UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

STUDENT CENTER
BALLROOM

NOVEMBER 30, 2017
9:30 A.M.

AUDIT COMMITTEE Jimmy Shumock, Chair

Roll Call
Approve: Minutes
7 Report: KPMG Audit Reports, Year Ended September 30, 2017
- KPMG Presentation to the Audit Committee
- Basic Financial Statements and Supplementary Information
- Communication to the Audit Committee (SAS #114 Letter)
- Bond Compliance Letter
- Agreed-Upon Procedures Report - Series 1999; 2008; 2010; 2012-A and 2012-B; 2013-A, 2013-B and 2013-C; 2014-A; 2015; 2016-A, 2016-B, 2016-C and 2016-D; and 2017 Bonds
- Basic Financial Statements, USA Research and Technology Corporation

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE Jim Yance, Chair

Roll Call
Approve: Minutes
8 Report: Endowment and Investment Performance
9 Recommendation to Approve: Evaluation of Endowment and Non-Endowment Investment Policies
10 Recommendation to Approve: Changes to Endowment Spending Policy
11 Recommendation to Approve: Director of the Jaguar Athletic Fund, Inc.
12 Report: Development and Alumni Relations

HEALTH AFFAIRS COMMITTEE Steve Furr, Chair

Roll Call
Approve: Minutes
13 Recommendation to Approve: USA Hospitals Medical Staff Credentials for August, September and October 2017
14 Recommendation to Approve: USA Hospitals Medical Staff Bylaws and Rules and Regulations Revisions
15 Recommendation to Approve: USA Hospitals Nomination of Medical Staff Officers, 2018 and 2019 Calendar Years
16 Recommendation to Approve: Naming of Department of Pathology Resident Office Suite and Library
17 Report: USA Health and College of Medicine

ACADEMIC AND STUDENT AFFAIRS COMMITTEE Scott Charlton, Chair

Roll Call
Approve: Minutes
18 Recommendation to Approve: Sabbatical Awards
19 Recommendation to Approve: Professors Emeritus
20 Recommendation to Approve: Dean Emeritus
21 Recommendation to Approve: MBA Program Fee
22 Report: Academic Affairs
23 Report: Student Affairs
24 Report: Campus Safety
25 Report: Research and Economic Development

BUDGET AND FINANCE COMMITTEE Tom Corcoran, Chair

Roll Call
Approve: Minutes
26 Report: University of South Alabama 2017 Financial Report
27 Recommendation to Approve: Adoption of Affiliation Agreements

COMMITTEE OF THE WHOLE Ken Simon, Chair

Roll Call
Approve: Committee of the Whole Minutes and Long-Range Planning Committee Minutes
28 Recommendation to Approve: Executive Committee
29 Approve: Executive Session

BOARD OF TRUSTEES

NOVEMBER 30, 2017
2:00 P.M.

Roll Call
1 Remarks: The Honorable Kenneth O. Simon, Chair *pro tempore*
2 Remarks: The Honorable Kay Ivey, Governor, State of Alabama, *ex officio* President and Chair
3 Approve: Minutes
4 Report: University President
5 Report: Faculty Senate President
6 Report: Student Government Association President

CONSENT AGENDA

9 Approve: Evaluation of USA's Endowment and Non-Endowment Investment Policies
11 Approve: Director of the Jaguar Athletic Fund, Inc.
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AUDIT COMMITTEE Jimmy Shumock, Chair

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE Jim Yance, Chair

10 Approve: Changes to Endowment Spending Policy

ACADEMIC AND STUDENT AFFAIRS COMMITTEE Scott Charlton, Chair

21 Approve: MBA Program Fee
Report: Academic Affairs

BUDGET AND FINANCE COMMITTEE Tom Corcoran, Chair

HEALTH AFFAIRS COMMITTEE Steve Furr, Chair

16 Approve: Naming of Department of Pathology Resident Office Suite and Library
Report: USA Health and College of Medicine

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

THURSDAY, NOVEMBER 30, 2017:

9:30 a.m.	Committee Meetings (Consecutive)	Student Center, Ballroom
2:00 p.m.	Board of Trustees Meeting	Student Center, Ballroom

UNIVERSITY OF SOUTH ALABAMA

BOARD OF TRUSTEES

STANDING COMMITTEES
2016-2019

EXECUTIVE COMMITTEE:

Kenneth O. Simon, **Chair *pro tempore***
James H. Shumock, **Vice Chair**
Arlene Mitchell, **Secretary**
E. Thomas Corcoran
Steven P. Furr, M.D.
James A. Yance
Vacant Seat

ACADEMIC AND STUDENT AFFAIRS COMMITTEE:

Katherine Alexis Atkins
Scott A. Charlton, M.D., **Chair**
Steven P. Furr, M.D., **Vice Chair**
William Ronald Graham
Lenus M. Perkins
Michael P. Windom

AUDIT COMMITTEE:

Katherine Alexis Atkins, **Vice Chair**
Scott A. Charlton, M.D.
William Ronald Graham
Robert D. Jenkins III
James H. Shumock, **Chair**

BUDGET AND FINANCE COMMITTEE:

E. Thomas Corcoran, **Chair**
William Ronald Graham
Arlene Mitchell
Lenus M. Perkins
Steven H. Stokes, M.D.
James A. Yance, **Vice Chair**

DEV., ENDOWMENT & INVESTMENTS COMMITTEE:

Chandra Brown Stewart
E. Thomas Corcoran
Robert D. Jenkins III, **Vice Chair**
Steven H. Stokes, M.D.
Michael P. Windom
James A. Yance, **Chair**

EVALUATION AND COMPENSATION COMMITTEE:

Katherine Alexis Atkins
E. Thomas Corcoran
Steven P. Furr, M.D.
Arlene Mitchell
James H. Shumock, **Vice Chair**
Michael P. Windom, **Chair**

HEALTH AFFAIRS COMMITTEE:

Katherine Alexis Atkins
Chandra Brown Stewart
Scott A. Charlton, M.D.
Steven P. Furr, M.D., **Chair**
Arlene Mitchell
Steven H. Stokes, M.D., **Vice Chair**
Tony G. Waldrop, Ph.D., *ex officio*
John V. Marymont, M.D., *ex officio*
Sabrina G. Bessette, M.D., *ex officio*

LONG-RANGE PLANNING COMMITTEE:

Chandra Brown Stewart, **Chair**
Robert D. Jenkins III
Lenus M. Perkins
James H. Shumock
Steven H. Stokes, M.D.
Michael P. Windom, **Vice Chair**

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

AGENDA

MINUTES

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

STUDENT CENTER
BALLROOM

NOVEMBER 30, 2017
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COMMITTEE OF THE WHOLE Ken Simon, Chair
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BOARD OF TRUSTEES

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AUDIT COMMITTEE Jimmy Shumock, Chair

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Report: USA Health and College of Medicine

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Office/Department/College

Date:
November 20, 2017

To:
USA Board of Trustees

From:
Arlene Mitchell Arlene Mitchell
Secretary, Board of Trustees

Subject:
Meeting Minutes

Included herein are the unapproved minutes of the Board of Trustees and standing committee meetings held on September 7 and 8, 2017. Please review these documents for amendment or approval at the November 30 meetings of the Board of Trustees.

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

September 8, 2017
10:30 a.m.

A meeting of the University of South Alabama Board of Trustees was duly convened by Judge Ken Simon, Chair *pro tempore*, on Friday, September 8, 2017, 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 (via phone), Tom Corcoran, Steve Furr, Ron Jenkins, Bettye Maye, Arlene Mitchell, John Peek, Jimmy Shumock, Ken Simon, Steve Stokes, Mike Windom and Jim Yance.
Members Absent:	Kay Ivey and Bryant Mixon.
Administration and Others:	Owen Bailey, Robert Berry, Lynne Chronister, Angela Coleman, Kathy Cooke, Chelsia Douglas (AASA), Karen Edwards, Jen Ekman, Joel Erdmann, Monica Ezell, Mike Finan, Happy Fulford, Heather Hall, Mike Haskins, Bob Israel (Mobile Diagnostics Center), David Johnson, Melva Jones, Patsy and Ray Kennedy, Christopher Lynch, Christian Manganti, John Marymont, Abe Mitchell, Mike Mitchell, Diana Nichols, Barbara Peek, John Smith, Margaret Sullivan, Carl Thomas (SGA), Jean Tucker, Elizabeth VandeWaa (Faculty Senate), Tony Waldrop, Scott Weldon, Doug Whitmore (NAA), Lynne and Richard Wood, Shirley Zhang, Maribel and Jeroen van der Zijp, and Ada Chaeli van der Zijp-Tan.
Press:	Briana Cunningham and Patricia West (*Vanguard*) and Jason Johnson (*Lagniappe*).

The meeting came to order and the attendance roll was called. Chairman Simon welcomed the group and called for consideration of **ITEM 1**, the minutes of the Board of Trustees meeting held June 2, 2017. On motion by Mr. Corcoran, seconded by Ms. Maye, the minutes were approved unanimously.

As to **ITEM 2**, a report on the USA Board of Trustees Scholar, Chairman Simon recognized current Board of Trustees Scholars Ms. Shirley Zhang and Mr. Christian Manganti, and introduced entering freshman Ms. Ada Chaeli van der Zijp-Tan, who was named the new Board of Trustees Scholar based upon academic achievement. Also introduced were Ms. Zijp-Tan's parents, Mr. and Mrs. Jeroen van der Zijp. Ms. van der Zijp-Tan was presented a plaque commemorating her selection and she made brief remarks.

Chairman Simon called for presentation of **ITEM 3**, the President's Report. President Waldrop recognized Honorary Trustee Mr. Abe Mitchell, National Alumni Association President Mr. Doug Whitmore and African-American Student Association President Ms. Chelsia Douglas.

President Waldrop invited Board members to peruse a pamphlet outlining significant University accomplishments over the 2016-2017 academic year. He discussed Week of Welcome (WOW) activities held in August and a video featuring Move-In Day was shown.

President Waldrop called on Ms. Jones for a report on the Empowering Change initiative; Ms. Chronister for a report on National Science Foundation grant awards; Dr. Erdmann for a report on the Jaguar Training Facility; Dr. Smith for an update on the search for a Chief Compliance Officer; Dr. Coleman for an update on searches for a Chief Diversity Officer and a Director of Community Engagement; Provost Johnson, who introduced new Honors College Dean Dr. Kathy Cooke and Interim Dean of the College of Nursing Dr. Heather Hall; Dr. Marymont, who introduced Dr. Bob Israel from the Mobile Diagnostic Center; and Mr. Haskins, who reported on a CASE (Council for Advancement and Support of Education) Circle of Excellence Award for USA's institutional-wide branding process and recognized fellow branding core team members Ms. Karen Edwards, Ms. Jen Ekman, Ms. Diana Nichols and Mr. Christopher Lynch. A promotional video featuring student input on the USA brand was shown.

Chairman Simon called for a report from Faculty Senate President Dr. Elizabeth VandeWaa, **ITEM 4**. Dr. VandeWaa shared enthusiasm for a series of town hall meetings taking place on campus and discussed faculty engagement with Governmental Relations staff and Upward & Onward campaign representatives. She commented on a busy fall schedule ahead. Mr. Windom commended President Waldrop for initiating the town hall meetings and Dr. VandeWaa acknowledged that these forums were a productive means for open communication.

Chairman Simon called for a report from Student Government Association (SGA) President Mr. Carl Thomas, **ITEM 5**. Among the activities Mr. Thomas detailed were First Year Council interviews; the addition of an SGA Director of Community Engagement; projects involving community partners Feeding the Gulf Coast and Penelope House; sponsorship of flu shots at the Student Health Center; and student interaction with President Waldrop at the Tacos with Tony event. Mr. Thomas said good insight had been gained during his five-month tenure as SGA President. Mr. Peek encouraged opportunities for leadership training.

Chairman Simon called for consideration of consent agenda **ITEMS 11** and **13** as follows, noting both were unanimously recommended for Board approval by the respective committees that met on September 7 (for copies of policies and other authorized documents, refer to **APPENDIX A**). On motion by Mr. Corcoran, seconded by Mr. Shumock, the resolutions were approved unanimously:

RESOLUTION
REVISION OF BUILDING AND PROGRAM NAMING GUIDELINES
AND MINIMUM GIFT LEVELS FOR NAMED ENDOWMENTS POLICY

WHEREAS, the Board of Trustees approved in 2004 the University's Building and Program Naming Guidelines and Minimum Gift Levels for Named Endowments Policy, and

WHEREAS, since 2004, there has been steady growth in the number of donors to the University, specifically, among those donors who have generously given to support projects through named buildings, programs, and endowments, and

WHEREAS, the value of named gift opportunities at the University has risen as a result of the increasing quality and competitiveness of its programs, and best practices for considering and conferring the naming of buildings, programs, and endowments that change over time, and

WHEREAS, the University's Office of Development and Alumni Relations recommends revision of the policy governing naming gifts to USA,

THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama hereby approves the revised policy as submitted.

RESOLUTION
USA HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS
FOR MAY, JUNE AND JULY 2017

WHEREAS, the Medical Staff appointments and reappointments for May, June and July 2017 for the University of South Alabama Hospitals are recommended for Board approval by the Medical Executive Committees and the Executive Committee of the University of South Alabama Hospitals,

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

Chairman Simon called for a report from the Audit Committee. Mr. Peek, Committee Chair, said, at a meeting on September 7, KPMG partners Ms. Eileen McGinn and Ms. Ashley Willson discussed the pending audit; Mr. Berry detailed plans to implement regular quality assessment reviews (QAR); and Mr. Davis reported on the independent audit of the USA Foundation's (USAF) consolidated financial statements and the disproportionate share hospital (DSH) funds combined financial statements for the fiscal year ended June 30, 2017.

Chairman Simon called for a report from the Development, Endowment and Investments Committee. Mr. Yance, Committee Chair, stated, at a meeting on September 7, Mr. Albano and Mr. Pittman presented overall endowment performance; Mr. Matt Kinnear and Mr. Mike Douglass representing Gerber Taylor discussed the University's portfolio; and Dr. Stokes, Upward & Onward Campaign Co-Chair, and Ms. Sullivan gave updates on the campaign and strategies, and Annual Fund results.

Chairman Simon called for a report from the Health Affairs Committee. Dr. Furr, Committee Chair, said, at a meeting on September 7, Dr. Marymont introduced new chairs of the departments of Obstetrics & Gynecology and Orthopedic Surgery Dr. Lisa Spiryda and Dr. Richard Marks, respectively, as well as medical student Mr. Jeremy Towns, and shared admissions statistics for the Class of 2021. He said Dr. Finan gave an update on the Mitchell Cancer Institute (MCI) Kilborn Clinic in Fairhope and introduced Dr. Art Frankel, named the Mayer and Arlene Mitchell Endowed Chair of Medical Oncology.

Chairman Simon called for a report from the Academic and Student Affairs Committee. Ms. Maye, Committee Chair, said, at a meeting on September 7, Provost Johnson presented **ITEM 15** as follows and the Committee voted unanimously to recommend approval by the Board of Trustees. Retired Dean of the University Libraries Dr. Richard Wood was joined by his wife, Lynne, for the reading of the resolution by Ms. Atkins. On motion by Mr. Yance, seconded by Mr. Shumock, the resolution was approved unanimously. Dr. Wood shared heartfelt words of appreciation for the Board's recognition and well wishes:

RESOLUTION
COMMENDATION OF DR. RICHARD J. WOOD

WHEREAS, Dr. Richard J. Wood served as Dean of the University Libraries for seventeen years, and

WHEREAS, during his tenure as Dean, Dr. Wood was involved in the design and planning of a 50,000-square-foot, four-story addition to the Marx Library, and

WHEREAS, Dr. Wood created USA's first public arts gallery in 2003, which has featured bi-monthly exhibitions and displays of works created by regional artists, and

WHEREAS, Dr. Wood was active in securing the Marx Family Library Endowment Fund and in the naming of the main library in recognition of the $3 million gift to the University by the Julien E. Marx Foundation Trust, and

WHEREAS, Dr. Wood helped facilitate the gift of historically significant documents from the McCall family to the University that are now archived in the Doy Leale McCall Rare Book and Manuscript Library, and planned and provided oversight for the move of that library to the main campus of the University, and

WHEREAS, Dr. Wood worked with the University's Office of Development and various donors to establish the Agnes Tennenbaum Holocaust Library Collection, the Vi Harper Reference Area, and the Mary Elizabeth and Charles Bernard Rodning Gallery of Art, and

WHEREAS, Dr. Wood developed and implemented the Program for the Enhancement of Teaching and Learning (PETAL) that grew into the current Innovation in Learning Center, and

WHEREAS, as a member of the Network of Alabama Academic Libraries (NAAL), Dr. Wood helped write the grant that led to the creation of the Alabama Mosaic, the online repository of digital materials about Alabama history, culture, places and people,

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

Ms. Maye added that, at the Committee meeting, Provost Johnson introduced 2017-2018 Provost Faculty Fellows Dr. André Green and Dr. Justin St. Clair, as well as new chairs Dr. Elizabeth Adams – Department of Speech Pathology & Audiology, Ms. Susan Fitzsimmons – Visual Arts Department, Dr. Philip Habel – Department of Political Science and Criminal Justice, and Dr. David Messenger – History Department. She stated Provost Johnson gave an update on the construction of a building for the Simulation Program and discussed enrollment highlights for the 2018 fall semester, as well as improved retention rates; Mr. Lynch reported on scholarships; Dr. Carter discussed Global USA; Ms. Holly Hudson gave an update on the Study Abroad program and introduced two students to talk about their experiences; Dr. Smith gave an update on housing occupancy; Dr. Mitchell introduced Dr. Agnew for a report on the TRIO programs, Educational Talent Search and Upward Bound; and Ms. Chronister introduced Dr. Lesley Gregoricka, who discussed her Bioarcheology research.

Chairman Simon called for a report from the Budget and Finance Committee. Mr. Corcoran, Committee Chair, said, at a meeting on September 7, Mr. Weldon presented the quarterly financial statements for the period ended June 30, 2017, as well as **ITEM 20** as follows. He recounted the primary points of the $938 million proposed budget and moved for approval. Mr. Shumock seconded and the resolution was approved unanimously:

RESOLUTION
UNIVERSITY TOTAL BUDGET FOR 2017-2018

BE IT RESOLVED, the University of South Alabama Board of Trustees approves the 2017-2018 University of South Alabama Budget, and

BE IT FURTHER RESOLVED, the University of South Alabama Board of Trustees approves the 2017-2018 Budget as a continuation budget for 2018-2019 in order to be in compliance with bond trust indenture requirements if the budget process cannot be completed prior to beginning the 2018-2019 fiscal year.

Mr. Corcoran called on Mr. Moon, who gave an overview on infrastructure improvements completed during the summer term and other construction projects, such as the new electrical sub-station on the main campus and Camellia Hall.

Chairman Simon called for a report from the Long-Range Planning Committee. Mr. Windom, Committee Chair, said, at a meeting on September 7, Provost Johnson introduced Dr. Coleman to present 2017 Scorecard results.

Chairman Simon invited Mr. and Mrs. Kennedy to join him, President Waldrop and Ms. Sullivan for the presentation of **ITEM 12** as follows. Captain Jenkins read and moved for approval of the resolution. Mr. Windom seconded and the resolution was approved unanimously. Mr. Kennedy shared warm words of gratitude:

RESOLUTION
COMMENDATION OF PATSY AND RAY KENNEDY

WHEREAS, the University of South Alabama was established for the purpose of expanding access to the transforming impact of higher education among the citizens of South Alabama and during six decades has succeeded in that purpose, awarding more than 84,000 degrees, and

WHEREAS, Patsy and Ray Kennedy have distinguished themselves and the University of South Alabama through careers characterized by professionalism and achievement, as well as service to their community, fellow citizens, and alma mater, and

WHEREAS, the Kennedys have served the University of South Alabama as devoted members and volunteers of the USA National Alumni Association, including Patsy's service as founding chair of the College of Nursing Development Council and Ray's two terms as a member of the USA National Alumni Association's Board of Directors, and

WHEREAS, the impact of the Kennedys' lifelong engagement with the University is complemented and heightened by their steadfast generosity as donors whose support has furthered the progress of the Jaguar Athletic Fund, the College of Nursing, the Mitchell College of Business, and the USA National Alumni Association, and

WHEREAS, Patsy and Ray Kennedy have made an extraordinarily generous commitment through their estate plans to endow the Patsy and Ray Kennedy Endowed Scholarship Fund in the College of Nursing and the Patsy and Ray Kennedy Endowed Scholarship Fund for Children of Alumni and to support the Jaguar Athletic Fund, and

WHEREAS, the two scholarship endowments created by Patsy and Ray Kennedy will extend the opportunity to earn a University degree to nursing students and children of USA alumni far into the future in the names of alumni whose character and distinction are worthy of emulation,

THEREFORE, BE IT RESOLVED, the Board of Trustees gratefully acknowledges the profound generosity of Patsy and Ray Kennedy, whose farsighted commitment to endow two scholarships will assure generations of future students access to the educational foundation on which to build happy and productive lives, and

BE IT FURTHER RESOLVED that the Board of Trustees, the President, the faculty, administrators, staff, as well as present and future students of the University of South Alabama warmly thank Patsy and Ray Kennedy for their visionary philanthropy.

Chairman Simon asked Ms. Maye to come forward for the presentation of **ITEM 21.A** as follows. Ms. Brown Stewart read and moved for approval of the resolution. Mr. Shumock seconded and the resolution was approved unanimously. Addressing Trustees and guests, Ms. Maye reflected on her 24-year tenure as a Board member:

RESOLUTION
COMMENDATION OF MS. BETTYE R. MAYE

WHEREAS, Ms. Bettye R. Maye was appointed to the Board of Trustees of the University of South Alabama in 1993, and

WHEREAS, during her 24-year tenure as a member of the Board, Ms. Maye was a valuable member of numerous Board committees, including the Academic and Student Affairs Committee, as its chair; Executive Committee, as its secretary; Health Affairs Committee; Long-Range Planning Committee; and Budget and Finance Committee, and

WHEREAS, Ms. Maye, a longtime champion for education, has been an advocate for South in Sumter County and across West Alabama; faithful in her attendance of Board functions; and instrumental in her support for initiatives that have led to increased academic standards and enrollment, rising retention rates, and significant campus growth, and

WHEREAS, Ms. Maye supported and generously donated resources to the USA Board of Trustees Endowed Scholarship Fund, and

WHEREAS, Ms. Maye has served the University with distinction, graciously contributing her time, energy, wisdom and guidance to the growth and development of higher education in the state of Alabama and region, and to the students, alumni, faculty and administration of the University of South Alabama,

NOW, THEREFORE, BE IT RESOLVED that the University of South Alabama Board of Trustees expresses its deep appreciation and gratitude to Ms. Bettye R. Maye for her devotion, service and commitment to advancing the interests of the Institution and its constituencies, and

BE IT FURTHER RESOLVED that the Board of Trustees bestows upon Ms. Maye the title of Trustee *Emeritus*.

Chairman Simon asked Mr. and Mrs. Peek to stand for the presentation of **ITEM 21.B** as follows. Mr. Shumock read and moved for approval of the resolution. Ms. Mitchell seconded and the resolution was approved unanimously. Mr. Peek talked fondly about the University, its people and the time he served on the Board:

RESOLUTION
COMMENDATION OF MR. JOHN M. PEEK

WHEREAS, Mr. John M. Peek was appointed to the Board of Trustees of the University of South Alabama in 2006, and

WHEREAS, during his 11-year tenure as a member of the Board, Mr. Peek played a key role on numerous Board committees, including the Audit Committee, as its chair; Executive Committee; Academic and Student Affairs Committee; Health Affairs Committee; Long-Range Planning Committee; and Evaluation and Compensation Committee, and

WHEREAS, Mr. Peek has been an advocate for South in enrollment efforts in Covington County; has been resolute in ensuring responsible and sound fiscal practices; and has backed Board initiatives that have resulted in increased academic standards and enrollment, and in the construction and renovation of campus and health care facilities, and

WHEREAS, Mr. Peek supported and generously donated resources to the USA Board of Trustees Endowed Scholarship Fund and other philanthropic efforts to strengthen scholarships and Jaguar Athletics programs, and

WHEREAS, Mr. Peek has a special connection to the University, both as a 1987 graduate and, along with his wife Barbara, as a proud parent of three sons who attend South, and

WHEREAS, Mr. Peek has served the University with distinction, graciously contributing his time, energy, wisdom and guidance to the growth and development of higher education in the state of Alabama and region, and to the students, alumni, faculty and administration of the University of South Alabama,

NOW, THEREFORE, BE IT RESOLVED that the University of South Alabama Board of Trustees expresses its deep appreciation and gratitude to Mr. John Peek for his devotion, service and commitment to advancing the interests of the Institution and its constituencies, and

BE IT FURTHER RESOLVED that the Board of Trustees bestows upon Mr. Peek the title of Trustee *Emeritus*.

Chairman Simon shared thoughts on fellow Trustee Sheriff Bryant Mixon, who could not join the meeting, and he read and moved for the approval of **ITEM 21.C** as follows. Mr. Yance seconded and the resolution was approved unanimously:

RESOLUTION
COMMENDATION OF THE HONORABLE BRYANT MIXON

WHEREAS, the Honorable Bryant Mixon was appointed to the Board of Trustees of the University of South Alabama in 2001, and

WHEREAS, during his 16-year tenure as a member of the Board, Sheriff Mixon served on, and thoughtfully contributed to, numerous Board committees, including the Academic and Student Affairs Committee; Audit Committee; Budget and Finance Committee; and Long-Range Planning Committee, and

WHEREAS, Sheriff Mixon has been an advocate for the University across the Wiregrass; has supported planning and budget policies that resulted in the growth of both the student body and campus facilities; and, as a longtime sheriff of Dale County, has been a proponent of ensuring proper campus security plans, and

WHEREAS, Sheriff Mixon supported and generously donated resources to the USA Board of Trustees Endowed Scholarship Fund and health care initiatives of the University, and

WHEREAS, Sheriff Mixon has served the University with distinction, graciously contributing his time, energy, wisdom and guidance to the growth and development of higher education in the state of Alabama and region, and to the students, alumni, faculty and administration of the University of South Alabama,

NOW, THEREFORE, BE IT RESOLVED that the University of South Alabama Board of Trustees expresses its deep appreciation and gratitude to the Honorable Bryant Mixon for his devotion, service and commitment to advancing the interests of the Institution and its constituencies, and

BE IT FURTHER RESOLVED that the Board of Trustees bestows upon Sheriff Mixon the title of Trustee *Emeritus*.

Chairman Simon moved to hold an executive session for an approximate duration of 30 minutes for the purpose of discussing pending or imminent litigation and good name and character. He added, as per the provisions of the Alabama Open Meetings Act, Ms. Tucker, Senior University Attorney, had submitted the required written declaration for the minutes. Mr. Yance seconded and the Board voted unanimously at 12:20 p.m., as recorded below, to convene an executive session at 12:30:

AYES:
Ms. Atkins
Ms. Brown Stewart
Dr. Charlton
Mr. Corcoran
Dr. Furr
Capt. Jenkins
Ms. Maye
Ms. Mitchell
Mr. Peek
Mr. Shumock
Chairman Simon
Dr. Stokes
Mr. Windom
Mr. Yance

Following the executive session and there being no further business, the meeting was adjourned at 1:09 p.m.

Attest to: Respectfully submitted:

Arlene Mitchell, Secretary

Kenneth O. Simon, Chair *pro tempore*

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

AUDIT COMMITTEE

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

AUDIT COMMITTEE

September 7, 2017
1:30 p.m.

A meeting of the Audit Committee of the University of South Alabama Board of Trustees was duly convened by Mr. John Peek, Chair, on Thursday, September 7, 2017, at 1:32 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Ron Jenkins, John Peek and Jimmy Shumock.
Members Absent:	Scott Charlton and Bryant Mixon.
Other Trustees:	Alexis Atkins, Chandra Brown Stewart, Tom Corcoran, Steve Furr, Bettye Maye, Arlene Mitchell, Ken Simon, Steve Stokes, Mike Windom and Jim Yance.
Administration and Others:	Owen Bailey, Robert Berry, Lynne Chronister, Ken Davis, Joel Erdmann, Monica Ezell, Mike Finan, Happy Fulford, Mike Haskins, David Johnson, Melva Jones, John Marymont, Eileen McGinn and Ashley Willson (KPMG), Mike Mitchell, John Smith, Margaret Sullivan, Carl Thomas (SGA), Jean Tucker, Elizabeth VandeWaa (Faculty Senate), Tony Waldrop and Scott Weldon.

The meeting came to order and the attendance roll was called. Mr. Peek called for consideration of the minutes of the meeting held on June 1, 2017. On motion by Mr. Shumock, seconded by Dr. Stokes, the minutes were adopted unanimously.

Mr. Peek called upon Mr. Weldon for presentation of **ITEM 6**, the KPMG audit report. Mr. Weldon introduced KPMG partners Ms. Eileen McGinn and Ms. Ashley Willson, who discussed preliminary plans for the financial audit for the fiscal year ending September 30, 2017, as outlined in the document titled *Planning Report to the Audit Committee*. The topic of cyber security was addressed and Mr. Peek suggested that additional conversations should take place in the near future on the possibility of conducting a technology audit. Further, he asked that the KPMG team contact Chairman Simon about a more thorough review of internal controls.

Mr. Peek asked Mr. Berry to report on a quality assessment of the University's internal audit functions, **ITEM 7**. Mr. Berry talked about the Office of Internal Audit's commitment to conduct regular quality assessment reviews (QAR) every five years, as recommended by the Institute of Internal Auditors. He explained the three-phase process per cycle that would involve a three- to six-month period of self-analysis to identify areas of concern; remediation and testing of new methods for effectiveness; and engagement of a consultant to complete the QAR.

Mr. Peek called on Mr. Davis to present **ITEM 8**, a report on the independent audit of the USA Foundation's (USAF) consolidated financial statements and the disproportionate share hospital (DSH) funds combined financial statements for the period ended June 30, 2017. Mr. Davis stated both received an unqualified opinion.

There being no further business, the meeting was adjourned at 2:16 p.m.

Respectfully submitted:

James H. Shumock, Chair

KPMG

University of South Alabama

Audit Results

Consolidated financial statements for the year ended 09/30/2017

This presentation to the Audit Committee is intended solely for the information and use of the Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties. This presentation is not intended for general use, circulation or publication and should not be published, circulated, reproduced or used for any purpose without our prior written permission in each specific instance.

November 30, 2017

Introduction

To the Audit Committee of the University of South Alabama

We are pleased to have the opportunity to meet with you on November 30, 2017 to discuss the results of our audit of the consolidated financial statements of the University of South Alabama (the University) as of and for the year ended 09/30/2017

Contents

Our audit findings

- Unmodified opinions on financial statements
- Reviewed internal controls and key processes as necessary to express opinions
  - No significant deficiencies or material weaknesses noted related to overall University financial statement audit
  - Review of key processes (including technology)
- Results of A-133 audit – no significant findings were noted during the audit
- Significant accounting estimates
  - Valuation of patient accounts receivable
  - Third party settlement assets and liabilities
  - Valuation of swaps
  - Valuation of the liability within the General and Professional Liability Trust Funds
  - Valuation of alternative investments
- One Corrected audit misstatement to adjust the GASB 68 pension liability based on the Retirement Systems of Alabama allocation
- One Uncorrected audit misstatement for the out of period impact of the above noted entry

Significant findings

Skepticism Challenge

1 Valuation of patient accounts receivable

Significant risk of error

The risk

- Estimating the allowance for uncollectible accounts is highly subjective and requires significant judgement from management.
- Estimating the net realizable values of amounts due to/from third party payers also require significant management judgement and availability of reliable historical collections data.

Our response

- Performed control testing surrounding the review of bad debt reconciliations and the timely posting of adjustments to third party settlement balances.
- Independently recalculated the allowance for contractual adjustments, using historical data to ensure the allowance is appropriately stated
- Reperformed the calculation of the allowance for doubtful accounts, including a re-aging of all accounts receivable
- Performed a hindsight analysis over allowances to ensure the balances are adequate

KPMG

Significant findings (continued)

Skepticism | Specialists | Challenge

2 **Valuation of self-insurance reserves**

Significant risk of error

The risk

— Estimating the reserve for professional and general liability is highly subjective and requires significant judgement from management.

Our response

— Obtained third party confirmation from the University's actuary (Towers Watson), and performed testing over the completeness and accuracy of data

— Confirmed a sample of cases with the external attorneys

— Agreed reserves to the consolidated financial statements

— Engaged KPMG actuary to review the valuation of the reserves

Significant findings (continued)

Skepticism Challenge

3 **Management override of controls**

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that appear to be operating correctly.

Significant risk of error

The risk

— Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Our response

Internal controls

— Assessed design and implementation of management's controls over journal entries and post-closing adjustments

— Assessed design and implementation of the review of accounting estimates for evidence of management bias

— Assessed design and implementation of the control over the evaluation of the business purposes for significant unusual transactions

Substantive procedures

— Assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.

— Assess the appropriateness of the accounting for significant transactions that are outside the component's normal course of business or are otherwise unusual

— Reviewed all post closing adjustments

Required communications and other matters

Type		Response
Related parties	OK	There were no significant related party transactions identified other than those disclosed in the financial statements.
Illegal acts or fraud	OK	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.
Noncompliance with laws and regulations	OK	None noted.
Modifications to auditor's report	OK	None.
Subsequent events	OK	None noted.

Type		Response
Other information	OK	No material inconsistencies were identified related to other information in the annual report.
Significant difficulties encountered during the audit	OK	No matters to report.
Disagreements with management or scope limitations	OK	No matters to report.
Management's consultation with other accountants	OK	No matters to report.
Significant issues discussed, or subject to correspondence with, management	OK	No matters to report.
Difficult or contentious matters for which the auditors consulted	OK	No matters to report.
Material Written Communications between KPMG and Management	OK	Engagement letter & Management representation letters, including summary of uncorrected misstatement to be distributed under separate covers.
Other matters (if relevant)	OK	No matters to report.

Responsibilities – Independence matters

In order for us to fulfill our professional responsibility to maintain and monitor independence in relation to the University, timely information is required from University management regarding the following:

— The University's affiliates – This includes entities that are part of the consolidated financial statements and other entities that meet the definition of an affiliate under AICPA independence rules (e.g. sister companies under control of a common parent University where both the audit client and sister University are material to the controlling University, entities included in an investment University complex, etc.)

— The University's officers, directors, and individuals owning 10% or more of the University's outstanding equity securities or other ownership interests

— Information regarding any pending corporate transactions which may result in new affiliates, officers, directors or greater than 10% individual owners.

Payment of Fees – Audit and All Other Professional Services

Professional standards require that fees for any previously rendered professional service provided more than one year prior to the date of the current year audit report have been paid.

Independence – In our professional judgment, KPMG is independent of the University within the meaning of the Securities and Exchange Commission and the requirements of the Independence Standards Board

Summary of fees

	2017	2016
Audit of consolidated financial statements and related notes to the financial statements of the University as of and for the year ended September 30, 2017 and Audit under Uniform Guidance for the year ended September 30, 2017 (two major programs) The other reports that we issued as part of and upon completion of this engagement are as follows: • Reports issued in connection with Uniform Guidance • Debt covenant compliance report • Debt agreed upon procedures report • USA Research and Technology Corporation • NCAA agreed upon procedures report	$ 580,000	$ 565,000
Total	**$ 580,000**	**$ 565,000**

Open dialogue

Presenters' contact details

Eileen McGinn
Partner

401 Commerce Street
Suite 1000
Nashville, TN 37219

615-248-5619
emcginn@kpmg.com

Ashley Willson
Partner

188 E Capitol Street
Suite 1100
Jackson, MS 39201

601-714-7446
awillson@kpmg.com

Velencia Bell
Senior Audit Manager

420 North 20th Street
Suite 1800
Birmingham, AL

334-412-0737
velenciabell@kpmg.com

kpmg.com/socialmedia

KPMG

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, 2017

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
September 30, 2017

Table of Contents

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

September 30, 2017

Table of Contents

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, 2017 and 2016, 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 are either blended with the University's financial position and results of operations or are discretely presented. The treatment of each component unit is governed by pronouncements issued by the Governmental Accounting Standards Board (GASB). As more fully described in note 1 to the basic financial statements, the University of South Alabama Professional Liability Trust Fund, 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 and the USA Research and Technology Corporation are discretely presented.

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 physician practice groups as determined by the University. For additional discussion, see note 1.

Financial Highlights

At September 30, 2017 and 2016, the University had total assets and deferred outflows of $1,282,492,000 and $1,184,911,000, respectively; total liabilities and deferred inflows of $1,016,673,000 and $966,917,000, respectively; and net position of $265,819,000 and $217,994,000, respectively. Net position increased $47,825,000 during the year ended September 30, 2017 compared to an increase of $25,905,000 for the year ended September 30, 2016.

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, 2017 and 2016. Net position is displayed in three parts: net investment in capital assets, restricted and unrestricted. Restricted net position may either be expendable or nonexpendable and is 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.

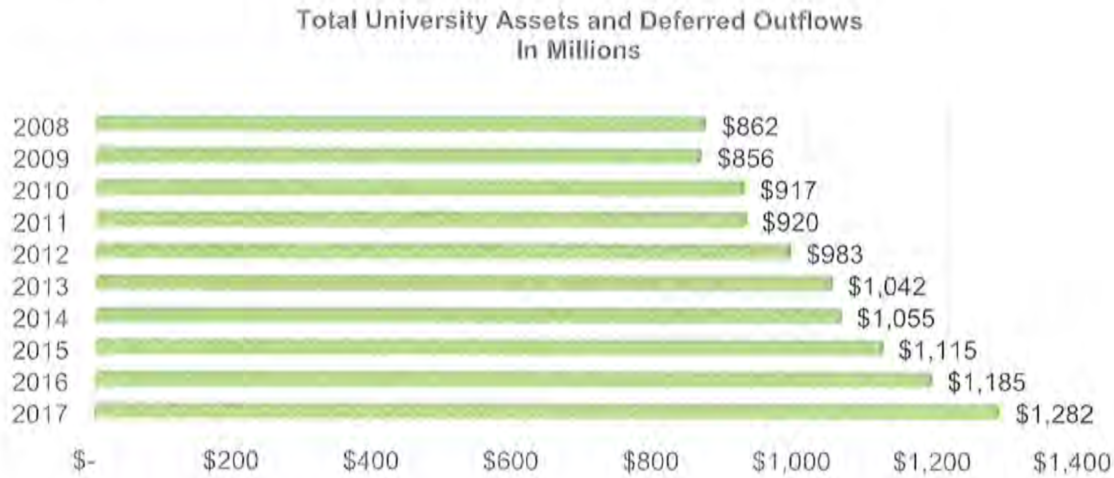
Assets included in the statements of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments, and net patient receivables. Of these amounts, cash and cash equivalents, investments, and net patient receivables comprise approximately 39%, 25% and 19%, respectively, of current assets at September 30, 2017. Noncurrent assets consist primarily of restricted cash and cash equivalents, restricted investments and capital assets.

The condensed schedules of net position at September 30, 2017, 2016, and 2015 follow (in thousands):

Condensed Schedules of Net Position

	2017	2016	2015
Assets:			
Current	$ 261,407	$ 273,634	$ 233,940
Capital assets	693,968	653,297	609,630
Other noncurrent	268,116	213,462	248,539
Total assets	1,223,491	1,140,393	1,092,109
Deferred outflows	59,001	44,518	22,842
Total assets and deferred outflows	$ 1,282,492	$ 1,184,911	$ 1,114,951
Liabilities:			
Current	$ 157,803	$ 153,887	$ 132,128
Noncurrent	818,105	789,016	751,880
Total liabilities	975,908	942,903	884,008
Deferred inflows	40,765	24,014	35,891
Total liabilities and deferred inflows	$ 1,016,673	$ 966,917	$ 919,899
Net position:			
Net investment in capital assets	$ 305,898	$ 270,127	$ 246,567
Restricted, nonexpendable	54,961	48,760	43,425
Restricted, expendable	62,676	55,592	60,106
Unrestricted	(157,716)	(156,485)	(155,046)
Total net position	$ 265,819	$ 217,994	$ 195,052

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 after liabilities are deducted. Net position is classified into one of four categories:

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

Restricted nonexpendable net position consists primarily of the University's permanent endowment funds. 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 the bookstore, student housing and dining services), student programs, capital projects and general operations. Also included in unrestricted net position at September 30, 2017 and 2016 is the impact of the net pension liability recorded pursuant to the requirements of GASB Statement No. 68.

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

All categories of restricted net position collectively increased by approximately 13% between September 30, 2017 and 2016, primarily due to the addition of restricted gifts to the University. Unrestricted net position decreased slightly from $(156,485,000) to $(157,716,000) between September 30, 2017 and 2016. A summary of unrestricted net position at September 30, 2017 is summarized as follows:

Unrestricted net position related to net pension liability	$ (336,477,000)
Unrestricted net position related to other activity	178,761,000
Unrestricted net position	$ (157,716,000)

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 these statements 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, capital appropriations, gifts and other contributions. State appropriations are required by GASB to be classified as nonoperating revenues. Nonoperating expenses are those expenses required in the operation and administration of the University, but not directly incurred to acquire or produce the goods and services provided in return for operating revenues. Such nonoperating expenses include interest on the University's indebtedness and losses related to the disposition of capital assets.

