the Series 2019-C Bond remains outstanding, the University shall provide the Lender the audited financial statements of the University within 150 days following the close of each fiscal year of the University, commencing with the fiscal year ending September 30, 2019. This obligation may be satisfied by the University for any fiscal year by the timely filing by the University of its audited financial statements for such year on the Electronic Municipal Market Access ("EMMA") system provided by the Municipal Securities Rulemaking Board ("MSRB"), or such other public repository as shall be identified for such purpose by the MSRB or similar regulatory body.

Section 3.5 Authorized Denominations.
The Series 2019-C Bond may have principal installments maturing in denominations of any amount.

Section 3.6 No Broker Confirmations.
The University agrees that broker confirmations of investments in connection with the Series 2019-C Bond are not required to be issued by the Trustee for each month in which a monthly statement is rendered or made available by the Trustee.

Section 3.7 Electronic Communications.
The Trustee shall have the right to accept and act upon directions or instructions given by the University and delivered using Electronic Means (defined below); provided, however, that the University shall provide to the Trustee an incumbency certificate listing Authorized Officers with the authority to provide such directions or instructions (each an "Authorized Officer") and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. If the University elects to give the Trustee directions or instructions using Electronic Means and the Trustee in its discretion elects to act upon such directions or instructions, the Trustees' understanding of such directions or instructions shall be deemed controlling. The University understands and agrees that the Trustee cannot determine the identity of the actual sender of such directions or instructions and that the Trustee shall conclusively presume that directions or instructions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The University shall be responsible for ensuring that only Authorized Officers transmit such directions or instructions to the Trustee and that all Authorized Officers treat applicable user and authorization codes, passwords and/or authentication keys as confidential and with extreme care. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such directions or instructions notwithstanding such directions or instructions conflict or are inconsistent with a subsequent written direction or written instruction. The University agrees: (i) to assume all risks arising out of the use of Electronic Means to submit directions or instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized directions or instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting directions or instructions to the Trustee and that there may be more secure methods of transmitting directions or instructions; (iii) that the security procedures (if any) to be followed in connection with its transmission of directions or instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures. "Electronic Means" shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys, or another method or system specified by the Trustee as available for use in connection with its services hereunder.

Section 3.8 Severability.

In the event that any provision hereof shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

IN WITNESS WHEREOF, the University has caused this Sixteenth Supplemental University Facilities Revenue Trust Indenture to be executed in its name and behalf by the President of the University, has caused its corporate seal to be hereunto affixed, and has caused this Sixteenth Supplemental University Facilities Revenue Trust Indenture to be attested by the Secretary of its Board of Trustees, and the Trustee has caused this Sixteenth Supplemental University Facilities Revenue Trust Indenture to be executed in its name and behalf, has caused its corporate seal to be hereunto affixed and has caused this Sixteenth Supplemental University Facilities Revenue Trust Indenture to be attested, all by its duly authorized officers, and the University and the Trustee have caused this Sixteenth Supplemental University Facilities Revenue Trust Indenture to be so executed in several counterparts, each of which shall be deemed an original, and have caused this Sixteenth Supplemental University Facilities Revenue Trust Indenture to be dated December 12, 2019.

UNIVERSITY OF SOUTH ALABAMA

By: ____
President

[S E A L]

Attest:

____
Secretary of the Board of Trustees

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By:_______________________________________

Its:____________________________________

[S E A L]

Attest:

Its: _____________________________________

STATE OF ALABAMA)
:
COUNTY OF MOBILE)

I, ____, a Notary Public in and for said county in said state, hereby certify that Dr. Tony G. Waldrop, whose name as the President of the **UNIVERSITY OF SOUTH ALABAMA,** a public body corporate under the laws of Alabama, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, he, as such officer and with full authority, executed the same voluntarily for and as the act of said public corporation.

GIVEN under my hand and official seal of office, this 12th day of December, 2019.

____
Notary Public

[NOTARIAL SEAL]

STATE OF ALABAMA)
:
COUNTY OF JEFFERSON)

I, __________________________, a Notary Public in and for said county in said state, hereby certify that_________________________, whose name as Vice President of **THE BANK OF NEW YORK MELLON TRUST COMPANY, N. A.**, in its capacity as Trustee under that certain Trust Indenture dated as of February 15, 1996, between it and the University of South Alabama, as supplemented, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, as such officer and with full authority, executed the same voluntarily for and as the act of said bank, in its capacity as trustee as aforesaid.