The condensed schedules of revenues, expenses, and changes in net position for the years ended September 30, 2017, 2016 and 2015 follow (in thousands):

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

	2017	2016	2015
Operating revenues:			
Tuition and fees	$ 142,024	$ 137,074	$ 120,265
Patient service revenues	390,931	360,657	271,655
Federal, state and private grants and contracts	36,853	38,187	85,756
Other	92,674	88,943	78,845
	662,482	624,861	556,521
Operating expenses:			
Salaries and benefits	483,113	460,219	433,679
Supplies and other services	219,362	198,518	169,873
Other	64,942	65,530	57,476
	767,417	724,267	661,028
Operating loss	(104,935)	(99,406)	(104,507)
Nonoperating revenues and expenses:			
State appropriations	107,332	105,024	103,974
Investment income (loss)	18,398	2,631	(10,718)
Other, net	20,613	8,135	13,259
Net nonoperating revenues and expenses	146,343	115,790	106,515
Income before capital contributions and grants and additions to endowment	41,408	16,384	2,008
Capital contributions and grants and additions to endowment	6,417	9,521	7,231
Increase in net position	$ 47,825	$ 25,905	$ 9,239

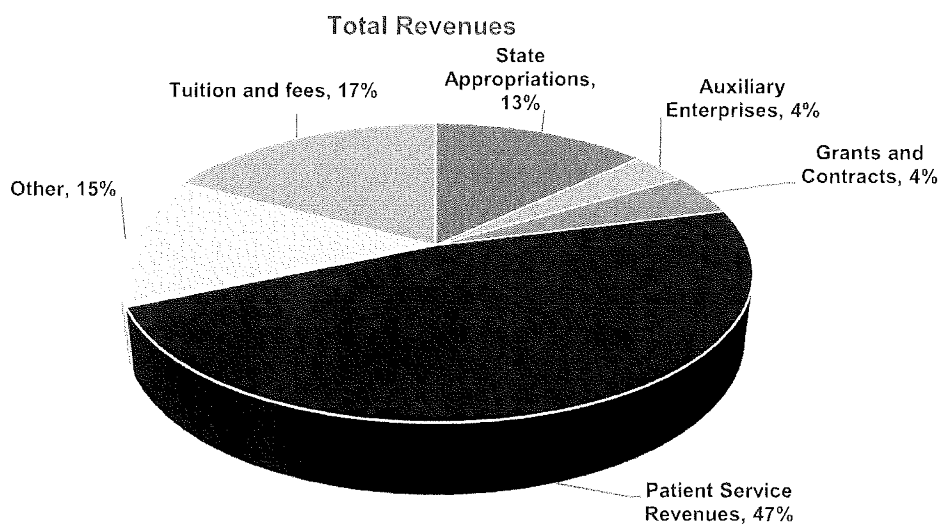
(Continued)

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

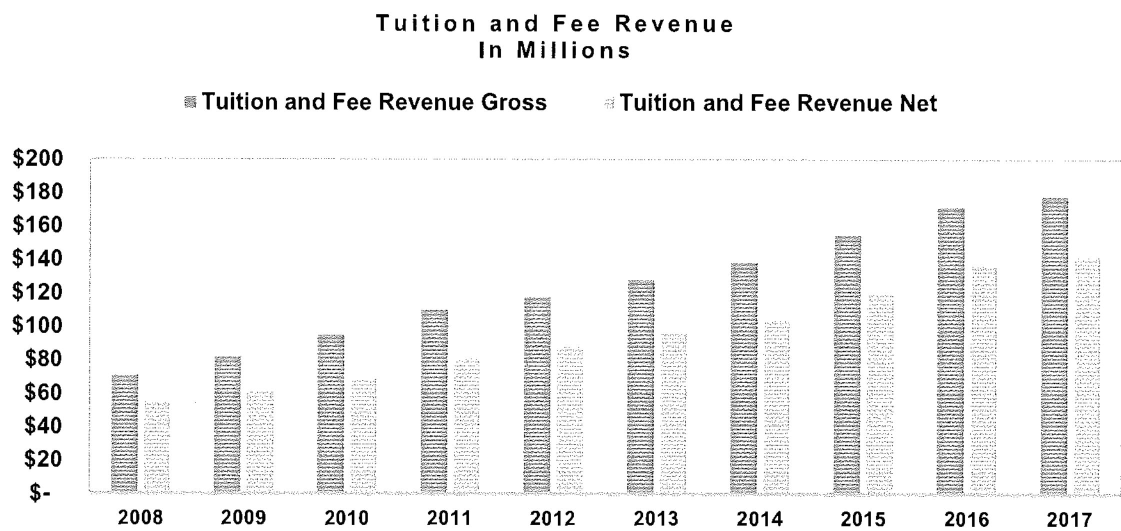
	2017	2016	2015
Beginning net position, before cumulative effect of change in reporting entity/accounting principle	$ 217,994	$ 195,052	$ 499,550
Cumulative effect of change in reporting entity/accounting principle	—	(2,963)	(313,737)
Beginning net position – as adjusted	217,994	192,089	185,813
Ending net position	$ 265,819	$ 217,994	$ 195,052

Approximately 47% of total revenues of the University were patient service revenues in 2017 and 2016. Excluding patient service revenues, tuition and fees charged to students represent the largest component of total University revenues, approximately 17% and 18% of total revenues in 2017 and 2016, respectively. Also in 2017, state appropriations and grants and contracts (federal, state and private) represented approximately 17% of total revenues compared to 19% in 2016.

A summary of University revenues for the year ended September 30, 2017 is presented as follows:

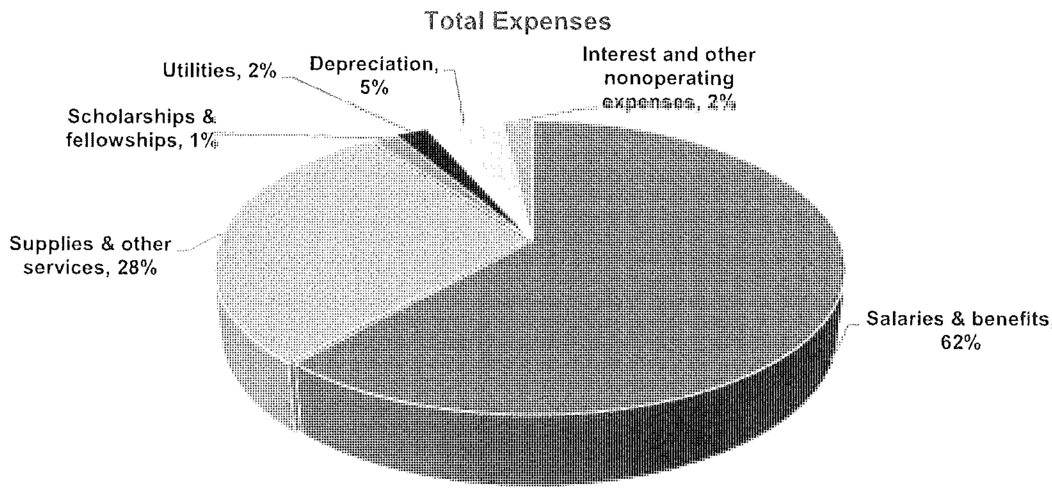


Tuition and fees have increased in each of the last ten years. These increases are primarily due to increases in tuition and fee rates charged to students and the number of enrolled students and credit hours taken by those students. Additionally, tuition and fees as a percent of total operating revenues continue to increase, from 14% of operating revenues in 2008 to 21% in 2017. Tuition and fees, gross and net of scholarship allowances, for the past ten fiscal years are as follows:



Capital contributions and grants decreased from $3,053,000 in 2016 to $989,000 in 2017.

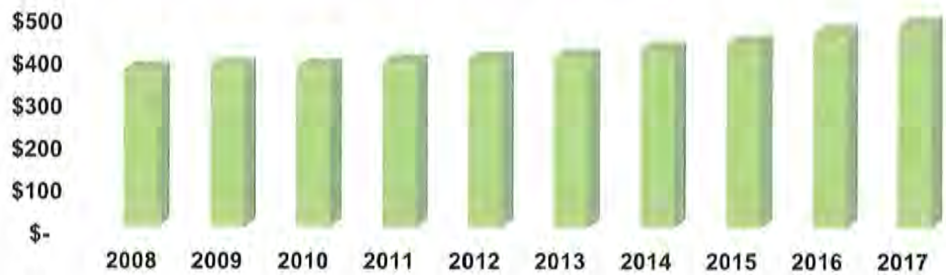
University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2017 is presented as follows:



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, scholarships, and operation and maintenance of plant. Expenses related to auxiliary enterprise activities and USA Health are presented separately. Functional expense information is presented in note 17 to the basic financial statements.

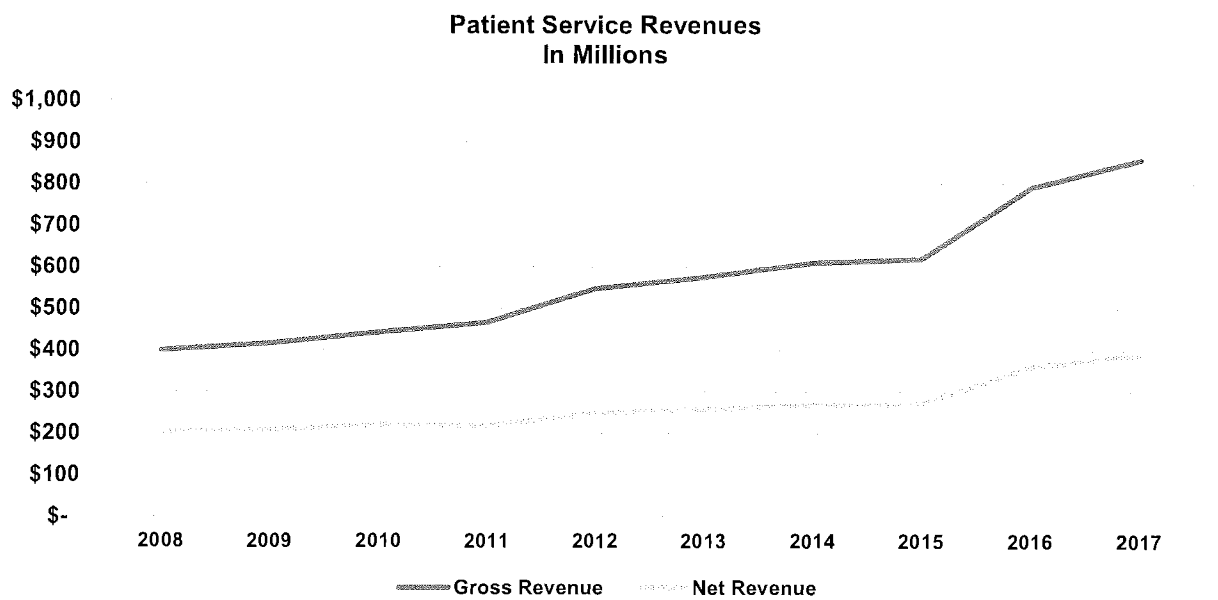
In 2017 and 2016, approximately 62% and 64%, respectively, of the University's total operating expenses were salaries and benefits.

Total Salaries and Benefits Expense
In Millions



For the years ended September 30, 2017 and 2016, the University reported operating losses of approximately $104,935,000 and $99,406,000, 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 (primarily capital contributions and additions to endowment), and applying the cumulative effect of the change in reporting entity related to the transfer of the Health Services Foundation (HSF) in 2016, the total change in net position was approximately $47,825,000 and $25,905,000, for the years ended September 30, 2017 and 2016, 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 $25,701,000 in 2017. Significant construction projects that remain in progress at September 30, 2017 include a new residence hall and a major upgrade of infrastructure on the University's main campus. Major projects completed and placed into service in fiscal 2017 and 2016 included the Student Health Center, an addition to the Mitchell Cancer Institute, a professional medical office building near USA Children's and Women's Hospital and a professional medical office building in Fairhope, Alabama. At September 30, 2017, the University had outstanding commitments of approximately $19,746,000 for various capital projects.

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 are called in August 2018. Neither the assets of the escrow trust account, nor the defeased indebtedness is included in the accompanying statements of net position. The principal outstanding on all defeased bonds is $90,690,000 at September 30, 2017. The refunding resulted in net present value savings of approximately $15,016,000. The remaining undefeased portion of the Series 2008 Bonds at September 30, 2017 is $2,850,000 and is included in current portion of long-term debt on the accompanying statement of net position.

In December 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016-B, C and D, with a face value totaling $100,000,000. The proceeds from the Series 2016 Bonds were used to refund the remaining outstanding Series 2006 Bonds.

In June 2017, the University issued its University Facilities Revenue Bonds, Series 2017, with a face value of $38,105,000. The proceeds from the Series 2017 Bonds are being used to construct a new residence hall on the campus of the University and support ongoing infrastructure improvement projects.

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

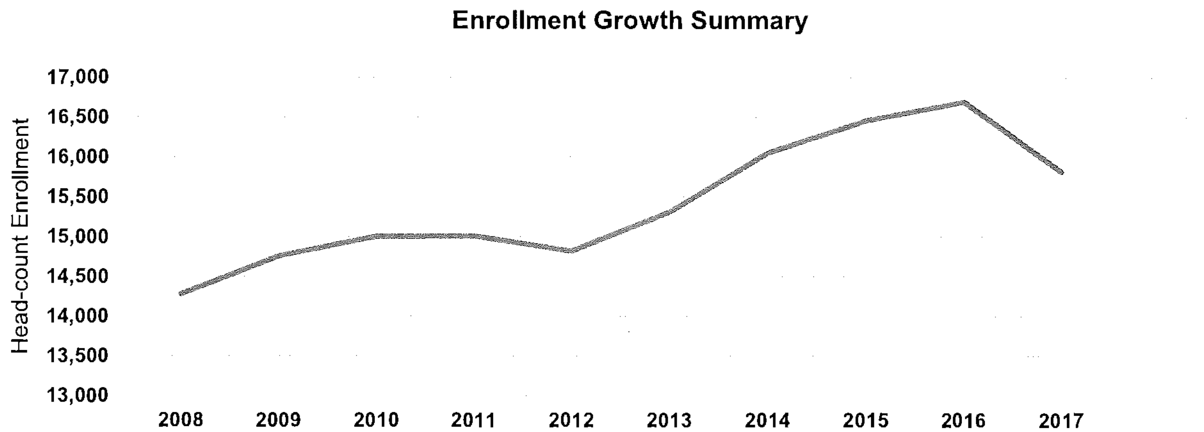
In December 2013, the counterparty exercised its option with respect to the 2004 swaption and forced the University into an underlying swap. The University refunded its Series 2004 Bonds, and issued the 2014-A variable rate bonds. As a result of the exercise of the option by the counterparty, the swaption was terminated and the borrowing arising from the Series 2004 swaption of $1,696,000 and the investment derivative of $5,213,000 were written off and an investment loss of $2,229,000 was recognized. A borrowing arising from the 2014 swap of $5,939,825 was recognized and is reported in the statement of net position at September 30, 2017.

In September 2016, the counterparty exercised its option with respect to the 2006 swaption and forced the University into an underlying swap. As a result of the exercise of the option by the counterparty, the swaption was terminated and the borrowing arising from the Series 2006 swaption of $6,939,000 and the investment derivative of $34,078,000 were written off. A borrowing arising from the 2016 swap of $45,934,000 was recognized and is reported in the statement of net position at September 30, 2017.

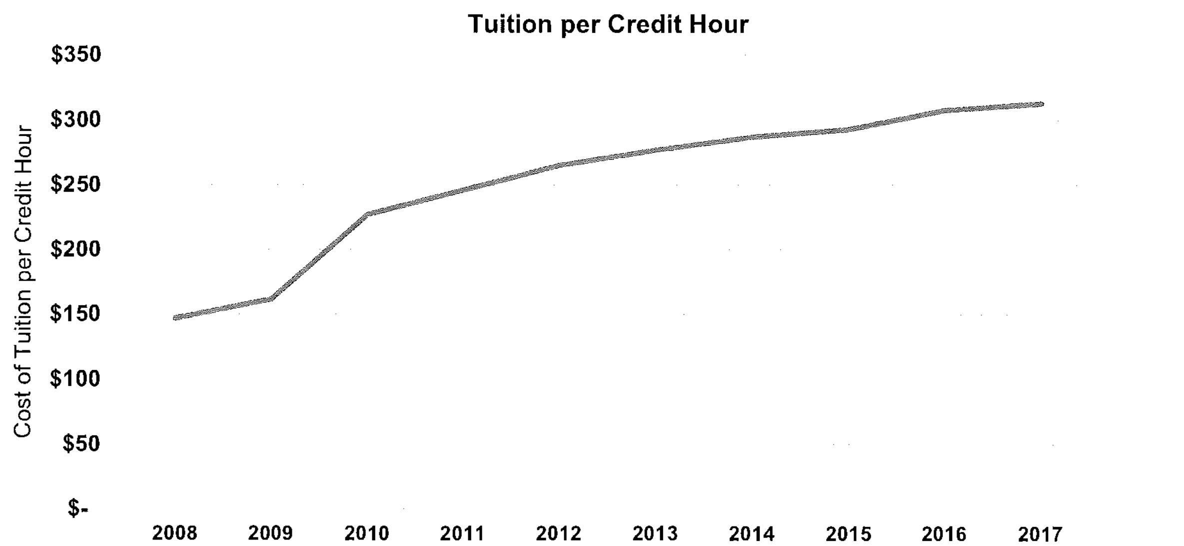
The University's bond credit rating is A1 (Stable) as rated by Moody's Investors Services and A+ (Stable) as rated by Standard and Poor's Rating Services. Neither rating changed during 2017 or 2016.

Economic Outlook

Tuition and fee rates have increased over the past ten years and student enrollment has generally increased over this same period. The University has experienced an increase in enrollment between 2008 and 2017, from 14,279 in 2008 to 15,821 for the 2017 Fall semester. However, the University did experience a decline in enrollment of approximately 5% in Fall 2017, primarily due to a decrease in international student enrollment. The enrollment trend for the University between 2008 and 2017 is as follows:

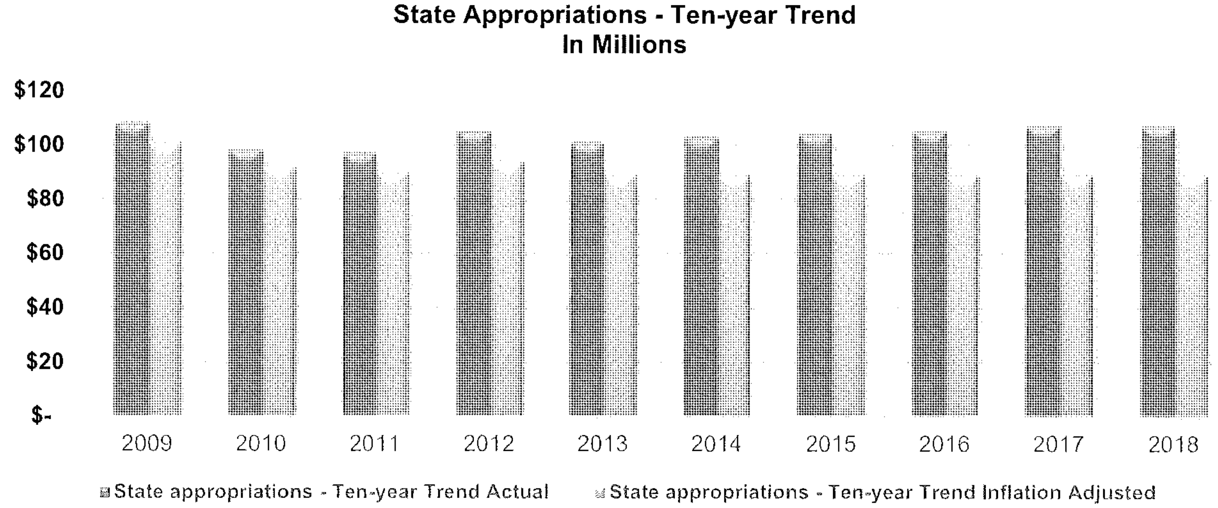


During the same time period, in-state tuition per credit hour has increased by approximately 113%. The large increase in 2010 is the result of the University's bundling of tuition and required fees into a single per-hour charge. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. The trend of in-state tuition per credit hour between 2008 and 2017 is as follows:



A state appropriation in the amount of approximately $107,332,000 and $105,024,000 was authorized and received for the years ended September 30, 2017 and 2016 respectively. A state appropriation in the amount of $107,285,000 has been authorized for the year ended September 30, 2018. While no announcement has been made, the University is aware that reductions in the 2018 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 2018 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/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, 2017 and 2016, 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 2017 consolidated financial statements of the University of South Alabama Foundation, which represents 94%, 100%, and 89%, respectively, of the 2017 assets, net assets, and revenues, gains and other support of the aggregate discretely presented component units. Nor did we audit the 2016 consolidated financial statements of the University of South Alabama Foundation which represented 93%, 100%, and 52%, respectively, of the 2016 assets, net assets, and revenues, gains and other support of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 of its aggregate discretely presented component units as of September 30, 2017 and 2016, 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 1-13 and the schedule of the University's proportionate share of the net pension liability and schedule of University's contributions on pages 73 and 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
November 14, 2017

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

Statements of Net Position

September 30, 2017 and 2016

(In thousands)

	2017	2016
Current assets:		
Cash and cash equivalents	$ 102,748	$ 100,155
Investments	65,464	85,182
Net patient receivables, (net of allowance for doubtful accounts of $73,983 in 2017 and $65,829 in 2016)	49,739	47,897
Accounts receivable, affiliates	5,434	464
Accounts receivable, other	17,967	20,674
Notes receivable, net	6,432	7,108
Prepaid expenses, inventories, and other	13,623	12,154
Total current assets	261,407	273,634
Noncurrent assets:		
Restricted cash and cash equivalents	33,116	18,927
Restricted investments	171,481	108,894
Investments	60,129	81,279
Accounts receivable	2,281	2,195
Other noncurrent assets	1,109	2,167
Capital assets, net	693,968	653,297
Total noncurrent assets	962,084	866,759
Total assets	1,223,491	1,140,393
Deferred outflows	59,001	44,518
Total assets and deferred outflows	1,282,492	1,184,911
Current liabilities:		
Accounts payable and accrued liabilities	62,877	55,234
Unrecognized revenue	59,831	62,674
Deposits	2,433	1,627
Current portion of other long-term liabilities	6,884	9,336
Current portion of long-term debt	25,778	25,016
Total current liabilities	157,803	153,887
Noncurrent liabilities:		
Long-term debt, less current portion	386,520	363,796
Net pension liability	336,477	329,294
Other long-term liabilities, less current portion	95,108	95,926
Total noncurrent liabilities	818,105	789,016
Total liabilities	975,908	942,903
Deferred inflows	40,765	24,014
Total liabilities and deferred inflows	1,016,673	966,917
Net position:		
Net investment in capital assets	305,898	270,127
Restricted, nonexpendable:		
Scholarships	27,045	23,905
Other	27,916	24,855
Restricted, expendable:		
Scholarships	14,287	13,368
Other	48,389	42,224
Unrestricted	(157,716)	(156,485)
Total net position	$ 265,819	$ 217,994

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statements of Financial Position

June 30, 2017 and 2016

(In thousands)

Assets		**2017**		**2016**
Cash and cash equivalents	$	556	$	368
Investments:				
Equity securities		129,674		120,900
Timber and mineral properties		160,351		157,470
Real estate		69,186		69,070
Other		5,808		5,803
Other assets		473		532
Total assets	$	366,048	$	354,143
Liabilities and Net Assets				
Liabilities:				
Accounts payable	$	101	$	90
Other liabilities		704		649
Total liabilities		805		739
Net assets:				
Unrestricted		99,678		99,115
Temporarily restricted		95,856		84,699
Permanently restricted		169,709		169,590
Total net assets		365,243		353,404
Total liabilities and net assets	$	366,048	$	354,143

See accompanying notes to basic financial statements.

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

Statements of Net Position

September 30, 2017 and 2016

		2017		2016
Assets:				
Current assets:				
Unrestricted cash and cash equivalents	$	353,058	$	627,125
Rent receivable, (net of allowance for doubtful accounts of $95,703 in 2017 and $0 in 2016, respectively)		20,483		26,018
Prepaid expenses and other current assets		6,799		15,481
Total current assets		380,340		668,624
Noncurrent assets:				
Intangible assets, net		65,482		29,855
Capital assets, net		21,689,045		22,567,316
Total noncurrent assets		21,754,527		22,597,171
Deferred outflows		2,252,005		3,414,981
Total assets and deferred outflows		24,386,872		26,680,776
Liabilities:				
Current liabilities:				
Deposits, other current liabilities, and accrued expenses		111,550		162,183
Payable to University of South Alabama		46,271		—
Unrecognized rent revenue		432,689		390,442
Current portion of notes payable		1,119,337		1,062,354
Total current liabilities		1,709,847		1,614,979
Noncurrent liabilities:				
Notes payable, excluding current portion		19,134,302		20,253,638
Interest rate swap		2,252,005		3,414,981
Payable to University of South Alabama		559,872		573,108
Total noncurrent liabilities		21,946,179		24,241,727
Total liabilities		23,656,026		25,856,706
Net position:				
Net investment in capital assets		875,534		678,216
Unrestricted		(144,688)		145,854
Total net position	$	730,846	$	824,070

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, 2017 and 2016

(In thousands)

	2017	2016
Operating revenues:		
Tuition and fees (net of scholarship allowances of $35,523 in 2017 and $35,179 in 2016)	$ 142,024	$ 137,074
Patient service revenues (net of provision for bad debts of $88,274 in 2017 and $83,211 in 2016)	390,931	360,657
Federal grants and contracts	19,502	20,119
State grants and contracts	8,847	8,663
Private grants and contracts	8,504	9,405
Auxiliary enterprises (net of scholarship allowances of $1,066 in 2017 and $1,147 in 2016)	28,347	28,861
Other operating revenues	64,327	60,082
Total operating revenues	662,482	624,861
Operating expenses:		
Salaries and benefits	483,113	460,219
Supplies and other services	219,362	198,518
Scholarships and fellowships	12,346	14,230
Utilities	15,856	15,126
Depreciation and amortization	36,740	36,174
Total operating expenses	767,417	724,267
Operating loss	(104,935)	(99,406)
Nonoperating revenues (expenses):		
State appropriations	107,332	105,024
Investment income	18,398	2,631
Interest expense	(11,479)	(14,342)
Other nonoperating revenues	35,172	38,708
Other nonoperating expenses	(3,080)	(16,231)
Net nonoperating revenues	146,343	115,790
Income before capital contributions and grants and additions to endowment	41,408	16,384
Capital contributions and grants	989	3,053
Additions to endowment	5,428	6,468
Increase in net position	47,825	25,905
Net position:		
Beginning of year, before cumulative effect of change in reporting entity	217,994	195,052
Cumulative effect of change in reporting entity (note 1 (d))	—	(2,963)
Beginning balance, as adjusted	217,994	192,089
End of year	$ 265,819	$ 217,994

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION

(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2017

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, losses and other support:				
Net realized and unrealized gains on investments	$ 5,054	$ 17,582	$ —	$ 22,636
Rents, royalties and timber sales	3,786	130	8	3,924
Interest and dividends	740	1,280	4	2,024
Gifts	—	4	54	58
Required match of donor contributions	(16)	(37)	53	—
Interfund interest	(252)	252	—	—
Other income	2	—	—	2
Net assets released from program restrictions	8,054	(8,054)	—	—
Total revenues, gains, losses and other support	17,368	11,157	119	28,644
Expenditures:				
Program services:				
Faculty support	2,230	—	—	2,230
Scholarships	1,136	—	—	1,136
Other academic programs	6,405	—	—	6,405
Total program service expenditures	9,771	—	—	9,771
Management and general	1,952	—	—	1,952
Other investment expense	1,583	—	—	1,583
Depletion expense	3,414	—	—	3,414
Depreciation expense	85	—	—	85
Total expenditures	16,805	—	—	16,805
Change in net assets	563	11,157	119	11,839
Net assets – beginning of year	99,115	84,699	169,590	353,404
Net assets – end of year	$ 99,678	$ 95,856	$ 169,709	$ 365,243

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2016

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, losses and other support:				
Net realized and unrealized gains on investments	$ 6,622	$ (3,806)	$ —	$ 2,816
Rents, royalties and timber sales	3,243	130	13	3,386
Interest and dividends	1,172	956	3	2,131
Gifts	—	8	—	8
Required match of donor contributions	(8)	8	—	—
Interfund interest	(218)	218	—	—
Net assets released from program restrictions	8,848	(8,848)	—	—
Total revenues, gains, and other support	19,659	(11,334)	16	8,341
Expenditures:				
Program services:				
Faculty support	2,330	—	—	2,330
Scholarships	1,385	—	—	1,385
Other academic programs	6,846	—	—	6,846
Total program service expenditures	10,561	—	—	10,561
Management and general	2,040	—	—	2,040
Other investment expense	1,388	—	—	1,388
Depletion expense	3,354	—	—	3,354
Depreciation expense	86	—	—	86
Total expenditures	17,429	—	—	17,429
Change in net assets	2,230	(11,334)	16	(9,088)
Net assets – beginning of year	96,885	96,033	169,574	362,492
Net assets – end of year	$ 99,115	$ 84,699	$ 169,590	$ 353,404

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, 2017 and 2016

	2017	2016
Operating revenues	$ 3,358,749	$ 3,424,286
Operating expenses:		
Building management and operating expenses	1,111,116	1,150,462
Depreciation and amortization	984,117	950,543
Legal and administrative fees	181,697	185,478
Insurance	33,168	27,375
Total operating expenses	2,310,098	2,313,858
Operating income	1,048,651	1,110,428
Nonoperating revenues (expenses):		
Investment income	1,637	1,389
Interest expense	(1,145,017)	(1,198,795)
Other	1,505	4,836
Net nonoperating expenses	(1,141,875)	(1,192,570)
Change in net position	(93,224)	(82,142)
Net position:		
Beginning of year	824,070	906,212
End of year	$ 730,846	$ 824,070

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, 2017 and 2016

(In thousands)

		2017		2016
Cash flows from operating activities:				
Receipts related to tuition and fees	$	143,526	$	135,642
Receipts from and on behalf of patients and third-party payers		389,670		331,351
Receipts from grants and contracts		35,612		56,071
Receipts related to auxiliary enterprises		28,766		29,456
Payments to suppliers and vendors		(244,989)		(200,589)
Payments to employees and related benefits		(459,764)		(444,936)
Payments for scholarships and fellowships		(8,986)		(11,186)
Other operating receipts		64,396		51,605
Net cash used in operating activities		(51,769)		(52,586)
Cash flows from noncapital financing activities:				
State appropriations		107,332		105,024
Endowment gifts		5,428		6,468
Agency funds received		1,408		646
Agency funds disbursed		(1,042)		(1,946)
Student loan program receipts		149,508		151,365
Student loan program disbursements		(149,353)		(152,855)
Other nonoperating revenues		16,313		47,401
Other nonoperating expenses		(3,902)		(5,347)
Net cash provided by noncapital financing activities		125,692		150,756
Cash flows from capital and related financing activities:				
Capital contributions and grants		989		3,052
Purchases of capital assets		(75,767)		(75,208)
Proceeds from issuance of capital debt		146,784		107,537
Principal payments on capital debt		(121,680)		(108,463)
Interest payments on capital debt		(10,672)		(15,409)
Net cash used in capital and related financing activities		(60,346)		(88,491)
Cash flows from investing activities:				
Interest and dividends on investments		9,983		3,540
Purchases of investments		(56,502)		(122,288)
Proceeds from sales of investments		49,724		100,876
Net cash provided by (used in) investing activities		3,205		(17,872)
Net increase (decrease) in cash and cash equivalents		16,782		(8,193)
Cash and cash equivalents (unrestricted and restricted):				
Beginning of year, as adjusted		119,082		127,275
End of year	$	135,864	$	119,082

(Continued)

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

Statements of Cash Flows

Years ended September 30, 2017 and 2016

(In thousands)

		2017		2016
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$	(104,935)	$	(99,406)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation and amortization expense		36,740		36,174
Changes in assets and liabilities, net:				
Student receivables		2,950		(3,166)
Net patient accounts receivables		(1,841)		(3,871)
Grants and contracts receivables		208		18,546
Other receivables		812		(8,936)
Prepaid expenses, inventories, and other		(7,122)		(1,422)
Accounts payable and accrued liabilities		24,262		5,045
Unrecognized revenue		(2,843)		4,450
Net cash used in operating activities	$	(51,769)	$	(52,586)
Noncash investing, noncapital financing, and capital and related financing transactions:				
Net increase (decrease) in fair value of investments recognized as a component of investment income	$	12,383	$	(2,025)
Payment for capital lease		3,309		3,678
Additional maturity on capital appreciation on bonds payable and other borrowings recorded as interest expense		782		1,443
Gifts of capital and other assets		1,576		2,257
Capitalization of construction period interest		801		721
Increase in accounts payable related to capital assets		562		2,606

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

GASB Statement No. 61 amends GASB Statements No. 14 and No. 39, and provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. Such criteria include the appointment of a voting majority of the board of the organization, the ability to impose the will of the primary government on the organization and the financial benefits/burden between the primary government and the potential component unit. The statement also clarifies reporting and disclosure requirements for those organizations. Based on these criteria as of September 30, 2017 and 2016, the University reports the University of South Alabama Foundation (USA Foundation) and the USA Research and Technology Corporation (the Corporation) as discretely presented component units.

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF), the Gulf Coast Regional Care Organization (RCO) and the University of South Alabama Health Care Authority (HCA). These entities are not considered component units of the University under the provisions of GASB Statements No. 14, 39 and 61 because the University does not consider these entities significant enough to warrant inclusion in the University's reporting entity.

GASB Statement No. 61 and GASB Statement No. 80, *Blending Requirements for Certain Component Units,* require the University, as the primary government, to include in its basic financial statements, as a blended component unit, organizations that, even though they are legally separate entities, meet certain requirements as defined by GASB Statement No. 61 and No. 80. Based on these criteria, the University reports the Professional Liability Trust Fund (PLTF), General Liability Trust Fund (GLTF) and USA HealthCare Management, LLC (HCM) as blended component units. All significant transactions among the University and its blended component units have been eliminated in consolidation.

(Continued)

(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, University of South Alabama Health Services Foundation (USAHSF), 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, USAHSF, HCM, SAMSF, the Corporation and HCA is maintained and managed in its General Liability Trust Fund for which the University, as defined by GASB Statement No. 18, is responsible. The PLTF and GLTF are separate legal entities which are governed by the University Board of Trustees through the University president. As such, PLTF and GLTF are reported as blended component units (see note 18 for further discussion of, and disclosure for, these entities).

(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) University of South Alabama Health Services Foundation

During fiscal 2016, due to the Board's approval of governance changes and assignment of operational responsibility to the University, the USA Health Services Foundation met the criteria for blended component unit presentation. The cumulative effect of this change in reporting entity resulted in a decrease to the University's net position at October 1, 2015 in the amount of $(2,963,000). All 2016 transactions for USAHSF are blended in the University's financial statements. While USAHSF as a legal entity is still in existence, there were no activities during the year ended September 30, 2017.

(e) University of South Alabama Health Care Authority

In May 2017, the University's Board of Trustees approved a resolution to form the University of South Alabama Health Care Authority. The HCA is a public corporation created under and pursuant to the provisions of the University Authority Act of 2016. The HCA will employ physicians and staff of physician practice groups as determined appropriate by the University. Operations commenced on August 1, 2017. Because the activity of the HCA is not material to the University's financial statements, the HCA is not presented as a component unit.

(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, 2017 and 2016 were $9,603,000 and $10,455,000, 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, this discretely presented unit has been included with the most recent fiscal year. The accompanying consolidated statements of financial position and statements of activities and changes in net assets for the USA Foundation as of and for the years ended June 30, 2017 and 2016 are discretely presented.

(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, 2017 and 2016 are discretely presented.

(h) Gulf Coast Regional Care Organization

The Gulf Coast Regional Care Organization is a not-for-profit corporation that exists for the purpose of creating and operating a risk-based, community-led network to coordinate the heath care of Medicaid patients in a seven county region of southwest Alabama, one of five such regions in the state of Alabama identified by the Alabama Medicaid Agency. The RCO commenced operations in April 2015 and is currently operating a Health Home program, providing certain case management services to qualifying Medicaid beneficiaries. Because the activity of the RCO is not material to the University's financial statements, the RCO is not considered a component unit.

(i) 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.

(j) 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.

(k) 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.

(l) 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 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 investment income.

(m) Derivatives

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

The University entered into two interest rate swaptions in January 2008, the Series 2004 swaption and the Series 2006 swaption. As a result of entering into the swaptions, the University received up-front payments. Swaptions are considered hybrid instruments which are required to be bifurcated into the fair value of the derivative and a piece that reflects a borrowing for financial statement purposes, which will accrete interest over time.

The counterparty exercised its option related to each swaption noted above, and, as a result, the University entered into interest rate swaps. See note 5 and note 10 for further discussion.

(n) Accounts Receivable

Patient service receivables primarily result from hospital and ambulatory patient service revenues. Accounts receivable from affiliates primarily represent amounts due from the USA Foundation and the HCA. 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.

(o) Inventories

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

(p) 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, 2017 and 2016 was approximately $801,000 and $721,000, 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, 2017 and 2016, no impairments were recorded.

(q) Unrecognized Revenue

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

(r) Cost Sharing Multi-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.

(s) 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.

(t) 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 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.

(u) 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 5% of the three-year invested net asset moving average value (inclusive of net realized and unrealized gains and losses), as measured at September 30, is available annually for spending. The University's policy is to retain the endowment net interest and dividend income and net realized and unrealized appreciation with the endowment after distributions allowed by the spending policy have been made. These amounts, unless otherwise directed by the donor, are included in restricted expendable net position.

(v) 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; 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.

(w) 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.

(Continued)

(x) 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.

(y) 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, which includes two hospitals and a cancer treatment center, 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.

USA Medical Center has met the Medicare and Medicaid meaningful use objectives for fiscal year 2016. The hospital also expects to meet meaningful use objectives in fiscal 2017. No meaningful use payment is expected for fiscal year 2017 as a result of the transition to the Merit-Based Incentive Payment System, which is an ambulatory Eligible Professional attestation. While USA Medical Center is moving to Penalty Aversion, it is still in the Meaningful Use program for eligible hospitals. Any payment adjustments for fiscal year 2017 will not be paid until 2019.

USA Health recognized Medicare EHR incentive revenues of $208,000 and $391,000 for the years ended September 30, 2017 and 2016, respectively. EHR incentive revenues are included in other operating revenues in the accompanying statements of revenues, expenses, and changes in net position.

(z) Compensated Absences

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

(2) Income Taxes

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

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

(3) Cash

Pursuant to the Security for Alabama Funds Enhancement Act, funds on deposit may be placed in an institution designated as a qualified public depository (QPD) by the State of Alabama. QPD institutions pledge securities to a statewide collateral pool administered by the State Treasurer's office. Such financial institutions contribute to this collateral pool in amounts proportionate to the total amount of public fund deposits at their respective institutions. The securities are held at the Federal Reserve Bank and are designated for the State of Alabama. Additional collateral was not required for University funds on deposit with QPD institutions. At September 30, 2017 and 2016, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately $10.8 billion and $10.7 billion, respectively. The University had cash and cash equivalents in the pool of $135,864,000 and $119,082,000 at September 30, 2017 and 2016, respectively.

At September 30, 2017, restricted cash and cash equivalents consist of $4,055,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, $1,711,000 related to collateral requirements of HCM, $210,000 related to monies held for a capital project at HCM, $27,107,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture, and $33,000 related to endowment funds.

At September 30, 2016, restricted cash and cash equivalents consist of $1,584,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, $10,000,000 related to collateral requirements of the University, $1,701,000 related to collateral requirements of HCM and $5,642,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture.

(4) Investments

(a) University of South Alabama

The investments of the University are invested pursuant to the University of South Alabama "Nonendowment Cash Pool Investment Policies," the "Endowment Fund Investment Policy," and the "Derivatives Policy" (collectively referred to as the University Investment Policies) as adopted by the Board of Trustees. The purpose of the nonendowment cash pool investment policy is to provide guidelines by which 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 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, 2017 and 2016 (in thousands):

	2017	2016
U.S. Treasury notes	$ 1,196	$ 5,167
U.S. federal agency notes	103,345	104,895
Commingled equity funds	116,427	91,695
Commingled fixed income funds	38,181	37,439
Marketable equity securities	8,766	7,864
Real estate	308	360
Private equity	1,091	—
Managed income alternative investments (low-volatility multi-strategy funds of funds)	27,760	27,935
	$ 297,074	$ 275,355

At September 30, 2017 and 2016, $14,755,000 and $14,852,000, 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.

(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 "Fund of Funds" or multi-manager fund.

The University's exposure to credit risk and concentration of credit risk at September 30, 2017 is as follows:

	Credit rating	Percentage of total investments
Federal National Mortgage Association	AAA	14.4 %
Federal Farm Credit Banks Funding Corporation	AAA	12.5
Common Fund Bond Fund	A+	10.9
Federal Farm Credit Banks Debenture	AAA/AA+	7.5
PIMCO Pooled Bond Fund	A-/BAA+/AA	1.9
Federal Home Loan Bank Corporation	AAA	0.3

(Continued)

The University's exposure to credit risk and concentration of credit risk at September 30, 2016 is as follows:

	Credit rating	Percentage of total investments
Federal National Mortgage Association	AAA	9.0 %
Federal Farm Credit Banks Funding Corporation	AAA	23.9
Common Fund Bond Fund	A+	11.6
PIMCO Pooled Bond Fund	BAA+/BAA/AA	2.0
Federal Home Loan Bank Corporation	AAA	2.5
Federal Home Loan Mortgage Corporation	AAA	2.6

(ii) *Interest Rate Risk*

At September 30, 2017, the maturity dates of the University's fixed income investments are as follows (in thousands):

		Years to maturity			
	Fair value	Less than 1	1–5	6–10	More than 10
U.S. Treasury notes	$ 1,196	$ —	$ 1,196	$ —	$ —
U.S. federal agency notes	103,345	6,696	96,649	—	—
Commingled fixed income funds	38,181	1,393	32,512	4,276	—
	$ 142,722	$ 8,089	$ 130,357	$ 4,276	$ —

At September 30, 2016, the maturity dates of the University's fixed income investments are as follows (in thousands):

		Years to maturity			
	Fair value	Less than 1	1–5	6–10	More than 10
U.S. Treasury notes	$ 5,167	$ 3,953	$ 1,214	$ —	$ —
U.S. federal agency notes	104,895	11,014	93,881	—	—
Commingled fixed income funds	37,439	1,300	33,215	2,924	—
	$ 147,501	$ 16,267	$ 128,310	$ 2,924	$ —

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 measurements date. The University of South Alabama 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 of South Alabama'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.

(Continued)

The following tables summarize the fair value measurements for all investment assets and liabilities carried at fair value as of September 30, 2017 (in thousands):

	Asset fair value measurements at September 30, 2017			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. Treasury notes	$ 1,196	$ —	$ —	$ 1,196
U.S. federal agency notes	—	103,345	—	103,345
Commingled equity funds	68,084	48,343	—	116,427
Commingled fixed income funds	5,669	32,512	—	38,181
Marketable equity securities	8,766	—	—	8,766
Private equity	—	—	836	836
Real estate	—	—	308	308
Total investments at fair value	$ 83,715	$ 184,200	$ 1,144	269,059
Investments measured at NAV:				
Private equity				255
Managed income alternative investments (low volatility multi-strategy fund of funds)				27,760
Total investments				$ 297,074

	Liability fair value measurements at September 30, 2017			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Interest rate exchange agreements	$ —	$ 45,608	$ —	$ 45,608

(Continued)

The following tables summarize the fair value measurements for all investment assets and liabilities carried at fair value as of September 30, 2016 (in thousands):

	Asset fair value measurements at September 30, 2016			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. Treasury notes	$ 5,167	$ —	$ —	$ 5,167
U.S. federal agency notes	—	104,895	—	104,895
Commingled equity funds	49,293	42,402	—	91,695
Commingled fixed income funds	5,462	31,977	—	37,439
Marketable equity securities	7,864	—	—	7,864
Real estate	—	—	360	360
Total investments at fair value	$ 67,786	$ 179,274	$ 360	247,420
Investments measured at NAV: Managed income alternative investments (low volatility multi-strategy fund of funds)				27,935
Total investments				$ 275,355

	Liability fair value measurements at September 30, 2016			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Interest rate exchange agreements	$ —	$ 56,422	$ —	$ 56,422

A rollforward schedule of amounts for Level 3 financial instruments for the fiscal year ended September 30, 2017 is as follows (in thousands):

Description	**Real estate and private equity**
Beginning balance	$ 360
Purchases	560
Total realized/unrealized gains (losses)	283
Sales	(59)
Ending balance	$ 1,144

A rollforward schedule of amounts for Level 3 financial instruments for the fiscal year ended September 30, 2016 is as follows (in thousands):

Description		Real estate
Beginning balance	$	5,548
Total realized/unrealized gains (losses)		(940)
Sales		(4,248)
Ending balance	$	360

(b) University of South Alabama Foundation

Investments in securities consist primarily of equity securities totaling $129,674,000 and $120,900,000 at June 30, 2017 and 2016, respectively.

Investment income was comprised of the following for the years ended June 30, 2017 and 2016 (in thousands):

		2017		2016
Unrealized gains	$	17,592	$	844
Realized gains		5,044		1,972
Timber sales		3,230		2,685
Interest and dividends		2,024		2,131
Rents		624		627
Royalties		70		74
	$	28,584	$	8,333

Investment related expenses in the amount of $322,000 and $324,000, respectively, are included in the USA Foundation's management and general expenses in the accompanying 2017 and 2016 consolidated statements of activities and changes in net assets.