GIVEN under my hand and official seal of office, this 12th day of December, 2019.

____
Notary Public

[NOTARIAL SEAL]

RESOLUTION

BOND PURCHASE AGREEMENT FOR SERIES 2020 BONDS

BE IT RESOLVED by the Board of Trustees (herein called the "Trustees") of the University of South Alabama (herein called the "University"), as follows:

Section 1. Findings. The Trustees have ascertained and do hereby find and declare as follows:

(a) it is necessary, desirable and in the best interest of the University that the University (i) acquire certain real property, (ii) construct and acquire certain public capital improvements and equipment on the campus of the University including, without limitation, at the USA Health University Hospital, USA Health Children's and Women's Hospital, and University Commons, including completion of a trauma center at University Hospital, (iii) construct and equip University Commons Phase II and III, additional patient rooms, a new gastroenterology suite, a main campus warehouse, (iv) demolish an existing building near the USA Health buildings to provide space for possible expansion, and (v) construct, acquire and install various other public capital improvements, equipment and assets for the University (herein collectively called the "2020 Capital Improvements");

(b) in order to provide the funds necessary to pay the costs of the 2020 Improvements, it will be necessary for the University to issue one or more series of limited obligation University Facilities Revenue Bonds in an aggregate principal amount of up to approximately $45,000,000 (herein called the "Series 2020 Bonds");

(c) the University has determined to engage Protective Securities, a division of ProEquities, Inc., and Raymond James & Associates, Inc. (herein called the "Underwriters"), to serve as underwriters for the Series 2020 Bonds;

(d) it will be necessary for the University to enter into a purchase contract (the "Purchase Contract") with either or both of the Underwriters respecting the sale of the Series 2020 Bonds prior to the date on which the issuance and delivery of the Series 2020 Bonds will be approved by the Trustees; and

(e) it is necessary for the Trustees to authorize the President of the University (or, in his absence, the Vice President for Finance and Administration of the University) to sign and deliver to the Underwriters the Purchase Contract, all as provided below.

Section 2. Authorization to Execute Purchase Contract. The Trustees do hereby authorize and direct the President of the University to execute the Purchase Contract between the University and either or both of the Underwriters with respect to the sale and delivery by the University of the Series 2020 Bonds. The Vice President for Finance and Administration of the University is hereby authorized to sign and deliver the Purchase Contract on behalf of the University in the event the President of the University is unavailable for such purpose at the time such agreement is submitted by the Underwriters for execution. The final form of the Purchase Contract shall be subject to ratification and approval by the Trustees following its execution by the President or by the Vice President for Finance and Administration, as the case may be, at such time as the Trustees adopt a resolution authorizing the issuance and delivery of the Series 2020 Bonds.

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM
Finance and Administration

DATE: November 22, 2019

TO: President Tony G. Waldrop TGW

FROM: G. Scott Weldon Scott

SUBJECT: Resolution to Authorize Execution of Bond Purchase Contract for 2020 Bonds

Attached is a resolution for consideration by the Board of Trustees concerning the University's 2020 Bond issue that will provide the funding for various Health Service projects and University capital projects and improvements around campus. Some of the specifics of the bond issue will be:

- $45,000,000 Approximate Proceeds
- 20 Year Single Series

This resolution will provide the authorization by the President and V.P. for Finance and Administration to execute Bond Purchase Contracts between the University and Protective Securities, a division of ProEquities, Inc. and Raymond James & Associates, Inc.

With your consent, this item will be presented to the Board of Trustees for discussion and approval. Further, I recommend the adoption of the resolution by the Board of Trustees.

Attachment

RESOLUTION

AUTHORIZATION FOR PRESIDENT TO EXECUTE CONTRACT FOR CONSTRUCTION OF A CAMPUS WAREHOUSE BUILDING

WHEREAS, the University of South Alabama has a significant need for a single location warehouse storage space on its campus, and

WHEREAS, the University currently has no such facility on its campus, and

WHEREAS, the University rents a significant amount of space on a regular basis from off-campus private storage facilities, and

WHEREAS, a large storage warehouse on campus will provide the University a more economic and convenient means of storage and the opportunity to discontinue the rental of most of the off-campus storage, and

WHEREAS, management believes that a warehouse building of 55,000 square feet will meet its needs for the foreseeable future, and

WHEREAS, such 55,000-square-foot warehouse will be constructed in a manner in which it can be expanded as needed in the future, and

WHEREAS, this project will be funded, in part, by re-directed outside storage rental fees to pay the debt service**,** and

WHEREAS, it is anticipated that bids for the construction of the warehouse will be received prior to the next Board of Trustees meeting,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees hereby authorizes the President of the University to carry out all necessary steps to execute a contract for the construction of a 55,000-square-foot warehouse and storage building on the University's campus with respect to sealed bids received pursuant to State of Alabama procurement and bid laws.