Real estate at June 30, 2017 and 2016 consisted of the following property held (in thousands):

		2017		2016
Land and land improvements – held for investment	$	68,074	$	67,935
Building and building improvements – held for investment		1,112		1,135
	$	69,186	$	69,070

(Continued)

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, 2017 and 2016, 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 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 Foundation's observable values consist of investments in exchange-traded equity securities with a readily determinable market price. Other observable values are fair value measurements derived either directly or indirectly from quoted market prices (Level 2). Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable (Level 3). The Foundation's unobservable values consist of investments in timber and real estate with fair values based on independent third-party appraisals performed by qualified appraisers specializing in timber and real estate investments.

The Foundation's investment assets at June 30, 2017, are summarized based on the criteria of ASC 820 as follows (in thousands):

	Fair value measurements at June 30, 2017			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 78,517	$ 51,157	$ —	$ 129,674
Timber and mineral properties	—	—	160,351	160,351
Real estate	—	—	69,186	69,186
Other investments	—	—	5,808	5,808
	$ 78,517	$ 51,157	$ 235,345	$ 365,019

(Continued)

The Foundation's investment assets at June 30, 2016, are summarized based on the criteria of ASC 820 as follows (in thousands):

Description		Fair value measurements at June 30, 2016 Level 1		Level 2		Level 3		Total
Equity securities	$	72,481	$	48,419	$	—	$	120,900
Timber and mineral properties		—		—		157,470		157,470
Real estate		—		—		69,070		69,070
Other investments		—		—		5,803		5,803
	$	72,481	$	48,419	$	232,343	$	353,243

For the year ended June 30, 2017, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description		Timber and mineral properties		Real estate		Other investments		Total
Beginning balance	$	157,470	$	69,070	$	5,803	$	232,343
Net unrealized gains		5,759		157		5		5,921
Additions		560		—		—		560
Reforestation		100		—		—		100
Sale of property		(124)		—		—		(124)
Depreciation/depletion		(3,414)		(41)		—		(3,455)
Ending balance	$	160,351	$	69,186	$	5,808	$	235,345

For the year ended June 30, 2016, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description		Timber and mineral properties		Real estate		Other investments		Total
Beginning balance	$	157,064	$	66,320	$	5,803	$	229,187
Net unrealized gains		3,521		2,668		—		6,189
Additions		—		115		—		115
Reforestation		239		—		—		239
Depreciation/depletion		(3,354)		(33)		—		(3,387)
Ending balance	$	157,470	$	69,070	$	5,803	$	232,343

As of June 30, 2017, the USA Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of the Foundation's equity securities at June 30, 2017 are considered readily liquid. Timber and mineral properties, real estate, and other investments are generally considered illiquid.

(5) Derivative Transactions – Swaptions

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

Objective of the Derivative Transactions

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

Terms

A summary of the transactions is as follows:

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

As further discussed in note 10, in December 2013, the counterparty exercised its option with respect to the 2004 swaption. The University refunded its Series 2004 Bonds, and issued the Series 2014-A variable rate bond. As a result of the exercise of the option by the counterparty, the swaption was terminated and the borrowing arising from the Series 2004 swaption of $1,696,000 and the investment derivative (liability) of $5,213,000 were written off and an investment loss of $2,229,000 was recognized and reported in the statement of revenues, expenses and changes in net position for the year ended September 30, 2014. An original borrowing arising from the 2014 swap of $9,138,000 was recognized and is reported, net of current year amortization and adjustments to fair market value, as other long-term liabilities, in the amounts of $5,865,000 and $6,854,000, in the statements of net position at September 30, 2017 and 2016, respectively.

As further discussed in note 10, in September 2016, the counterparty exercised its option with respect to the 2006 swaption. The University refunded its Series 2006 bonds, issued the Series 2016-B, C & D variable rate bonds and terminated the Series 2006 swaption. As a result of this termination, the borrowing arising from the Series 2006 swaption of $6,939,000 and the investment derivative of $41,017,000 were written off and an investment loss of $19,123,000 was recognized and reported in the statement of revenues, expenses and changes in net position. An original obligation arising from the 2016 swap of $48,530,000 was recognized and is reported, net of current year amortization and adjustments to fair market value, as other long-term liabilities, in the amounts of $39,743,000 and $47,893,000 in the statements of net position at September 30, 2017 and 2016, respectively.

Interest on the 2006 swaption was being accreted on, and added to the borrowings through the exercise date of the option, September 1, 2016. For the year ended September 30, 2016, $344,000 was accreted and is included in interest expense in the 2016 statement of revenues, expenses, and changes in net position.

The change in the fair value of the swaption derivative until the exercise date of September 1, 2016 is reported as a component of investment income in the 2016 statement of revenues, expenses and changes in net position. For the year ended September 30, 2016, the change in the fair value of the derivative was ($19,123,000).

(6) Capital Assets

(a) University of South Alabama

A summary of the University's capital asset activity for the year ended September 30, 2017 follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Land and other	$ 22,840	$ —	$ —	$ —	$ 22,840
Construction-in-progress	113,510	60,219	(43,705)	—	130,024
	136,350	60,219	(43,705)	—	152,864
Capital assets being depreciated:					
Land improvements	33,190	389	324	(89)	33,814
Buildings, fixed equipment, and infrastructure	709,648	5,793	36,649	(973)	751,117
Other equipment	155,356	15,926	6,732	(2,098)	175,916
Equipment, net	1,377	—	(1,377)	—	—
Library materials	67,477	3,593	—	—	71,070
	967,048	25,701	42,328	(3,160)	1,031,917

(Continued)

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Less accumulated depreciation for:					
Land improvements	$ (20,527)	$ (1,355)	$ (54)	$ 90	$ (21,846)
Buildings, fixed equipment, and infrastructure	(257,108)	(21,214)	(1,518)	887	(278,953)
Other equipment	(120,478)	(18,143)	1,572	2,023	(135,026)
Library materials	(51,988)	(3,000)	—	—	(54,988)
	(450,101)	(43,712)	—	3,000	(490,813)
Capital assets being depreciated, net	516,947	(18,011)	43,705	(1,537)	541,104
Capital assets, net	$ 653,297	$ 42,208	$ —	$ (1,537)	$ 693,968

At September 30, 2017, the University had commitments of approximately $19,746,000 related to various construction projects.

A summary of the University's capital asset activity for the year ended September 30, 2016 follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Land and other	$ 22,516	$ 213	$ 111	$ —	$ 22,840
Construction-in-progress	82,913	60,972	(30,375)	—	113,510
	105,429	61,185	(30,264)	—	136,350
Capital assets being depreciated:					
Land improvements	32,361	35	794	—	33,190
Buildings, fixed equipment, and infrastructure	676,831	4,474	28,751	(408)	709,648
Other equipment	150,661	8,104	719	(4,128)	155,356
Equipment, net	—	1,377	—	—	1,377
Library materials	63,964	3,513	—	—	67,477
	923,817	17,503	30,264	(4,536)	967,048

		Beginning balance		Additions		Transfers		Reductions		Ending balance
Less accumulated depreciation for:										
Land improvements	$	(19,218)	$	(1,309)	$	—	$	—	$	(20,527)
Buildings, fixed equipment, and infrastructure		(237,648)		(19,747)		—		287		(257,108)
Other equipment		(113,656)		(10,918)		—		4,096		(120,478)
Library materials		(49,094)		(2,894)		—		—		(51,988)
		(419,616)		(34,868)		—		4,383		(450,101)
Capital assets being depreciated, net		504,201		(17,365)		30,264		(153)		516,947
Capital assets, net	$	609,630	$	43,820	$	—	$	(153)	$	653,297

At September 30, 2016, the University had commitments of approximately $10,867,000 related to various construction projects.

(b) USA Research and Technology Corporation

Changes in capital assets for the year ended September 30, 2017 are as follows (in thousands):

		Beginning balance		Additions		Transfers		Reductions		Ending balance
Land and land improvements	$	2,199	$	—	$	—	$	—	$	2,199
Buildings		28,148		—		143		—		28,291
Tenant improvements		1,186		71		—		(103)		1,154
Construction in progress		145		3		(143)		(2)		3
Other equipment		256		20		—		(1)		275
		31,934		94		—		(106)		31,922
Less accumulated depreciation for:										
Land improvements		(1,124)		(94)		—		—		(1,218)
Buildings		(7,299)		(738)		—		—		(8,037)
Tenant improvements		(751)		(110)		—		103		(758)
Other equipment		(193)		(27)		—		—		(220)
		(9,367)		(969)		—		103		(10,233)
Capital assets, net	$	22,567	$	(875)	$	—	$	(3)	$	21,689

Changes in capital assets for the year ended September 30, 2016 are as follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land and land improvements	$ 2,199	$ —	$ —	$ —	$ 2,199
Buildings	27,923	225	—	—	28,148
Tenant improvements	972	234	—	(20)	1,186
Construction in progress	143	2	—	—	145
Other equipment	256	—	—	—	256
	31,493	461	—	(20)	31,934
Less accumulated depreciation for:					
Land improvements	(1,030)	(94)	—	—	(1,124)
Buildings	(6,584)	(715)	—	—	(7,299)
Tenant improvements	(672)	(99)	—	20	(751)
Other equipment	(167)	(26)	—	—	(193)
	(8,453)	(934)	—	20	(9,367)
Capital assets, net	$ 23,040	$ (473)	$ —	$ —	$ 22,567

(7) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the year ended September 30, 2017 follows (in thousands):

	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable	$ 367,557	$ 145,035	$ (123,168)	$ 389,424	$ 18,470	$ 370,954
Notes payable	3,484	2,265	(207)	5,542	3,711	1,831
Capital lease obligations	17,771	3,161	(3,600)	17,332	3,597	13,735
Total long-term debt	388,812	150,461	(126,975)	412,298	25,778	386,520
Other noncurrent liabilities						
Net pension liability	329,294	7,183	—	336,477	—	336,477
Other long-term liabilities	105,262	11,956	(15,226)	101,992	6,884	95,108
Total other noncurrent liabilities	434,556	19,139	(15,226)	438,469	6,884	431,585
Total noncurrent liabilities	$ 823,368	$ 169,600	$ (142,201)	$ 850,767	$ 32,662	$ 818,105

(Continued)

A summary of the University's noncurrent liability activity for the year ended September 30, 2016 follows (in thousands):

	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable	$ 373,991	$ 101,241	$ (107,675)	$ 367,557	$ 18,046	$ 349,511
Notes payable	1,263	2,221	—	3,484	3,484	—
Capital lease obligations	15,143	3,677	(1,049)	17,771	3,486	14,285
Total long-term debt	390,397	107,139	(108,724)	388,812	25,016	363,796
Other noncurrent liabilities						
Net pension liability	297,734	31,560	—	329,294	—	329,294
Other long-term liabilities	88,789	73,332	(56,859)	105,262	9,336	95,926
Total other noncurrent liabilities	386,523	104,892	(56,859)	434,556	9,336	425,220
Total noncurrent liabilities	$ 776,920	$ 212,031	$ (165,583)	$ 823,368	$ 34,352	$ 789,016

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

During 2017, USA Health entered into a note payable for a period of ten years payable monthly at $18,882. This agreement commenced in November 2016 to finance improvements of the HVAC system. The amount outstanding on the note at September 30, 2017 is $2,058,138 with no stated interest rate.

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 is $5,000,000 and interest on the outstanding amounts accrue at the rate of the London InterBank Offered Rate (LIBOR) plus 1.00% with a maturity date of April 15, 2017. During fiscal year 2017, the line of credit was renewed until April 14, 2018. The amount outstanding at September 30, 2017 and 2016 is $3,434,000, and is reported as current portion of long-term debt in the statements of net position.

In June 2016, the University entered into a variable interest rate revolving line of credit with Compass Bank to, among other reasons, fund certain capital improvements to various health care facilities for USA Health. The total amount available under the line of credit is $30,000,000 and interest on the outstanding amounts is accrued at the rate of 65% of the LIBOR plus 77 basis points. The maturity date is June 10, 2018. The amount outstanding at September 30, 2017 and 2016 is $50,000, and is reported as current portion of long-term debt in the statements of net position.

(a) USA Research and Technology Corporation

(i) Notes Payable

Notes payable consisted of the following (in thousands):

		2017		2016
Wells Fargo Bank, N.A. promissory note, one-month LIBOR plus 0.85% (2.085% and 1.377% at September 30, 2017 and 2016, respectively) payable through 2028	$	12,247	$	13,034
PNC Bank promissory note, 4.50%, payable through 2021		8,007		8,282
	$	20,254	$	21,316

The note payable to Wells Fargo Bank, N.A. was incurred by the Corporation to acquire Buildings II and III in the USA Technology & Research Park and to provide funds for renovations and tenant finishing costs. The loan is a fully amortizing promissory note with a 20-year term. As more fully described below, the Corporation entered into a "receive-variable, pay-fixed" types of interest rate swap on the promissory note, which will yield a synthetic fixed interest rate of 0%. The promissory note payable is secured by an interest in the ground lease with respect to the parcels of land on which Buildings II and III stand, an interest in Buildings II and III, an interest in tenant leases for Buildings II and III, and an interest in income received from rental of Buildings II and III.

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

In connection with each note, the University entered into an agreement with the lender providing that for any year in which the Corporation's debt service coverage ratio is less than 1 to 1, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to 1 to 1. The debt service coverage ratio is calculated by dividing the sum of unrestricted cash and cash equivalents at the beginning of the year (reduced by current year capital assets additions) and current year change in net position (determined without depreciation, amortization, and interest expense) by current year debt service. For fiscal 2017 the Corporation's debt service coverage ratio was 1.16 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2017.

(ii) Debt Service on Long-Term Obligations

At September 30, 2017, total future debt service by fiscal year is as follows (in thousands):

	Debt service on notes		
	Principal	**Interest**	**Total**
2018	$ 1,119	$ 1,094	$ 2,213
2019	1,194	1,020	2,214
2020	1,264	949	2,213
2021	8,111	670	8,781
2022	1,072	500	1,572
2023–2027	6,471	1,386	7,857
2028–2029	1,023	24	1,047
Total	$ 20,254	$ 5,643	$ 25,897

(iii) Derivative Transaction

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

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

The swap will terminate on May 1, 2028, when the loan matures. The notional amount of the swap will at all times match the outstanding principal amount of the loan. Under the swap, the Corporation pays the counterparty a fixed payment of 6.10% and receives a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the loan bears interest at the one-month LIBOR rate plus 0.85%. The Corporation paid $555,844 and $651,955 under the interest rate swap agreement for the years ended September 30, 2017 and 2016, respectively, which are reflected as increases in interest expense.

Fair value. The interest rate swap had a negative fair value of ($2,252,006) and ($3,414,981) at September 30, 2017 and 2016, respectively. The changes in fair value are reported as deferred outflows on the accompanying statements of net position since the interest rate swap is a hedging derivative instrument.

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

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

Credit risk. As of September 30, 2017 and 2016, the Corporation was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivative becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa2 by Moody's Investors Services and AA- by Standard & Poor's Ratings Services as of September 30, 2017 and 2016.

Termination risk. The interest rate swap contracts use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard default and termination events, such as failure to make payments, breach of agreement, and bankruptcy. At September 30, 2017 and 2016, no events of default or termination had occurred. If the interest rate swap is terminated, interest rate risk associated with the variable rate debt would no longer be hedged. Also, if at the time of termination, the interest rate swap had a negative fair value, the Corporation would be liable to the counterparty for a payment equal to the interest rate swap's fair value. To allow the Corporation the maximum flexibility to manage the utilization of Buildings II and III while at the same time providing protection for the counterparty, the Corporation granted the counterparty a $2,000,000 mortgage secured by an interest in the ground lease with respect to the parcel of land on which Building II stands, an interest in Building II, a security interest in Building II tenant leases, and a security interest in income received from rental of Building II.

Derivative payments and hedged debt. As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of September 30, 2017, debt service requirements by fiscal year of the variable rate debt and net derivative payments, assuming current interest rates remain the same in the future, are as follows (in thousands):

	Variable rate loan		Interest rate	
	Principal	Interest	swap, net	Total
2018	$ 832	$ 253	$ 487	$ 1,572
2019	893	232	447	1,572
2020	949	212	409	1,570
2021	1,008	193	371	1,572
2022	1,072	171	329	1,572
2023–2027	6,470	474	912	7,856
2028–2029	1,023	8	16	1,047
Total	$ 12,247	$ 1,543	$ 2,971	$ 16,761

(8) Bonds Payable

Bonds payable consisted of the following at September 30, 2017 and 2016 (in thousands):

	2017	2016
University Tuition Revenue Bonds, Series 1999 Capital Appreciation, 4.70% to 5.25%, payable November 2011 through November 2018	$ 14,614	$ 21,382
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, 5.00%, refunded in December 2016	—	100,000
University Facilities Revenue and Capital Improvement Bonds, Series 2008, 3.00% to 5.00%, payable through August 2018	2,850	5,565
University Facilities Revenue and Capital Improvement Bonds, Series 2010, 3.81%, payable through August 2030	21,820	23,102
University Facilities Revenue Capital Improvement Bonds, Series 2012-A, 2.92% payable through August 2032	19,950	21,025
University Facilities Revenue Capital Improvement Bonds, Series 2012-B, 2.14% payable through February 2018	1,365	2,690
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2.83% payable through August 2033	26,944	28,261
University Facilities Revenue Capital Improvement Bonds, Series 2013-B, 2.83% payable through August 2033	6,736	7,065
University Facilities Revenue Capital Improvement Bonds, Series 2013-C, 2.78% payable through August 2028	7,722	8,315
University Facilities Revenue Refunding Bonds, Series 2014-A, variable rate payable at 68% of LIBOR plus 0.73%, 1.57% at September 30, 2017, payable through March 2024	39,670	40,285
University Facilities Revenue Capital Improvement Bonds, Series 2015, 2.47% payable through August 2030	4,875	5,250
University Facilities Revenue Refunding Bonds, Series 2016-A, 3.00% to 5.00% payable through November 2037	85,605	85,605
University Facilities Revenue Refunding Bonds, Series 2016-B, variable rate payable at 68% of one-month LIBOR plus 0.72%, 1.56% at September 30, 2017, payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2021	20,000	—
University Facilities Revenue Refunding Bonds, Series 2016-C, variable rate payable at 68% of one-month LIBOR plus 0.77%, 1.61% at December 30, 2017, payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2023	35,000	—
University Facilities Revenue Refunding Bonds, Series 2016-D, variable rate payable at 68% of one-month LIBOR plus 0.83%, 1.67% at September 30, 2017, payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2026	45,000	—

(Continued)

		2017		2016
University Facilities Revenue Bonds, Series 2017, 2.00% to 5.00%, payable through October 2037	$	37,410	$	—
		369,561		348,545
Plus unamortized premium		21,822		20,640
Less unaccreted discount		(10)		(16)
Less prepaid bond insurance		(1,949)		(1,612)
	$	389,424	$	367,557

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. Series 1999 Capital Appreciation Bonds began maturing in November 2011. Series 1999 Bonds are not redeemable prior to maturity. Series 2006 Bonds were refunded in December 2016 with the issuance of the University Facilities Revenue Refunding Bonds, Series 2016-B, C and D Bonds, with a face value totaling $100,000,000. Series 2008 Bonds began maturing in August 2009 and are redeemable beginning in August 2018. The Series 2010 Bonds began maturing in August 2011 and are redeemable beginning in February 2020. The 2012-A and 2012-B Bonds began maturing in August 2013. The 2012-A Bonds are redeemable beginning in August 2021 and the 2012-B Bonds are redeemable at any time. The 2013-A, 2013-B and 2013-C Bonds began maturing in August 2014 and are redeemable beginning in June 2023. The Series 2014-A 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 will begin 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 beginning in December 2017. The Series 2017 Bonds will begin maturing in October 2017 and are redeemable beginning in October 2027.

In September 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016-A, 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 are 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 2008 Bonds of $7,859,000 is recorded as a deferred outflow and amortized over the remaining life of the 2016-A Bonds. The principal outstanding on all defeased bonds is $93,540,000 at September 30, 2017 and 2016. The remaining undefeased portion of the Series 2008 bonds at September 30, 2017 and 2016 is $2,850,000 and $5,565,000, respectively, and is included in current portion of long-term debt and long-term debt, respectively, on the accompanying 2017 and 2016 statements of net position.

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 from the Series 2016 Bonds were used to refund the remaining outstanding 2006 Bonds.

(Continued)

In June 2017, the University issued its University Facilities Revenue Bonds, Series 2017, with a face value of $38,105,000. The proceeds from the Series 2017 Bonds are financing a new residence hall on the campus of the University and supporting ongoing infrastructure improvement projects.

During the years ended September 30, 2017 and 2016, the maturity value of the Capital Appreciation Bonds increased $782,000 and $1,099,000, respectively, over the original principal amount of $19,810,000, reflecting accretion of interest.

Approximately $27,107,000 of proceeds from the issuance of the Series 2017 Bonds remained unspent at September 30, 2017 and is included in restricted cash and cash equivalents in the 2017 statement of net position. These funds are restricted for capital purposes as outlined in the bond indenture.

Approximately $2,551,000, $1,638,000 and $1,452,000 of proceeds from the issuance of Series 2012, Series 2013-A and Series 2015 Bonds, respectively, remained unspent as of September 30, 2016. These funds were restricted for capital purposes as outlined in the respective bond indentures. During the year ended September 30, 2017, all of these remaining funds were allocated to capital projects.

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, 2017 and 2016, 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, 2017 and 2016, management believes the University was in compliance with such financial covenants.

Debt Service on Long-Term Obligations

Total debt service (which includes bonds and notes payable) by fiscal year is as follows as of September 30, 2017 (in thousands):

	Debt service on notes and bonds			
	Principal	**Interest**	**Additional maturity**	**Total**
2018	$ 21,235	$ 9,247	$ (427)	$ 30,055
2019	17,482	9,776	(49)	27,209
2020	16,544	9,409	—	25,953
2021	17,271	9,003	—	26,274
2022	18,036	8,580	—	26,616
2023–2027	92,221	35,828	—	128,049
2028–2032	94,720	21,983	—	116,703
2033–2037	90,064	7,875	—	97,939
2038	8,006	135	—	8,141
Subtotal	375,579	$ 111,836	$ (476)	$ 486,939

	Debt service on notes and bonds			
	Principal	**Interest**	**Additional maturity**	**Total**
Plus (less):				
Additional maturity	$ (476)			
Unamortized bond premium	21,822			
Unaccreted bond discount	(10)			
Unamortized debt extinguishment costs	(1,949)			
Total	$ 394,966			

The principal amount of debt service due on bonds at September 30, 2017 and 2016, includes $782,000 and $1,099,000, respectively, representing additional maturity value on Series 1999 Capital Appreciation Bonds. These bonds mature through 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.

(9) Capital Lease Obligations

In April 2015, the University signed a seven-year purchase agreement, with a $1,000,000 initial payment and quarterly payments thereafter of $590,000 until March 2022, as a method of financing the purchase of certain computer software and hardware for USA Health. In July 2015, the University signed a second seven-year purchase agreement, with a $100,000 initial payment and quarterly payments thereafter of $62,000 until March 2022, as a method of financing additional laboratory software and hardware for USA Health. Also, in July 2015, and modified in September 2016, the University signed a three-year purchase agreement, with modified monthly payments of $30,000 until February 2020, to finance the purchase of a heat recovery system for USA Health. In September 2016, the University signed a six-year purchase agreement, with monthly payments of $66,000 until May 2022, as a method of financing the purchase of certain hospital equipment for USA Health. In December 2016, the University signed a five-year tax-exempt capital lease, with monthly payments of $37,000 until October 2022, to finance the acquisition of additional hospital equipment for USA Health.

Future minimum capital lease payments at September 30, 2017, are as follows (in thousands).

Year ending September 30:		
2018	$	4,138
2019		4,200
2020		3,994
2021		3,845
2022		2,474
Thereafter		37
		18,688
Less amounts representing interest		(1,356)
Net minimum lease payments	$	17,332

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

(10) Derivative Transaction – Interest Rate Swaps

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

As more fully described in note 5, 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 2006 Bonds, the University redeemed those bonds in December 2016 with proceeds from the 2016-B, C & D Bonds (see note 8).

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 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 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 $5,865,000 in the statement of net position at September 30, 2017. The change in the fair value of the swap of $2,664,000 and $609,000 as of September 30, 2017 and 2016, respectively, is reported as a deferred inflow and derivative asset on the statements of net position since the interest rate swap is a hedging derivative instrument.

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 market value, is reported as a borrowing arising from the 2016 interest rate swap as other long-term liabilities in the amount of $39,743,000 in the statement of net position at September 30, 2017. The change in the fair value of the swap of $8,787,000 and $637,000 as of September 30, 2017 and 2016, respectively, is reported as a deferred outflow and contra liability (other long-term liabilities) on the statements of net position since the interest rate swap is a hedging derivative instrument.

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 2014-A and 2016-B, C & D Bonds.

Credit risk. As of September 30, 2017 and 2016, 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 AA – by Standard & Poor's Ratings Services as of September 30, 2017 and 2016.

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, 2017 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
2018	$ 640	$ 614	$ 1,533	$ 2,787
2019	665	659	1,451	2,775
2020	6,925	621	1,282	8,828
2021	7,280	510	1,006	8,796
2022	7,655	385	724	8,764
2023–2024	16,505	328	585	17,418
Total	$ 39,670	$ 3,117	$ 6,581	$ 49,368

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
2018	$ —	$ 1,569	$ 3,901	$ 5,470
2019	—	1,704	3,766	5,470
2020	—	1,779	3,691	5,470
2021	—	1,832	3,638	5,470
2022	—	1,891	3,579	5,470
2023–2027	17,675	9,513	16,398	43,586
2028–2032	36,040	6,707	11,035	53,782
2033–2037	46,285	2,292	4,235	52,812
Total	$ 100,000	$ 27,287	$ 50,243	$ 177,530

(11) 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 the 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 Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2012.

USA Children's & Women's Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2013.

Revenues from the Medicare program accounted for approximately 19% and 16% of USA Health's net patient service revenues for the years ended September 30, 2017 and 2016, 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 Medical Center's and USA Children's & Women's Hospital's Blue Cross cost reports have been audited by Blue Cross through September 30, 2016.

Revenues from the Blue Cross program accounted for approximately 36% and 27% of USA Health's net patient service revenues for the years ended September 30, 2017 and 2016, 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.

The Health System 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 37% and 30% of USA Health's net patient service revenues for the years ended September 30, 2017 and 2016, respectively.

Other – USA Health has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The bases 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, 2017 and 2016 follows (in thousands):

	2017	2016
Gross patient service revenues	$ 859,493	$ 791,625
Less provision for contractual and other adjustments	(380,288)	(347,757)
Less provision for bad debts	(88,274)	(83,211)
	$ 390,931	$ 360,657

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately $1,043,000 and $5,638,000 in patient service revenues for the years ended September 30, 2017 and 2016, respectively.

(12) Defined Benefit Cost Sharing Pension Plan

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

(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 form further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status, and eligibility for retirement.

(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 12.01% of annual pay for Tier 1 members and 10.82% 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 $23,664,000 and $23,405,000 for the years ended September 30, 2017 and 2016, respectively.

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

At September 30, 2017 and 2016, the University reported a liability of $336,477,000 and $329,294,000, respectively, for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015. The University's proportion of the collective net pension liability was based on the employer's shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2016, the University's proportion of contributions to the pension plan was 3.108048%, which was a decrease of 0.077423% from its proportion measured as of September 30, 2015.

For the years ended September 30, 2017 and 2016, the University recognized pension expense of approximately $31,138,000 and $20,116,000, respectively, which is included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

(Continued)

At September 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	$ 4,863	$ —
Change of assumptions	23,757	—
Difference between expected and actual experience	—	8,665
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	21,485
Employer contributions subsequent to measurement date	22,943	—
	$ 51,563	$ 30,150

At September 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	$ 21,827	$ —
Difference between expected and actual experience	—	1,806
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	20,962
Employer contributions subsequent to measurement date	22,691	—
	$ 44,518	$ 22,768

(Continued)

At September 30, 2017, approximately $22,943,000 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ending September 30:		
2018	$	(2,800)
2019		(2,800)
2020		4,652
2021		(1,296)
2022		714
	$	(1,530)

(e) Actuarial Assumptions

The total pension liability as of September 30, 2017 and 2016 was determined by an actuarial valuation as of September 30, 2015 and 2014, respectively, using the following actuarial assumptions, applied to all periods included in the measurement:

	2017	2016
Inflation	2.75 %	3.00 %
Investment rate of return*	7.75	8.00
Projected salary increases	3.25–5.00	3.50–8.25

* Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2015 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 actuarial assumptions used in the September 30, 2014 valuation were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which was effective at the beginning of the fiscal year 2012. Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

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

	Target allocation	Long-term expected rate of return*
Fixed income	17.00 %	4.40 %
U.S. large stocks	32.00	8.00
U.S. mid stocks	9.00	10.00
U.S. small stocks	4.00	11.00
International developed market stocks	12.00	9.50
International emerging market stocks	3.00	11.00
Alternatives	10.00	10.10
Real estate	10.00	7.50
Cash	3.00	1.50
	100.00 %	

* 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, 2017 was 7.75%. 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)

(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 7.75%, 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 (6.75%) or 1-percentage point higher (8.75%) than the current rate (in thousands):

	1% Decrease (6.75)%	Current rate (7.75)%	1% Increase (8.75)%
University's proportionate share of collective net pension liability	$ 448,262	$ 336,477	$ 241,839

(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, 2016 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, 2016. The auditors' report dated August 1, 2017 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, 2016 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

(13) Other Employee Benefits

(a) Other Pension Plans

Employees of the University also participate in a defined contribution pension plan. The defined contribution pension plan covers certain academic and administrative employees, and participation by eligible employees is optional. Under this plan, administered by Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University contributed $643,000 and $711,000 in 2017 and 2016, respectively, representing 270 and 350 employees, respectively, participating in this Plan.

All employees of HCM working at least half time are eligible to participate in a defined contribution pension plan, administered by TIAA-CREF or Variable Annuity Life Insurance Company of America (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 $4,468,000 and $3,900,000 in 2017 and 2016, respectively, representing 1,345 and 1,425 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 $14,596,000 and $15,158,000 at September 30, 2017 and 2016, respectively. The current portion of the accrual is included in accounts payable and accrued liabilities and the noncurrent portion is included in other long-term liabilities in the accompanying basic financial statements. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

(c) Other Postretirement Employee Benefits

As the provider of postretirement benefits to state retirees, the state is responsible for applying GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In September 2003, the State of Alabama Legislature passed legislation that requires all colleges and universities to fund the healthcare premiums of its participating retirees. In prior years, such costs have been paid by the State. Beginning in October 2003, the University was assessed a monthly premium by the Public Education Employees' Health Insurance Plan (PEEHIP) based on the number of retirees in the system and an actuarially determined premium. During the years ended September 30, 2017 and 2016, the University's expense related to PEEHIP was $8,413,000 and $9,184,000, respectively.

(14) Risk Management

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

As discussed in note 1, the PLTF and GLTF are blended component units of the University, as defined by GASB Statement No. 14, and as such are included in the basic financial statements of the University for the years ended September 30, 2017 and 2016. Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. These liabilities are generally based on actuarial valuations and are reported at their present value.

The University and HCM participate in a self-insured health plan, administered by an unaffiliated entity. Administrative fees paid by the University for such services were approximately $2,237,000 and $2,019,000 in 2017 and 2016, respectively. Contributions by the University and its employees, together with earnings

(Continued)

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, 2017 and 2016 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

		2017		2016
Balance, beginning of year	$	39,581	$	23,130
Liabilities incurred and other additions		65,690		79,226
Claims, administrative fees paid and other reductions		(66,156)		(62,775)
Balance, end of year	$	39,115	$	39,581

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

(15) Other Related Parties

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. At September 30, 2017, SAMSF had total assets of $13,112,000, net assets of $11,121,000, and total revenues of $2,403,000. At September 30, 2016, SAMSF had total assets of $13,884,000, net assets of $10,935,000, and total revenues of $3,544,000. SAMSF reimburses the University for certain administrative expenses and other related support services. Total amounts received for such expenses were approximately $672,000 and $775,000 in 2017 and 2016, respectively, and are reflected as private grants and contracts in the accompanying statements of revenues, expenses, and changes in net position.

HCA, formed in May 2017, is a public corporation that employs physicians and staff of physician practice groups. At September 30, 2017, $5,002,000 is due to the University and is reported in accounts receivable, affiliates on the 2017 statement of net position.

(16) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2017 and 2016, the University had been awarded approximately $20,465,000 and $25,411,000, 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 revenue, 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) Letters 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, 2017 and 2016.

In connection with RCO participation in the Alabama Medicaid Agency's Health Home Regional Care Organization Program, HCM has established a $1,689,000 irrevocable standby letter of credit with Hancock Bank. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds were advanced under this letter during the years ended September 30, 2017 and 2016. As a requirement of the issuance of this letter of credit, HCM is required to establish collateral in the same amount as the letter of credit. As such, a collateral account in the amount of $1,689,000 has been established and is included in restricted cash and cash equivalents on the statements of net position as of September 30, 2017 and 2016.

(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. A draft report was subsequently received by the University and a response to this draft was sent to the U.S. Department of Education. On October 10, 2017, the University received the final program review determination letter. Management is currently evaluating the letter, but believes there will be no liability to the University beyond that which is accrued in the financial statements.

(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 8). As of September 30, 2017 and 2016, no amounts were payable pursuant to these agreements.

(f) USA Research and Technology Corporation Leases

The Corporation leases space in Building I to two tenants under operating leases. One lease has a 5-year initial term expiring in October 2018 with two 5-year renewal options. Another lease has a 67-month initial term expiring in December 2018 with no renewal options.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. These leases have terms varying from month-to-month to 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 nine 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 (the Corporation's fiscal year beginning after the date the lease is signed). Under Hub leases, the Corporation must pay all operating expenses of the space, without reimbursement from tenants.

Space under lease to the University was 51,168 and 40,345 square feet at September 30, 2017 and 2016, respectively.

The Corporation owns a building located on the premises of the USA Medical Center which is leased to a single tenant. The Corporation paid for construction of the building shell and land improvements while the tenant paid for the cost of finishing the building's interior. The lease has a ten-year initial term expiring in March 2020 with three five-year renewal options. Under the lease, the tenant must also pay for utilities, taxes, insurance, and interior repairs and maintenance. The Corporation is responsible for repairs and maintenance to the exterior and HVAC system.

The Corporation, as lessor, had three ground leases in place at September 30, 2017 and 2016. 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):

2018	$	2,311
2019		1,517
2020		1,068
2021		859
2022		779
2023–2048		6,010
Total	$	12,544

(17) Functional Expense Information

Operating expenses by functional classification for the years ended September 30, 2017 and 2016 are listed below (in thousands). In preparing the basic financial statements, all significant transactions and balances among accounts have been eliminated.

	2017	2016
Instruction	$ 113,700	$ 112,521
Research	25,764	25,229
Public service	1,304	3,209
Academic support	24,921	21,465
Student services	34,512	32,920
Institutional support	36,865	22,464
Operation and maintenance of plant	33,955	35,184
Scholarships	13,218	13,106
USA Health	424,788	397,353
Auxiliary enterprises	21,650	24,642
Depreciation and amortization	36,740	36,174
	$ 767,417	$ 724,267

(18) Blended Component Units

As more fully described in note 1, HCM, PLTF and GLTF are component units pursuant to the provisions of GASB Statement No. 61. In accordance with that statement, the HCM, PLTF and GLTF are reported as blended component units. Required combining financial information of the aggregate blended component units as of and for the years ended September 30, 2017 and 2016 is presented below (in thousands):

(Continued)

	2017	2016
Current assets	$ 13,500	$ 15,292
Noncurrent assets	62,016	56,041
Total assets	75,516	71,333
Current liabilities	39,596	34,453
Noncurrent liabilities	34,302	35,833
Total liabilities	73,898	70,286
Net position	$ 1,618	$ 1,047
Operating revenues	$ 176,060	$ 212,376
Operating expenses	(179,535)	(216,869)
Operating loss	(3,475)	(4,493)
Nonoperating revenues	4,046	3,007
Change in net position	$ 571	$ (1,486)

(19) Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 changes accounting and financial reporting for entities which participate in plans providing postemployment benefits other than pensions and will be effective for the University's year ending September 30, 2018. In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose specific information about the agreements. This statement is effective for the University beginning with the fiscal year ending September 30, 2017. In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends Statement No. 68 to exclude pensions that are not governmental pension plans and establishes requirements for the recognition and measurement of nongovernmental pension plans that are offered to government employees. Also in December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial statement purposes. Both Statements No. 78 and 79 are effective for the University beginning with the fiscal year ending September 30, 2017.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. This statement is effective for the University of South Alabama beginning with the fiscal year ending September 30, 2017. Statement No. 80 amends the blending requirements for financial statement presentation and requires the blending of a component unit that is incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* and Statement No. 82, *Pension Issues*. Both statements are effective for the University of South Alabama beginning with the fiscal year ending September 30, 2017. Statement No. 81 changes the reporting requirements for gifts given to the University in which USA is a beneficiary of a split-interest agreement. Statement No. 82 was issued to address certain matters that have been raised from Statements No. 67, 68 and 73 and clarifies the presentation of payroll-related measures in the required supplementary information, the selection of assumptions and treatment of deviations from the guidance, and the classification of payments made by employers to satisfy employee contribution requirements. In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement will be effective for the University beginning with the fiscal year ending September 30, 2019. 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 No. 84 addresses the criteria for identifying fiduciary activities of all state and local governments. In March 2017 the GASB issued Statement No. 85, *Omnibus 2017*, which will be effective for the University beginning with the fiscal year ending September 30, 2018. The objective of Statement No. 85 is to ensure consistency in the application of accounting and financial reporting requirements related to various topics, including blending component units, goodwill, fair value measurement and application, and postemployment benefits. The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues,* in May 2017. This statement will be effective for the University beginning with the fiscal year ending September 30, 2018. Statement 86 addresses financial reporting for in-substance defeasance of debt and prepaid insurance on debt that is extinguished. 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 statement of net position.

The effect of the implementation of GASB Statements Nos. 75, 84, 85, 86 and 87 on the University has not yet been determined.

Statement Nos. 77, 78, 79, 80, 81, 82 and 83 do not have an 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, 2017

(In thousands)

		2017		2016		2015
University's proportion of the net pension liability		3.108048 %		3.185471 %		3.322348 %
University's proportionate share of the net pension liability	$	336,477	$	329,294	$	297,734
University's covered-employee payroll	$	200,464	$	198,378	$	201,858
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll		167.85 %		165.99 %		147.50 %
Plan fiduciary net position as a percentage of the total pension liability		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 University's Contributions (Unaudited)
Teachers' Retirement Plan of Alabama
September 30, 2017
(In thousands)

	2017	2016	2015
Contractually required contribution	$ 23,664	$ 23,405	$ 23,524
Contributions in relation to the contractually required contribution	23,664	23,405	23,524
Contribution deficiency (excess)	$ —	$ —	$ —
University's covered-employee payroll	$ 200,464	$ 198,378	$ 201,858
Contributions as a percentage of covered-employee payroll	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.

(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, 2017 and 2016 was determined by an actuarial valuation as of September 30, 2015 and 2014, respectively, using the following actuarial assumptions, applied to all periods included in the measurement:

	2017	2016
Inflation	2.75 %	3.00 %
Investment rate of return*	7.75	8.00
Projected salary increases	3.25–5.00	3.50–8.25

* Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2015 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 actuarial assumptions used in the September 30, 2014 valuation were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of the fiscal year 2012. Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real 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, 2017 was 7.75%. 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.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2017

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			$ 379,300	—	379,300	—
Federal Work Study Program	84.033			480,109	—	480,109	—
Federal Perkins Loan Program	84.038			3,579,816	—	3,579,816	—
Federal Pell Grant Program	84.063			19,612,463	—	19,612,463	—
Federal Direct Student Loan Program	84.268			128,471,281	—	128,471,281	—
Teacher Education Assistance for College and Higher Education	84.379			34,451	—	34,451	—
Nurse Faculty Loan Program	93.264			56,221	—	56,221	—
Total Student Financial Aid Cluster				152,613,641	—	152,613,641	—
Research and Development Cluster:							
U.S. Department of Agriculture:							
Plant and Animal Disease Pest Control and Animal Care	10.025			74,312	—	74,312	—
Forestry Research	10.652			142,966	—	142,966	—
Total U.S. Department of Agriculture				217,278	—	217,278	—
U.S. Department of Commerce:							
Economic Development Support for Planning Organizations	11.302			54,886	—	54,886	—
Sea Grant Support	11.417	160397	Mississippi-Alabama Sea Grant	—	93,495	93,495	32,391
Sea Grant Support	11.417	080100.340557.01	Mississippi State University	—	3,503	3,503	—
Total CFDA				—	96,998	96,998	32,391
Fisheries Development and Utilization Research	11.427			58,033	—	58,033	—
Marine Fisheries Initiative	11.433			(664)	—	(664)	—
Unallied Management Projects	11.454			162,407	—	162,407	127,830
Unallied Science Program	11.472	150452	Massachusetts Division of Marine Fisheries	—	73,082	73,082	25,447
Center for Sponsored Coastal Ocean Research – Coastal Ocean	11.478			39,028	—	39,028	—
Center for Sponsored Coastal Ocean Research – Coastal Ocean	11.478	ORSP-10097-20096-1	Florida Gulf Coast University	—	31,577	31,577	—
Total CFDA				39,028	31,577	70,605	—
Arrangements for Interdisciplinary Research Infrastructure	11.619	140453	Colorado State University	—	72,578	72,578	—
U.S. Department of Commerce	11 UNK			8,140	—	8,140	—
Total U.S. Department of Commerce				321,830	274,235	596,065	185,668
U.S. Department of Defense:							
Procurement Technical Assistance For Business Firms	12.002	150027	DxDiscovery, Inc.	—	73,298	73,298	—
Basic and Applied Scientific Research	12.300			250,000	—	250,000	—
Naval Medical Research and Development	12.340	3341 (SUB)	The Henry M. Jackson Foundation	—	158,370	158,370	—
Basic Scientific Research – Combating Weapons of Mass Destruction	12.351			272,449	—	272,449	90,629
Military Medical Research and Development	12.420			206,999	—	206,999	—
Basic Scientific Research	12.431			382,145	—	382,145	17,840
Department of Defense	12 UNK	150500	National Collegiate Athletic Association	—	33,847	33,847	—
Department of Defense	12 UNK			6,223	—	6,223	—
Total U.S. Department of Defense				1,117,816	265,515	1,383,331	108,469
U.S. Department of Interior:							
Mineral Management Services Environmental Studies Program	15.423	159	University of New Orleans	—	97,035	97,035	—
Sport Fish Restoration Program	15.605	160128	Alabama Department of Conservation and Natural Resources	—	13,839	13,839	—
Sport Fish Restoration Program	15.605	170057	Alabama Department of Conservation and Natural Resources	—	56,188	56,188	—
Total CFDA				—	70,027	70,027	—
National Park Service Conservation, Protection, Outreach and Education	15.954	P14AC01312	National Park Service	(4)	—	(4)	—
Total U.S. Department of Interior				(4)	167,062	167,058	—
U.S. Department of Justice:							
National Sexual Assault Kit Initiative	16.833	150293	Mobile Police Department	—	76,946	76,946	—
U.S. Department of Treasury:							
Resources and Ecosystems Sustainability, Tourist Opportunities, and revived Economies of the Gulf Coast States	21.015	UFDSP00011016	University of Florida	—	(274)	(274)	(249)
Resources and Ecosystems Sustainability, Tourist Opportunities, and revived Economies of the Gulf Coast States	21.015	215029	University of West Florida	—	41,759	41,759	—
Resources and Ecosystems Sustainability, Tourist Opportunities, and revived Economies of the Gulf Coast States	21.015	800006135-01UG	Florida Institute of Oceanography	—	28,522	28,522	—
Total U.S. Department of Treasury				—	70,007	70,007	(249)

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2017

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 Transportation:							
U.S. Department of Transportation	20.UNK	15-ENG-220178-USA	Auburn University	$ —	27,100	27,100	—
Highway Planning and Construction	20.205	930-841R	Alabama Department of Transportation	—	42,428	42,428	—
Highway Planning and Construction	20.205	930-937	Alabama Department of Transportation	—	40,684	40,684	—
Highway Planning and Construction	20.205	930-917	Alabama Department of Transportation	—	56,729	56,729	—
Total CFDA				—	139,841	139,841	—
Total U.S. Department of Transportation				—	166,941	166,941	—
National Aeronautics and Space Administration:							
Aerospace Education Services Program	43.001			73,548	—	73,548	—
Aerospace Education Services Program	43.001	160168	Jet Propulsion Laboratory	—	12,185	12,185	—
Total CFDA				73,548	12,185	85,733	—
Exploration	43.003	XHAB 2016-7 15280	National Space Grant Foundation		(3,885)	(3,885)	—
Education	43.008	160195	University of Alabama in Huntsville	—	100,452	100,452	
Total National Aeronautics and Space Administration				73,548	108,752	182,300	—
National Science Foundation:							
Engineering Grants	47.041			32,431	—	32,431	—
Engineering Grants	47.041	RSCH-9999-09(168)/107389	Mississippi Department of Education	—	12,653	12,653	—
Total CFDA				32,431	12,653	45,084	—
Mathematical and Physical Sciences	47.049			167,621	—	167,621	—
Geosciences	47.050			311,880	—	311,880	74,618
Computer and Information Science and Engineering	47.070			482,342	—	482,342	—
Biological Sciences	47.074			94,873	—	94,873	—
Biological Sciences	47.074	14-BS-200511-USA	Auburn University	—	153	153	—
Total CFDA				94,873	153	95,026	—
Social Behavioral and Economic Sciences	47.075			20,169	—	20,169	—
Education and Human Resources	47.076			1,538,118	—	1,538,118	—
Education and Human Resources	47.076	USM-GR05135-002	University of Southern Mississippi	—	(3,656)	(3,656)	—
Total CFDA				1,538,118	(3,656)	1,534,462	—
Polar Programs	47.078	UA 16-052	University of Alabama	—	97,118	97,118	—
Office of Experimental Programs	47.081	34-21530-200-76190	Tuskegee University	—	4,141	4,141	—
Total National Science Foundation				2,647,434	110,409	2,757,843	74,618
U.S. Department of Energy:							
Basic Energy Sciences University and Science Education	81.049	DE-SC0002470	University of Alabama	—	1,320	1,320	—
Basic Energy Sciences University and Science Education	81.049	UA13-073	University of Alabama	—	5,518	5,518	—
Total CFDA				—	6,838	6,838	—
Nuclear Energy Research, Development, and Demonstration	81.121	246281	Battelle Memorial Institute, Pacific NW Division	—	(2,455)	(2,455)	—
Total U. S. Department of Energy				—	4,383	4,383	—
U.S. Department of Health and Human Services:							
Environmental Health	93.113			491,001	—	491,001	—
Minority Health and Health Disparities Research	93.307			1,150,226	—	1,150,226	—
Minority Health and Health Disparities Research	93.307	537059-B	Middle Tennessee State University	—	53,213	53,213	—
Minority Health and Health Disparities Research	93.307	U54 MD008602-P02USA	Bayou Clinic, Inc.	—	21,299	21,299	20,000
Minority Health and Health Disparities Research	93.307	USM-GR04826-01	University of Southern Mississippi	—	10,896	10,896	—
Total CFDA				1,150,226	85,408	1,235,634	20,000
National Center for Advancing Translational Sciences	93.350	150402	University of Alabama at Birmingham	—	46,643	46,643	—
National Center for Advancing Translational Sciences	93.350	160405	University of Alabama at Birmingham	—	4,759	4,759	—
National Center for Advancing Translational Sciences	93.350	160184	University of Alabama at Birmingham	—	25,062	25,062	—
National Center for Advancing Translational Sciences	93.350	000508606-008	University of Alabama at Birmingham	—	48,737	48,737	—
Total CFDA				—	125,201	125,201	—
Research Infrastructure Programs	93.351			428,394	—	428,394	180,056
Nursing Research	93.361			525,213	—	525,213	—
Cancer Cause and Prevention Research	93.393			1,110,581	—	1,110,581	69,791
Cancer Cause and Prevention Research	93.393	0050999 (127962-1)	University of Pittsburgh	—	45,610	45,610	—
Total CFDA				1,110,581	45,610	1,156,191	69,791

(Continued)

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2017

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 Detection and Diagnosis Research	93.394			$ 56,597	—	56,597	—
Cancer Treatment Research	93.395			684,089	—	684,089	147,124
Cancer Treatment Research	93.395	160252	ADT Pharmaceuticals, Inc.	—	6,837	6,837	—
Total CFDA				684,089	6,837	690,926	147,124
Cancer Biology Research	93.396			1,419,386	—	1,419,386	128,579
Cancer Research Manpower	93.398			(41,514)	—	(41,514)	—
Cardiovascular Diseases Research	93.837			358,368	—	358,368	3,731
Cardiovascular Diseases Research	93.837	PS#107223	Brigham and Women's Hospital	—	2,666	2,666	—
Total CFDA				358,368	2,666	361,034	3,731
Lung Diseases Research	93.838			3,404,787	—	3,404,787	224,116
Lung Diseases Research	93.838	150095	Exscien	—	184,390	184,390	—
Lung Diseases Research	93.838	080-18007-S11201	Thomas Jefferson University	—	45,282	45,282	—
Total CFDA				3,404,787	229,672	3,634,459	224,116
Blood Diseases and Resources Research	93.839	Various	Emory University	—	54,410	54,410	—
Clinical Research Related to Neurological Disorders	93.853			8,295	—	8,295	—
National Institutes of Health	93.UNK	170242	Talva Biosciences, LLC	—	1,701	1,701	—
Allergy Immunology and Transplantation Research	93.855			388,214	—	388,214	—
Pharmacology Physiology and Biological Chemistry	93.859			342,710	—	342,710	—
Aging Research	93.866			127,851	—	127,851	—
Primary Care Training and Enhancement	93.884			(507)	—	(507)	—
Total U.S. Department of Health and Human Services				10,453,691	551,505	11,005,196	773,397
Total Research and Development Cluster				14,831,593	1,795,755	16,627,348	1,141,903
Other federal assistance:							
U.S. Department of Commerce:							
Sea Grant Support	11.417	USM-GR05600-01	University of Southern Mississippi	—	21,104	21,104	—
Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology	11.451	DISL SHORT FORM D-14	Dauphin Island Sea Lab	—	5,692	5,692	—
U.S. Department of Commerce	11.UNK	170364	Museum of Science	—	2,520	2,520	—
U.S. Department of Commerce	11.UNK	Various	Earth Networks, Inc.	—	88,846	88,846	—
Total U.S. Department of Commerce				—	118,162	118,162	—
Department of Defense:							
GenCyber Grants Program	12.903			56,391	—	56,391	—
National Aeronautics and Space Administration:							
Aerospace Education Services Program	43.001	2015-055	University of Alabama in Huntsville	—	5,000	5,000	—
Aerospace Education Services Program	43.001	SUB 2015-055 UAH	University of Alabama in Huntsville	—	1,866	1,866	—
Total CFDA				—	6,866	6,866	—
Education	43.008	NNX14AQ99A	University of Alabama in Huntsville	—	115,660	115,660	—
Education	43.008	2015-055 UAH	University of Alabama in Huntsville	—	11,591	11,591	—
Education	43.008	UAHSUB2015-055 MAYES	University of Alabama in Huntsville	—	15,297	15,297	—
Education	43.008	UAHSUB2015-055 UGRADS	University of Alabama in Huntsville	—	2,000	2,000	—
Education	43.008	UAHSUB2015-055 DEAL 17/18	University of Alabama in Huntsville	—	2,490	2,490	—
Education	43.008	UAHSUB2015-055 DEAL	University of Alabama in Huntsville	—	15,909	15,909	—
Total CFDA				—	162,947	162,947	—
Total National Aeronautics and Space Administration				—	169,813	169,813	—
National Endowment for the Arts:							
Promotion of the Humanities Federal/State Partnership	45.129	Various	Alabama Humanities Foundation	—	6,689	6,689	—
U. S. Environmental Protection Agency:							
Science to Achieve Results	66.514			(190)	—	(190)	—
Nonpoint Source Implementation Grants	66.460	160431	ADEM	—	4,191	4,191	—
Total U.S. Environmental Protection Agency				(190)	4,191	4,001	—
U.S. Department of Education:							
TRIO Cluster:							
TRIO Talent Search	84.044			292,275	—	292,275	—
TRIO Upward Bound	84.047			256,581	—	256,581	—
Total TRIO Cluster				548,856	—	548,856	—
Special Education – State Personnel Development	84.323	U600098	Alabama State Department of Education	—	13,070	13,070	—
Special Education – State Personnel Development	84.323	U700345	Alabama State Department of Education	—	22,195	22,195	—
Total CFDA				—	35,265	35,265	—

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2017

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
Transition to Teaching	84.350			$ 1,000	—	1,000	—
Mathematics and Science Partnerships	84.366	U600325	Alabama State Department of Education	—	99,217	99,217	—
Mathematics and Science Partnerships	84.366	U700180	Alabama State Department of Education		150,694	150,694	91,433
Total CFDA				—	249,911	249,911	91,433
Improving Teacher Quality State Grants	84.367	U700441	Alabama Commission on Higher Education	—	20,218	20,218	—
Improving Teacher Quality State Grants	84.367	150477	Alabama Commission on Higher Education	—	117,475	117,475	88,844
Improving Teacher Quality State Grants	84.367	17-0025	Alabama Commission on Higher Education	—	49,223	49,223	—
Improving Teacher Quality State Grants	84.367	160022	Alabama Commission on Higher Education	—	55,306	55,306	—
Total CFDA				—	242,222	242,222	88,844
Transition Programs for Students with Intellectual Disabilities into Higher Ed	84.407			279,375	—	279,375	—
Total U.S. Department of Education				829,231	527,398	1,356,629	180,277
U.S. Department of Health and Human Services:							
Alzheimer's Disease Demonstration Grants to States	93.051	13-130338	South Alabama Regional Planning Commission	—	10,189	10,189	—
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	C70115069 (GC-17-103)	State of Alabama Dept of Public Health	—	12,293	12,293	—
Well-Integrated Screening and Evaluation for Women Across the Nation	93.094	C70115141 (GC-17-226)	State of Alabama Dept of Public Health	—	12,973	12,973	3,175
HIV Demonstration Program for Children, Adolescents	93.153			394,356	—	394,356	—
Substance Abuse and Mental Health Services	93.243			95,390	—	95,390	—
Advanced Education Nursing Grant Programs*	93.247			1,027,449	—	1,027,449	—
Advanced Education Nursing Traineeships	93.358			344,856	—	344,856	—
Nurse Education, Practice Quality, and Retention Grants	93.359			24,443	—	24,443	—
Health Care Innovation Awards	93.610	Various	Alabama Medicaid Agency	—	15,356	15,356	—
Strong Start for Mothers and Newborns	93.611			130,223	—	130,223	—
Foster Care Title IV-E	93.658	Various	University of Alabama	—	67,305	67,305	—
ARRA-Health Information Technology Regional Extension Centers Program	93.718			(4,309)	—	(4,309)	(3,420)
State Children's Insurance Program	93.767	150019	University of Alabama at Birmingham	—	(1,085)	(1,085)	—
Medicaid Cluster	93.778	Various	Alabama Medicaid Agency	—	382,657	382,657	—
Grants for Primary Care Training and Enhancement	93.884			595,294	—	595,294	—
Medical Library Assistance	93.879	160485	University of Maryland, Baltimore	—	5,000	5,000	—
National Bioterrorism Hospital Preparedness Program*	93.889	C50119165 (GC-15-340)	State of Alabama Department of Public Health	—	(3,539)	(3,539)	—
National Bioterrorism Hospital Preparedness Program*	93.889	C50119166 (GC-15-341)	State of Alabama Department of Public Health	—	(25)	(25)	—
National Bioterrorism Hospital Preparedness Program*	93.889	C60112084 (GC-16-333)	State of Alabama Department of Public Health	—	139,932	139,932	—
National Bioterrorism Hospital Preparedness Program*	93.889	C60112103 (GC-16-359)	State of Alabama Department of Public Health	—	831,926	831,926	—
National Bioterrorism Hospital Preparedness Program*	93.889	17-0434	State of Alabama Department of Public Health	—	44,475	44,475	—
National Bioterrorism Hospital Preparedness Program*	93.889	17-0422	State of Alabama Department of Public Health	—	127,522	127,522	—
Total CFDA				—	1,140,291	1,140,291	—
HIV Care Formula Grants	93.917	SUB RW-USAF-1718 UWCA	United Way of Central Alabama	—	16,795	16,795	—
HIV Care Formula Grants	93.917	160280	United Way of Central Alabama	—	31,310	31,310	—
Total CFDA				—	48,105	48,105	—
Maternal and Child Health Services Block Grant	93.994	C60118058 (CG-16-088)	State of Alabama Department of Public Health	—	(3,050)	(3,050)	—
Maternal and Child Health Services Block Grant	93.994	C70115109 (CG-17-163)	State of Alabama Department of Public Health	—	4,600	4,600	—
Total CFDA				—	1,550	1,550	—
Total U.S. Department of Health and Human Services				2,607,702	1,694,634	4,302,336	(245)
Corporation for National and Community Service:							
AmeriCorp Recovery	94.006			24,687	—	24,687	—
Total other federal assistance				3,517,821	2,520,887	6,038,708	180,032
Total federal expenditures				$ 170,963,055	4,316,642	175,279,697	1,321,935

*Indicates major program

See accompanying independent auditors' report.

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 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200 (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 2017 statement of net position and consist of the following loan programs:

	CFDA #		Outstanding amount at September 30, 2017	Amount advanced in 2017
Federal Perkins Loan Program	84.038	$	2,787,245	210,000
Nurse Faculty Loan Program	93.264		577,211	56,221
Nurse Faculty Loan Program ARRA	93.408		12,772	—
		$	3,377,228	266,221

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 $3,369,816 and $210,000, respectively. No administrative cost allowance was claimed related to the FPLP during 2017.

(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 2017, 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, 2017.

During the year ended September 30, 2017, the University advanced to students the following amounts of new loans under Direct Loan Programs:

		Amount advanced
Stafford loans	$	21,584,048
Unsubsidized Stafford loans		74,774,537
Parent Loans for Undergraduate Students		32,112,696
Total	$	128,471,281

(5) Matching

Under the Federal Supplemental Education Opportunity Grant Program, the University matched $160,609 in funds awarded to students for the year ended September 30, 2017 in addition to the Federal share of expenditures included in the Schedule.

(6) Indirect Cost Rate

For the year ended June 30, 2017, 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.

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

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
University of South Alabama:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 14, 2017. 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*.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's basic financial statements are free 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 14, 2017

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

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by 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 (the University)'s 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, 2017. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of 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, 2017.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 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 basic financial statements of the University and its aggregate discretely presented component units as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated November 14, 2017, 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 14, 2017

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Findings and Questioned Costs
Year ended September 30, 2017

(1) Summary of Auditor's 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 compliance related to 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
- National Bioterrorism Hospital Preparedness Program – 93.889
- Advanced Education Nursing Programs – 93.247

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

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

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

There were no findings related to the financial statements reported in accordance with *Government Auditing Standards* for the year ended September 30, 2017.

(3) Federal Award Findings and Questioned Costs relating to Federal Awards

There were no findings related to federal awards for the year ended September 30, 2017.

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

November 14, 2017

Audit Committee of
the Board of Trustees
University of South Alabama

Ladies and Gentlemen:

We have audited the basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of and for the year ended September 30, 2017 and have issued our report thereon under date of November 14, 2017. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

Our Responsibility Under Professional Standards

We are responsible for forming and expressing an opinion about whether the basic financial statements that have been prepared by management with the oversight of the Audit Committee of the Board of Trustees, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the basic financial statements as a whole are free 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 as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the Audit Committee of the Board of Trustees in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the University's basic financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents, for example, Management's Discussion and Analysis. We have, however, read the other information included in the University's basic financial statements, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

Accounting Practices and Alternative Treatments

Significant Accounting Policies

The significant accounting policies used by the University are described in Note 1 to the basic financial statements.

Unusual Transactions

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

Qualitative Aspects of Accounting Practices

We have discussed with the Audit Committee of the Board of Trustees and management our judgments about the quality, not just the acceptability, of the University's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the University's accounting policies and their application, and the understandability and completeness of the University's basic financial statements, which include related disclosures.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

Management's estimates of the allowances for uncollectible accounts and contractual adjustments are based on, among other things, analyses of historical trends, the aging and mix of accounts receivable at year-end and expected third-party payor payment rates. Estimated professional and general liability costs and self-insurance reserves for employee health insurance are based on, among other things, reviews of occurrences accumulated by incident reporting systems, discussions with risk management professionals, actuarial valuations and consideration of recent developments. Additionally, the fair value of the University's derivatives (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 to determine that they are reasonable in relation to the basic financial statements of the University taken as a whole.

Uncorrected and Corrected Misstatements

Uncorrected Misstatements

In connection with our audit of the University's financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the University's books and records as of and for the year ended September 30, 2017. We have reported such misstatements to management on a Summary of Audit Misstatements and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial,

KPMG

both individually and in the aggregate, to the financial statements taken as a whole. Attached is a copy of the summary that has been provided to, and discussed with, management.

Corrected Misstatements

In addition, during the course of our audit, we identified and discussed with management a financial statement adjustment that was recorded by the University. Specifically, we proposed an adjustment related to the changes in how RSA allocated pension liabilities.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that would have caused a modification of our auditors' reports on the University's basic financial statements.

Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended September 30, 2017.

Material Written Communications

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

1. Engagement letters, and
2. Management representation letters

Confirmation of Audit Independence

We hereby confirm that as of November 14, 2017, we are independent accountants with respect to the University under relevant professional and regulatory standards.

* * * * * * *

This report to the audit committee is intended solely for the information and use of the audit committee and management and is not intended to be and should not be used by anyone other than these specified parties. This report is not intended for general use, circulation, or publication and should not be published, circulated, reproduced, or used for any purpose without our prior permission in each specific instance.

Very truly yours,

KPMG LLP

Jackson, Mississippi

KPMG

KPMG LLP
Suite 1000
401 Commerce Street
Nashville, TN 37219-2422

Telephone +1 615 244 1602
Fax +1 615 248 5631
kpmg.com

August 4, 2017

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

Dear Scott:

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

Objectives and Limitations of Services

Financial Statement Audit Services

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

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

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

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

We will also perform certain limited procedures to the required supplementary information as required by auditing standards generally accepted in the United States of America. However, we will not express an opinion or provide any assurance on the information. Our report relating to the consolidated financial statements will include our consideration of required supplementary information.

We also understand that the financial statements will include a schedule of expenditures of federal awards (SEFA) and supplementary information which is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information will be subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America with the objective of expressing an opinion as to whether the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

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

Internal Control over Financial Reporting and Compliance and Other Matters

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

The objective of our audit of the consolidated financial statements is not to report on the University's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the consolidated financial statements. 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 consolidated 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. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we will perform tests of the University's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, our objective is not to provide an opinion on compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the consolidated financial statements. This report will include any material weaknesses and significant deficiencies to the extent they come to our attention, and this report will also include instances of:

- Fraud and noncompliance with provisions of laws or regulations that have a material effect on the consolidated financial statements or other financial data significant to the audit objectives and any other instances that warrant the attention of those charged with governance;
- Noncompliance with provisions of contracts or grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives; or
- Abuse that is material, either quantitatively or qualitatively.

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

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

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

Uniform Guidance Audit Services

We will also perform audit procedures with respect to the University's major 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* ("the Uniform Guidance"). The Uniform Guidance includes specific audit requirements, mainly in the areas of internal control and compliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of the University's major federal programs that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of the Uniform Guidance, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of the University's major federal programs. The tests of internal control performed in accordance with the Uniform Guidance are less in scope than would be necessary to render an opinion on internal control.

We will perform tests of the University's compliance with federal statutes, regulations, and the terms and conditions of federal awards we determine to be necessary based on the *OMB Compliance Supplement*. The procedures outlined in the *OMB Compliance Supplement* are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

In addition, we will prepare a written report (single audit report) which 1) provides our opinion on the University's compliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of its major federal programs and 2) communicates our consideration of internal control over major federal programs. The single audit report will describe its purpose and will state that it is not suitable for any other purpose.

The Federal Audit Clearinghouse requires the single audit reporting package, which includes the audited financial statements, to be submitted in a PDF format which is text searchable, unencrypted, and unlocked. This letter serves as the University's authorization for the submission of the reporting package in this format.

Offering Documents

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

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

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

Our Responsibility to Communicate with the Audit Committee

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

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

- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

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

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

Management Responsibilities

The management of the University acknowledges and understands that they have responsibility for the preparation and fair presentation, in accordance with U.S. generally accepted accounting principles, of the consolidated financial statements and all representations contained therein. Management also is responsible for:

- identifying and ensuring that the University complies with laws, regulations, contracts, and grant agreements applicable to its activities, and for informing us of any known material violations of such laws, regulations and provisions of contracts and grant agreements;

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

- distributing the reports issued by KPMG.

Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the consolidated financial statements whether due to error or fraud. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls. The audit of the consolidated financial statements does not relieve management or those charged with governance of their responsibilities.

The management of the University also acknowledges and understands that they have responsibility for the preparation of the SEFA and supplementary information in accordance with the applicable criteria. Management is also responsible for providing us written representations regarding the supplementary information. Management is also responsible for including our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information, and for including the audited consolidated financial statements with any presentation of the supplementary information that includes our report thereon or making the audited consolidated financial statements readily available to intended users of the supplementary information no later than the date the supplementary information is issued with our report thereon.

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

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

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

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

In addition to the Uniform Guidance requirements to maintain internal control and comply with the compliance requirements applicable to federal programs as discussed above, the Uniform Guidance also requires the University to prepare a:

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

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

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

To facilitate our audit planning, in accordance with *Government Auditing Standards*, management agrees to identify and provide copies of reports, if applicable, of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented, prior to September 30, 2017.

Use of Internal Audit

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

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

Non-audit service - Assistance in Preparing Financial Statements

We will assist management in preparing the consolidated financial statements and related notes in accordance with U.S. generally accepted accounting principles and *Government Auditing Standards* issued by the Comptroller General of the United States. We will use information from the trial balance and/or other source documents provided by management to assist management in preparing the consolidated financial statements and related notes.

Our responsibility is to assist management in preparing the consolidated financial statements and related notes using the information provided by management. We will not assume management responsibilities on behalf of the University. However, we will provide advice and recommendations to assist management of the University in performing its responsibilities.

Client agrees to:

- Assume all management responsibilities, including determining the accuracy and completeness of the financial statements and notes.
- Assign a suitable employee with appropriate skills, knowledge and/or experience to oversee the financial statement preparation assistance and evaluate the adequacy and results of the services.
- Accept responsibility for the results of the financial statement preparation assistance.

Dispute Resolution

Any dispute or claim between the parties shall be submitted first to non-binding mediation and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution ("IICPR"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. By operation of this provision, the parties agree to forgo litigation over such disputes in any court of competent jurisdiction.

Mediation shall take place at a location to be designated by the parties using Mediation Procedures of the IICPR, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in New York, New York and shall be governed by the Federal Arbitration Act, 9 U.S.C. §§ 1, et seq. Party-selected arbitrators shall be selected from the lists of neutrals maintained by either the IICPR or by JAMS, Inc., but the chair of the arbitration panel does not have to be selected from those specific lists. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in IICPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm, enforce or vacate any final award entered in arbitration, in any court of competent jurisdiction, provided that any party moving to enforce, confirm or vacate any such agreement or award, as the case may be, will file such motion under seal unless prohibited under applicable court rules. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.

Other Matters

In the event that any term or provision of this Engagement Letter shall be held to be invalid, void or unenforceable, then the remainder of the Engagement Letter shall not be affected, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

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

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

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

The audit documentation for this engagement is the property of KPMG. If KPMG receives a subpoena; other validly issued administrative, judicial, government or investigative regulatory demand or request; or other legal process requiring it to disclose the University's confidential information ("Legal Demand"), KPMG shall, unless prohibited by law or such Legal Demand, provide prompt written notice to the University of such Legal Demand in order to permit it to seek a protective order. So long as KPMG gives notice as provided herein, KPMG shall be entitled to comply with such Legal Demand to the extent required by law, subject to any protective order or the like that may have been entered in the matter. In the event KPMG is requested or authorized by the University, or is required by law, rule, regulation or Legal Demand in a proceeding or investigation to which KPMG is not a named party or respondent, to produce KPMG's documents or personnel as witnesses or for interviews, or otherwise to make information relating to the service under the Engagement Letter available to a third party, or the University , the University shall reimburse KPMG for its professional time, at its then-current standard hourly rates, and expenses, including reasonable attorneys' fees and expenses, incurred in producing documents or personnel or providing information pursuant to such requests, authorizations or requirements.

Pursuant to *Government Auditing Standards*, and subject to applicable provisions of laws and regulations, we are required to make certain audit documentation available in a full and timely manner to others, including regulators, upon request. In addition, we may also be requested to make certain audit documentation available to regulators pursuant to authority provided by law or regulation. If so requested, access to such audit documentation will be provided. Furthermore, regulators may obtain copies of selected audit documentation. Such regulators may intend, or decide, to distribute the copies or information contained therein to others, including other government agencies.

KPMG, as an accounting firm, has an obligation to comply with applicable professional standards. Certain professional standards, including AICPA Code of Professional Conduct Section 1.700, "Confidential Client Information Rule," adopted by the American Institute of Certified Public Accountants and similar rules adopted by the boards of accountancy of many states, prohibit the disclosure of client confidential information without client consent, except in limited circumstances. KPMG represents to the University that KPMG will treat the University's confidential information in accordance with applicable professional standards.

KPMG may work with and use the services of other members of the international KPMG network of independent firms and entities controlled by, or under common control with, one or more KPMG member firms (together with KPMG, the "KPMG Firms") to provide services to the University. In connection with the performance of services under this Engagement Letter, the KPMG Firms may, in their discretion, utilize the services of third party service providers within or outside of the United States to complete the services under this Engagement Letter. KPMG Firms and such third parties may have access to your confidential information from offshore locations. In addition, KPMG uses third party service providers within and outside of the United States to provide, at its direction, back-office administrative and clerical services to KPMG and these third party service providers may in the performance of such services have access to your confidential information. KPMG represents that it has technical, legal and/or other safeguards, measures and controls in place to protect your confidential information from unauthorized disclosure or use.

You also understand and agree that the KPMG Firms, with the assistance of third parties as outlined above, may use your confidential information obtained to complete this engagement for other purposes, such as improving the delivery of audit and other services to you and to other clients and for use in presentations to you, other clients and non-clients. When your confidential information is used outside of the KPMG Firms or third parties discussed above for any purpose other than the provision of audit or other services to you, back-office administrative and clerical services to KPMG or service quality improvement, it will be de-identified so that the University cannot be attributed as the source of the information.

Except as otherwise provided for in this Engagement Letter, neither party may assign, transfer or delegate any of its rights, obligations, claims or proceeds from claims arising under or relating to this Engagement Letter (including by operation of law, in which case the assigning party will, to the extent legally permissible, give as much advance written notice as is reasonably practicable thereof) without the prior written consent of the other party, such consent not to be unreasonably withheld. Any assignment in violation hereof shall be null and void.

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

Additional Reports and Fees for Services

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

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

* * * * * * *

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

This Engagement Letter and any exhibits, attachments and appendices hereto, and amendments thereto agreed in writing by the parties, shall constitute the entire agreement between KPMG and the University with respect to the subject matter hereof and thereof, and supersede all other previous oral and written representations, understandings or agreements relating to the subject matter of this agreement.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the consolidated financial statements including our respective responsibilities.

Very truly yours,

KPMG LLP

Eileen N. McGinn

Eileen N. McGinn
Partner

ENM:llm

Enclosures

ACCEPTED

University of South Alabama

Scott Weldon
Vice President for Finance and Administration

8/14/17

Date

Fees for Services

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

Audit of consolidated financial statements and related notes to the financial statements of the University as of and for the year ended September 30, 2017 and Audit under Uniform Guidance for the year ended September 30, 2017 (two major programs).	$580,000

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. 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.

System Review Report

To the Partners of KPMG LLP
And the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014. 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. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at **www.aicpa.org/prsummary.**

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, an audit performed under FDICIA, audits of a carrying broker-dealers, and examinations of services organizations [Service Organizations Control (SOC 1) engagements].

In our opinion, 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, 2014, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

PricewaterhouseCoopers LLP

December 5, 2014

UNIVERSITY OF SOUTH ALABAMA

November 14, 2017

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

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University), and its aggregate discretely presented component units as of and for the year ended September 30, 2017, for the purpose of expressing opinions as to whether these financial statements present fairly, and its aggregate discretely presented component units present fairly, in all material respects, the respective financial positions, changes in financial positions, and, where applicable, cash flows thereof in accordance with U.S. generally accepted accounting principles. We are also providing this letter to confirm our understanding that the purpose of your testing of transactions and records relating to the University's federal programs, 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 law, regulations, contracts, and grants that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

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 14, 2017, the following representations made to you during your audits:

FINANCE AND ADMINISTRATION
307 University Boulevard, N. | AD 170 | Mobile, Alabama 36688-0002
TEL: (251) 460-6132

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 4, 2017, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.

2. We have made available to you:

   a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.

   b. Additional information that you have requested from us for the purpose of the audit;

   c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence; 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:

   a. Circumstances that have resulted in communications from the University's external legal counsel to the University reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by the University or any agent thereof.

   b. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.

   c. False statements affecting the University's financial statements made to the University's internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audit.

4. There are no:

   a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96 – 113.

d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.

e. Side agreements or other arrangements (either written or oral) that have not been disclosed to you.

f. Events that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the financial statements.

5. 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.*

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

7. The effect of the uncorrected financial statement misstatement summarized in the accompanying schedule is immaterial, both individually and in the aggregate, to the financial statements.

8. 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" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

9. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the entity's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

10. 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.

11. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

    a. Management

    b. Employees who have significant roles in internal control over financial reporting, or

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

12. We have no knowledge of any allegations of fraud or suspected fraud affecting the University's financial statements received in communications from employees, former employees, analysts, regulators, or others.

13. 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.

14. 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.

15. We have no loans to executive officers, non-accrued loans, or zero-interest rate loans.

16. Significant assumptions used by us in making accounting estimates are reasonable.

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

18. 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. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit or similar arrangements.

d. Agreements to repurchase assets previously sold, including sales with recourse.

e. Changes in accounting principle affecting consistency.

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

19. 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.

20. The University has complied with all aspects of laws, regulations, contractual agreements, donor restrictions, and grants that may affect the financial statements, including noncompliance.

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

22. 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.

23. 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.

24. 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.

25. 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*.

26. 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.

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

28. 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.

29. 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.

30. 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.

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

32. 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.

33. 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.

34. 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.

35. 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.

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

37. 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.

38. 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.

39. 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.

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

41. 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.

42. 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.

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

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

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

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

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

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

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

45. 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.

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

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

48. 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.

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

50. 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.

51. 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.

52. 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.

53. 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 in the circumstances.

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

55. 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.

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

Additionally, we confirm, to the best of our knowledge and belief, the following representations made to you during you're Uniform Guidance audit:

57. We are responsible for establishing and maintaining effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements.

58. We are responsible for understanding and complying with the requirements of laws and regulations and the provisions of contracts and grant agreements related to each of the University's federal programs.

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

60. We are responsible for the design and implementation of programs and controls to prevent and detect fraud in the administration of federal programs. We have no knowledge of any fraud or suspected fraud affecting the entity's federal programs involving:

    a. Management, including management involved in the administration of federal programs.

    b. Employees who have significant roles in internal control over the administration of federal programs.

    c. Others where the fraud could have a material effect on compliance with laws and regulations, and provisions of contract and grant agreements related to its federal programs.

61. 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.

    c. Management will make the audited financial statements readily available to the intended users of the SEFA no later than the date of issuance by the entity of the SEFA and the auditors' report thereon.

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 14, 2017, the following representations made to you during your Uniform Guidance audit:

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

63. The University has prepared the SEFA in accordance with the requirements of Uniform Guidance and:

    a. Has included all expenditures made during the year ended September 30, 2017 for all awards provided by federal agencies in the form of grants, American Recovery and Reinvestment Act (ARRA) awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

    b. Appropriately identified and separated all ARRA awards, if any, within the SEFA.

64. The University has complied with requirements of laws and regulations, and the provisions of contracts and grant agreements related to each of its federal programs.

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

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

67. The University has established and maintained effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are administered in compliance with laws, regulations, and the provisions, of contracts or grant agreements that could have a material effect on a federal program.

68. 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.

69. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.

70. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities related to major federal programs.

71. 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.

72. The University is in compliance with documentation requirements contained in the requirements promulgated by the sponsoring Federal agencies (e.g., the Department of Health and Human Services' 45 CFR part 74, appendix E) for all costs charged to federal awards, including both direct costs and indirect costs charged through indirect cost proposals. Costs charged to Federal awards, are considered allowable under these same requirements.

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

74. 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.

75. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of 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.

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

77. 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.

78. 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.

79. The University has accurately completed Part 1 of the data collection form.

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

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

82. We have disclosed any known noncompliance occurring subsequent to the period September 30, 2017.

83. The University has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent to September 30, 2017.

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

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

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

87. 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.

88. 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.

89. We acknowledge our responsibility for the presentation of the required supplementary information which includes management's discussion and analysis and the schedule of the University's proportionate share of the net pension liability and schedule of the University's 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

Dr. Tony G. Waldrop
University President

G. Scott Weldon

Vice President for Finance and Administration

Robert K. Davis

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

Polly Stokley

Assistant Vice President & Controller, Finance & Administration

University of South Alabama
Summary of Audit Misstatement
For the period ended: 9/30/2017
Amounts shown in: USD

			Income Statement			Balance Sheet		Statement of Cash Flows			
W/P Ref	#	Accounts and Description	Debit	(Credit)	Income effect Debit / (Credit)	Debit	(Credit)	Operating Activities	Investing Activities	Financing Activities	Type of Error Known Audit Difference (KD) or Most Likely Audit Difference (MLD)
	1	Net Position Salaries and Benefits Expense (To adjust the current year salaries and benefits as a result of the corrected audit difference)	-	- (4,087,000)	- (4,087,000)	4,087,000 -	- - -	- -	-	- -	KD
Totals			4,087,000	(4,087,000)	4,087,000	4,087,000	-	-	-	-	

Discussed with: Polly Stokley

Date: 11/14/2017

Discussed by: Eileen McGinn

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

Independent Auditors' Report

The Board of Trustees
University of South Alabama:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the University of South Alabama, a component unit of the State of Alabama (the University), and the related notes to the financial statements, and its aggregate discretely presented component units as of and for the year ended September 30, 2017, and have issued our report thereon dated November 14, 2017. We did not audit the 2016 consolidated financial statements of the University of South Alabama Foundation, which represents 94%, 100%, and 89%, respectively, of the 2017 assets, net assets or net position, and revenues, gains, and other support of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based on the report of the other auditors.

In connection with our audit, nothing came to our attention that caused us to believe that the University failed to comply with the terms, covenants, provisions, or conditions of Article X of the Trust Indenture, dated September 25, 2008, authorizing the issuance of $112,885,000 University Facilities Revenue Capital Improvement Bonds, Series 2008, on June 16, 2010, authorizing the issuance of $29,750,000 University Facilities Revenue Capital Improvement Bond, Series 2010, on January 4, 2012, authorizing the issuance of $32,740,000 University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B, on June 28, 2013, authorizing the issuance of $50,000,000 University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B and 2013-C, on March 14, 2014, authorizing the issuance of $41,245,000 University Facilities Revenue Refunding Bond, Series 2014-A, on June 15, 2015, authorizing the issuance of $6,000,000 University Facilities Revenue Capital Improvement Bond, Series 2015, on September 14, 2016, authorizing the issuance of 85,605,000 University Facilities Revenue Refunding Bonds, Series 2016-A, on December 7, 2016, authorizing the issuance of $100,000,000 University Facilities Revenue Refunding Bonds, Series 2016-B, 2016-C, and 2016-D, and on June 15, 2017, authorizing the issuance of $38,105,000 University Facilities Revenue Bonds, Series 2017, 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 14, 2017

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

Independent Accountants' Report on Applying Agreed-Upon Procedures in Connection with University Tuition Revenue Bonds, Series 1999, University Facilities Revenue Capital Improvement Bonds, Series 2008, University Facilities Revenue Capital Improvement Bond, Series 2010, University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B, University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, 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, and University Facilities Revenue Bonds 2017

September 30, 2017

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

Independent Accountants' Report on Applying Agreed-Upon Procedures

The Board of Trustees and Management
University of South Alabama:

We have performed the procedures enumerated below, which were agreed to by members of management of the University of South Alabama, a component unit of the State of Alabama (the University), solely to assist you in evaluating the accompanying Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the accompanying Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions relating to the University Tuition Revenue Bonds, Series 1999, University Facilities Revenue Capital Improvement Bonds, Series 2008, University Facilities Revenue Capital Improvement Bond, Series 2010, University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B, University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C, University Facilities Revenue Refunding Bond Series 2014-A, University Facilities Revenue Capital Improvement Bond, Series 2015, and University Facilities Revenue Refunding Bonds, Series 2016-A, 2016-B, 2016-C, and 2016-D, and University Facilities Revenue Bonds, Series 2017 as of September 30, 2017, and for the year then ended. The University's management is responsible for the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

a. We compared the amounts shown on the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions in Exhibit A to the annual trustee statements of cash and investment transactions provided to us by the bond trustee and found them to be in agreement.

b. We compared the amounts shown on the Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions in Exhibit B to the annual trustee statements of cash and investment transactions provided to us by the bond trustee and found them to be in agreement.

c. We obtained from University management a schedule of general student fees (tuition) earned during the year ended September 30, 2017 (not included herein), which approximated $142 million and compared that amount to the general student fees recorded in the University's general ledger for the year ended September 30, 2017 and found them to be in agreement.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accompanying Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the accompanying Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

KPMG

This report is intended solely for the information and use of the board of trustees and management of the University of South Alabama, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 14, 2017

Exhibit A

UNIVERSITY OF SOUTH ALABAMA

Statement of Changes in Cash and Investments
Held by Trustee Pursuant to the Bond Resolutions
University Tuition Revenue Bonds, Series 1999,
University Facilities Revenue Capital Improvement Bonds, Series 2008,
University Facilities Revenue Capital Improvement Bond, Series 2010,
University Facilities Revenue Capital Improvement Bond 2012-A and 2012-B,
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C,
University Facilities Revenue Refunding Bond, Series 2014-A,
University Facilities Revenue Capital Improvement Bond, Series 2015
University Facilities Revenue Refunding Bond, Series 2016-A, 2016-B, 2016-C, and 2016-D
University Facilities Revenue Bonds, Series 2017

Year ended September 30, 2017

(In thousands)

Cash and investment transactions:		
Cash receipts:		
Deposits from University of South Alabama for interest and retirement of bonds	$	27,850
Proceeds from sale of investments		—
Proceeds from the issuance of bonds		138,105
		165,955
Cash disbursements:		
Principal payments		17,176
Interest payments		10,674
Administrative Fees		—
Purchases of investments		—
Disbursements related to defeasance of bonds		138,105
		165,955
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
University Tuition Revenue Bonds, Series 1999,
University Facilities Revenue Capital Improvement Bonds, Series 2008,
University Facilities Revenue Capital Improvement Bond, Series 2010,
University Facilities Revenue Capital Improvement Bond 2012-A and 2012-B,
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C,
University Facilities Revenue Refunding Bond, Series 2014-A,
University Facilities Revenue Capital Improvement Bond, Series 2015
University Facilities Revenue Refunding Bond, Series 2016-A, 2016-B, 2016-C, and 2016-D
University Facilities Revenue Bonds, Series 2017

September 30, 2017
(In thousands)

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

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

KPMG

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

Basic Financial Statements

September 30, 2017 and 2016

(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 basic financial statements of USA Research and Technology Corporation (the Corporation), a component unit of the University of South Alabama, as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of September 30, 2017 and 2016, and its changes in financial position, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 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 14, 2017

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, 2017, 2016, and 2015, and for the years then ended. This discussion was prepared by management and should be read in conjunction with the basic financial statements and notes thereto, which follow.

Financial Highlights

The Corporation owns three buildings in the USA Technology & Research Park (the Park) on the campus of the University of South Alabama (the University), one building located on the premises of the USA Medical Center, and leases one floor of a University-owned, on-campus building. Housing both University and third-party tenants, the area available for lease totals approximately 229,100 square feet of gross leasable space. At September 30, 2017, total square feet under lease was approximately 194,835. The land on which each building is located is leased from the University. The Corporation owns another building located on the University campus, which is supplied at no cost to the University for use as a faculty club.

The acquisitions of the buildings held for rent were originally financed entirely by commercial mortgage notes and a promissory note with banks, secured by the ground leases, the buildings, and rent income produced by the buildings. As part of the financing arrangement for the two buildings purchased in 2007, the Corporation entered into a derivative transaction, which yielded a synthetic fixed interest rate on the permanent financing. As a result of refinancing transactions, the debt is currently in the form of two promissory notes.

At September 30, 2017, 2016, and 2015, the Corporation had total assets and deferred outflows of $24,386,872, $26,680,776, and $27,312,101 respectively; total liabilities of $23,656,026, $25,856,706, and $26,405,889, respectively; and net position of $730,846, $824,070 and $906,212, 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, 2017, 2016, and 2015 follows (in thousands):

Condensed Schedules of Net Position

		2017	2016	2015
Assets and deferred outflows:				
Current	$	380	669	842
Capital assets – noncurrent		21,689	22,567	23,040
Other noncurrent assets		66	30	47
Deferred outflows		2,252	3,415	3,383
	$	24,387	26,681	27,312
Liabilities:				
Current	$	1,710	1,615	1,707
Noncurrent		21,946	24,242	24,699
	$	23,656	25,857	26,406
Net position:				
Net investment in capital assets	$	876	678	574
Unrestricted		(145)	146	332
	$	731	824	906

(Continued)

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

		2017	2016	2015
Operating revenues	$	3,359	3,424	3,647
Operating expenses:				
Depreciation and amortization		984	951	992
Other		1,326	1,363	1,368
Net operating expenses		2,310	2,314	2,360
Operating income		1,049	1,110	1,287
Nonoperating (expenses) revenues:				
Interest expense		(1,145)	(1,198)	(1,267)
Other		3	6	6
Net nonoperating expenses		(1,142)	(1,192)	(1,261)
Change in net position		(93)	(82)	26
Beginning net position		824	906	880
Ending net position	$	731	824	906

Analysis of Financial Position and Results of Operations

Statement of Net Position

The statement of net position presents the assets and deferred outflows, liabilities, and net position of the Corporation. The net position is displayed in two parts; net investment in capital assets and unrestricted. Unrestricted net position is available for use by the Corporation to meet current expenses for any purpose. The statement of net position, along with all of the Corporation's basic financial statements, is prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred, 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, 2017, 2016, and 2015. Noncurrent assets at September 30, 2017, 2016, and 2015 consist primarily of capital assets.