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Finance and Administration

DATE: November 21, 2019

TO: President Tony G. Waldrop TGW

FROM: G. Scott Weldon Scott

SUBJECT: Resolution to Authorize President to Execute Contract for Construction of a Main Campus Warehouse Building

Attached is a resolution for consideration by the Board of Trustees relating to the construction of a main campus warehouse building. As more fully described in the resolution, the University is in need of consolidating storage and having it located on the main campus. It is anticipated that bids for the construction of this warehouse will be received before the next Board of Trustees meeting.

The attached resolution authorizes the University President, on behalf of the Board of Trustees, to award and execute the contract pursuant to state bid requirements. I recommend that this resolution be presented to the Board for approval at its meeting on December 5, 2019.

GSW/cbm

Attachment

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

COMMITTEE OF THE WHOLE

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

Committee of the Whole

September 12, 2019
4:23 p.m.

A meeting of the Committee of the Whole of the University of South Alabama Board of Trustees was duly convened by Mr. Jimmy Shumock, Chair *pro tempore*, on Thursday, September 12, 2019, at 4:23 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Alexis Atkins, Chandra Brown Stewart, Scott Charlton, Tom Corcoran, Steve Furr, Ron Graham, Ron Jenkins, Arlene Mitchell, Lenus Perkins, Jimmy Shumock, Margie Tuckson, Mike Windom and Jim Yance. Participating by phone was Ken Simon.
Members Absent:	Kay Ivey and Steve Stokes.
Administration & Guests:	Owen Bailey, Lynne Chronister, Kristin Dukes, Joel Erdmann, Monica Ezell, Paul Frazier, Mike Haskins, David Johnson, Nick Lawkis, John Marymont, Mike Mitchell, Rod Rocconi, John Smith, Margaret Sullivan, Sahilee Waitman (SGA), Tony Waldrop and Scott Weldon.
Media:	Ebonee Burrell (The Vanguard).

The meeting came to order and the attendance roll was called. Chairman Shumock called for adoption of the minutes of the Evaluation and Compensation Committee and Committee of the Whole meetings held on June 5, 2019. On motion by Mr. Windom, seconded by Mr. Corcoran, the Committee voted unanimously to adopt the minutes.

Chairman Shumock called for consideration of **ITEM 27**, a resolution authorizing the membership of the Executive Committee for terms concurrent with that of the Chair *pro tempore*. (To view copies of approved resolutions, policies and other authorizations, refer to the minutes of the September 13, 2019, meeting of the Board of Trustees.) On motion by Mr. Perkins, seconded by Mr. Corcoran, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

In accordance with the provisions of the Alabama Open Meetings Act, Chairman Shumock made a motion to convene an executive session for an anticipated duration of 20 minutes for the purposes of discussing good name and character, as well as pending or imminent litigation, **ITEM 28**. He stated that Associate University Attorney Ms. Kristin Dukes had submitted the required written declaration for the minutes. At Ms. Dukes' suggestion, Chairman Shumock amended his motion to add that the meeting would be adjourned immediately at the conclusion of the executive session. Mr. Yance seconded and the Committee voted unanimously at 4:25 p.m. to convene an executive session, as recorded below:

AYES:
- Ms. Atkins
- Ms. Brown Stewart

AYES Continued:

- Dr. Charlton
- Mr. Corcoran
- Dr. Furr
- Mr. Graham
- Capt. Jenkins
- Ms. Mitchell
- Mr. Perkins
- Judge Simon
- Mr. Shumock
- Ms. Tuckson
- Mr. Windom
- Mr. Yance

The executive session ended at 4:56 p.m. and the meeting was adjourned.

Respectfully submitted:

James H. Shumock, Chair *pro tempore*

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

Long-Range Planning Committee

September 12, 2019
4:06 p.m.