Deferred outflows and the noncurrent liability related to the interest rate swap decreased between 2017 and 2016 as a result of the change in the fair value of the swap.

Current liabilities primarily consist of unrecognized rent revenue, accrued expenses, and the current portion of long-term debt at September 30, 2017, 2016, and 2015. Noncurrent liabilities consist of notes payable, an interest rate swap liability, and a payable to the University.

(Continued)

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.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total Corporation net position as reported in the statement of net position are based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of 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, 2017, 2016, and 2015, the Corporation reported a change in net position of $(93,224), $(82,142), and $26,006, respectively.

Statement of Cash Flows

The statement of cash flows presents 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, 2017 and 2016 were approximately $94,000 and $461,000, respectively. See notes 4, 6, and 7 to the basic financial statements for further information related to capital assets and debt.

Economic Outlook

Based on leases in effect at September 30, 2017 and estimates future of operating expenses, it is expected that fiscal year 2018 financial performance will not be as strong as fiscal year 2017 results. Management will address this situation throughout the year. 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 2018 beyond those unknown variables having a global effect on virtually all types of business operations.

(Continued)

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, 2017 and 2016

		2017	2016
Assets:			
Current assets:			
Unrestricted cash and cash equivalents	$	353,058	627,125
Rent receivable		20,483	26,018
Prepaid expenses and other current assets		6,799	15,481
Total current assets		380,340	668,624
Noncurrent assets:			
Intangible assets, net		65,482	29,855
Capital assets, net		21,689,045	22,567,316
Total noncurrent assets		21,754,527	22,597,171
Deferred outflows		2,252,005	3,414,981
Total assets and deferred outflows		24,386,872	26,680,776
Liabilities:			
Current liabilities:			
Deposits, other current liabilities, and accrued expenses		111,550	162,183
Payable to University of South Alabama		46,271	—
Unrecognized rent revenue		432,689	390,442
Current portion of notes payable		1,119,337	1,062,354
Total current liabilities		1,709,847	1,614,979
Noncurrent liabilities:			
Notes payable, excluding current portion		19,134,302	20,253,638
Interest rate swap		2,252,005	3,414,981
Payable to University of South Alabama		559,872	573,108
Total noncurrent liabilities		21,946,179	24,241,727
Total liabilities		23,656,026	25,856,706
Net position:			
Net investment in capital assets		875,534	678,216
Unrestricted		(144,688)	145,854
Total net position	$	730,846	824,070

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, 2017 and 2016

		2017	2016
Operating revenues	$	3,358,749	3,424,286
Operating expenses:			
Building management and operating expenses		1,111,116	1,150,462
Depreciation and amortization		984,117	950,543
Legal and administrative fees		181,697	185,478
Insurance		33,168	27,375
Total operating expenses		2,310,098	2,313,858
Operating income		1,048,651	1,110,428
Nonoperating revenues (expenses):			
Investment income		1,637	1,389
Interest expense		(1,145,017)	(1,198,795)
Other		1,505	4,836
Net nonoperating expenses		(1,141,875)	(1,192,570)
Change in net position		(93,224)	(82,142)
Net position:			
Beginning of year		824,070	906,212
End of year	$	730,846	824,070

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, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Collections from lessees for rent and operating expense reimbursement	$	3,319,958	3,544,675
Payments for expenses of leasing activity		(1,162,389)	(1,170,297)
Payments to service providers and vendors for general corporate operating expenses		(135,426)	(196,467)
Security deposits collected		4,811	1,250
Net cash provided by operating activities		2,026,954	2,179,161
Cash flows from noncapital financing activities:			
Vending commissions		2,580	4,836
Cash flows from capital and related financing activities:			
Interest paid on notes payable		(1,151,525)	(1,214,186)
Principal repaid on notes payable		(1,073,765)	(1,001,023)
Purchases of capital assets		(33,865)	(36,851)
Net cash used in capital and related financing activities		(2,259,155)	(2,252,060)
Cash flows from investing activities:			
Investment income		7,192	—
Loan to affiliate		(1,000)	—
Payment of leasing commissions		(50,638)	—
Net cash used in investing activities		(44,446)	—
Net change in cash and cash equivalents		(274,067)	(68,063)
Cash and cash equivalents:			
Beginning of year		627,125	695,188
End of year	$	353,058	627,125
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	1,048,651	1,110,428
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense		984,117	950,543
Bad bebt expense		30,052	—
Increase (decrease) in operating expense payable to the University of South Alabama		46,271	(13,000)
(Increase) decrease in rent receivables and prepaid expenses		(37,204)	106,803
Increase (decrease) in unrecognized rent revenue		(5,074)	11,975
Increase (decrease) in other current liabilities, excluding items that are not components of operating income		(40,216)	12,412
Loss on disposal of fixed assets		357	—
Net cash provided by operating activities	$	2,026,954	2,179,161
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	$	—	424,085
Increase (decrease) in interest receivable recognized as a component of investment income		(5,555)	1,389
(Increase) decrease in fair value of interest rate swap liability		1,162,976	(31,760)
Capital assets funded by tenants		60,226	—
Donation of capital assets to University of South Alabama		(2,900)	—

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The accompanying basic financial statements present the financial position and activities of the USA Research and Technology Corporation (the Corporation), which is a component unit of the University of South Alabama (the University), and NovALtech, LLC (NovALtech), an Alabama single-member limited liability company whose single member is the Corporation.

NovALtech was organized in September 2010 with the purpose of providing a vehicle for the commercialization of intellectual property owned by the University but deemed too speculative for the University to provide funds for further development. NovALtech licenses from the University the patent rights to such property and seeks to sublicense the rights to third parties who will then fund development with the goal of reaching commercial potential.

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus:*, consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete. Accordingly, the basic financial statements include the accounts of the Corporation, as the primary government, and the accounts of NovALtech as a component unit.

The Corporation has adopted GASB Statements No. 39 and No. 61, which provide criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. The statement also clarifies reporting requirements for those organizations. As of September 30, 2017, the Corporation reports NovALtech as a blended component unit. 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 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 is an interest rate swap entered into to hedge the interest payments on its variable rate Wells Fargo Bank, N.A. note payable. The Corporation determined the hedging relationship between the note payable and the interest rate swap to be effective at September 30, 2017 and 2016.

(i) Fair Value

The Corporation follows the provisions of GASB Statement No. 72, *Fair Value Measurement and Application.* GASB Statement No. 72 provides hierarchical guidance for determining a fair value measurement for assets and liabilities for financial reporting purposes and also provides guidance for required disclosures related to fair value measurements.

(Continued)

(j) Classification of Net Position

The Corporation's net position is classified as follows:

Net investment in capital assets, reflects the Corporation's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations and accrued construction costs related to those capital assets. To the extent debt has been incurred but the proceeds have not yet been expended for capital assets, such amounts are not included as a component of net investment in capital assets.

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

(k) Classification of Revenues

The Corporation has classified its rental and license revenues as operating revenues, as those activities have the characteristics of exchange transactions. Rental revenues are recognized in accordance with GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*. Since license revenues are derived from exclusive licenses granting rights for the useful life of the property, revenue is recognized at the date of the sale of the underlying intellectual property.

(l) Reclassifications

Certain amounts in the 2016 basic financial statements have been reclassified to conform to the 2017 classification.

(2) Income Taxes

The Corporation is classified as a tax-exempt entity under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). NovALtech, from the date beginning with its organization through June 30, 2011, was treated as a disregarded entity for income tax purposes and its net income was treated as net income of the Corporation. Beginning July 1, 2011, NovALtech elected to be treated as an association taxable as a corporation. NovALtech had no net income for the fiscal years ended September 30, 2017 and 2016. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements.

(3) Fair Value Measurement

The Corporation has adopted the provisions of GASB 72, which generally require investments to be valued at fair value and define an investment as any asset that (a) the reporting entity holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Further, GASB 72 prescribes the method of determining fair value for liabilities that must be reported at fair value. Financial instruments subject to GASB 72 are classified in a hierarchy according to the type of information used to determine fair value, as follows:

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

The following tables summarize the fair value measurements for the Corporation's liability carried at fair value as of September 30, 2017 and 2016:

		Liability fair value measurement at September 30, 2017			
Description		**Level 1**	**Level 2**	**Level 3**	**Total**
Interest rate swap	$	—	2,252,005	—	2,252,005

		Liability fair value measurement at September 30, 2016			
Description		**Level 1**	**Level 2**	**Level 3**	**Total**
Interest rate swap	$	—	3,414,981	—	3,414,981

(4) Capital Assets

Changes in capital assets for the year ended September 30, 2017 are as follows:

		Beginning balance	Additions	Transfers	Reductions	Ending balance
Land	$	223,290	—	—	—	223,290
Land improvements		1,976,112	—	—	—	1,976,112
Buildings		28,147,523	—	143,024	—	28,290,547
Tenant improvements		1,186,697	71,186	129	(103,455)	1,154,557
Other equipment		256,509	19,422	—	(1,075)	274,856
Construction in progress - nondepreciable		144,978	3,483	(143,153)	(1,825)	3,483
		31,935,109	94,091	—	(106,355)	31,922,845
Less accumulated depreciation for:						
Land improvements		(1,123,580)	(94,014)	—	—	(1,217,594)
Buildings		(7,299,124)	(737,856)	—	—	(8,036,980)
Tenant improvements		(751,623)	(110,298)	—	103,098	(758,823)
Other equipment		(193,466)	(26,937)	—	—	(220,403)
		(9,367,793)	(969,105)	—	103,098	(10,233,800)
Capital assets, net	$	22,567,316	(875,014)	—	(3,257)	21,689,045

Changes in capital assets for the year ended September 30, 2016 are as follows:

		Beginning balance	Additions	Transfers	Reductions	Ending balance
Land	$	223,290	—	—	—	223,290
Land improvements		1,976,112	—	—	—	1,976,112
Buildings		27,922,101	225,422	—	—	28,147,523
Tenant improvements		972,884	233,689	—	(19,876)	1,186,697
Other equipment		256,509	—	—	—	256,509
Construction in progress - nondepreciable		143,153	1,825	—	—	144,978
		31,494,049	460,936	—	(19,876)	31,935,109
Less accumulated depreciation for:						
Land improvements		(1,029,566)	(94,014)	—	—	(1,123,580)
Buildings		(6,584,006)	(715,118)	—	—	(7,299,124)
Tenant improvements		(672,957)	(98,540)	—	19,874	(751,623)
Other equipment		(167,510)	(25,956)	—	—	(193,466)
		(8,454,039)	(933,628)	—	19,874	(9,367,793)
Capital assets, net	$	23,040,010	(472,692)	—	(2)	22,567,316

(5) 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.

(6) Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended September 30, 2017 are as follows:

		Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Notes payable	$	21,315,992	—	(1,062,353)	20,253,639	1,119,337	19,134,302
Interest rate swap		3,414,981	—	(1,162,976)	2,252,005	—	2,252,005
Payable to University of South Alabama		573,108	—	(13,236)	559,872	—	559,872
Total	$	25,304,081	—	(2,238,565)	23,065,516	1,119,337	21,946,179

(Continued)

Changes in noncurrent liabilities for the year ended September 30, 2016 are as follows:

		Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Notes payable	$	22,317,015	—	(1,001,023)	21,315,992	1,062,354	20,253,638
Interest rate swap		3,383,221	31,760	—	3,414,981	—	3,414,981
Payable to University of South Alabama		—	573,108	—	573,108	—	573,108
Total	$	25,700,236	604,868	(1,001,023)	25,304,081	1,062,354	24,241,727

(7) Notes Payable

(a) Notes Payable

Notes payable consisted of the following at September 30, 2017 and 2016:

		2017	2016
Wells Fargo Bank, N.A. promissory note, one-month LIBOR plus 0.85% (2.085% at September 30, 2017) payable through 2028	$	12,247,118	13,034,383
PNC Bank promissory note, 4.50%, payable through 2021		8,006,521	8,281,609
	$	20,253,639	21,315,992

The note payable to Wells Fargo Bank, N.A. was incurred by the Corporation to acquire Buildings II and III in the USA Technology & Research Park and to provide funds for renovations and tenant finishing costs. The loan is a fully amortizing promissory note with a 20-year term. As more fully described in note 7(c), the Corporation entered into a "receive-variable, pay-fixed" type of interest rate swap on the promissory note, which will yield a synthetic fixed interest rate of 6.1%. The promissory note payable is secured by an interest in the ground lease with respect to the parcels of land on which Buildings II and III stand, an interest in Buildings II and III, an interest in tenant leases for Buildings II and III, and an interest in income received from rental of Buildings II and III.

The promissory note payable to PNC Bank has a 10-year term and amortization is based on a 20-year term. 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 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 2017, the Corporation's debt service coverage ratio was 1.16 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2017.

(b) Debt Service on Long-Term Obligations

At September 30, 2017, total future debt service by fiscal year is as follows:

	Debt service on notes payable		
	Principal	**Interest**	**Total**
2018	$ 1,119,337	1,094,185	2,213,522
2019	1,193,836	1,019,686	2,213,522
2020	1,263,883	949,639	2,213,522
2021	8,110,588	669,823	8,780,411
2022	1,071,702	499,687	1,571,389
2023–2027	6,470,668	1,386,275	7,856,943
2028	1,023,625	23,971	1,047,596
Total	$ 20,253,639	5,643,266	25,896,905

(c) Derivative Transaction

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

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

The swap will terminate on May 1, 2028, when the loan matures. The notional amount of the swap will at all times match the outstanding principal amount of the loan. Under the swap, the Corporation pays the counterparty a fixed payment of 6.10% and receives a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the loan bears interest at the one-month LIBOR rate plus 0.85%. The Corporation paid $555,844 and $651,955 under the interest rate swap agreement for the years ended September 30, 2017 and 2016, respectively, which is reflected as an increase in interest expense.

Fair value. The interest rate swap had a negative fair value of $(2,252,005) and $(3,414,981) at September 30, 2017 and 2016, respectively. The change in fair value is reported as a deferred outflow on the statement of net position since the interest rate swap is an effective hedging derivative instrument.

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

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

Credit risk. As of September 30, 2017 and 2016, the Corporation was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivative becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa2 and Aa2 by Moody's Investors Services and AA- and AA- by Standard & Poor's Ratings Services as of September 30, 2017 and 2016, respectively.

Termination risk. The interest rate swap contracts use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard default and termination events, such as failure to make payments, breach of agreement, and bankruptcy. At September 30, 2017 and 2016, no events of default or termination had occurred. If the interest rate swap is terminated, interest rate risk associated with the variable rate debt would no longer be hedged. Also, if at the time of termination the interest rate swap had a negative fair value, the Corporation would be liable to the counterparty for a payment equal to the interest rate swap's fair value. The Corporation has granted the counterparty a $2,000,000 security interest in the ground lease with respect to the parcel of land on which Building II stands, an interest in Building II, a security interest in Building II tenant leases, and a security interest in income received from rental of Building II.

Derivative payments and hedged debt. As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of September 30, 2017, debt service requirements by fiscal year of the variable rate debt and net derivative payments, assuming current interest rates remain the same in the future, are as follows:

	Variable rate loan		Interest rate	
	Principal	Interest	swap, net	Total
2018	$ 831,611	252,858	486,920	1,571,389
2019	892,892	231,912	446,585	1,571,389
2020	949,114	212,695	409,580	1,571,389
2021	1,007,506	192,737	371,146	1,571,389
2022	1,071,702	170,794	328,893	1,571,389
2023–2027	6,470,668	473,833	912,442	7,856,943
2028	1,023,625	8,193	15,777	1,047,595
Total	$ 12,247,118	1,543,022	2,971,343	16,761,483

(8) Leases

The Corporation leases space in Building I to two tenants under operating leases. One lease has a 5-year initial term expiring in October 2018 with two 5-year renewal options. The second lease has a 67-month initial term expiring in December 2018 with no renewal options.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. The leases have 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 nine tenants with month-to-month leases.

Under leases for Buildings I, II, and III, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, property taxes, and insurance. Tenants will reimburse the Corporation for such expenses only as the total expenses for a year increase over the total expenses for the base year of the lease (the Corporation's fiscal year beginning after the date the lease is signed). Under Hub leases, the Corporation must pay all operating expenses of the space, without reimbursement from tenants.

Space under lease to the University was 51,168 and 40,345 square feet at September 30, 2017 and 2016, respectively.

The Corporation owns a building located on the premises of the USA Medical Center, which is leased to a single tenant. The Corporation paid for construction of the building shell and land improvements while the tenant paid for the cost of finishing the building's interior. The lease has a 10-year initial term expiring in March 2020 with three 5-year renewal options. Under the lease, the tenant must also pay for utilities, taxes, insurance, and interior repairs and maintenance. The Corporation is responsible for repairs and maintenance to the exterior and HVAC system.

The Corporation, as lessor, had three ground leases in place at September 30, 2017 and 2016. 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:

2018	$	2,310,966
2019		1,517,172
2020		1,068,497
2021		859,021
2022		778,674
2023–2047		6,009,504
Total	$	12,543,834

(9) 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 2017 and 2016, the Corporation engaged in several transactions with the University. The University was charged $570,286 and $719,335 during the years ended September 30, 2017 and 2016, respectively, for rental space as described in note 8. The University provides certain administrative, property management, utilities, and other support services to the Corporation, for which the University charged $669,989 and $156,000 for such services during fiscal years 2017 and 2016, respectively.

During fiscal 2017, the Corporation assigned to University of South Alabama Foundation for Research and Commercialization (the FRAC) the intellectual property license it had with the University and the associated sublicense it had with a third party. NovALtech is a party to two license agreements with the University for the licensing of patent rights pertaining to certain intellectual property and technology owned by the University which had been developed by faculty of the University. The license granted by each agreement is exclusive, worldwide, sublicensable, and royalty-bearing. Each agreement provides for payment to the University of royalties on product sales and a percentage of net income from sublicensing (such net income excluding fees, milestone payments and incurred patenting costs). Neither license was sublicensed at September 30, 2017. No conditions occurred during fiscal year 2017 causing NovALtech to either make payments to or incur a liability to the University under the agreements.

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.

(10) Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 changes accounting and financial reporting for entities which participate in plans providing postemployment benefits other than pensions and will be effective for the Corporation's year ending September 30, 2018. In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose specific information about the agreements. This statement was effective for the Corporation beginning with the fiscal year ending September 30, 2017. In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends Statement No. 68 to exclude pensions that are not governmental pension plans and establishes requirements for the recognition and measurement of non-governmental pension plans that are offered to government employees. Also in December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial statement purposes. Both statements No. 78 and 79 were effective for the Corporation beginning with the fiscal year ending September 30, 2017. In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. This statement was effective for the Corporation beginning with the fiscal year ending September 30, 2017. Statement 80 amends the blending requirements for financial statement presentation and requires the blending of a component unit that is incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* and Statement No. 82, *Pension Issues*. Both statements were effective for the Corporation beginning with the fiscal year ending September 30, 2017. Statement No. 81 changes the reporting requirements for gifts given to the University in which USA is a beneficiary of a split-interest agreement. Statement No. 82 was issued to address certain matters that have been raised from Statements No. 67, 68 and 73 and clarifies the presentation of payroll-related measures in the required supplementary information, the selection of assumptions and treatment of deviations from the guidance, and the classification of payments made by employers to satisfy employee contribution requirements. In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement will be effective for the Corporation beginning with the fiscal year ending September 30, 2019. 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 March 2017 the GASB issued Statement No. 85, *Omnibus 2017*, which will be effective for the Corporation beginning with the fiscal year ending September 30, 2018. The objective is to ensure consistency in the application of accounting and financial reporting requirements related to various topics, including blending component units, goodwill, fair value measurement and application, and postemployment benefits. The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues,* in May 2017. This statement will be effective for the Corporation beginning with the fiscal year ending September 30, 2018. Statement 86 addresses financial reporting for in-substance defeasance of debt and prepaid insurance on debt that is extinguished. 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 statement of net position.

The effect of the implementation of GASB Statement No. 87 on the Corporation has not yet been determined.

GASB Statement Nos. 75, 77, 78, 79, 80, 81, 82, 83, 84, 85, and 86 will not have an impact on the Corporation's financial statements.

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 7, 2017
2:16 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, Committee Chair, on Thursday, September 7, 2017, at 2:16 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Chandra Brown Stewart, Tom Corcoran, Ron Jenkins, Steve Stokes, Mike Windom and Jim Yance.
Other Trustees:	Alexis Atkins, Steve Furr, Bettye Maye, Arlene Mitchell, John Peek, Jimmy Shumock and Ken Simon.
Administration and Others:	Terry Albano, Owen Bailey, Robert Berry, Lynne Chronister, Joel Erdmann, Monica Ezell, Mike Finan, Happy Fulford, Mike Haskins, David Johnson, Melva Jones, Matt Kinnear and Mike Douglass (Gerber Taylor) John Marymont, Mike Mitchell, John Smith, Margaret Sullivan, Carl Thomas (SGA), Jean Tucker, Elizabeth VandeWaa (Faculty Senate), Tony Waldrop and Scott Weldon.

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 1, 2017. On motion by Mr. Windom, seconded by Mr. Corcoran, the minutes were adopted unanimously.

Mr. Yance called for presentation of **ITEM 9**, a report on endowment and investment performance. Mr. Albano discussed performance for the period October 1, 2016, through July 31, 2017, noting a 10.41 percent return vs. the relative index of 8.99 percent, or an outperformance of 1.42 percent. He addressed manager outperformance and asset allocation, noting compliance with University guidelines. Mr. Pittman discussed a $5 million decrease in equity exposure, as well as positive returns from overseas investments. As to annualized performance since inception, Mr. Albano advised of a 5.28 percent return vs. the relative index of 4.23 percent, an outperformance of .96 percent.

Mr. Albano introduced Mr. Matt Kinnear and Mr. Mike Douglass of Gerber Taylor, who discussed investment performance, shared market perspective and answered questions.

Mr. Yance called for a report on the activities of the Division of Development and Alumni Relations, **ITEM 10**. Dr. Stokes, Upward & Onward Campaign Co-Chair, gave an update on campaign results, noting 69 percent, or $103.5 million, of the $150 million campaign goal met as of August 25, 2015. He encouraged the South Alabama community to continue to be active for the remainder of the campaign. Mr. Yance called on Ms. Sullivan, who recognized the meaningful commitment of the Stokeses in chairing the campaign. She acknowleged the work ahead and shared enthusiasm for what had been accomplished. She gave an overview of the fundraising impact by strategic priority and noted a $14.4 million fundraising impact made possible through the Mitchell-Moulton Scholarship Intitiative. She anticipated that implementation of a new database and software system would improve Development team capabilities. Also discussed was completion of the Annual Fund with $730,000 raised by 60 percent of the employees.

Ms. Sullivan presented **ITEM 11**, a resolution to approve a revised Building and Program Naming Guidelines and Minimum Gift Levels for Named Endowment Policy (for copies of resolutions, policies and other authorized documents, refer to the minutes of the Board of Trustees meeting held on September 8, 2017). She said the document was originally adopted by the Board in 2004 and noted, with the growth of the University, the time was right to make adjustments. Mr. Yance thanked Ms. Sullivan for her diligent efforts on this project. On motion by Mr. Windom, seconded by Mr. Corcoran, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Ms. Sullivan addressed **ITEM 12**, a resolution acknowledging the significant contributions of Patsy and Ray Kennedy, which included establishment of scholarship funds for the College of Nursing and for children of alumni, and expressing the University's appreciation. On motion by Dr. Stokes, seconded by Mr. Windom, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

There being no further business, the meeting was adjourned at 2:40 p.m.

Respectfully submitted:

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James A. Yance, Chair

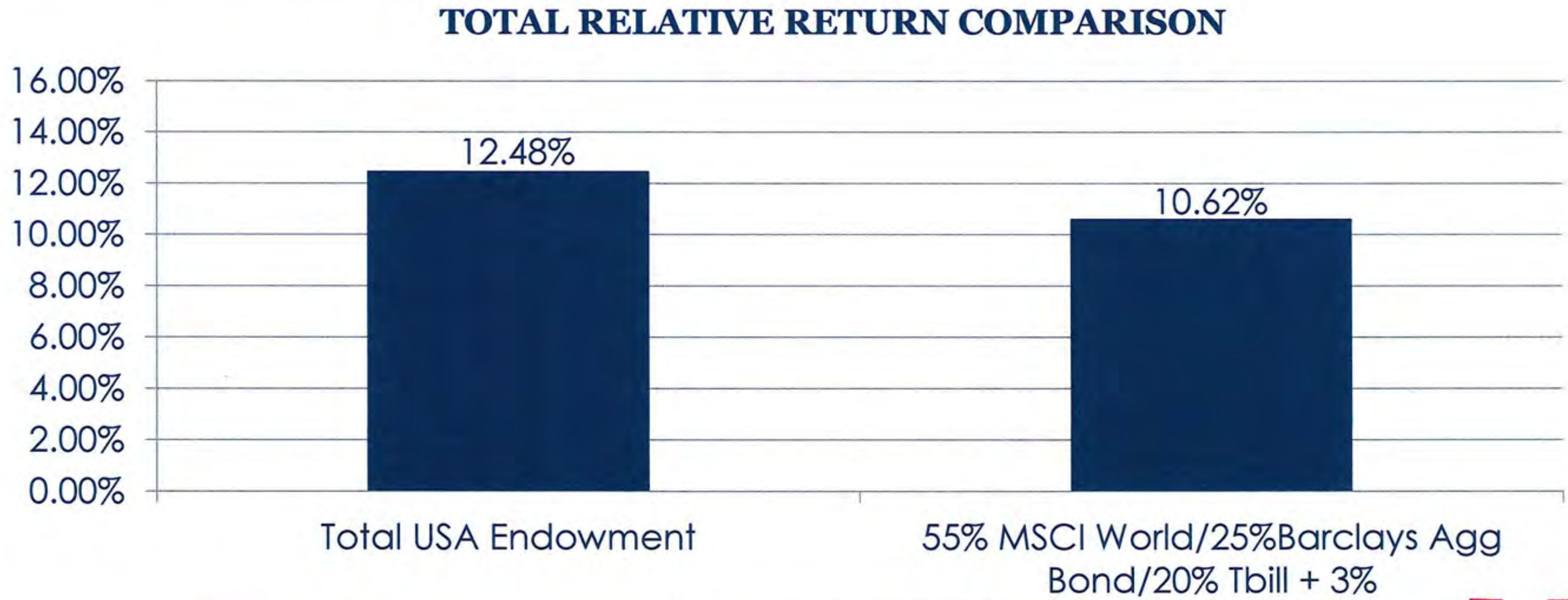
University of South Alabama Endowment Investment Performance Review/Analysis

Fiscal Year 2017

UNIVERSITY OF SOUTH ALABAMA

Total USA Endowment

October 1, 2016 — September 30, 2017
Total Fund Performance



Outperformance: 1.86%

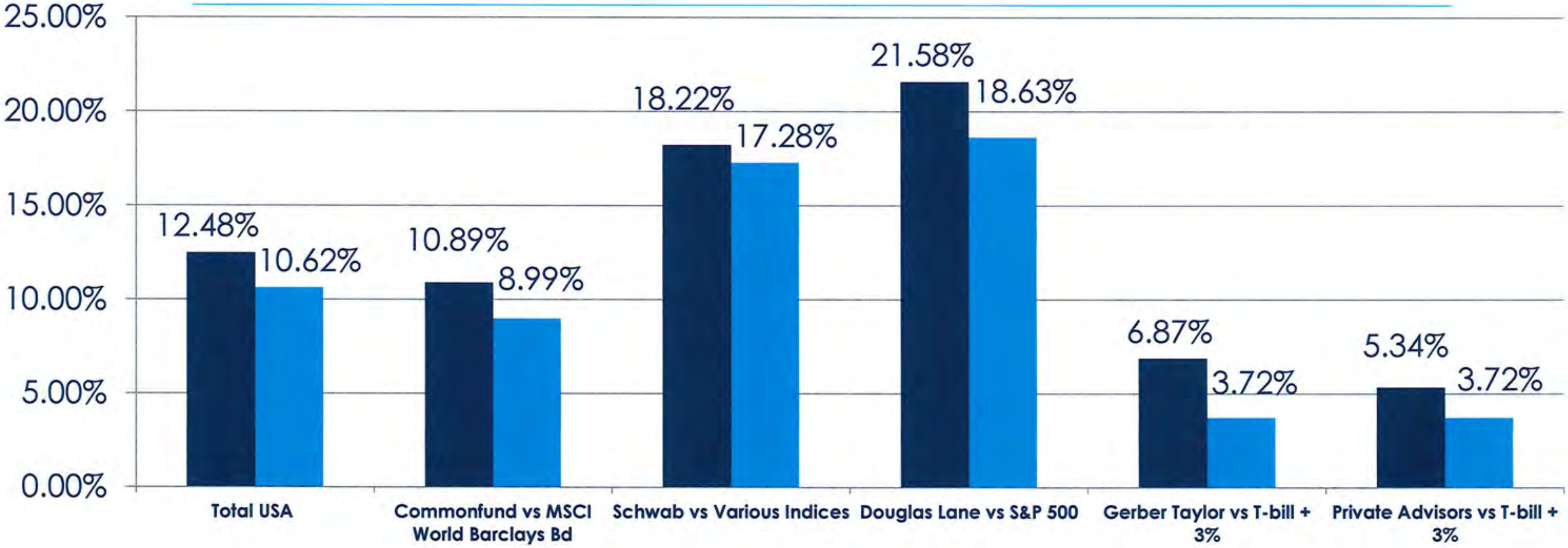
USA Endowment Oct. 1, 2016 – Sept. 30, 2017

Total Fund Performance

Market Value at Beginning of Period	$138,424,068
Net Additions/Withdrawals	$(6,961,558)
Market Value at End of Period	$148,480,453
Investment Earnings and Appreciation	**$17,017,942**

Total USA Endowment

October 1, 2016 — September 30, 2017
Total Fund Performance



Total USA Endowment

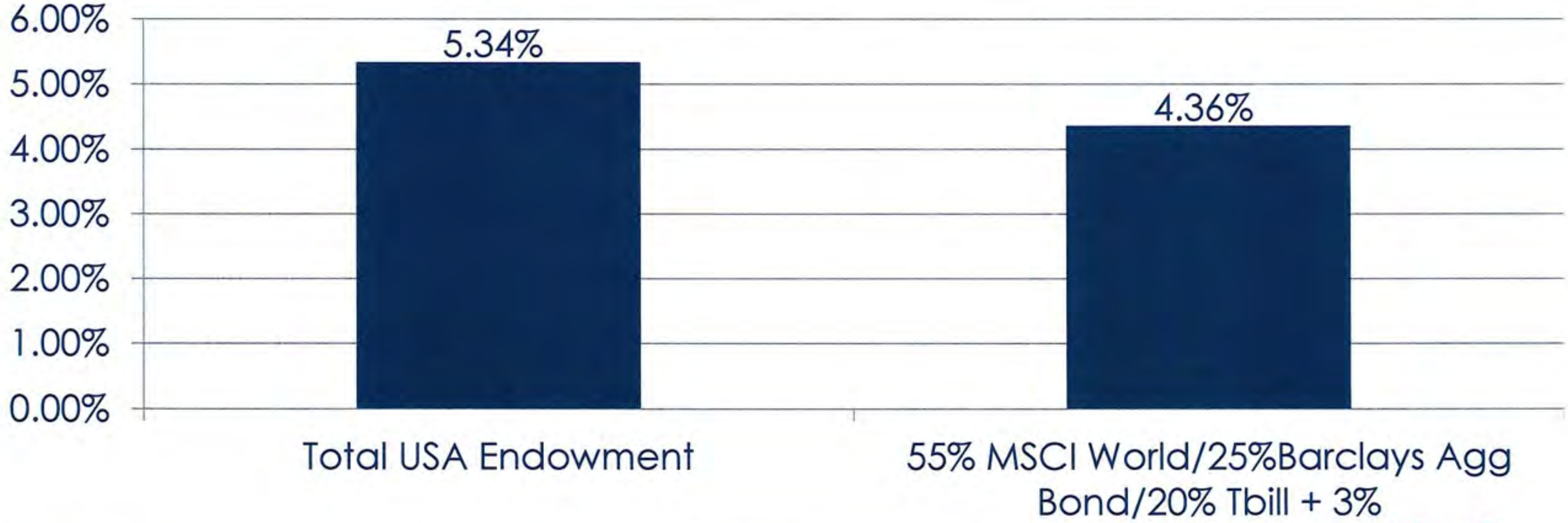
Asset Allocation Breakdown

Manager	Money Market	Large Cap Equity	Small Cap Equity	International	Fixed	Hedge	Total	%
Private Advisors	$ -	$ -	$ -	$ -	$ -	$ 1,091,966	$ 1,091,966	1%
Schwab	$ 1,683	$ 6,793,013	$ 7,394,125	$ 17,924,912	$ 5,669,481	$ -	$ 37,783,213	25%
Doug Lane	$ 31,232	$ 8,228,070	$ -	$ -	$ -	$ -	$ 8,259,302	6%
Common Fund	$ -	$ 42,166,348	$ -		$ 32,511,606	$ -	$ 74,677,954	50%
Gerber Taylor	$ -	$ -	$ -	$ -	$ -	$ 26,668,018	$ 26,668,018	18%
Total	$ 32,915	$ 57,187,430	$ 7,394,125	$ 17,924,912	$ 38,181,087	$ 27,759,984	$ 148,480,453	100%
%	0%	39%	5%	12%	26%	19%	100%	
Policy %		25-55%	0-8%	5-15%	15-35%	10-30%	100%	

Total USA Endowment

Since Inception
Total Annualized Fund Performance

TOTAL RELATIVE RETURN COMPARISON



Outperformance: 0.98%

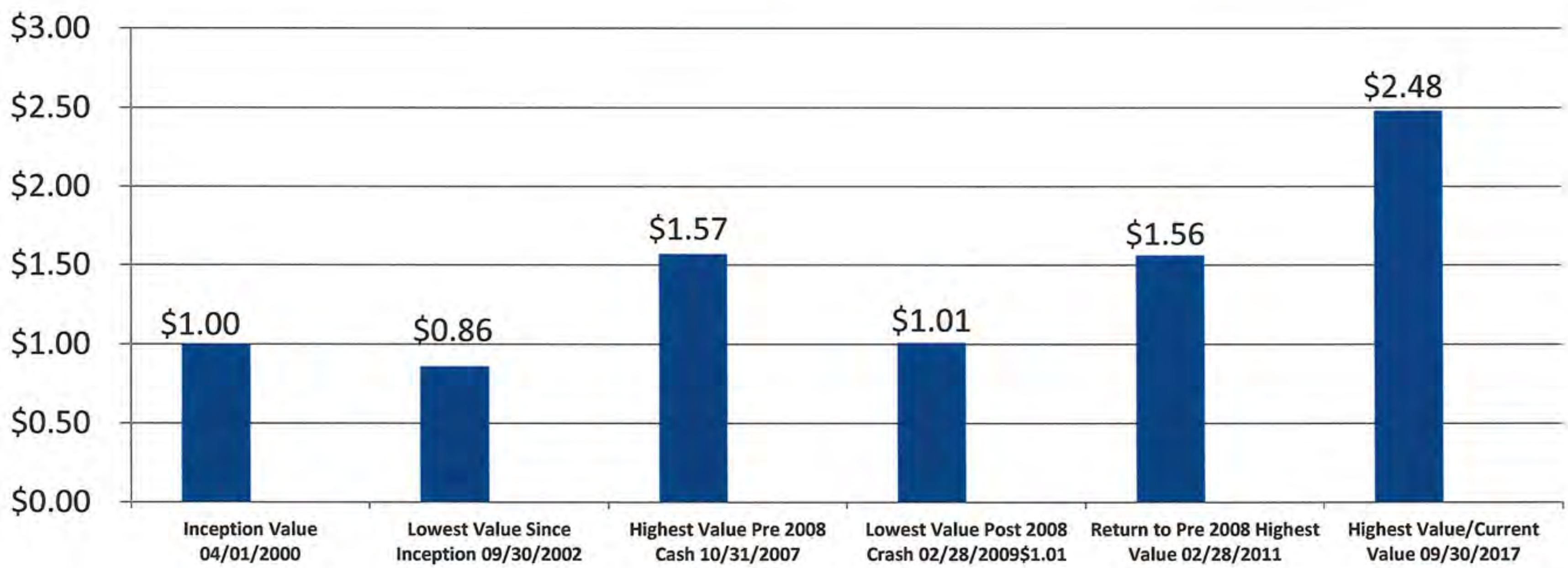
USA Endowment April 1, 2000 – Sept. 30, 2017

Total Fund Performance Since Inception

Market Value at Beginning of Period	$5,700,000
Net Additions/Withdrawals	$71,665,275
Market Value at End of Period	$148,480,453
Investment Earnings and Appreciation	**$71,115,177**

USA Endowment

Value of a Dollar Since Inception



Ivy League Endowment Returns vs. USA

Ivy League Endowments Returns vs. USA

University	1-Year Return
Dartmouth College	14.60%
University of Pennsylvania	14.30%
Brown University	13.40%
University of South Alabama	**13.37%**
Princeton University	12.50%
Cornell University	12.50%
Yale University	11.30%
Harvard University	8.10%

12-mo. Ended 6/30/17

Velati, Alyson. "Yale and Harvard Flunk Out With Worst Ivy Endowment Returns." *FundFire*, 11 Oct. 2017, fundfire.com/c/1761743/207243/yale_harvard_flunk_with_worst_endowment_returns?referrer_module=emailMorningNews&module_order=16&code=ZEdGc1ltRnViMElxYzI5MWRHaGhiQzVsWkhVc0lESTFOREk0TXI3Z01UYzFOekV6TWpBM05BPT0.

Total USA Endowment

Presentation Summary

1. **Fiscal Year To Date: Out-performed 1.86%: 12.48% vs 10.62%**
2. **All managers out-perform FYTD.**

RESOLUTION

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

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

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

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

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 and 20 percent Treasury-bill rate plus 3 percent.

VII. Portfolio Composition and Risk

A. To achieve its investment objective, the Endowment Funds assets are considered as divided into three parts a fixed income component, a fixed income alternative component, 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 dedicated cash or cash equivalent reserve.

XI. Marketability of Assets

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

	Long-Term Strategic	
Asset Class	**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

CHANGES TO ENDOWMENT SPENDING POLICY

WHEREAS, 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, and

WHEREAS, the current spending policy will be determined by the President and the Development, Endowment and Investments Committee, and approved by the Board of Trustees, and

WHEREAS, the current spending policy rate is five percent of the three-year moving average of the net assets of each endowment, and

WHEREAS, the inception to date investment return does not support the current spending policy, and

WHEREAS, to preserve and maintain the real purchasing power of the principal of the endowment funds, a change is recommended to amend the current spending policy to four and one-half percent of the five-year moving average of the net assets of each endowment, and

WHEREAS, it is important to establish a time frame for the periodic review of the spending policy,

THEREFORE, BE IT RESOLVED that the University of South Alabama Board of Trustees authorizes the change of the current endowment spending policy to four and one-half percent of the five-year moving average of the net assets of each endowment, and

BE IT FURTHER RESOLVED that the University will establish a policy to review the spending policy every five years.

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Finance and Administration

Date:
November 15, 2017

To:
President
Tony G. Waldrop

TGW

From:
G. Scott Weldon, V.P. for Finance and Administration GSW

Subject:
Agenda Item for November 30, 2017, Board of Trustees Meeting
Authorization to Change Endowment Spending Policy

Attached is a resolution for consideration by the Board of Trustees regarding changes to the University's Endowment Spending Policy. Some of the specifics of the policy changes are:

- **Current Policy:** 5%, 3 year moving average
- **Policy Change:** 4.5%, 5 year moving average
- **Review Period:** Every 5 years

This resolution will provide the authorization to amend the current spending policy to reflect the above changes which will help to preserve and maintain the real purchasing power of the principal of the Endowment Funds.

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

DIRECTOR 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 the JAF have a history of interaction and cooperation that has served the interests of the University, and

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

WHEREAS, the Nominating Committee of the Board of Directors and the Board of Directors of the JAF have nominated Mr. Ray Kennedy for a three-year term pending the approval of the University Board of Trustees,

THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama does hereby approve Mr. Ray Kennedy as a member of the Board of Directors of the JAF with a three-year term beginning December 2017 and ending December 2020.

SOUTH ALABAMA
JAGUAR ATHLETIC FUND

REC'D
Office of the President
NOV 1 3 2017
University of South Alabama

November 8, 2017

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 November 30, 2017.

The intent of the Resolution is for the University of South Alabama Board of Trustees to ratify the newly elected JAF Board member.

JWE/els

Attachment

University of South Alabama • 6001 USA Drive South, Suite #35 • Mobile, Alabama 36688-0002
Office: (251) 461-1366 • Fax: (251) 461-1375

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

HEALTH AFFAIRS COMMITTEE

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

HEALTH AFFAIRS COMMITTEE

September 7, 2017
2:40 p.m.

A meeting of the Health Affairs Committee of the University of South Alabama Board of Trustees was duly convened by Dr. Steve Furr, Chair, on Thursday, September 7, 2017, at 2:40 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Alexis Atkins, Chandra Brown Stewart, Steve Furr, Bettye Maye, Arlene Mitchell and Steve Stokes.
Member Absent:	Scott Charlton.
Other Trustees:	Tom Corcoran, Ron Jenkins, John Peek, Jimmy Shumock, Ken Simon, Mike Windom and Jim Yance.
Administration and Others:	Owen Bailey, Robert Berry, Lynne Chronister, Joel Erdmann, Monica Ezell, Mike Finan, Art Frankel, Happy Fulford, Mike Haskins, David Johnson, Melva Jones, John Marymont, Richard Marks, Mike Mitchell, John Smith, Lisa Spiryda, Margaret Sullivan, Carl Thomas (SGA), Jeremy Towns, Jean Tucker, Elizabeth VandeWaa (Faculty Senate), Tony Waldrop and Scott Weldon.

The meeting came to order and attendance roll was called. Dr. Furr called for consideration of the minutes of the meeting held on June 1, 2017. On motion by Ms. Mitchell, seconded by Ms. Brown Stewart, the Committee voted unanimously to adopt the minutes.

Dr. Furr addressed **ITEM 13**, a resolution authorizing the USA Hospitals medical staff appointments and reappointments for May, June and July 2017 (for copies of resolutions, policies and other authorized documents, refer to the minutes of the Board of Trustees meeting held on September 8, 2017). On motion by Ms. Mitchell, seconded by Ms. Atkins, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Dr. Furr called on Dr. Marymont for presentation of **ITEM 14**, a report on the activities of the Division of USA Health and the College of Medicine. Dr. Marymont provided admissions statistics on the College of Medicine's Class of 2021. He introduced second-year medical student Mr. Jeremy Towns, who shared his story as a former NFL football player and his aspirations of becoming a physician. The group viewed an inspiring video featuring Mr. Towns. Mr. Towns addressed the group and thanked the Board for opportunities that allowed him to fulfill his dream.

Dr. Marymont introduced Dr. Lisa Spiryda, Professor and Chair of the Department of Obstetrics and Gynecology, and Dr. Richard Marks, Professor and Chair of the Department of Orthopaedic Surgery. Each shared a few words and answered questions.

Dr. Marymont asked Mr. Bailey to discuss a new outreach program. Mr. Bailey reported that Ms. Ashton Hennig, Outreach Manager for USA Health, was working with Chief Policy Officer Mr. Danny Rickert to identify opportunities in rural communities in Alabama and Mississippi for USA Health to work with local hospitals and other providers. He indicated, by developing these relationships through strategies such as telehealth, USA Health would assist the providers in meeting needs, as well as develop and strengthen its referral networks.

Dr. Marymont talked about a collaboration between the Student-Run Free Clinic and the Pat Capps Covey College of Allied Health Professions to offer services to the local community. He said, each Friday afternoon, students visited the Salvation Army to treat patients.

Dr. Marymont introduced Dr. Finan, who talked about weekly outreach by the MCI in the city of Monroeville. He said plans to expand to other locations are under consideration.

Dr. Finan discussed a gift from the Mayer and Arlene Mitchell Charitable Foundation to establish the Arlene and Mayer Mitchell Endowed Chair of Medical Oncology. He said this gift made possible the recruitment of nationally renowned medical oncologist Dr. Art Frankel. He introduced Dr. Frankel, who addressed the group and thanked Ms. Mitchell for the opportunity.

Dr. Finan talked about the progress of the MCI's Kilborn Clinic in Fairhope. As photos were shown, he said the the facility opened on July 5 and 30 patients received treatment.

There being no further business, the meeting was adjourned at 3:26 p.m.

Respectfully submitted:

____

Steven P. Furr, M.D., Chair

RESOLUTION

USA HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS FOR AUGUST, SEPTEMBER AND OCTOBER 2017

WHEREAS, the Medical Staff appointments and reappointments for August, September and October 2017 for the University of South Alabama Hospitals are recommended for Board approval by the Medical Executive Committees and the Executive Committee of the University of South Alabama Hospitals,

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

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

USA Health

Date:
November 2, 2017

To:
Tony G. Waldrop, Ph.D.
President

From:
Owen Bailey

Subject:
Board Meeting Documents

Attached for review and approval by the Health Affairs Committee and the Board of Trustees are:

Resolution – University of South Alabama Hospitals Medical Staff Appointments and Reappointments for August, September and October 2017.

- Credentials Report – August, September and October 2017

Resolution – University of South Alabama Hospitals Medical Staff Bylaws and Rules and Regulations Revisions of October 17, 2017

- Proposed Changes to University of South Alabama Hospitals Medical Staff Bylaws and Rules and Regulations
- University of South Alabama Hospitals Medical Staff Meeting Minutes – October 17, 2017

Resolution – University of South Alabama Hospitals Nomination of Medical Staff Officers

- Calendar Years 2018-2019

OB/kh

Attachments

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
August 2017, September 2017, and October 2017

The following is a listing of recommendations for approval of new appointments, reappointments and other status changes of physicians and allied staff professionals. These have been reviewed and are recommended by the Medical Executive committee of the respective hospitals.

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Adair, Jennifer G., MD	Reappt.	R&F Physician	Pediatrics	NA	NA	NA	NA	NA	NA
Ahmed, Shawn I., MD	New Appt.	Consult/Assoc.	Radiology	New Appt.	Consult/Assoc.	Radiology	NA	NA	NA
Avotri, Kosi J., MD	New Appt.	Active	Pediatrics	NA	NA	NA	NA	NA	NA
Awan, Ghulam M., MD	Reappt.	Consult/Assoc.	Internal Medicine	Reappt.	Active	Internal Medicine	Reappt.	Consult/Active	Internal Medicine
Barret, William A., MD	New Appt.	Contract/Locums	Radiology	New Appt.	Contract/Locums	Radiology	NA	NA	NA
Barros, Mary L., CRNP	Reappt.	Allied	Evaluation Center	NA	NA	NA	NA	NA	NA
Batain, Latanya S., CRNP	Reappt.	R&F Allied	Family Medicine	Reappt.	R&F Allied	Family Medicine	NA	NA	NA
Bedsole, Rhonda R., MD	Reappt.	R&F Physician	Pediatrics	Reappt.	R&F Physician	Pediatrics	NA	NA	NA
Bell, Raymond L., MD	NA	NA	NA	Reappt.	Courtesy	Internal Medicine	NA	NA	NA
Bhagwandin, Vimla P., MD	Reappt.	Active	Pediatrics	NA	NA	NA	NA	NA	NA
Bhatia, Sameer, MD	New Appt.	Contract/Locums	Radiology	New Appt.	Contract/Locums	Radiology	NA	NA	NA
Billett, William J., MD	Reappt.	Consult/Assoc.	Psychiatry	Reappt.	Consult/Assoc.	Psychiatry	NA	NA	NA
Boodoo, Ramnarine, MD	New Appt.	Consult/Assoc.	Psychiatry	New Appt.	Consult/Assoc.	Psychiatry	NA	NA	NA
Brantley, Andrea L., CRNP	New Appt.	Allied	Orthopaedics	New Appt.	Allied	Orthopaedics	NA	NA	NA
Broughton, William, MD	Reappt.	Active	Internal Medicine	Reappt.	Active	Internal Medicine	Reappt.	Active	Internal Medicine
Browning, Savannah I., MD	New Appt.	R&F Physician	Pediatrics	NA	NA	NA	NA	NA	NA
Butler, Heidi N., RN	New Appt.	R & F Allied	Pediatrics	NA	NA	NA	NA	NA	NA
Calamett, Karen I., MD	Reappt.	R&F Physician	Pediatrics	NA	NA	NA	NA	NA	NA
Carnahan, Gary E., MD	Reappt.	Active	Pathology	Reappt.	Active	Pathology	Reappt.	Active	Pathology
Cepeda, Matthew E., MD	Reappt.	R&F Physician	Pediatrics	NA	NA	NA	NA	NA	NA
Clayton, Brandi R., CRNP	New Appt.	Allied	Pediatrics	NA	NA	NA	NA	NA	NA
Cohen, Michael V., MD	Reappt.	Consult/Assoc.	Internal Medicine	Reappt.	Active	Internal Medicine	Reappt.	Consult/Active	Internal Medicine
Cole-Guerrero, Kimberly A., DO	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics
Cole-Guerrero, Kimberly A., DO	Reappt.	Active	Pediatrics Emergency	NA	NA	NA	NA	NA	NA
Cooper, Constance D., MD	Reappt.	R&F Physician	OBGYN	Reappt.	R&F Physician	OBGYN	NA	NA	NA
Crissinger, Karen D., MD	Reappt.	Active	Pediatrics	Reappt.	Consult/Assoc.	Pediatrics	Reappt.	Active/Consult	Pediatrics
Davis, Lorie R., CRNP	Reappt.	Allied	OBGYN Eval. Ctr.	NA	NA	NA	NA	NA	NA
Davis, Shannon Noelle, CRNP	NA	NA	NA	Reappt.	Allied	Surgery	Reappt.	Allied	Surgery
Detjens, Kathryn M., CNM	Reappt.	Allied	OBGYN	NA	NA	NA	Reappt.	Allied	OBGYN
Donahoe, David K., MD	Reappt.	Courtesy	Orthopaedics	Reappt.	Courtesy	Orthopaedics	NA	NA	NA
Dyess, Donna L., MD	Reappt.	Active	Surgery	Reappt.	Active	Surgery	Reappt.	Active	Surgery
Eichold, II, Bernard H., MD	Reappt.	Courtesy	Internal Medicine	Reappt.	Active	Internal Medicine	NA	NA	NA
Everett, Kevin L., MD	Reappt.	Active	Anesthesiology	Reappt.	Active	Anesthesiology	NA	NA	NA
Figarola, Maria S., MD	Reappt.	Active	Radiology	Reappt.	Active	Radiology	Reappt.	Active	Radiology
Fleck, Lorie G., MD	Reappt.	Consult/Assoc.	Surgery	NA	NA	NA	NA	NA	NA
Foster, Kendal I., MD	Reappt.	Active	OB/GYN	NA	NA	NA	NA	NA	NA
Frankel, Arthur E., MD	New Appt.	Active	Internal Medicine	New Appt.	Active	Internal Medicine	New Appt.	Active	Internal Medicine

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
August 2017, September 2017, and October 2017

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Freeman, Andrew G., MD	Reappt.	R&F Physician	Family Medicine	NA	NA	NA	NA	NA	NA
Garand, Kendrea L., Ph.D./CCC-SLP	NA	NA	NA	New Appt.	Allied	Surgery	New Appt.	Allied	Surgery
Hagan, Philip M., Neuro Tech	Reappt.	Allied	Neurosurgery	Reappt.	Allied	Neurosurgery	NA	NA	NA
Harris, Edna, CRNP	Reappt.	R&F Allied	Family Medicine	Reappt.	R&F Allied	Family Medicine	NA	NA	NA
Hayes, Jr., John W., CRNP	Reappt.	Allied	Psychiatry	Reappt.	Allied	Psychiatry	NA	NA	NA
Herrera, Danilo V., MD	Reappt.	Courtesy	OBGYN	NA	NA	NA	NA	NA	NA
Hirsch, James R., MD	New Appt.	Courtesy	Neurosurgery	New Appt.	Courtesy	Neurosurgery	NA	NA	NA
Hollensworth, Laura K., MD	Reappt.	R&F Physician	Family Medicine	NA	NA	NA	NA	NA	NA
Hood, Nicole M., Neuro Tech	Reappt.	Allied	Neurosurgery	Reappt.	Allied	Neurosurgery	NA	NA	NA
Huettemann, Catherine W., MD	Reappt.	R&F Physician	Pediatrics	NA	NA	NA	NA	NA	NA
Huettemann, Richard E., MD	Reappt.	R&F Physician	Pediatrics	NA	NA	NA	NA	NA	NA
Hurley, Janet T., PA	Reappt.	R&F Allied	Family Medicine	Reappt.	R&F Allied	Family Medicine	NA	NA	NA
Imran, Hamayun MD	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics
Inge, George B., MD	Reappt.	Courtesy	OBGYN	NA	NA	NA	NA	NA	NA
Jackson, Brooke A., PA	New Appt.	Allied	Neurosurgery	New Appt.	Allied	Neurosurgery	New Appt.	Allied	Neurosurgery
Jacob, Mina A., MD	NA	NA	NA	New Appt.	Active	Internal Medicine	NA	NA	NA
Kassner, Deborah A., MD	Reappt.	R&F Physician	Pediatrics	NA	NA	NA	NA	NA	NA
Keel, Christopher E., DO	NA	NA	NA	New Appt.	Consult/Assoc.	Surgery	NA	NA	NA
Kies, David B., CNIM	New Appt.	Allied	Neurosurgery	New Appt.	Allied	Neurosurgery	NA	NA	NA
Kinnard, Christopher M., MD	NA	NA	NA	New Appt.	Active	Pediatric Surgery	New Appt.	Active	Pediatric Surgery
Kinnard, Christopher M., MD	New Appt.	Active	Trauma Surgery	New Appt.	Active	Trauma Surgery	New Appt.	Active	Trauma Surgery
Kirkland, II, Charles E., MD	Reappt.	R&F Physician	Family Medicine	NA	NA	NA	NA	NA	NA
Kirkland, Lynne P., MD	Reappt.	R&F Physician	Family Medicine	NA	NA	NA	NA	NA	NA
Kleinmann, Michael C., DO	NA	NA	NA	Reappt.	R&F Physician	Internal Medicine	NA	NA	NA
Linder, Michael M., MD	Reappt.	Active	Family Medicine	Reappt.	Active	Family Medicine	Reappt.	Active	Family Medicine
Little, Michael E., DO	Reappt.	R&F Physician	Pediatrics	NA	NA	NA	NA	NA	NA
Lockhart, Larry R., MD	NA	NA	NA	Reappt.	Active	Emergency Medicine	NA	NA	NA
Malcolm, Ian G., MD	Reappt.	Active	Radiology	Reappt.	Active	Radiology	Reappt.	Active	Radiology
Marks, Richard M., MD	New Appt.	Active	Orthopaedics	New Appt.	Active	Orthopaedics	New Appt.	Active	Orthopaedic
Martino, Anthony M., MD	Reappt.	Active	Neurosurgery	Reappt.	Active	Neurosurgery	Reappt.	Active	Neurosurgery
Mauldin, Teresa L., RN	Reappt.	Allied	OBGYN	Reappt.	Allied	OBGYN	NA	NA	NA
Maxwell, Anne M., DA	Reappt.	Allied	Surgery	NA	NA	NA	NA	NA	NA
McDonough, Lisa H., MD	Reappt.	R&F Physician	Pediatrics	NA	NA	NA	NA	NA	NA
McKinley, James E., MD	New Appt.	Active	Family Medicine	New Appt.	Active	Family Medicine	New Appt.	Active	Family Medicine
McLaughlin, Jr., Leon D., MD	Reappt.	R&F Physician	Family Medicine	NA	NA	NA	NA	NA	NA
McMahon, Jr., John M., MD	NA	NA	NA	New Appt.	Active	Emergency Medicine	NA	NA	NA
McPhail, Paula K., MD	Reappt.	Active	Pediatric	NA	NA	NA	NA	NA	NA
McPhail, Paula K., MD	Reappt.	Active	Pediatric Emergency	NA	NA	NA	NA	NA	NA
Messer, Cynthia F., CNM	New Appt.	Allied	OBGYN	NA	NA	NA	New Appt.	Allied	OBGYN
Minchew, Leigh A., CRNP	Reappt.	Allied	OBGYN	NA	NA	NA	Reappt.	Allied	OBGYN

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
August 2017, September 2017, and October 2017

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	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Motley, Carol, MD	Reappt.	Active	Family Medicine	Reappt.	Active	Family Medicine	Reappt.	Active	Family Medicine
Nichols, Amy C., Ph.D.	Reappt.	Allied	Surgery	Reappt.	Allied	Surgery	Reappt.	Allied	Surgery
Nichols, Brandon W., MD	Reappt.	Active	Radiology	Reappt.	Active	Radiology	Reappt.	Active	Radiology
Norman, Cndy L., CRNP	Reappt.	R&F Allied	Family Medicine	Reappt.	R&F Allied	Family Medicine	NA	NA	NA
Normand, Robin S., CRNP	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine
O'Connor, Ramona Susann, CRNP	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine
Oglesby, Teresa J., MD	New Appt.	Active	Internal Medicine	New Appt.	Active	Internal Medicine	New Appt.	Active	Internal Medicine
Outlaw, Kitti K., MD	Reappt.	Courtesy	Surgery	NA	NA	NA	NA	NA	NA
Pack-Mabien, Ardie V., CRNP	Reappt.	Allied	Internal Medicine	Reappt.	Allied	Internal Medicine	Reappt.	Allied	Internal Medicine
Pant, Amit, MD	Reappt.	R&F Physician	Pediatrics	NA	NA	NA	NA	NA	NA
Parker, Sandra K., MD	Reappt.	Consult/Assoc.	Psychiatry	Reappt.	Consult/Assoc.	Psychiatry	NA	NA	NA
Parsell, Karen J., MD	Reappt.	Active	Pediatric Emergency	NA	NA	NA	NA	NA	NA
Pelekanos, Sharon, PA	Reappt.	Allied	Neurosurgery	Reappt.	Allied	Neurosurgery	Reappt.	Allied	Neurosurgery
Perkins, Robert A., MD	Reappt.	Active	Family Medicine	Reappt.	Active	Family Medicine	Reappt.	Active	Family Medicine
Polska, Urszula A., CRNP	NA	NA	NA	Reappt.	Allied	Internal Medicine	NA	NA	NA
Ponnambalam, Ananthasekar, MD	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics
Preud'Homme, Daniel L., MD	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics
Quindlen, Eugene A., MD	Reappt.	Active	Neurosurgery	Reappt.	Active	Neurosurgery	Reappt.	Active	Neurosurgery
Riggs, Michael B., PCT	NA	NA	NA	New Appt.	Allied	Internal Medicine	NA	NA	NA
Roberts, Norma Faye, MD	Reappt.	R&F Physician	Pediatrics	NA	NA	NA	NA	NA	NA
Robinson, Jason M., RN	NA	NA	NA	Reappt.	Allied	Internal Medicine	NA	NA	NA
Roca, Jr., Cesar M., MD	Reappt.	Courtesy	Orthopaedics	Reappt.	Courtesy	Orthopaedics	NA	NA	NA
Ross, Lacey J., CNIM	New Appt.	Allied	Neurosurgery	New Appt.	Allied	Neurosurgery	NA	NA	NA
Roth, Tracy, MD	Reappt.	Active	OBGYN	Reappt.	Active	OBGYN	Reappt.	Active	OBGYN
Schaphorst, Kane, MD	Reappt.	Active	Internal Medicine	Reappt.	Active	Internal Medicine	Reappt.	Active	Internal Medicine
Scherer, III, L. R., MD	Reappt.	Contract/Locums	Surgery	Reappt.	Contract/Locums	Surgery	NA	NA	NA
Schrubbe, Benjamin P., MD	Reappt.	R&F Physician	Family Medicine	NA	NA	NA	NA	NA	NA
Seltzer, Marjorie L., CRNP	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine	New Appt.	Allied	Internal Medicine
Sheets, Cindy S., MD	Reappt.	Active	Pediatrics	NA	NA	NA	Reappt.	Active	Pediatrics
Sherman, Craig D., MD	Reappt.	Active	OBGYN	Reappt.	Active	OBGYN	Reappt.	Active	OBGYN
Shoemaker, Aneek R., MD	New Appt.	Consult/Assoc.	Psychiatry	New Appt.	Consult/Assoc.	Psychiatry	NA	NA	NA
Simpson, III, James K., MD	New Appt.	Active	Internal Medicine	New Appt.	Active	Internal Medicine	New Appt.	Active	Internal Medicine
Sims, Kaci D., MD	NA	NA	NA	New Appt.	Contract/Locums	Emergency Medicine	NA	NA	NA
Snider, John M., Neuro Tech	Reappt.	Allied	Neurosurgery	Reappt.	Allied	Neurosurgery	NA	NA	NA
Spiryda, Lisa B., MD, PhD	New Appt.	Active	OBGYN	New Appt.	Active	OBGYN	New Appt.	Active	OBGYN
Standley, Todd B., MD	Reappt.	Active	Radiology	Reappt.	Active	Radiology	Reappt.	Active	Radiology
Steffler, Brad A., MD	Reappt.	Active	Radiology	Reappt.	Active	Radiology	Reappt.	Active	Radiology
Stuck, Nathanael C., PA	New Appt.	Allied	Neurosurgery	New Appt.	Allied	Neurosurgery	New Appt.	Allied	Neurosurgery
Thompson, Laura H., MD	Reappt.	R&F Physician	Family Medicine	NA	NA	NA	NA	NA	NA

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
August 2017, September 2017, and October 2017

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	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Townsend, Laura A., PA	Reappt.	Allied	Orthopaedics	Reappt.	Allied	Orthopaedics	NA	NA	NA
Walker, Marshall K., MD, MPH	New Appt.	Active	Radiology	New Appt.	Active	Radiology	New Appt.	Active	Radiology
Weinacker, Elizabeth R., MD	Reappt.	R&F Physician	Pediatrics	NA	NA	NA	NA	NA	NA
Williams, India S., PCT	NA	NA	NA	New Appt.	Allied	Internal Medicine	NA	NA	NA
Zarzour, Joseph Grant, MD	New Appt.	Courtesy	Orthopaedics	New Appt.	Courtesy	Orthopaedics	NA	NA	NA
Change Requests									
Christensen, Stephanie S., CRNP	Add Priv.	Allied	OBGYN Eval. Ctr	NA	NA	NA	NA	NA	NA
Clark, Shawn B., MD	NA	NA	NA	Add Priv.	Active	Neurosurgery	NA	NA	NA
Harmon, Charles Miles, MD	Add Priv.	Active	Pediatrics	Add Priv.	Active	Pediatrics	Add Priv.	Active	Pediatrics
Harris, Curtis N., MD	Add Priv.	Active	Surgery	Add Priv.	Active	Surgery	Add Priv.	Active	Surgery
Hunter, III, John D., MD	Add Priv.	Active	Surgery	NA	NA	NA	Add Priv.	Active	Surgery
Lammers, John E., MD	NA	NA	NA	Add Priv.	Active	Internal Medicine	NA	NA	NA
Mattei, Mary L., CRNP	Add Priv.	Allied	OBGYN	Add Priv.	Allied	OBGYN	Add Priv.	Allied	OBGYN
Roth, Tracy Y., MD	Add Priv.	Active	OBGYN	Add Priv.	Consult/Assoc.	OBGYN	Add Priv.	Active/Consult	OBGYN
Retired/Resigned									
Name	**Reason**	**Date**	**Dept.**	**Reason**	**Date**	**Dept.**			
Al-Ghafry, Maha, MD	Resigned	6/30/2017	Pediatrics	NA	NA	NA			
Allison, Ronald C., MD	Retired	8/31/2017	Internal Medicine	Retired	8/31/2017	Internal Medicine			
Atkinson, Tangela, MD	Resigned	7/31/2017	Family Medicine	Resigned	7/31/2017	Family Medicine			
Bulczak, Dariusz P., MD	Resigned	9/26/2017	Radiology	Resigned	9/26/2017	Radiology			
Charaf, Edriss, MD	NA	NA	NA	Resigned	8/16/2017	Internal Medicine			
Connelly, Rosina A., MD	Resigned	8/17/2017	Pediatrics	NA	NA	NA			
Gaffin, Daniel S., DPM	Retired	8/31/2017	Orthopaedics	Retired	8/31/2017	Orthopaedics			
Gloin, Alexandra V., PA	Resigned	7/17/2017	Radiology	Resigned	7/17/2017	Radiology			
Hires, Alicia R., RN	NA	NA	NA	Resigned	9/21/2017	Internal Medicine			
Moorer, Ashley C., RN	NA	NA	NA	Resigned	9/21/2017	Internal Medicine			
Patterson, Scott B., DO	Resigned	10/2/2017	Surgery	Resigned	10/2/2017	Surgery			
Pettyjohn, Frank S., MD	Retired	7/31/2017	Internal Medicine	Retired	7/31/2017	Internal Medicine			
Rowell, Tanya E., CRNP	NA	NA	NA	Resigned	7/28/2017	Internal Medicine			
Warner, Barry A., DO	Resigned	7/1/2017	Internal Medicine	Resigned	7/1/2017	Internal Medicine			

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEES APPROVAL

August 2017, September 2017, and October 2017

LEGEND:

New Appt.	New application for medical/allied staff privileges recommended for approval.
Reappt.	Reappointment application for medical/ allied staff privileges recommended for approval.
No Privs.	No privileges requested
Change in Status	Added privileges Change Department
Retired Resigned	Moved, Retired or Resigned

RECOMMENDED BY:

Benjamin E

Benjamin Estrada, M.D., Chair of Medical Executive Committee or Chair Elect
USA Children's & Women's Hospital

Sabrina G. Bessette MD

Sabrina G. Bessette, M.D., Chair of Medical Executive Committee or Chair Elect
USA Medical Center

Owen Bailey

Owen Bailey
Chief Executive Officer & Senior Associate Vice President for Medical Affairs
USA Health

RESOLUTION

USA HOSPITALS MEDICAL STAFF BYLAWS AND RULES AND REGULATIONS, REVISIONS OF OCTOBER 17, 2017

WHEREAS, revisions to the USA Hospitals Medical Staff Bylaws and Rules and Regulations, approved at the October 17, 2017, Medical Staff meeting and attached hereto, are recommended for approval by the Medical Executive Committees, General Medical Staff and the Executive Committee of the University of South Alabama Hospitals,

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

Proposed Changes to University of South Alabama Hospitals
Medical Staff Bylaws and Rules and Regulations
Revision/Additions Descriptions
Approved at the USA Hospitals General Medical Staff Meeting on October 17, 2017

RECOMMENDED TO BE EFFECTIVE IN DECEMBER 2017

BYLAWS

1. **The following sections were revised to change the Vise President of USA Health to the Chief Executive Officer title:**
   Sections 2.01, 3.01, 3.06, 12.05, 14.04, 14.05, 15.01, 16.08, 18.01, 20.05, 22.01 and 29.02.

2. **ARTICLE V- CATEGORIES OF TEMPORARY STAFF**
   Section 5.01 Temporary Privileges- Locum Tenens
   Revised University of South Alabama System to the term University of South Alabama Health.

3. **ARTICLE XVIII-CHIEF EXECUTIVE OFFICER (New title)**
   Section 18.01 Selection
   Revised to clarify the position is hired by the University instead of by the President of the University.

4. **ARTICLE XIX-OFFICERS**
   Section 19.01 Chair of Medical Executive Committee –Selection- (Items C and F)
   Revised deadline for nominations by petition to 30 days instead of 7 days prior to the General Medical Staff meeting. Revised the Medical Executive Committee Chair term of office to allow one consecutive reelection term in special circumstances.

5. **ARTICLE XXIII -MEDICAL EXECUTIVE COMMITTEE**
   Section 23.03 Membership
   Added the Chief Executive Officer to the ex-officio membership list.

RULES AND REGULATIONS

1. **2.0 General Conduct of Care:**
   2.1.8 On-Call Obligations
   Added a new section to describe the on-call physician responsibilities.

2. **2.2 Consultation:**
   2.26 Essentials of a consultation
   Added a new section describing the consult processes.

3. 6.**0 Emergency Department /Pediatric Emergency Department/ OB/GYN Evaluation Center**
   6.1 Physician requirements
   Added a description of the new pediatric emergency department.

Proposed Changes to University of South Alabama Hospitals Medical Staff Bylaws and Rules/Regulations
Revisions approved at the USA Hospitals General Medical Staff Meeting on October 17, 2017

Bylaws Proposed Changes:

<u>Bold and Underlined</u> -New Wording ~~Strikethrough~~ -Deletion

<u>ARTICLE II, III, XII, XIV, XV, XVI, XVIII, XX, XXI, XXIX,</u>

Vice President of USA Health Systems changed to Chief Executive Officer in the following Sections:

- 2.01
- 3.01, 3.06
- 12.05
- 14.04, 14.05
- 15.01
- 16.08
- 18.01
- 20.05
- 22.01
- 29.02

<u>ARTICLE V</u>

University of South Alabama System to University of South Alabama Health in the following Section:

- 5.01

<u>ARTICLE XVIII</u>

Section 18.01 CHIEF EXECUTIVE OFFICER ~~Vice President for Health Systems~~

The **<u>Chief Executive Officer</u>** ~~Vice President for Health Systems~~ is hired by the ~~President of~~ University of South Alabama and serves until resignation or termination.

<u>ARTICLE XXIII -MEDICAL EXECUTIVE COMMITTEE</u>

Section 19.01 Chair of Medical Executive Committee Selection.

A. Biennially, the Chair of MEC, Chair-Elect/Secretary of MEC, Chair of the Performance Improvement Council, (CW only) and Immediate past Chair of MEC in collaboration with the Hospital Administrator and the Quality Director serve as the Nomination Committee. The Nomination Committee shall nominate at least one candidate for the office of Chair-Elect/Secretary, to serve for two years beginning January 1. The Chair-Elect is presented for approval in the Chair of MEC office at the end of the Chair-Elect term.

B. The Medical Staff Office will also send an email to Active Medical Staff members notifying them that the officer selection is due to be an agenda item at the General Medical Staff meeting.

C. Nominations may be made prior to the General Medical Staff meeting by petition signed by at least ten (10) voting members of the Active Medical Staff and filed with the Chair of the Medical Executive Committee at least ~~seven (7)~~ **<u>thirty 30</u>** days prior to the General Medical Staff meeting at which officers are to be elected.

D. The slate of officers shall be presented to the General Medical Staff for approval. The election shall be by vote at the quarterly medical staff meeting held in the fall, and the outcome shall be determined by a majority of the votes cast by the voting active medical staff members.

E. After the vote the Medical Executive Committee will forward the elected officer list to the Executive Committee for approval. If approved by the Executive Committee, the officer selection is forwarded to the BOT for approval.

F. Term of Office. The Chair of MEC shall serve for two (2) years and is ~~not~~ eligible for **<u>one</u>** consecutive reelection, **<u>under extraordinary circumstances as determined by the medical executive committee as a whole.</u>**

G. Resignation. The Chair of MEC may submit a letter of resignation to the Hospital Administrator or Executive Committee.

H. Removal from Office.

1) The Chair of MEC may be removed from office by action of the Executive Committee or by a two-thirds vote of the members of the MEC if that action is ratified by the Executive Committee.

2) Acceptable grounds for removal include, but are not limited to:

a. Failure to perform the duties of the position in a timely and appropriate manner.
b. Failure to support the Hospital's mission; and
c. Failure to satisfy the qualifications for the position.

Removal from office alone has no effect on the Physician's Medical Staff appointment status or delineated clinical privileges.

<u>Section 23.03 Membership</u>

Members of the Organized Medical Staff may be appointed for service on the MEC. The membership of the MEC, the majority of which shall be voting member physicians who are actively practicing in the hospital, shall consist of no more than 22 voting members including the following:

A. Chair
B. Immediate Past Chair
C. Chair-Elect/Secretary
D. Department Chairs and/or CW Service Line Chair
E. Elected At-Large Members of the Medical Staff
F. CW Only - Residency Program Directors (Primary Service)

Biennially, the Chair of MEC, Chair-Elect/Secretary of MEC, and Immediate Past Chair of MEC in collaboration with the Hospital Administrator shall appoint At-Large Members from the Organized Medical Staff.

G. Chair of the Combined Credentials Committee
H. Ex-Officio Members
1) Hospital Administrator/designee
2) Chief Nursing Officer/designee
3) Quality Management Representatives
4) College of Medicine Dean/Vice President of Medical Affairs
5) **<u>Chief Executive Officer</u>**
6) Residents (primary services)

Proposed Changes to University of South Alabama Hospitals Medical Staff
Bylaws and Rules/Regulations
Revisions approved at the USA Hospitals General Medical Staff Meeting on October 17, 2017

Rules/Regulations Proposed Changes:

<u>Bold and Underlined</u> -New Wording ~~Strikethrough~~ –Deletion

2.0 <u>General Conduct of Care:</u>

2.1 Physician Privileges and Responsibilities:

New Sections

2.1.8 <u>On-Call Obligations</u>

A. **<u>When beyond control of the on-call physician, response cannot be made for an emergency for an inpatient, the Hospital Administrator on-call will be notified to arrange alternatives which may include transfer of care to the coverage team for the remaining patient hospitalization.</u>**

B. **<u>In all cases, the on-call physician is responsible for arranging for a replacement or back up when response delays are anticipated. In the event that all resources are exhausted, the Hospital Administrator on-call will be notified for a decision regarding the transfer of that service.</u>**

C. **<u>When a practitioner is paged, call back is required within 15 minutes.</u>**

2.2 Consultation:

2.2.1 Providing a consultation

Any attending physician can be called for consultation within his/her area of expertise.

2.2.2 Requesting a consultation

The patient's primary attending physician is responsible for requesting all consultations via a written order and a note indicating the reason for the request. Consultations shall be required, except in extreme emergencies, under the following conditions.

3.2.2.1 In unusually complicated situations where specific skills of other practitioners may be needed;

3.2.2.2 In any instance in which the patient exhibits severe psychiatric symptoms.

3.2.2.3 In the event an oral maxillofacial surgeon admits a patient, a consult to the appropriate medical service is required.

2.2.3 Patient request for consultation

A request by a patient or surrogate for a consultation will be honored by the patient's primary attending physician if appropriate.

2.2.4 Consultation report

A consultation report must be provided by the consultant for inclusion in the medical record. The consultation report must meet the minimum requirements set forth by Medicare (review of record, pertinent findings on examination of patient and the consultant's opinion and recommendation). If the consulting attending physician actively participates in the patient's management, e.g., writes orders, their report must meet the minimum requirements set forth by Medicare for subsequent care. All reports must be authenticated by signature, date, and time by the consulting attending physician.

2.2.5 Essentials of a consultation

A satisfactory consultation includes examination of the patient and the patient 's record. The consultant 's assessment and recommendation shall be documented a n d signed in the medical record. Physician may elect to have an L.I.P. or house staff/ team member initiate the consultation, provided the physician evaluates the patient within 24 hours of request for consultation. If the order for a consult is for assessment and recommendations only; this means that no orders are written by the consultant. The attending physician does have the option to order consult and follow patient; this means that the consultant can write orders which are to be carried out. If there is to be a transfer in responsibility of care (attending status), this must be mutually agreed upon and entered as an order in the medical record.

Consultations shall be completed and documented within twenty-four (24) hours of request, except when otherwise stated by the consultant and agreeable with the referring physician. When this does not occur, the attending physician shall be notified, and documented in the medical record.

~~2.2.5~~ **2.2.6 Nursing Issues with Care (renumbering of this section)**

6.0 Emergency Department / Pediatric Emergency Department/ OB -GYN Evaluation Center

6.1 Physician requirements

CW Pediatric Emergency Department ~~Evaluation Center~~: A physician or advanced practice registered nurse or a Sexual Assault Nurse Examiner, with appropriate clinical privileges, will perform a medical screening examination, based on the patient's presenting signs and symptoms, to determine the existence of an emergency medical condition. If an advanced practice registered nurse performs the medical screening examination, he/she must review the examination findings with the physician and the physician must sign the patient's medical record. The SANE examiner will consult the ED physician, if an emergency medical condition is identified.

CW **OB - GYN Evaluation Center** ~~OB Evaluation Area~~: A physician or advanced practice registered nurse, with appropriate clinical privileges may perform a medical screening examination, based on the patient's presenting signs and symptoms, to determine the existence of an emergency medical condition. Additionally, a registered nurse, with medical screening examination competency validation and approved by the MEC/BOT, may perform the medical screening examination based on the patient's presenting signs and symptoms, to determine the existence of an emergency medical condition. The registered nurse will contact the physician or advanced practice registered nurse to review the medical screening examination findings and the physician or advanced practice registered nurse will determine subsequent care.

UNIVERSITY OF SOUTH ALABAMA HOSPITALS
MEDICAL STAFF MEETING MINUTES
October 17, 2017

The meeting of the University of South Alabama Hospitals Medical Staff was held at the Strada Patient Care Center on Tuesday, October 17, 2017. John Marymont, MD, Vice President for Medical Affairs and Dean of the College of Medicine called the meeting to order at 6:20 p.m. A roster of attendees is available in the Medical Staff Credentials Office.

John Marymont, MD welcomed everyone to the meeting and began by introducing Sabrina Bessette, MD, USA Medical Center Medical Staff Chair. Dr. Bessette presented the proposed revisions to the Medical Staff Bylaws for review and approval, which was granted. Benjamin Estrada, MD, USA Children's & Women's Hospital Medical Executive Committee Chair, presented the proposed revisions to the Rules and Regulation for review and approval, which was granted.

John Marymont, MD announced the slate of Medical Staff Officers recommended for approval by each hospital Medical Executive Committee for the two-year term beginning in 2018. The officers for USA Medical Center were Sabrina Bessette, MD, Chair and Edward Panacek, MD, Chair-Elect. The officers for USA Children's & Women's Hospital were Allen Perkins, MD, Chair and Craig Sherman, MD, Chair-Elect. As there were no nominations from the petition nomination process, a motion to elect the officers presented was made, carried, and approved.

John Marymont, MD introduced two new physicians: Charles Miles Harmon, MD, Neonatologist and Lisa Spiryda, MD, OB/GYN Department Chair. He announced that David Gremse, MD was named American Board of Pediatrics Board of Directors Chair.

John Marymont, MD reported, for the College of Medicine, that the Step 1 and Step 2 CK Scores are ranking in the 90 percentile nationwide. Preparations are underway for the upcoming Liaison Committee on Medical Education (LCME) Accreditation site visit scheduled for October 2018. He shared all pertinent information must be submitted by the summer of 2018.

John Marymont, MD reported, for the USA Health System, that two weeks into the Cerner Go-Live project things were better than could be expected. A Hurricane arrived during the first week of Cerner implementation, which resulted in all emergency operation plans being exercised during the Cerner initiation process. A Night Honoring Heroes was held on October 10, 2017 with 600 guests in attendance. This event honored trauma survivors and paid tribute to the courageous first responders, medical professionals and community leaders who make living possible after a traumatic injury. He also shared the University of South Alabama Foundation was the title sponsor for the inaugural event, which will benefit USA Medical Center's Level 1 Trauma Center.

Mr. Chris Jett, Administrator of USA Children's & Women's Hospital reported that the Joint Commission's recent survey faired exceptionally well. The Pediatric Emergency Medicine Department and the OB/GYN Evaluation Center opened in August is making a drastic improvement with the ability to separate the children and women. The process of recruiting Pediatric Emergency Medicine Fellowship trained physicians is underway. Future projects mentioned were renovations to the Labor and Delivery Waiting Room and to the Women's Tower. There are also plans to open the eighth operating room as volume indicates. He shared that focus needs to continue on market shares of deliveries with significant efforts to improve and change patient satisfaction scores. Dates of upcoming events were shared along with an invitation for all to attend: October 22, 2017 NICU Reunion; October 27, 2017 Trick or Trot Fundraiser; and November 28, 2017 Lights of Love.

Mr. Sam Dean, Administrator of USA Medical Center, reported on the percentage of growth in several areas of the hospital including in-house patients. He shared that there have been improvements noted in Door-to-Admit; Length-of-Stay; and ED Diversion Time. It was announced that 20 additional Medical Surgery beds will be added to the 8th Floor. The renovations on the lobby and main entrance should be completed at the end of October with a grand opening planned for December. It was also announced that a CON (certificate of need) for a free standing emergency room to be located near the USA Campus was submitted.

John Marymont, MD announced that Dr. Tony Waldrop, University President, is holding the Town Hall Meetings, with one recently held at Mitchell Cancer Institute (MCI). The next meeting will be held at the USA Medical Center on October 18, 2017 with another one to be held in the near future at USA Children's & Women's Hospital. All were encouraged to attend.

John Marymont, MD introduced Apryl Ballard, Unity Program Director, and Garry Adkins, Interim Chief Information Officer, who reported on the Cerner Project. They reported that a lot of issues were resolved during the implementation period and shared some of the positive feedback received. The project has now entered into the stabilization period with the next phase being the optimization period. They will start going clinic-to-clinic and department-to-department to work with staff to standardize the message and give support where needed. It was stated that: "We are ahead of the Curve".

With no further business, the meeting was adjourned at 6:50 p.m.

Respectfully submitted,

Juliana Kuck

Juliana Kuck
Medical Credentialing Coordinator

RESOLUTION

USA HOSPITALS NOMINATION OF MEDICAL STAFF OFFICERS FOR THE 2018 AND 2019 CALENDAR YEARS

WHEREAS, the following slate of officers approved at the General Medical Staff meeting on October 17, 2017, are recommended for approval by the Medical Executive Committees, General Medical Staff and the Executive Committee of the University of South Alabama Hospitals,

USA Children's & Women's Hospital

Chair, Medical Executive Committee	Allen Perkins, M.D.
Chair-elect/Secretary, Medical Executive Committee	Craig Sherman, M.D.

USA Medical Center

Chair, Medical Executive Committee	Sabrina Bessette, M.D.
Chair-elect/Secretary, Medical Executive Committee	Edward Panacek, M.D.

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

RESOLUTION

NAMING OF THE UNIVERSITY OF SOUTH ALABAMA DEPARTMENT OF PATHOLOGY RESIDENT OFFICE SUITE

WHEREAS, Dr. J. Allan Tucker, Jr., answered the higher calling of academic medicine and set a high standard for excellence by demonstrating the important role physicians play as mentors for medical students and residents, and

WHEREAS, Dr. Tucker joined the medical faculty in the USA Department of Pathology in 1991 as an associate professor and served in many leadership roles during his 25-year career with USA Health, including director of the Health Services Foundation Anatomic Pathology Laboratories and chief of surgical pathology, director of the pathology residency program and vice chair of pathology, ultimately serving as the Louise Lenoir Locke Professor and Chair of Pathology from 2003 until he stepped down in 2015, and

WHEREAS, Dr. Tucker was noted for his many unique gifts that were guided by his insight, intellect, and dedication to the field of pathology and electron microscopy on a national and international scale, which were rivaled only by his wit, thoughtfulness and generosity to others, and

WHEREAS, as an outstanding teacher and a compassionate physician, Dr. Tucker had a profound positive impact on students, residents, faculty and staff alike, and

WHEREAS, Dr. Tucker was an enthusiastic medical educator in the field of pathology, who readily shared his medical knowledge interwoven with his witty stories to effectively share with others his passion for medicine along with his curiosity of how the human body functioned to the finest detail, and

WHEREAS, medical students, residents and faculty on numerous occasions bestowed honors upon Dr. Tucker for his stellar teaching, including Best Basic Science Professor, Best Senior Rotation, and a Faculty Recognition Award for Best Pathology Housestaff Teacher,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees gratefully acknowledges Dr. Tucker for the high ideals he set for others and for the enduring, meaningful contributions he made to the University of South Alabama Department of Pathology Graduate Medical Education Program by naming the USA Department of Pathology Resident Office Suite in memory of J. Allan Tucker, Jr., M.D.

RESOLUTION

NAMING OF THE UNIVERSITY OF SOUTH ALABAMA DEPARTMENT OF PATHOLOGY LIBRARY

WHEREAS, Dr. William A. Gardner, Jr., served as the Louise Lenoir Locke Professor and Chair of Pathology from 1981 to 2002 and as interim dean of the College of Medicine and vice president for medical affairs from 1997 to 1998, and

WHEREAS, Dr. Gardner sponsored numerous international exchanges with students and medical professionals and, during his tenure at USA, he received a Fulbright Award to teach prostatic pathology and other fields of medicine in the Slovak Republic from 1996 to 1997, and

WHEREAS, Dr. Gardner was a recognized researcher and writer, with numerous books, articles, reviews and abstracts primarily dedicated to prostate cancer, and

WHEREAS, Dr. Gardner's extensive research of prostate cancer and his forward-thinking style led to many advances in the field, and

WHEREAS, known for his thought-provoking and entertaining presentations and lectures, Dr. Gardner was held in the highest regard by those he taught as an outstanding teacher, physician, leader, mentor and friend,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees gratefully acknowledges Dr. Gardner for the high standards he set in the field of pathology and for the many contributions he made to the University of South Alabama Department of Pathology by naming the USA Department of Pathology Library in memory of William A. Gardner, Jr., M.D.

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

USA Health

Date:
November 14, 2017

To:
Tony G. Waldrop, PhD
President TGW

From:
John V. Marymont, MD, MBA JVM
Vice President for Medical Affairs
Dean College of Medicine

Owen Bailey, FACHE
Chief Executive Officer
Senior Associate Vice President for Medical Affairs

Subject:
Board Meeting Documents

Attached for review and approval by the Health Affairs Committee and the Board of Trustees are:

Resolution – Naming of the University of South Alabama Department of Pathology Residency Office Suite

- Letter of Request for Naming the Pathology Residency Office Suite

Resolution – Naming of the University of South Alabama Department of Pathology Library

- Letter of Request for Naming the Department of Pathology Library

We fully support these naming requests and thank you for your consideration.