A meeting of the Long-Range Planning Committee of the University of South Alabama Board of Trustees was duly convened by Ms. Chandra Brown Stewart, Chair, on Thursday, September 12, 2019, at 4:06 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Chandra Brown Stewart, Ron Jenkins, Lenus Perkins, Mike Windom and Jim Yance.
Member Absent:	Steve Stokes.
Other Trustees:	Alexis Atkins, Scott Charlton, Tom Corcoran, Steve Furr, Ron Graham, Arlene Mitchell, Jimmy Shumock and Margie Tuckson. Participating by phone was Ken Simon.
Administration & Guests:	Owen Bailey, Nicole Carr, Lynne Chronister, Angela Coleman, Kristin Dukes, Joel Erdmann, Monica Ezell, Paul Frazier, Mike Haskins, David Johnson, Nick Lawkis, John Marymont, Mike Mitchell, Rod Rocconi, John Smith, Margaret Sullivan, Sahilee Waitman (SGA), Tony Waldrop and Scott Weldon.
Media:	Ebonee Burrell (The Vanguard).

The meeting came to order and the attendance roll was called. Ms. Brown Stewart called for presentation of the 2019 Scorecard, **ITEM 26**. Associate Vice President for Institutional Effectiveness Dr. Angela Coleman discussed the foundation and purpose of the Scorecard, and shared background on Scorecard highlights in the strategic areas of student success and access, research and graduate education, community engagement, global engagement, and excellence in health care. She mentioned that the strategic plan update on the horizon would likely bring about revisions to the Scorecard. Associate Vice President for Student Academic Success Dr. Nicole Carr led discussion on efforts to address equity gaps between one-year, first-time, full-time undergraduates and those who are Pell-eligible or are students of color. She and Provost Johnson recognized that the University would need to adapt strategies to address the evolving needs of students and move the needle to meet targets.

There being no further business, the meeting was adjourned at 4:23 p.m.

Respectfully submitted:

Chandra Brown Stewart, Chair

RESOLUTION

UNIVERSITY OF SOUTH ALABAMA SECURITY COMMITTEE

WHEREAS, the U.S. Department of Defense has sponsored the University of South Alabama to obtain a facility security clearance to further research opportunities on behalf of and in collaboration with the U.S. Government, and

WHEREAS, one of the prerequisites for obtaining a facility security clearance is the creation and appointment of a security committee to ensure compliance with federal regulations for cleared facilities, and

WHEREAS, the individuals listed below are recommended to serve on the University of South Alabama Security Committee,

- David Furman - Facilities Security Officer (FSO)
  Director, IT Risk and Compliance
- Gina Hedberg - Assistant Facilities Security Officer (AFSO)
  Executive Director, Sponsored Project Administration
- Lynne Chronister - Senior Management Official (SMO)
  Vice President, Research and Economic Development

Other Members:

- Jimmy Shumock
  Chair *pro tempore*, University of South Alabama Board of Trustees
- Mark Wilson
  Director, Information Security
- Jonathan Rayner
  Associate Professor, Microbiology
- Jordan Shropshire
  Professor, Information Systems and Technology
- Michael Chang
  USA Health Chief Medical Officer and Associate Vice President for Medical Affairs

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees does hereby approve the appointments to the University of South Alabama Security Committee.

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Board of Trustees

DATE: October 8, 2019

TO: Tony G. Waldrop, Ph.D.
President

FROM: James H. Shumock
Chair *pro tempore*

SUBJECT: Appointment of University of South Alabama Security Committee

As Chair of the Board of Trustees, I approve the appointment of the individuals listed below to the University of South Alabama Security Committee. As a representative of the Board of Trustees of the University of South Alabama, I agree to serve on this committee as well. These appointments will be presented to the Committee of the Whole on December 4, 2019, and to the Board of Trustees for ratification on December 5, 2019.

- David Furman - Facilities Security Officer (FSO)
  Director, IT Risk and Compliance

- Gina Hedberg – Assistant Facilities Security Officer (AFSO)
  Executive Director, Sponsored Project Administration

- Lynne Chronister - Senior Management Official (SMO)
  Vice President, Research and Economic Development

<u>Other Members:</u>

- Jimmy Shumock
  Chair *pro tempore*, University of South Alabama Board of Trustees

- Mark Wilson
  Director, Information Security

- Jonathan Rayner
  Associate Professor, Microbiology

- Jordan Shropshire
  Professor, Information Systems and Technology

- Michael Chang
  Chief Medical Officer and Associate VP Medical Affairs