OB/kh

Attachments

UNIVERSITY OF SOUTH ALABAMA

September 19, 2017

John Marymont, MD
Vice President for Medical Affairs
Dean College of Medicine
University of South Alabama

Owen Bailey
Chief Executive Officer
USA Health

RE: Naming the Pathology Department Resident Office Suite

Dear Dr. Marymont and Mr. Bailey,

I am writing this letter to kindly ask you to consider approving the naming of the University of South Alabama Department of Pathology Resident Office Suite in honor of J. Allan Tucker, M.D.

Dr. Allan Tucker, former Louis Locke Professor and Chair of Pathology at the University of South Alabama, passed away on March 23, 2016. Dr. Tucker joined the department of Pathology at USA in 1991 as an associate professor of pathology and served multiple leading roles in the department during his tenure. He served as director of the Health Services Foundation Anatomic Pathology Laboratories, Director of Surgical Pathology, Director of Anatomic Pathology, vice chair of pathology, residency program director and, from 2003 until he stepped down in August of 2015, department chair.

He was known for his compassion as a physician and his dedication to teaching medical students and residents. He received numerous awards from his students and residents for excellence in teaching including the Best Basic Science Professor, Best Senior Rotation, and the Pathology Housestaff Faculty Recognition Award. He was honored 19 times by senior medical students with the red sash graduation honor.

His contributions to pathology graduate medical education went beyond the confines of the University of South Alabama. Dr. Tucker served as chair of the GME committee for the Association of Pathology Chairs. He was a member of the ad hoc GME working group for the American Society for Clinical Pathologists, as well as the GME Committee for the College of American Pathologists.

The USA Board of Trustees honored Dr. Tucker as an exceptional administrator and faculty member in the March 4, 2016 resolution.

In summary, naming the residency suite after Dr. Tucker would honor qualities the department of pathology embraces and traits Dr. Tucker embodied such as integrity, dedication, empathy and respect for others.

Thank you for your consideration.

Andrea G. Kahn, M.D.
Associate Professor
Interim Co-Chair

Department of Pathology
2451 Fillingim Street | Mobile, Alabama 36617
TEL: (251) 471-7790 | FAX: (251) 471-7715 | akahn@health.southalabama.edu

UNIVERSITY OF SOUTH ALABAMA

September 19, 2017

John Marymont, MD
Vice President for Medical Affairs
Dean College of Medicine
University of South Alabama

Owen Bailey
Chief Executive Officer
USA Health

RE: Naming the Pathology Department Library

Dear Dr. Marymont and Mr. Bailey,

I am writing this letter to kindly ask you to consider approving the naming of the University of South Alabama Pathology Department Library in honor of William A. Gardner, Jr., M.D.

Dr. Gardner, Professor Emeritus of Pathology at the University of South Alabama, passed away on October 2, 2011. Dr. Gardner joined the Department of Pathology at USA to serve as the Louise Locke Professor and Chair of Pathology from 1981 to 2002. He was Interim Dean and Vice President for Medical Affairs from 1997 to 1998 at the USA College of Medicine. In 2002, he accepted the role of Executive Director of the American Registry of Pathology and CEO of the International Registry of Pathology and relocated to Washington, DC.

Dr. Gardner was a recognized researcher and writer, with numerous books, articles, reviews and abstracts primarily devoted to prostate cancer. His forward thinking style led to significant advances in the field. He was well-known for his thought-provoking and entertaining presentations and lectures. He also sponsored numerous international exchanges with students and medical professionals, mainly pathologists.

During his tenure at USA, he received a Fulbright Award to teach prostate pathology and other topics in pathology in the Slovak Republic from 1996 to 1997. He served as president and received distinguished service awards from the Association of Pathology Chairs and the United States and Canadian Academy of Pathology.

Dr. Gardner was highly regarded by those he taught, including many USA alumni, as an outstanding teacher, physician, leader, mentor and friend. Naming the pathology library after Dr. Gardner will honor these qualities and his contributions to the department and the field.

Thank you for your consideration.

Andrea G. Kahn, M.D.
Associate Professor
Interim Co-Chair

Department of Pathology
2451 Fillingim Street | Mobile, Alabama 36617
TEL: (251) 471-7790 | FAX: (251) 471-7715 | akahn@health.southalabama.edu

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 7, 2017
3:26 p.m.

A meeting of the Academic and Student Affairs Committee of the University of South Alabama Board of Trustees was duly convened by Ms. Bettye Maye, Chair, on Thursday, September 7, 2017, at 3:26 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Alexis Atkins, Steve Furr, Bettye Maye, John Peek and Mike Windom.
Members Absent:	Scott Charlton and Bryant Mixon.
Other Trustees:	Chandra Brown Stewart, Tom Corcoran, Ron Jenkins, Arlene Mitchell, Jimmy Shumock, Ken Simon, Steve Stokes and Jim Yance.
Administration and Others:	Elizabeth Adams, Andrea Agnew, Owen Bailey, Robert Berry, Harriett Burroughs, Rick Carter, Lynne Chronister, Joel Erdmann, Monica Ezell, Mike Finan, Susan Fitzsimmons, Happy Fulford, André Green, Lesley Gregoricka, Philip Habel, Mike Haskins, Holly Hudson, David Johnson, Rochelle Johnson, Melva Jones, Christopher Lynch, John Marymont, David Messenger, Mike Mitchell, Jance Mosley, Becky Phan, John Smith, Justin St. Clair, Margaret Sullivan, Carl Thomas (SGA), Jean Tucker, Elizabeth VandeWaa (Faculty Senate), Tony Waldrop and Scott Weldon.

The meeting came to order and the attendance roll was called. Ms. Maye called for consideration of the minutes of the meeting held on June 1, 2017. On motion by Mr. Peek, seconded by Mr. Windom, the Committee voted unanimously to adopt the minutes.

Ms. Maye called upon Provost Johnson to address **ITEM 15**, a resolution acknowledging the contributions of retired Dean of the University Libraries Dr. Richard Wood and offering best wishes for the future (for copies of resolutions, policies and other authorized documents, refer to the minutes of the Board of Trustees meeting held on September 8, 2017). Provost Johnson gave background on Dr. Wood's 17-year career at South. On motion by Mr. Peek, seconded by Mr. Windom, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Ms. Maye called for a report on the activities of the Division of Academic Affairs, **ITEM 16**. Provost Johnson introduced Provost Faculty Fellows Dr. André Green, Associate Dean - College of Education and Special Programs, and Dr. Justin St. Clair, Associate Professor – English Department. Also introduced were new chairs Dr. Philip Habel – Department of Political Science and Criminal

Justice; Dr. Elizabeth Adams – Department of Speech Pathology & Audiology; Dr. David Messenger – History Department; and Ms. Susan Fitzsimmons – Visual Arts Department.

Provost Johnson provided an update on a new Simulation Building, noting the project was currently in the planning stages. He described the $6.8 million, 28,000-square-foot facility as state-of-the-art and said a construction proposal would be submitted at an upcoming Board meeting. He reminded the group that a new student fee which was recently approved, along with support from the USA Foundation, would fund the project.

Provost Johnson gave an update on enrollment for the 2017-2018 academic year, advising of a substantial decline, primarily in international enrollment. He shared comparative data on first-time entering freshmen, noting an increase in the average GPA from 3.48 to 3.60; a 24 percent increase in students with a 30+ ACT score -- or 164 students; and domestic enrollment up by 46 students. He said the inaugural Honors College class had 86 students enrolled. He presented a chart showing a 23 percent improvement in retention rates among first- to second-year students from 2010 to 2016 and a marked five percent increase from 2014-2015 to 2015-2016. He stated graduation rates were increasing as well and he credited Associate Vice President for Student Academic Success Dr. Nicole Carr for the University's positive momentum and subsequent recognition by the Education Advisory Board. A discussion took place on Honors College characteristics.

Provost Johnson asked Associate Vice President for Enrollment Services Mr. Christopher Lynch to discuss changes to domestic and international scholarships. Mr. Lynch outlined several adjustments to the structure for awarding scholarships.

Provost Johnson introduced Associate Vice President for Global Engagement Dr. Rick Carter for a report. Dr. Carter talked about the assimilation of all programs and activities involving international matters into one unit. He introduced International Education Director Ms. Holly Hudson, who gave an overview on international education opportunities at South and shared enthusiasm for the Study Abroad program's 295 percent enrollment increase over four years. She introduced students Ms. Becky Phan and Mr. Jance Mosley. Each shared their experiences studying in other countries.

Ms. Maye called for a report on the activities of the Division of Student Affairs, **ITEM 17**. Dr. Smith advised of the 100 percent occupancy of on-campus residential facilities and stated, to cover additional student needs for housing, the University had leased just over 200 beds from The Grove. He reminded the group that the new residential building under construction, Camellia Hall, was slated to open in the fall of 2018.

Dr. Mitchell shared background on the TRIO programs offered at South – Educational Talent Search and Upward Bound – which he said originated from the federal Economic Opportunity Act of 1964, with funding from the U. S. Department of Education. He noted neither program was available at other institutions in Mobile or Baldwin counties. He introduced Assistant Dean of Students Dr. Andrea Agnew, who shared details on both programs, which avail resources to high school students to help them succeed and progress toward achievement of a postsecondary degree. She introduced Ms. Harriett Burroughs, Educational Talent Search coordinator, and Ms. Rochelle Johnson, Upward Bound coordinator.

Ms. Maye called for a report on the activities of the Division of Research and Economic Development, **ITEM 18**. Ms. Chronister introduced Assistant Professor of Sociology and Anthropology Dr. Lesley Gregoricka, who discussed her research involving centuries-old human skeletal remains and burial rituals in Poland.

There being no further business, the meeting was adjourned at 4:38 p.m.

Respectfully submitted:

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Steven P. Furr, M.D., Vice Chair

On behalf of:

____

Scott A. Charlton, M.D., Chair

RESOLUTION

SABBATICAL AWARDS

WHEREAS, in accordance with University policy, proposals for Sabbatical Awards have been reviewed and recommended by the respective faculty committees, Departmental Chair, College Dean, the Provost and Senior Vice President for Academic Affairs, and by the President,

THEREFORE, BE IT RESOLVED that the University of South Alabama Board of Trustees approves said Sabbatical Awards for Fall 2018 – Spring 2019.

NAME	DISCIPLINE	TIME PERIOD
E. Claire Cage	History	Spring 2019
Jorg Feldvoss	Mathematics and Statistics	Fall 2018
Jeannette Fresne	Music	Spring 2019
Rebecca M. Giles	Leadership and Teacher Education	Fall 2018
Lesley A. Gregoricka	Sociology/Anthropology/Social Work	Spring 2019
Ellen B. Harrington	English	Spring 2019
Matthew A. Johnson	Visual Arts	Fall 2018
Christina Lindeman	Visual Arts	Spring 2019
David A. Nelson	Mechanical Engineering	Spring 2019
Roberto Robles-Valencia	Modern and Classical Languages and Literature	Academic Year 2018-2019
Steven Trout	English	Fall 2018
Bin Wang	Mathematics and Statistics	Spring 2019

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM
Academic Affairs

Date:
November 13, 2017

To:
Tony Waldrop

From:
G. David Johnson

Subject:
Sabbatical Recommendations for Fall 2018 – Spring 2019

I recommend that the individuals whose names are listed below be granted a sabbatical for the period of time as indicated.

NAME	DISCIPLINE	TIME PERIOD
E. Claire Cage	History	Spring 2019
Jorg Feldvoss	Mathematics and Statistics	Fall 2018
Jeannette Fresne	Music	Spring 2019
Rebecca M. Giles	Leadership and Teacher Education	Fall 2018
Lesley A. Gregoricka	Sociology/Anthropology/ Social Work	Spring 2019
Ellen B. Harrington	English	Spring 2019
Matthew A. Johnson	Visual Arts	Fall 2018
Christina Lindeman	Visual Arts	Fall 2018
David A. Nelson	Mechanical Engineering	Spring 2019
Roberto Robles-Valencia	Modern and Classical Languages and Literature	Academic Year 2018-19
Steven Trout	English	Fall 2018
Bin Wang	Mathematics and Statistics	Spring 2019

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 2018 – Spring 2019

College of Arts and Sciences

1. Ellen B. Harrington, Associate Professor of English

   Sabbatical Request: Spring 2019 @ full pay

   Dr. Harrington's sabbatical would allow her to concentrate her efforts on a new book that focuses on Conrad's portrayal of his characters' madness. She will examine resources in Austin, Texas and the New York Public Library. It is anticipated that she will complete an outline of her book as well as complete the first two chapters.

2. E. Claire Cage, Assistant Professor of History

   Sabbatical Request: Spring 2019 @ full pay

   Dr. Cage's sabbatical will be used to continue research and writing second book tentatively titled "The Science of Proof: Forensic Medicine in Nineteenth-Century France". This will also expand professional networks with scholars and archives around the world and enhance teaching in terms of courses currently offered and potential new courses. This sabbatical request is contingent upon receiving tenure.

3. Steven Trout, Professor and Chair of English

   Sabbatical Request: Fall 2018 @ full pay

   Dr. Trout intends to complete his current monograph project, a history of the Vietnam Veterans Memorial in Angel Fire, New Mexico that is under contract with the University Press of Kansas. He also intends to write a proposal for a book on WWI Naval History. Both projects tie in directly with the mission and focus of the USA Center for the Study of War and Memory.

4. Lesley A. Gregoricka, Assistant Professor of Sociology, Anthropology, and Social Work

   Sabbatical Request: Spring 2019 @ full pay

   Dr. Gregoricka's sabbatical will be used to finish and submit several papers building on her work in Eastern Europe and the Middle East. In addition, she will also explore some new avenues of research on the history of infections diseases in the ancient world and continue to produce competitive grant proposals. This sabbatical request is contingent upon receiving tenure.

5. Roberto Robles-Valencia, Assistant Professor of Modern and Classical Languages and Literature

   Sabbatical Request: 2017-2018 Academic Year @ half pay

   Dr. Robles-Valencia is working on two projects on Spanish nationalism. The sabbatical would allow time to travel to Spain to consult archival materials of the Biblioteca Nacional (Spanish national library) as well as other recent cultural products which require on-site analysis due to their ephemeral nature. In addition, the research will help to produce original materials for use in courses and seminars in Spanish literature, culture, writing and conversation. This sabbatical request is contingent upon receiving tenure.

6. Jorg Feldvoss, Professor of Mathematics and Statistics

   Sabbatical Request: Fall 2018 @ full pay

   Dr. Feldvoss' sabbatical will be used to advance his research and enhance his competitiveness in attracting external funding by traveling to Germany and Italy to collaborate with other mathematicians. He intends to finish turning sets of slides on support varieties for Hopf algebras used in his lectures into a book. During his stay abroad it is anticipated that he will present at conferences and colloquium talks.

7. Matthew A. Johnson, Professor of Graphic Design

   Sabbatical Request: Fall 2018 @ full pay

   Mr. Johnson plans to produce a minimum of ten unique, handcrafted books that contain original illustrations and typographic elements. This project branches out from a field that is generally commercially orientated to one that is more expressive. His mastery of this work will enable him to teach it to others, which to lead to new course offerings in Visual Arts.

8. Christine Lindeman, Assistant Professor of Art History

   Sabbatical Request: Fall 2018 @ full pay

   Dr. Lindeman's sabbatical will be used to develop book proposal with outline and complete the first two chapters on the Prussian painter Anna Dorothea Therbusch. Study for this relies heavily on formal analysis of the subject's artwork, technical progress, and archival materials obtained during previous research trips. This sabbatical request is contingent upon receiving tenure.

9. Bin Wang, Professor of Mathematics and Statistics

   Sabbatical Request: Spring 2019 @ full pay

   Dr. Wang intends to use his sabbatical to advance his research agenda, apply the measurement error models for gene expression data and develop new algorithms to normalize next-generation sequencing data and to detect differentially expresses genes. He will collaborate with internal and external researchers to develop grant proposals to pursue external funding to continue research in statistical methods for big biomedical data analysis.

10. Jeannette Fresne, Professor of Music

    Sabbatical Request: Spring 2019 @ full pay

    Dr. Fresne's plans to write and publish a series of children's books that integrate music with English language arts, math, science and social studies for early childhood and elementary teachers to use in classrooms. The sabbatical would provide time to create and travel to California to work with the artist and submit books to the publisher. In addition, surveys of teachers using the books can be used for research purposed, in addition to present during professional development with area teachers in in classes with students at USA.

College of Engineering

David A. Nelson, Professor and Chair of Mechanical Engineering

Sabbatical Request: Spring 2019 @ full pay

Dr. Nelson intends to use his sabbatical to further develop and commercialize a novel transducer design and method used for measuring skin blood flow in humans. This will include preparing a proposal draft for submission in late 2018 or early 2019. He also plans to complete the NIH I-Corps entrepreneurship training. Dr. Nelson has applied for funding from the National Institutes of Health. His sabbatical leave is contingent upon receiving funding from NIH.

College of Education and Professional Studies

Rebecca M. Giles, Professor of Leadership and Teacher Education

Sabbatical Request: Fall 2018 @ full pay

SABBATICAL RECOMMENDATIONS
Fall 2018 – Spring 2019

Dr. Giles' sabbatical leave would be spent on three endeavors that build upon previous work in the area of young children's acquisition of language and literacy that includes completing a funded research fellowship at the Strong National Museum of Play in Rochester, NY, conducting a mixed-methods research study of informal learning environments in eight states, and delivering completed professional resources under contract to Exchange Press. She also plans to publish at least two articles in journals and present at two respected organizations.

RESOLUTION
PROFESSORS EMERITUS

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

ACADEMIC AFFAIRS:

Keith G. Blackwell, Ph.D., Associate Professor of Meteorology
Paul A. Dagenais, Ph.D., Professor of Speech Pathology and Audiology
Donald E. DeVore, Ph.D., Professor of History
Nader Entessar, Ph.D., Professor of Political Science and Criminal Justice
Douglas W. Haywick, Ph.D., Associate Professor of Geology
Marjorie Icenogle, Ph.D., Professor of Management
Robert E. Moore, Ph.D., Associate Professor of Speech Pathology and Audiology
Daniel E. Rogers, Ph.D., Professor of History
Marjorie E. Scaffa, Ph.D., Professor of Occupational Therapy
Michael P. Spector, Ph.D., Professor of Biomedical Sciences
Julio F. Turrens, Ph.D., Professor of Biomedical Sciences
Gregory A. Waselkov, Ph.D., Professor of Anthropology
William V. Wojciechowski, M.S., Associate Professor of Cardiorespiratory Care

COLLEGE OF MEDICINE:

John W. Foster, Ph.D., Professor of Microbiology and Immunology
Ivan F. McMurtry, Ph.D., Professor of Pharmacology
Frank S. Pettyjohn, M.D., Professor of Emergency Medicine
John C. Schultz, M.D., Professor of Internal Medicine
Barry A. Warner, D.O., Associate Professor of Internal Medicine

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, College Dean, the Provost and Senior Vice President for Academic Affairs, the Vice President for Medical Affairs, and the President have duly recommended the aforementioned faculty retirees be appointed to the rank of Professor Emeritus or Associate Professor 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 or Associate Professor Emeritus with the rights and privileges thereunto appertaining, and

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

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Academic Affairs

Date:
November 6, 2017

To:
Tony Waldrop

From:
G. David Johnson

Subject:
Emeritus Recommendations

In accordance with recommendations by the faculties, chairs and deans of the respective disciplines and colleges I recommend that the retired University of South Alabama faculty members listed below be granted the status of *Professor Emeritus, and Associate Professor Emeritus* as indicated, effective upon approval by you and the Board of Trustees.

- Keith G. Blackwell, Associate Professor of Meteorology
- Paul A. Dagenais, Professor of Speech Pathology and Audiology
- Donald E. DeVore, Professor of History
- Nader Entessar, Professor of Political Science and Criminal Justice
- Douglas W. Haywick, Associate Professor of Geology
- Marjorie Icenogle, Professor of Management
- Robert E. Moore, Associate Professor of Speech Pathology and Audiology
- Daniel E. Rogers, Professor of History
- Marjorie E. Scaffa, Professor of Occupational Therapy
- Michael P. Spector, Professor of Biomedical Sciences
- Julio F. Turrens, Professor of Biomedical Sciences
- Gregory A. Waselkov, Professor of Anthropology
- William V. Wojciechowski, Associate Professor of Cardiorespiratory Care

Thank you.

GDJ/njc

REC'D
Office of the President
NOV 0 7 2017
University of South Alabama

UNIVERSITY OF SOUTH ALABAMA

To: Dr. Tony G. Waldrop
President, University of South Alabama

From: Dr. John Marymont JMM
Vice-President for Medical Affairs and Dean of the COM

Date: October 31, 2017

Re: College of Medicine Emeritus Recommendations, 2017

Below are my 2017 Emeritus recommendations for the College of Medicine. These recommendations are being forwarded to you for your approval and for approval by the Board of Trustees.

RECOMMENDED:

College of Medicine:

John W. Foster, Ph.D., Professor of Microbiology and Immunology

Ivan F. McMurtry, Ph.D., Professor of Pharmacology

Frank S. Pettyjohn, M.D., Professor of Emergency Medicine

John C. Schultz, M.D., Professor of Internal Medicine

Barry A. Warner, D.O., Associate Professor of Internal Medicine

JM/ns

REC'D
Office of the President
NOV 01 2017
University of South Alabama

VICE PRESIDENT FOR MEDICAL AFFAIRS | DEAN, COLLEGE OF MEDICINE
CSAB 170 | 5795 USA Drive N. | Mobile, Alabama 36688-0002
TEL: (251) 341-3030 | FAX: (251) 341-3994

RESOLUTION

DEAN EMERITUS

WHEREAS, Dr. Richard J. Wood has retired from the University of South Alabama as Dean of the University Libraries, 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. Wood be appointed to the rank of Dean Emeritus,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama hereby appoints Dr. Richard J. Wood to the rank of Dean Emeritus with the rights and privileges thereunto appertaining, and

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

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Academic Affairs

Date:
November 6, 2017

To:
Tony Waldrop

From:
G. David Johnson

Subject:
Dean Emeritus Recommendation

I recommend that Dr. Richard J. Wood be granted the status of *Dean Emeritus* effective upon approval by you and the Board of Trustees.

Thank you.

GDJ/njc

REC'D
Office of the President
NOV 0 8 2017
University of South Alabama

RESOLUTION

MBA PROGRAM FEE

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

WHEREAS, the Mitchell College of Business has identified the need to implement a program fee of $3,000, distributed over the course of the program, to enable the restructuring of the MBA program by adding services to enhance graduate employability and connectivity to the business community, and

WHEREAS, additional revenues would be allocated to expenditures directly benefiting the students in the program that include a statistics lab, accounting lab, job placement/post-graduation employment activities, networking activities, and graduate assistantships, and

WHEREAS, the program fee would not add unreasonable costs to the program nor impair competitiveness, but would add significant value to the program, and

WHEREAS, after review of an analysis of program costs and of the new design of the MBA program, the Dean of the Mitchell College of Business, Provost and Senior Vice President of Academic Affairs, and the President have recommended approval of the proposed MBA program fee increase,

THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama approves the MBA program fee increase to be effective with the 2018 fall semester.

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Academic Affairs

Date:
November 15, 2017

To:
Tony Waldrop

From:
G. David Johnson

Subject:
MBA Program Fee Proposal

After review of current program costs, the new design of the MBA curriculum, as well as the attached recommendation from Dr. Bob Wood, Dean for the Mitchell College of Business, I agree with the recommendation to increase the MBA program fee for the College of Business. This increase will allow for improvement in the MBA Program by adding services to the core program and making MBA graduates of the MCOB more employable and better connected to the business community. The increase requested is as follows:

\$12,840	-	Current Program Cost
+ 3,000	-	**Program Fee Increase**
\$15,840	-	New Program Cost

If approved, this program fee increase will be for the student entering into the program Fall 2018 and will be in addition to any other approved institutional increase for Academic Year 2018-19.

Thank you for consideration of this request.

GDJ/njc

Approved ______________________

Disapproved ______________________

TO: David Johnson, Provost and Senior Vice President for Academic Affairs

FROM: Bob Wood, Dean

DATE: October 2, 2017

SUBJECT: MBA Program Fee Proposal

The Mitchell College of Business requests a $3,000 program fee increase for the University of South Alabama MBA program. Justification for the request, fee payment schedule, and proposed uses of the fee are outlined in the attached document. The College proposes that the increase begin the 2018-2019 academic year (August 2018).

MITCHELL COLLEGE OF BUSINESS | OFFICE OF THE DEAN
MCOB 106 | 5811 USA Drive South | Mobile, Alabama 36688-0002
TEL: (251) 460-6419 | FAX: (251) 460-6529 | southalabama.edu/colleges/mcob/

MITCHELL COLLEGE OF BUSINESS
MBA PROGRAM FEE PROPOSAL
OCTOBER 2017

INTRODUCTION

The new design of the MBA curriculum is a significant beginning in the improvement of the overall quality of the program. As with most things, improvements are not without cost. It is believed that these costs should be funded by participants in the program. The following proposal outlines a program fee structure that will generate the revenue needed to further improvement of the program. This proposal includes a cost comparison of equivalent AACSB-accredited programs in our area to ensure continued competitiveness. If approved, we request that the increase be included in program fees for the Fall 2018 semester. Only students entering the program in the Fall 2018 cohort (full and part-time students) will be subject to the proposed fee increase.

COST COMPARISON

The cost of a University of South Alabama MBA is lower than our nearest in-state competitors. These programs are Auburn University (AU), the University of Alabama (UA) and the University of Alabama Birmingham (UAB).

University	Program Length	Program Cost
AU	36 hours	$23,688
UA	42 hours	$28,046
UAB	36 hours	$14,945
USA	30 hours	$12,840

The above data indicates that the present USA tuition cost allows for a cost increase without sacrificing price competitiveness (the USA program also enjoys a program-length advantage over these three program). We request the addition of a $3,000 program fee. The program fee schedule is as follows.

	FULL-TIME COHORT	PART-TIME COHORT
FALL 1	$1200	$600
SPRING 1	$1200	$600
SUMMER 1	$ 600	$300
FALL 2		$600
SPRING 2		$600
SUMMER 2		$300

The requested increase would make the USA program slightly more expensive ($900) than UAB while the program would still enjoy a significant savings over the cost of the AU and UA programs. Assuming no growth in program size (we believe that the program redesign and the potential relocation of the program will increase the enrollment in the program), the requested program fee would generate $75,000 in additional revenue per year.

USE OF FUNDS

Additional revenues would be allocated to expenditures directly benefiting the students in the program. Planned expenditures include:

- Statistics Lab: Open to all MBA students 4-6 pm Monday-Thursday nights (immediately preceding class). The increasingly quantitative nature of business requires that graduates be highly adept in quantitative methods of analysis.
- Accounting Lab: Open to all MBA students 4-6 pm Monday-Thursday nights (immediately preceding class). A thorough understanding of accounting reporting methods is requisite for the successful manager.
- Guest Speaker Expenses: Although the program has relied exclusively on local business leaders, funding to cover travel expenses for a more diverse population of individuals with more varied industry experience is needed.
- Job Placement/Post-Graduation Employment Activities: A Graduate Job Fair focusing on graduate students enrolled across the state is scheduled this fall. The location of the event will rotate to participating universities around the state. Funds from the fee will used to pay USA MBA travel costs and offset costs when the event is hosted on the USA campus.
- Networking Activities: An underlying strength of any successful MBA program is the alumni network of potential employers and mentors in the local and regional area. This currently untapped resource must be developed. Funds from the proposed fee may be used to offset the costs associated with holding networking events that will connect current MBA students with the alumni in the business community.
- Graduate Assistantships: As the program grows, accumulated program fees may be used to fund graduate assistantships.

CONCLUSION

This proposal identifies an opportunity to improve the MBA program by adding services to the core program and making MBA graduates of the MCOB more employable and better connected to the business community. The program fee does not add an unreasonable cost to the program, does not impair competitiveness, and adds significant value to the program.

Strategic Plan for Alabama's Public Universities

Mission

The mission of the public universities of the state of Alabama is to provide excellence in higher education by inspiring the intellectual development of our students, rousing their creative spirit and innovative energy, and instilling in them the desire to improve the quality of life for all our state's citizens. Within the role, scope and mission of each public university, we will provide access to quality collegiate and university education for the citizens of Alabama. Such access will result in a better educated citizenry equipped to meet the demands of the economy and marketplace, with the ability to participate meaningfully in all aspects of civic life and to address the needs of society. The public universities must address these societal demands while wisely using our resources to meet the needs of our students, our institutions, and our state.

Values

Excellence is the cornerstone of higher education. Students must gain the knowledge and skills to excel in their lives and work. Similarly, faculty, as the knowledge drivers of our state, must continue to excel in pedagogy, scholarship, research, creativity and discovery. Other goals should never compromise excellence in academic standards and achievement.

Integrity is essential to the purposes and outcomes of higher education in all of its functions. It is a basic and foundational value that is expected to be observed in all the programs and services that institutions offer. Governing boards, administrations, faculty, staff, and students are responsible for applying the tenets of integrity to all that they do. Without a commitment to fostering integrity, strong and positive relationships among the members of the university community will not be sustained.

Equity focuses on eliminating disparities around higher education access, affordability, and attainment. Educational equity is especially important for underserved and underrepresented populations whose opportunities have historically been limited by factors including race, ethnicity, negative socio-economic factors, and limited family educational background.

Investment means committing financial, institutional, and community resources to transforming our public system of higher education, making it a more accessible and affordable pathway for our citizens and a greater economic driver for our state.

Partnership requires coordinated and collaborative efforts by all stakeholders to improve higher education and all other levels of education in Alabama.

Innovation drives creative new programs and products, revitalizes existing processes and products, fuels business and industry, and results in new solutions for society's most pressing issues.

Impact describes the purpose behind the endeavors undertaken in higher education. Individual and collective contributions, such as teaching, learning, research, scholarship and service, promote the greater good at the local, national, and global levels of society.

Priorities

Priority 1: Enhance Student Success:

According to data reported recently by the Lumina Foundation, only 37% of Alabama's working age adults have completed a postsecondary credential, and of those only 25% have earned a bachelor's degree or higher credential. For its economy and its people to reach their potential, Alabama needs to increase the number of its citizens who have earned postsecondary credentials, including greater numbers with bachelor's and graduate degrees.

Priority 2: Improve Access

Degree attainment rates for some populations of color in Alabama, African-Americans and Latinos, are lower than for white Americans. Degree attainment, as well as participation in higher education, is also lower for persons from low income families (Pell eligible) and from families where the parents did not attend college (first generation). For the state to realize its potential, attainment rates for these populations must improve.

Priority 3: Increase cooperation and collaboration across educational sectors

The public universities in the state currently collaborate with K-12 schools and community colleges, and opportunities exist to advance educational outcomes further with increased collaboration. In particular, Alabama needs to increase the percentage of high school graduates who are ready for college or work, and to improve continuously the transfer and general studies system which strives to allow students to articulate between two-year and four-year institutions without losing credit, time or money.

Priority 4: Enhance research, graduate education and post-baccalaureate professional education

Research, scholarship and discovery are important parts of the mission for each of the public universities in the state, particularly for those with high levels of research activity. Opportunities exist to enhance research outcomes in Alabama, including increasing coordination and collaboration among institutions to build centers of excellence and increasing the strength of partnerships among universities, government and industry. Enhancement of graduate and post-baccalaureate education is particularly important for stimulating research and creative activity in universities and fostering economic and cultural development in the state. Persons earning graduate and post-baccalaureate professional degrees from Alabama universities provide crucial human capital in many key industries.

Priority 5: Enhance workforce development and economic development

The public universities in the state produce graduates who are highly employable and who earn substantially higher wages than those without college degrees. Many industries with high growth potential, including those in science, technology, engineering, mathematics (STEM) and health care, need college graduates to fill important positions. University based research not only enhances the quality of educational outcomes but also serves as a source of innovation that stimulates economic development. As stated in the Science and Technology Roadmap, developed by the Alabama Vice Presidents for Research, "education and research organizations contribute directly to economic development efforts and are important for the recruitment of new business and industry."

Objectives and State Level Strategies*

Priority 1: Enhance Student Success:

Objectives:

- Increase number of students earning degrees.
- Among undergraduates, increase persistence of students into the second and subsequent years of study.
- Among undergraduates, increase 4-year and 6-year graduation rates.
- Among undergraduates, reduce the average time for completion of bachelor's degrees.
- Among graduate students, increase completion rates and decrease the time to degree.

Strategies:

- Provide state support for implementation and assessment of new learning strategies in developmental course work, including programs in which students can enroll in college math or English courses while simultaneously receiving supplemental developmental support (i.e., implement and assess accelerated learning strategies for students needing developmental study).
- Reduce the time needed for students to complete remedial requirements.
- Work with K-12 to increase the level of academic preparedness of students and reduce percentage of high school graduates who need remediation in college.
- Work with community college system to facilitate successful transfer of students to universities, including reducing the number of credit hours earned above the 120 needed to complete the bachelor's degree.
- Publish and monitor improvements in completion and persistence rates for Alabama's public universities.
- Share successful strategies for improving completion and persistence among Alabama's public universities.

Priority 2: Improve Access:

Objectives:

- Increase number of adult and other non-traditional or place-bound students entering/re-entering universities, both on campus and online with Alabama universities.
- Increase number of African-American, Latino, Pell Eligible, and first generation students attending public universities.
- Increase number of African-American, Latino, Pell Eligible, and first generation graduates at all degree levels.
- Work with K-12 education in the state to Increase the number of college ready high school graduates who subsequently enroll in universities.
- Improve communication of the value of higher education to all students, including those who are adults over age 22, and the community at large.

- Increase the opportunity and financial support for students with bachelor's degrees to pursue and graduate and/or professional studies.

Strategies:

- Increase amount of need based financial aid.
- Increase the amount of merit-based scholarships and financial assistance to students pursuing bachelor's degrees in priority areas such as STEM disciplines.
- Develop strategies for reducing the cost of attendance, including the cost of textbooks.
- Develop and implement strategy for increasing number of high school students who complete Free Application for Federal Student Aid (FAFSA).

Priority 3: Increase cooperation and collaboration across educational sectors:

Objectives:

- Work with K-12 to increase the level of academic preparedness of students and reduce percentage of high school graduates who need remediation in college.
- Reduce the number of credit hours accumulated by community college transfers above 120 hours or the number of credit hours required for the degree at graduation from universities.
- Increase the number of Associate's Degrees awarded by reverse transfer.
- Increase the number and preparedness of secondary education teachers in mathematics and the sciences.
- Strengthen partnerships between higher education and K-12.
- Strengthen partnerships between four-year universities and community colleges.

Strategies:

- Develop statewide cut scores for awarding college credit for Advanced Placement test results.
- Establish statewide definition of college readiness, including determining statewide developmental placement test scores.
- Strengthen collaborative efforts with K-12 with programs such as AMSTI, Science in Motion, Engineering Academies, and the Alabama Reading Initiative.
- Increase the Praxis II pass score required for teachers in secondary mathematics and the sciences.
- Increase financial aid for students who transfer from community colleges to four year universities.

Priority 4: Enhancing research, graduate education, and post-baccalaureate professional education

Objectives:

- Strengthen research performance and the academic reputation and standing of universities in the state.
- Strengthen connections and collaboration among universities to build research capacity in areas of national and statewide priorities.
- Among master's and doctoral degrees, increase completion rates and decrease time to degree.

- Attract talented graduate and post-baccalaureate professional students from Alabama and elsewhere (domestically and internationally) to help meet human capital needs of the state.
- Attract talented graduate and post-baccalaureate professional students from diverse backgrounds to better meet the needs of the state.
- Foster and develop graduate and post-baccalaureate professional programs that earn national and global distinction.
- Foster collaboration with industry to respond to needs and garner support for basic and applied research and graduate education.
- Increase financial support and on-campus work opportunities for graduate and professional students.

Strategies:

- Increase collaboration among the universities' Vice-Presidents for Research and Economic Development, the Alabama EPSCoR Steering Committee, Alabama's Agriculture Land-Grant Association, Alabama's Council of Graduate Deans, and the Economic Development Partnership of Alabama Foundation.
- Collaborate with industry to determine research focus areas that are critical to the recruitment and retention of Alabama industries.
- Interact with industry to identify critical graduate degree programs and curriculum content of importance to their growth.
- Consider expansion of state funded graduate fellowship programs to support disciplines that are strategically important to the state.

Priority 5: Enhance workforce and economic development

Objectives:

- Demonstrate the impact of higher education on state and regional economic development.
- Strengthen connections among universities, government, and business in order to translate innovations and discoveries into commercial potential.
- Become a catalyst for entrepreneurship and innovation, and a model for business incubation and translation.
- Increase number of graduates in strategically important disciplines, including STEM, health care, and teacher preparation, to better address needs of the state and region.
- Attract high quality students from outside of Alabama (domestically and internationally) to help meet human capital needs of the state.
- Strengthen capacity of universities to support economic and workforce development in their service areas through increased support for undergraduate and graduate level STEM programming, and other areas key to the economic development of the state.
- Partner with community colleges, independent research organizations, industry, and the Economic Development Partnership of Alabama (EDPA) to enhance Alabama's workforce and increase the economic impact.

Strategies:

- Increase financial aid for students who major in strategically important disciplines, including teacher preparation in STEM and special education.
- Consider creating a statewide program to support the recruitment of faculty who already have a substantial research funding priority or have a proven track record of spinning off successful high tech companies.
- Create an Innovation Fund to support research with substantial potential for commercialization.
- Increase funding for EDPA's Launchpad targeted specifically to advancement of spin-off companies from Alabama universities.
- Create a College Workforce Development Council of Vice Presidents for Research at Alabama universities and Community College Deans to enhance collaboration on workforce development needs in their region.

Strategic Plan Process and Timeline

Background

The Alabama Commission on Higher Education requested that the Council of Chief Academic Officers (CUCAO) develop a draft strategic plan for the public universities in the state. The CUCAO appointed a subcommittee, chaired by Kevin Whitaker (UA) and David Johnson (USA), to develop a draft for consideration by the full membership.

Process & Timeline

The CUCAO followed the following process and milestone dates to develop a final version of the plan:

1. Subcommittee produced a draft plan which was distributed to CUCAO members on Aug. 18;
2. Feedback from CUCAO members was obtained, and revised plan was submitted for vote on Sept. 22
3. Revised Plan was approved by CUCAO on Oct. 2;
4. Revised plan was submitted to Presidents of Alabama public universities for feedback. Chair of the Council of Presidents, Dr. John Stewart, met with Drs. Whitaker and Johnson on Nov. 9. No concerns about the plan were expressed by the Presidents.
5. A final plan will be presented to Senator Marsh by Drs. Turner, Whitaker and Johnson on Nov. 28.

*Note that individual universities will develop strategies specific to their institutions to advance priorities and objectives

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

BUDGET AND FINANCE COMMITTEE

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

BUDGET AND FINANCE COMMITTEE

September 7, 2017
4:38 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 7, 2017, at 4:38 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Tom Corcoran, Arlene Mitchell, Steve Stokes and Jim Yance.
Member Absent:	Bryant Mixon.
Other Trustees:	Alexis Atkins, Chandra Brown Stewart, Steve Furr, Ron Jenkins, Bettye Maye, John Peek, Jimmy Shumock, Ken Simon and Mike Windom.
Administration and Others:	Owen Bailey, Robert Berry, Lynne Chronister, Joel Erdmann, Monica Ezell, Mike Finan, Happy Fulford, Mike Haskins, David Johnson, Melva Jones, John Marymont, Mike Mitchell, John Smith, Margaret Sullivan, Carl Thomas (SGA), Jean Tucker, Elizabeth VandeWaa (Faculty Senate), Tony Waldrop and Scott Weldon.

The meeting came to order and the attendance roll was called. Mr. Corcoran called for consideration of the minutes of the meeting held on June 1, 2017. On motion by Mr. Yance, seconded by Mr. Corcoran, the minutes were adopted unanimously.

Mr. Corcoran called for presentation of the quarterly financial statements for the nine months ended June 30, 2017, **ITEM 19**. Mr. Weldon said the financial results reported in the statements were as expected. He noted a $30 million increase in net position compared to 2016 due to improvements in investment performance and fiscal improvements within USA Health.

With regard to **ITEM 20**, a resolution to adopt the University total budget for the 2017-2018 fiscal year (for copies of resolutions, policies and other authorized documents, refer to the minutes of the Board of Trustees meeting held on September 8, 2017), Mr. Weldon outlined a number of budget factors, including a five percent reduction in 2017 fall enrollment; level funding in the state appropriation and the three and one-half percent increase in tuition. He noted that the housing and dining rate increases have no impact on the O & M budget. He pointed out that employee health insurance premiums would not be increased. He stated the enrollment decline resulted in an $8.3 million reduction in revenue. President Waldrop advised that, for the first time since 2010, the budget proposal did not include an across-the-board salary increase or a one-time salary supplement, with the exception of a modest salary increase for employees who earn less than $20,000.

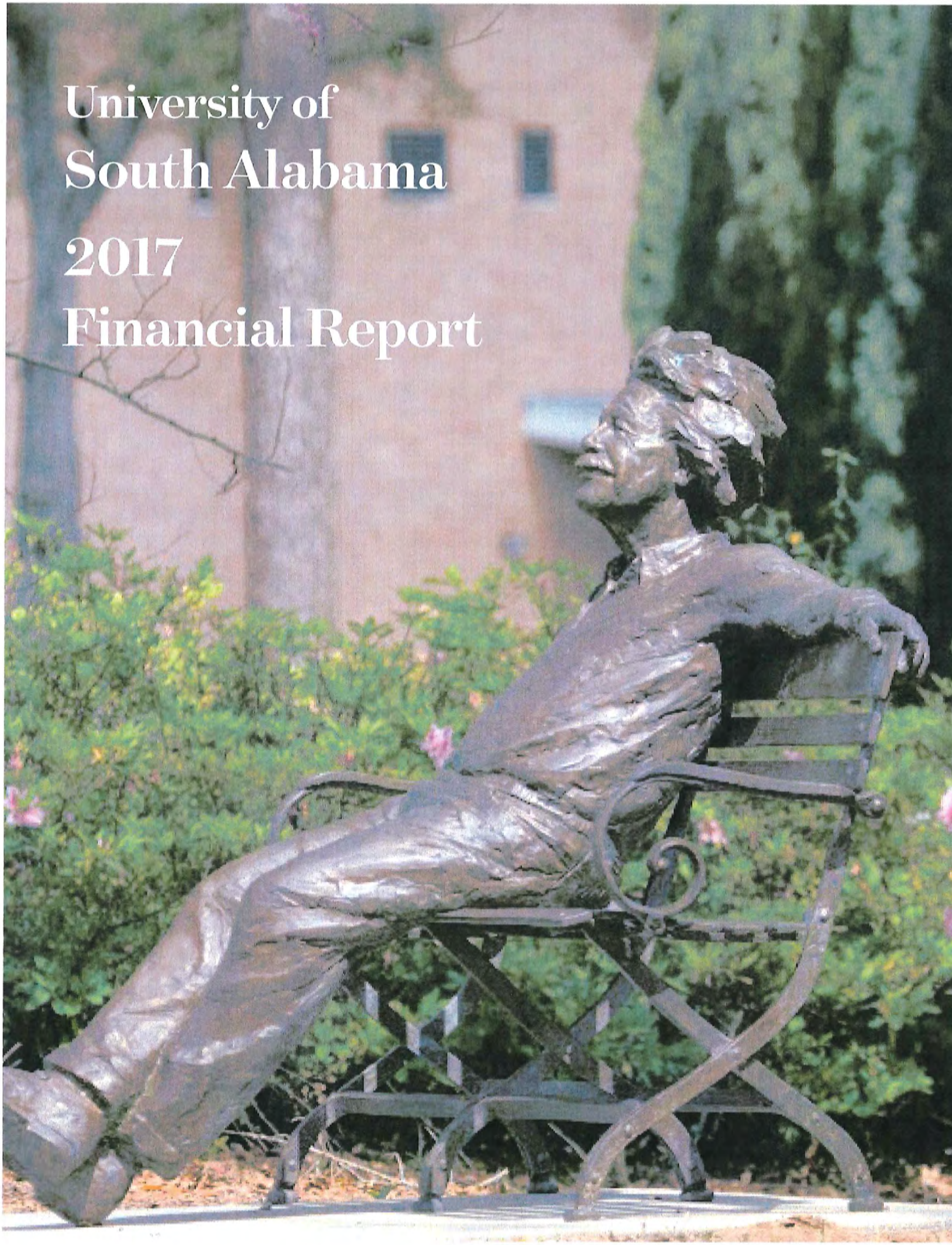
Mr. Corcoran said the proposal included the use of $1.5 million from reserves. On motion by Mr. Yance, seconded by Dr. Stokes, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

There being no further business, the meeting was adjourned at 4:52 p.m.

Respectfully submitted:

E. Thomas Corcoran, Chair

University of South Alabama 2017 Financial Report



2017 Financial Report

University of South Alabama Board of Trustees

UNIVERSITY OF SOUTH ALABAMA

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

Message from the PRESIDENT

The mission of the University of South Alabama is to make a difference in the lives of those we serve through promoting discovery, health and learning. At South, we strive to achieve this mission through the establishment of, and adherence to, five institutional strategic priorities:

- Student access and success
- Enhancement of research and graduate education
- Global engagement
- Excellence in healthcare
- University-community engagement

Everything we do at South, including management of financial resources, is with these priorities in mind.

As the University continues to grow, it is through a sound financial position that our priorities can be accomplished. Despite the economic challenges of the past several years, the financial position of the University of South Alabama, as demonstrated in this financial report, remains strong. This financial strength allows us to continue to serve the citizens of the state of Alabama and beyond by providing top quality academic, research, healthcare and public service programs.

With a Fall 2017 enrollment of 15,569, the academic profile of our students has never been stronger. This continued improvement is a testament to the strength of our programs, the quality and dedication of our faculty and staff and the loyalty and spirit of our alumni. Similarly, USA Health continues its growth and dedication to the wellbeing of our patients.

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

USA students also give back to the community. Hundreds participate in community-service activities throughout the year, such as the annual MLK Day of Service, which offers numerous opportunities to help.

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

Tony G. Waldrop, Ph.D.
President


We
are
South

Message from the CHAIR PRO TEMPORE of the Board of Trustees

Kenneth O. Simon
Chair Pro Tempore, Board of Trustees
University of South Alabama

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

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

I am privileged to work alongside my colleagues on the Board as well as with President Waldrop and our University's dedicated and outstanding leadership team as we continue to move USA forward.

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

Kenneth O. Simon
Chair Pro Tempore, Board of Trustees
University of South Alabama

Introduction from the VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

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

I am pleased to present this annual financial report for the University of South Alabama at and for the years ended September 30, 2017 and 2016. I am confident that the accompanying financial statements fairly present the financial position and results of operations of the University and its Health System. It is the responsibility of University management to ensure that these financial statements, including management's discussion and analysis and the accompanying notes to the financial statements, are complete and fairly presented in accordance with U. S. generally accepted accounting principles.

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

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

KPMG

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Basic Financial Statements

September 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

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

Basic Financial Statements

September 30, 2017 and 2016

Table of Contents

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, 2017 and 2016, 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 are either blended with the University's financial position and results of operations or are discretely presented. The treatment of each component unit is governed by pronouncements issued by the Governmental Accounting Standards Board (GASB). As more fully described in note 1 to the basic financial statements, the University of South Alabama Professional Liability Trust Fund, 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 and the USA Research and Technology Corporation are discretely presented.

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 physician practice groups as determined by the University. For additional discussion, see note 1.

Financial Highlights

At September 30, 2017 and 2016, the University had total assets and deferred outflows of $1,282,492,000 and $1,184,911,000, respectively; total liabilities and deferred inflows of $1,016,673,000 and $966,917,000, respectively; and net position of $265,819,000 and $217,994,000, respectively. Net position increased $47,825,000 during the year ended September 30, 2017 compared to an increase of $25,905,000 for the year ended September 30, 2016.

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, 2017 and 2016. Net position is displayed in three parts: net investment in capital assets, restricted and unrestricted. Restricted net position may either be expendable or nonexpendable and is 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 39%, 25% and 19%, respectively, of current assets at September 30, 2017. Noncurrent assets consist primarily of restricted cash and cash equivalents, restricted investments and capital assets.

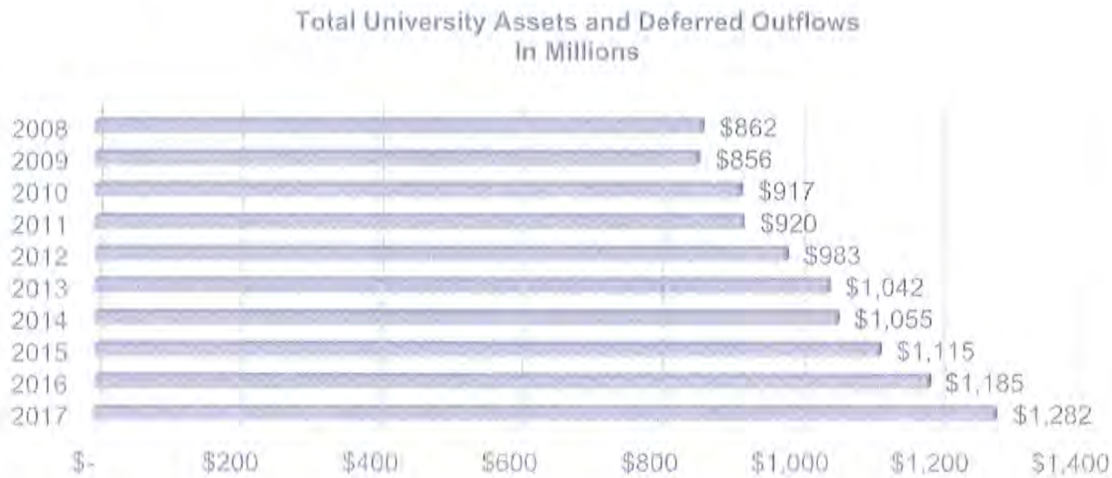
The condensed schedules of net position at September 30, 2017, 2016, and 2015 follow (in thousands):

Condensed Schedules of Net Position

	2017	2016	2015
Assets:			
Current	$ 261,407	$ 273,634	$ 233,940
Capital assets	693,968	653,297	609,630
Other noncurrent	268,116	213,462	248,539
Total assets	1,223,491	1,140,393	1,092,109
Deferred outflows	59,001	44,518	22,842
Total assets and deferred outflows	$ 1,282,492	$ 1,184,911	$ 1,114,951
Liabilities:			
Current	$ 157,803	$ 153,887	$ 132,128
Noncurrent	818,105	789,016	751,880
Total liabilities	975,908	942,903	884,008
Deferred inflows	40,765	24,014	35,891
Total liabilities and deferred inflows	$ 1,016,673	$ 966,917	$ 919,899
Net position:			
Net investment in capital assets	$ 305,898	$ 270,127	$ 246,567
Restricted, nonexpendable	54,961	48,760	43,425
Restricted, expendable	62,676	55,592	60,106
Unrestricted	(157,716)	(156,485)	(155,046)
Total net position	$ 265,819	$ 217,994	$ 195,052

(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 after liabilities are deducted. Net position is classified into one of four categories:

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

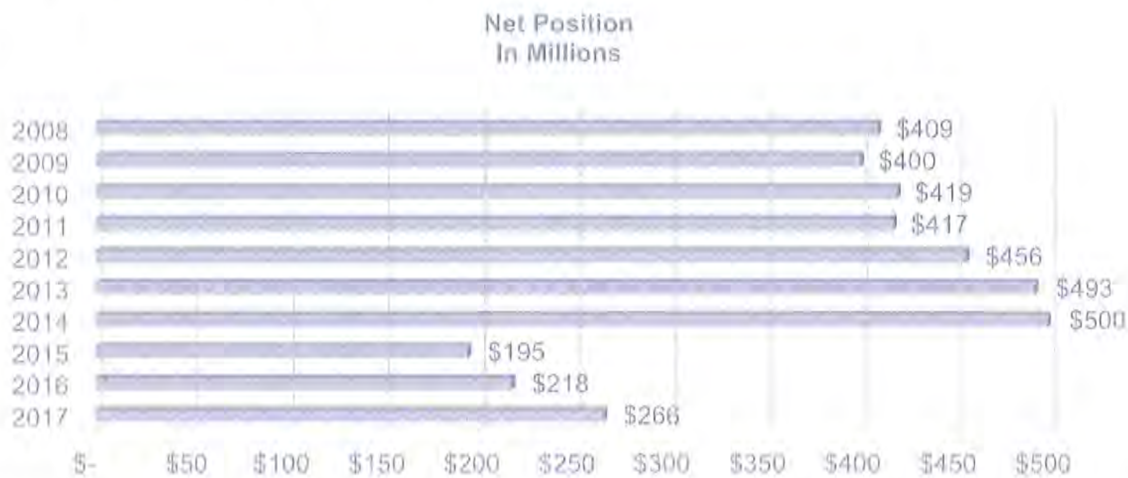
Restricted nonexpendable net position consists primarily of the University's permanent endowment funds. In accordance with the policies of the University, the earnings from these funds may be expended, but the corpus may not be expended and must remain intact with the University in perpetuity.

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 the bookstore, student housing and dining services), student programs, capital projects and general operations. Also included in unrestricted net position at September 30, 2017 and 2016 is the impact of the net pension liability recorded pursuant to the requirements of GASB Statement No. 68.

(Continued)

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



All categories of restricted net position collectively increased by approximately 13% between September 30, 2017 and 2016, primarily due to the addition of restricted gifts to the University. Unrestricted net position decreased slightly from $(156,485,000) to $(157,716,000) between September 30, 2017 and 2016. A summary of unrestricted net position at September 30, 2017 is summarized as follows:

Unrestricted net position related to net pension liability	$ (336,477,000)
Unrestricted net position related to other activity	178,761,000
Unrestricted net position	$ (157,716,000)

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 these statements 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, capital appropriations, gifts and other contributions. State appropriations are required by GASB to be classified as nonoperating revenues. Nonoperating expenses are those expenses required in the operation and administration of the University, but not directly incurred to acquire or produce the goods and services provided in return for operating revenues. Such nonoperating expenses include interest on the University's indebtedness and losses related to the disposition of capital assets.

The condensed schedules of revenues, expenses, and changes in net position for the years ended September 30, 2017, 2016 and 2015 follow (in thousands):

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

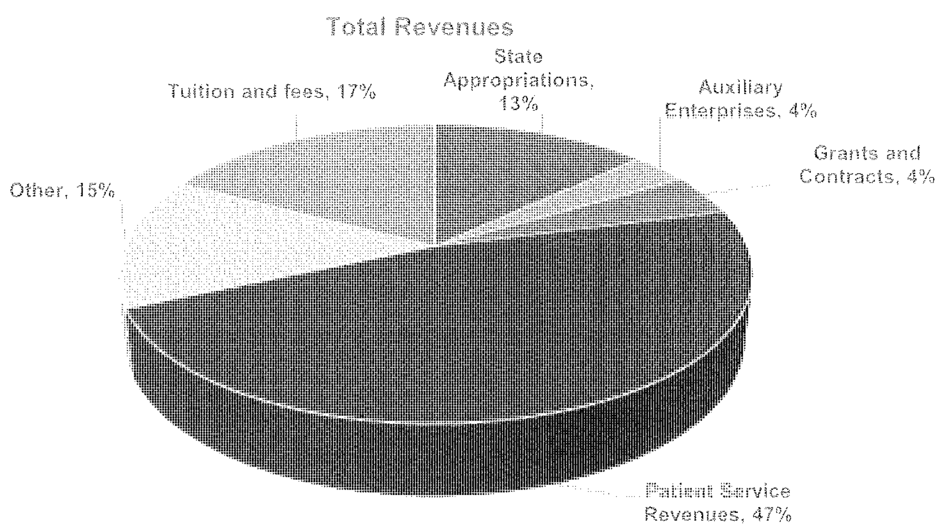
	2017	2016	2015
Operating revenues:			
Tuition and fees	$ 142,024	$ 137,074	$ 120,265
Patient service revenues	390,931	360,657	271,655
Federal, state and private grants and contracts	36,853	38,187	85,756
Other	92,674	88,943	78,845
	662,482	624,861	556,521
Operating expenses:			
Salaries and benefits	483,113	460,219	433,679
Supplies and other services	219,362	198,518	169,873
Other	64,942	65,530	57,476
	767,417	724,267	661,028
Operating loss	(104,935)	(99,406)	(104,507)
Nonoperating revenues and expenses:			
State appropriations	107,332	105,024	103,974
Investment income (loss)	18,398	2,631	(10,718)
Other, net	20,613	8,135	13,259
Net nonoperating revenues and expenses	146,343	115,790	106,515
Income before capital contributions and grants and additions to endowment	41,408	16,384	2,008
Capital contributions and grants and additions to endowment	6,417	9,521	7,231
Increase in net position	$ 47,825	$ 25,905	$ 9,239

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

	2017	2016	2015
Beginning net position, before cumulative effect of change in reporting entity/accounting principle	$ 217,994	$ 195,052	$ 499,550
Cumulative effect of change in reporting entity/accounting principle	—	(2,963)	(313,737)
Beginning net position – as adjusted	217,994	192,089	185,813
Ending net position	$ 265,819	$ 217,994	$ 195,052

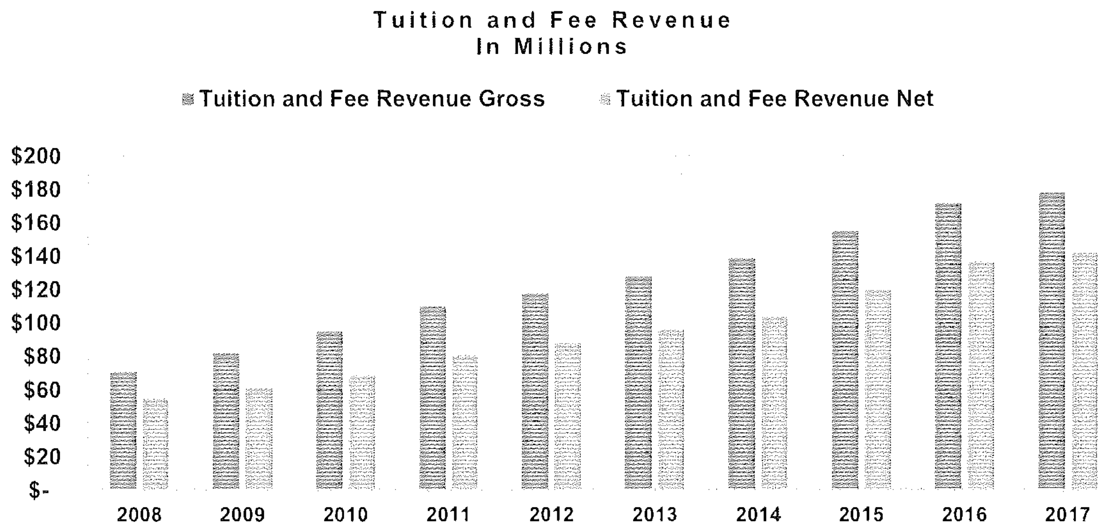
Approximately 47% of total revenues of the University were patient service revenues in 2017 and 2016. Excluding patient service revenues, tuition and fees charged to students represent the largest component of total University revenues, approximately 17% and 18% of total revenues in 2017 and 2016, respectively. Also in 2017, state appropriations and grants and contracts (federal, state and private) represented approximately 17% of total revenues compared to 19% in 2016.

A summary of University revenues for the year ended September 30, 2017 is presented as follows:



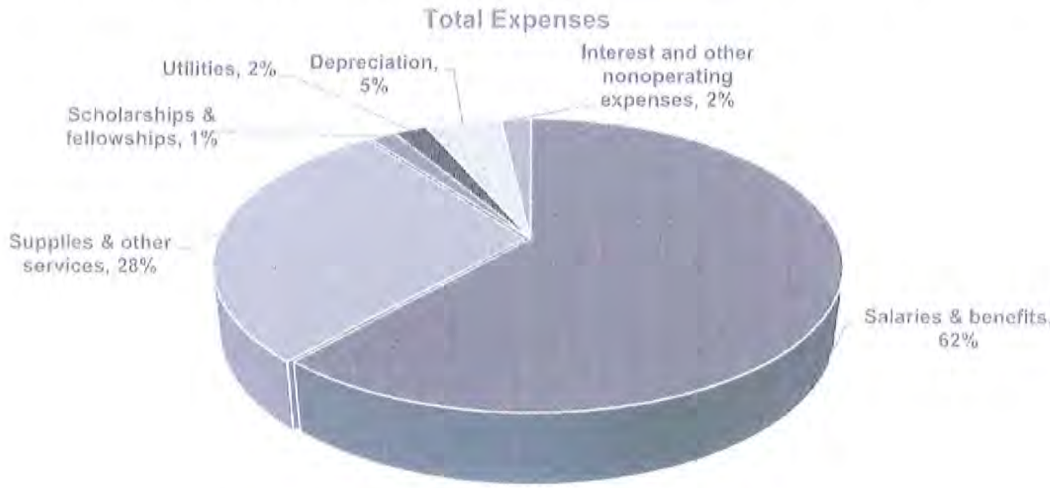
(Continued)

Tuition and fees have increased in each of the last ten years. These increases are primarily due to increases in tuition and fee rates charged to students and the number of enrolled students and credit hours taken by those students. Additionally, tuition and fees as a percent of total operating revenues continue to increase, from 14% of operating revenues in 2008 to 21% in 2017. Tuition and fees, gross and net of scholarship allowances, for the past ten fiscal years are as follows:



Capital contributions and grants decreased from $3,053,000 in 2016 to $989,000 in 2017.

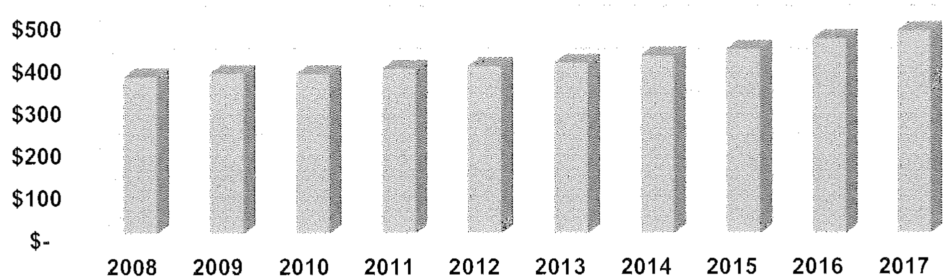
University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2017 is presented as follows:



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, scholarships, and operation and maintenance of plant. Expenses related to auxiliary enterprise activities and USA Health are presented separately. Functional expense information is presented in note 17 to the basic financial statements.

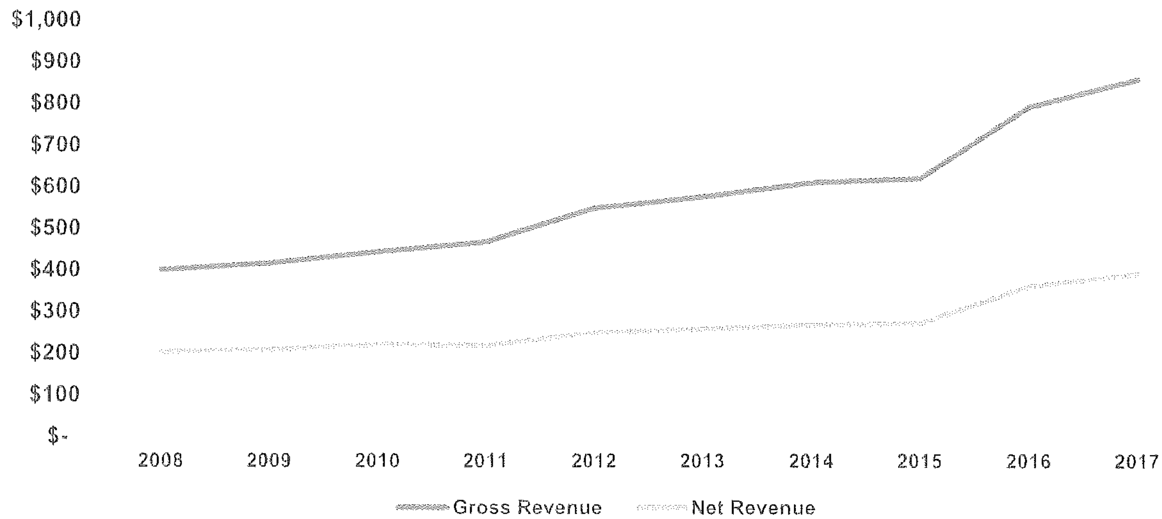
In 2017 and 2016, approximately 62% and 64%, respectively, of the University's total operating expenses were salaries and benefits.

Total Salaries and Benefits Expense
In Millions



For the years ended September 30, 2017 and 2016, the University reported operating losses of approximately $104,935,000 and $99,406,000, 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 (primarily capital contributions and additions to endowment), and applying the cumulative effect of the change in reporting entity related to the transfer of the Health Services Foundation (HSF) in 2016, the total change in net position was approximately $47,825,000 and $25,905,000, for the years ended September 30, 2017 and 2016, 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 $25,701,000 in 2017. Significant construction projects that remain in progress at September 30, 2017 include a new residence hall and a major upgrade of infrastructure on the University's main campus. Major projects completed and placed into service in fiscal 2017 and 2016 included the Student Health Center, an addition to the Mitchell Cancer Institute, a professional medical office building near USA Children's and Women's Hospital and a professional medical office building in Fairhope, Alabama. At September 30, 2017, the University had outstanding commitments of approximately $19,746,000 for various capital projects.

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 are called in August 2018. Neither the assets of the escrow trust account, nor the defeased indebtedness is included in the accompanying statements of net position. The principal outstanding on all defeased bonds is $90,690,000 at September 30, 2017. The refunding resulted in net present value savings of approximately $15,016,000. The remaining undefeased portion of the Series 2008 Bonds at September 30, 2017 is $2,850,000 and is included in current portion of long-term debt on the accompanying statement of net position.

In December 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016-B, C and D, with a face value totaling $100,000,000. The proceeds from the Series 2016 Bonds were used to refund the remaining outstanding Series 2006 Bonds.

In June 2017, the University issued its University Facilities Revenue Bonds, Series 2017, with a face value of $38,105,000. The proceeds from the Series 2017 Bonds are being used to construct a new residence hall on the campus of the University and support ongoing infrastructure improvement projects.

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

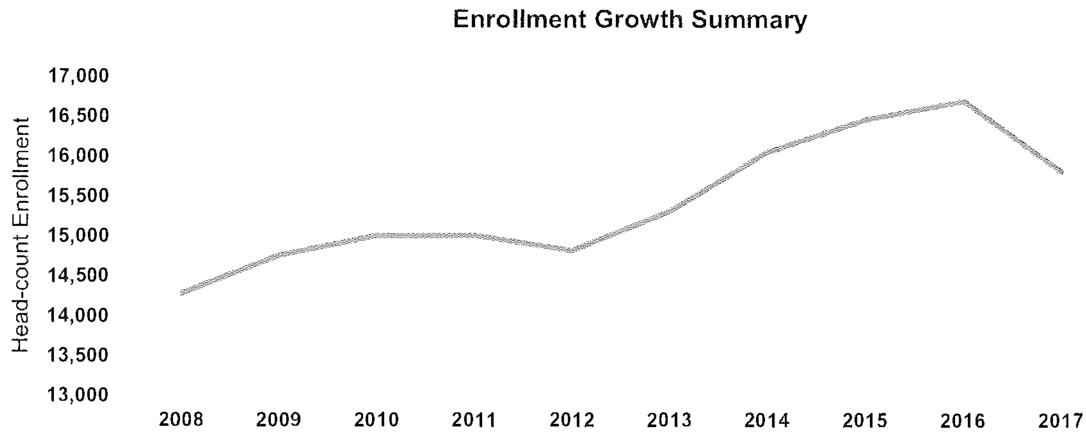
In December 2013, the counterparty exercised its option with respect to the 2004 swaption and forced the University into an underlying swap. The University refunded its Series 2004 Bonds, and issued the 2014-A variable rate bonds. As a result of the exercise of the option by the counterparty, the swaption was terminated and the borrowing arising from the Series 2004 swaption of $1,696,000 and the investment derivative of $5,213,000 were written off and an investment loss of $2,229,000 was recognized. A borrowing arising from the 2014 swap of $5,939,825 was recognized and is reported in the statement of net position at September 30, 2017.

In September 2016, the counterparty exercised its option with respect to the 2006 swaption and forced the University into an underlying swap. As a result of the exercise of the option by the counterparty, the swaption was terminated and the borrowing arising from the Series 2006 swaption of $6,939,000 and the investment derivative of $34,078,000 were written off. A borrowing arising from the 2016 swap of $45,934,000 was recognized and is reported in the statement of net position at September 30, 2017.

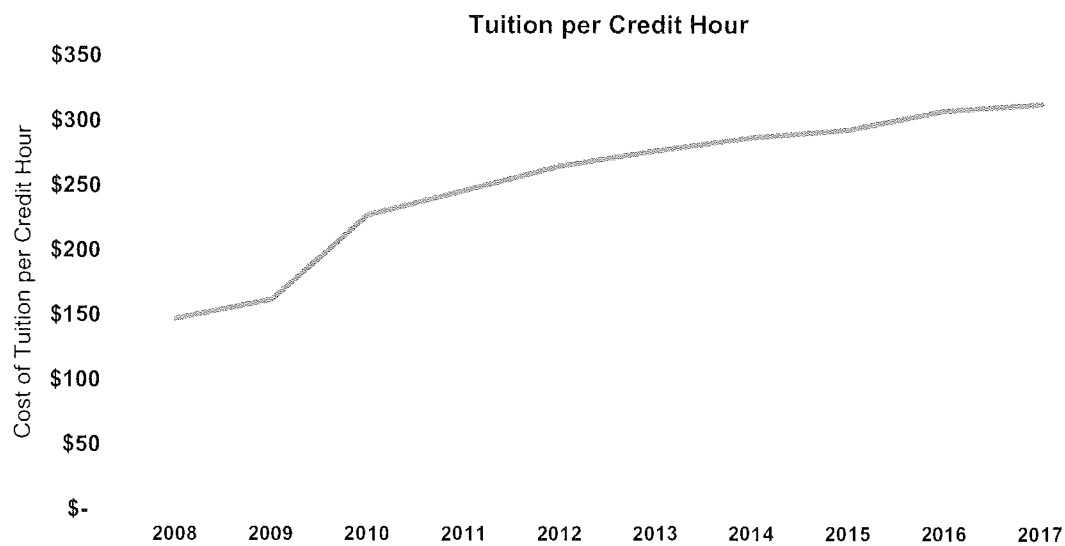
The University's bond credit rating is A1 (Stable) as rated by Moody's Investors Services and A+ (Stable) as rated by Standard and Poor's Rating Services. Neither rating changed during 2017 or 2016.

Economic Outlook

Tuition and fee rates have increased over the past ten years and student enrollment has generally increased over this same period. The University has experienced an increase in enrollment between 2008 and 2017, from 14,279 in 2008 to 15,821 for the 2017 Fall semester. However, the University did experience a decline in enrollment of approximately 5% in Fall 2017, primarily due to a decrease in international student enrollment. The enrollment trend for the University between 2008 and 2017 is as follows:

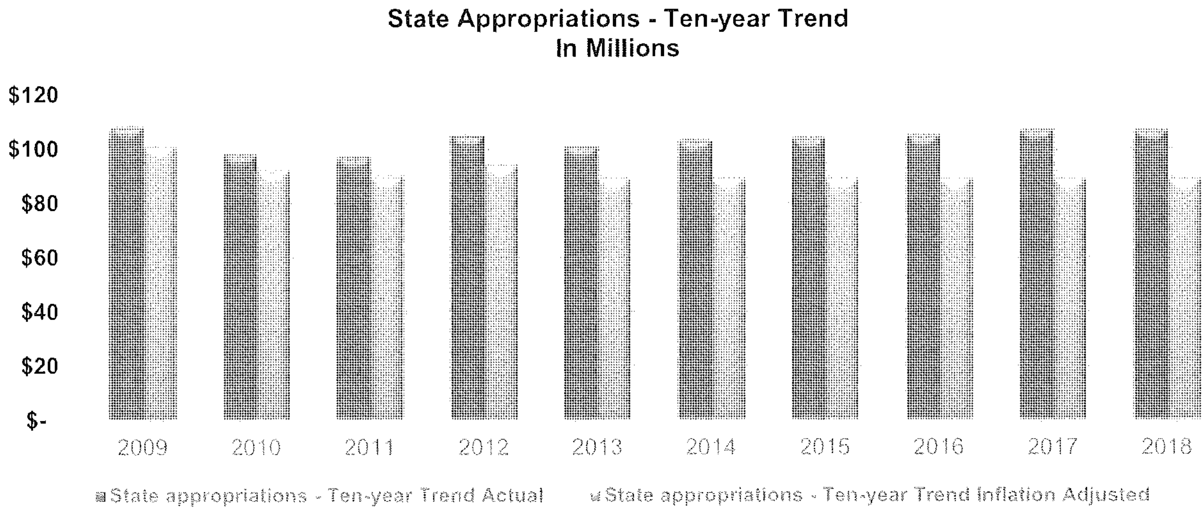


During the same time period, in-state tuition per credit hour has increased by approximately 113%. The large increase in 2010 is the result of the University's bundling of tuition and required fees into a single per-hour charge. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. The trend of in-state tuition per credit hour between 2008 and 2017 is as follows:



A state appropriation in the amount of approximately $107,332,000 and $105,024,000 was authorized and received for the years ended September 30, 2017 and 2016 respectively. A state appropriation in the amount of $107,285,000 has been authorized for the year ended September 30, 2018. While no announcement has been made, the University is aware that reductions in the 2018 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 2018 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/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, 2017 and 2016, 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 2017 consolidated financial statements of the University of South Alabama Foundation, which represents 94%, 100%, and 89%, respectively, of the 2017 assets, net assets, and revenues, gains and other support of the aggregate discretely presented component units. Nor did we audit the 2016 consolidated financial statements of the University of South Alabama Foundation which represented 93%, 100%, and 52%, respectively, of the 2016 assets, net assets, and revenues, gains and other support of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 of its aggregate discretely presented component units as of September 30, 2017 and 2016, 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 1-13 and the schedule of the University's proportionate share of the net pension liability and schedule of University's contributions on pages 73 and 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
November 14, 2017

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

Statements of Net Position

September 30, 2017 and 2016

(In thousands)

		2017		2016
Current assets:				
Cash and cash equivalents	$	102,748	$	100,155
Investments		65,464		85,182
Net patient receivables, (net of allowance for doubtful accounts of $73,983 in 2017 and $65,829 in 2016)		49,739		47,897
Accounts receivable, affiliates		5,434		464
Accounts receivable, other		17,967		20,674
Notes receivable, net		6,432		7,108
Prepaid expenses, inventories, and other		13,623		12,154
Total current assets		261,407		273,634
Noncurrent assets:				
Restricted cash and cash equivalents		33,116		18,927
Restricted investments		171,481		108,894
Investments		60,129		81,279
Accounts receivable		2,281		2,195
Other noncurrent assets		1,109		2,167
Capital assets, net		693,968		653,297
Total noncurrent assets		962,084		866,759
Total assets		1,223,491		1,140,393
Deferred outflows		59,001		44,518
Total assets and deferred outflows		1,282,492		1,184,911
Current liabilities:				
Accounts payable and accrued liabilities		62,877		55,234
Unrecognized revenue		59,831		62,674
Deposits		2,433		1,627
Current portion of other long-term liabilities		6,884		9,336
Current portion of long-term debt		25,778		25,016
Total current liabilities		157,803		153,887
Noncurrent liabilities:				
Long-term debt, less current portion		386,520		363,796
Net pension liability		336,477		329,294
Other long-term liabilities, less current portion		95,108		95,926
Total noncurrent liabilities		818,105		789,016
Total liabilities		975,908		942,903
Deferred inflows		40,765		24,014
Total liabilities and deferred inflows		1,016,673		966,917
Net position:				
Net investment in capital assets		305,898		270,127
Restricted, nonexpendable:				
Scholarships		27,045		23,905
Other		27,916		24,855
Restricted, expendable:				
Scholarships		14,287		13,368
Other		48,389		42,224
Unrestricted		(157,716)		(156,485)
Total net position	$	265,819	$	217,994

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statements of Financial Position

June 30, 2017 and 2016

(In thousands)

Assets		**2017**		**2016**
Cash and cash equivalents	$	556	$	368
Investments:				
Equity securities		129,674		120,900
Timber and mineral properties		160,351		157,470
Real estate		69,186		69,070
Other		5,808		5,803
Other assets		473		532
Total assets	$	366,048	$	354,143
Liabilities and Net Assets				
Liabilities:				
Accounts payable	$	101	$	90
Other liabilities		704		649
Total liabilities		805		739
Net assets:				
Unrestricted		99,678		99,115
Temporarily restricted		95,856		84,699
Permanently restricted		169,709		169,590
Total net assets		365,243		353,404
Total liabilities and net assets	$	366,048	$	354,143

See accompanying notes to basic financial statements.

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

Statements of Net Position

September 30, 2017 and 2016

		2017		2016
Assets:				
Current assets:				
Unrestricted cash and cash equivalents	$	353,058	$	627,125
Rent receivable, (net of allowance for doubtful accounts of $95,703 in 2017 and $0 in 2016, respectively)		20,483		26,018
Prepaid expenses and other current assets		6,799		15,481
Total current assets		380,340		668,624
Noncurrent assets:				
Intangible assets, net		65,482		29,855
Capital assets, net		21,689,045		22,567,316
Total noncurrent assets		21,754,527		22,597,171
Deferred outflows		2,252,005		3,414,981
Total assets and deferred outflows		24,386,872		26,680,776
Liabilities:				
Current liabilities:				
Deposits, other current liabilities, and accrued expenses		111,550		162,183
Payable to University of South Alabama		46,271		—
Unrecognized rent revenue		432,689		390,442
Current portion of notes payable		1,119,337		1,062,354
Total current liabilities		1,709,847		1,614,979
Noncurrent liabilities:				
Notes payable, excluding current portion		19,134,302		20,253,638
Interest rate swap		2,252,005		3,414,981
Payable to University of South Alabama		559,872		573,108
Total noncurrent liabilities		21,946,179		24,241,727
Total liabilities		23,656,026		25,856,706
Net position:				
Net investment in capital assets		875,534		678,216
Unrestricted		(144,688)		145,854
Total net position	$	730,846	$	824,070

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, 2017 and 2016

(In thousands)

	2017	2016
Operating revenues:		
Tuition and fees (net of scholarship allowances of $35,523 in 2017 and $35,179 in 2016)	$ 142,024	$ 137,074
Patient service revenues (net of provision for bad debts of $88,274 in 2017 and $83,211 in 2016)	390,931	360,657
Federal grants and contracts	19,502	20,119
State grants and contracts	8,847	8,663
Private grants and contracts	8,504	9,405
Auxiliary enterprises (net of scholarship allowances of $1,066 in 2017 and $1,147 in 2016)	28,347	28,861
Other operating revenues	64,327	60,082
Total operating revenues	662,482	624,861
Operating expenses:		
Salaries and benefits	483,113	460,219
Supplies and other services	219,362	198,518
Scholarships and fellowships	12,346	14,230
Utilities	15,856	15,126
Depreciation and amortization	36,740	36,174
Total operating expenses	767,417	724,267
Operating loss	(104,935)	(99,406)
Nonoperating revenues (expenses):		
State appropriations	107,332	105,024
Investment income	18,398	2,631
Interest expense	(11,479)	(14,342)
Other nonoperating revenues	35,172	38,708
Other nonoperating expenses	(3,080)	(16,231)
Net nonoperating revenues	146,343	115,790
Income before capital contributions and grants and additions to endowment	41,408	16,384
Capital contributions and grants	989	3,053
Additions to endowment	5,428	6,468
Increase in net position	47,825	25,905
Net position:		
Beginning of year, before cumulative effect of change in reporting entity	217,994	195,052
Cumulative effect of change in reporting entity (note 1 (d))	—	(2,963)
Beginning balance, as adjusted	217,994	192,089
End of year	$ 265,819	$ 217,994

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION

(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2017

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, losses and other support:				
Net realized and unrealized gains on investments	$ 5,054	$ 17,582	$ —	$ 22,636
Rents, royalties and timber sales	3,786	130	8	3,924
Interest and dividends	740	1,280	4	2,024
Gifts	—	4	54	58
Required match of donor contributions	(16)	(37)	53	—
Interfund interest	(252)	252	—	—
Other income	2	—	—	2
Net assets released from program restrictions	8,054	(8,054)	—	—
Total revenues, gains, losses and other support	17,368	11,157	119	28,644
Expenditures:				
Program services:				
Faculty support	2,230	—	—	2,230
Scholarships	1,136	—	—	1,136
Other academic programs	6,405	—	—	6,405
Total program service expenditures	9,771	—	—	9,771
Management and general	1,952	—	—	1,952
Other investment expense	1,583	—	—	1,583
Depletion expense	3,414	—	—	3,414
Depreciation expense	85	—	—	85
Total expenditures	16,805	—	—	16,805
Change in net assets	563	11,157	119	11,839
Net assets – beginning of year	99,115	84,699	169,590	353,404
Net assets – end of year	$ 99,678	$ 95,856	$ 169,709	$ 365,243

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2016

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, losses and other support:				
Net realized and unrealized gains on investments	$ 6,622	$ (3,806)	$ —	$ 2,816
Rents, royalties and timber sales	3,243	130	13	3,386
Interest and dividends	1,172	956	3	2,131
Gifts	—	8	—	8
Required match of donor contributions	(8)	8	—	—
Interfund interest	(218)	218	—	—
Net assets released from program restrictions	8,848	(8,848)	—	—
Total revenues, gains, and other support	19,659	(11,334)	16	8,341
Expenditures:				
Program services:				
Faculty support	2,330	—	—	2,330
Scholarships	1,385	—	—	1,385
Other academic programs	6,846	—	—	6,846
Total program service expenditures	10,561	—	—	10,561
Management and general	2,040	—	—	2,040
Other investment expense	1,388	—	—	1,388
Depletion expense	3,354	—	—	3,354
Depreciation expense	86	—	—	86
Total expenditures	17,429	—	—	17,429
Change in net assets	2,230	(11,334)	16	(9,088)
Net assets – beginning of year	96,885	96,033	169,574	362,492
Net assets – end of year	$ 99,115	$ 84,699	$ 169,590	$ 353,404

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, 2017 and 2016

	2017	2016
Operating revenues	$ 3,358,749	$ 3,424,286
Operating expenses:		
Building management and operating expenses	1,111,116	1,150,462
Depreciation and amortization	984,117	950,543
Legal and administrative fees	181,697	185,478
Insurance	33,168	27,375
Total operating expenses	2,310,098	2,313,858
Operating income	1,048,651	1,110,428
Nonoperating revenues (expenses):		
Investment income	1,637	1,389
Interest expense	(1,145,017)	(1,198,795)
Other	1,505	4,836
Net nonoperating expenses	(1,141,875)	(1,192,570)
Change in net position	(93,224)	(82,142)
Net position:		
Beginning of year	824,070	906,212
End of year	$ 730,846	$ 824,070

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, 2017 and 2016
(In thousands)

	2017	2016
Cash flows from operating activities:		
Receipts related to tuition and fees	$ 143,526	$ 135,642
Receipts from and on behalf of patients and third-party payers	389,670	331,351
Receipts from grants and contracts	35,612	56,071
Receipts related to auxiliary enterprises	28,766	29,456
Payments to suppliers and vendors	(244,989)	(200,589)
Payments to employees and related benefits	(459,764)	(444,936)
Payments for scholarships and fellowships	(8,986)	(11,186)
Other operating receipts	64,396	51,605
Net cash used in operating activities	(51,769)	(52,586)
Cash flows from noncapital financing activities:		
State appropriations	107,332	105,024
Endowment gifts	5,428	6,468
Agency funds received	1,408	646
Agency funds disbursed	(1,042)	(1,946)
Student loan program receipts	149,508	151,365
Student loan program disbursements	(149,353)	(152,855)
Other nonoperating revenues	16,313	47,401
Other nonoperating expenses	(3,902)	(5,347)
Net cash provided by noncapital financing activities	125,692	150,756
Cash flows from capital and related financing activities:		
Capital contributions and grants	989	3,052
Purchases of capital assets	(75,767)	(75,208)
Proceeds from issuance of capital debt	146,784	107,537
Principal payments on capital debt	(121,680)	(108,463)
Interest payments on capital debt	(10,672)	(15,409)
Net cash used in capital and related financing activities	(60,346)	(88,491)
Cash flows from investing activities:		
Interest and dividends on investments	9,983	3,540
Purchases of investments	(56,502)	(122,288)
Proceeds from sales of investments	49,724	100,876
Net cash provided by (used in) investing activities	3,205	(17,872)
Net increase (decrease) in cash and cash equivalents	16,782	(8,193)
Cash and cash equivalents (unrestricted and restricted):		
Beginning of year, as adjusted	119,082	127,275
End of year	$ 135,864	$ 119,082

(Continued)

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

Statements of Cash Flows

Years ended September 30, 2017 and 2016

(In thousands)

	2017	2016
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (104,935)	$ (99,406)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	36,740	36,174
Changes in assets and liabilities, net:		
Student receivables	2,950	(3,166)
Net patient accounts receivables	(1,841)	(3,871)
Grants and contracts receivables	208	18,546
Other receivables	812	(8,936)
Prepaid expenses, inventories, and other	(7,122)	(1,422)
Accounts payable and accrued liabilities	24,262	5,045
Unrecognized revenue	(2,843)	4,450
Net cash used in operating activities	$ (51,769)	$ (52,586)
Noncash investing, noncapital financing, and capital and related financing transactions:		
Net increase (decrease) in fair value of investments recognized as a component of investment income	$ 12,383	$ (2,025)
Payment for capital lease	3,309	3,678
Additional maturity on capital appreciation on bonds payable and other borrowings recorded as interest expense	782	1,443
Gifts of capital and other assets	1,576	2,257
Capitalization of construction period interest	801	721
Increase in accounts payable related to capital assets	562	2,606

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

GASB Statement No. 61 amends GASB Statements No. 14 and No. 39, and provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. Such criteria include the appointment of a voting majority of the board of the organization, the ability to impose the will of the primary government on the organization and the financial benefits/burden between the primary government and the potential component unit. The statement also clarifies reporting and disclosure requirements for those organizations. Based on these criteria as of September 30, 2017 and 2016, the University reports the University of South Alabama Foundation (USA Foundation) and the USA Research and Technology Corporation (the Corporation) as discretely presented component units.

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF), the Gulf Coast Regional Care Organization (RCO) and the University of South Alabama Health Care Authority (HCA). These entities are not considered component units of the University under the provisions of GASB Statements No. 14, 39 and 61 because the University does not consider these entities significant enough to warrant inclusion in the University's reporting entity.

GASB Statement No. 61 and GASB Statement No. 80, *Blending Requirements for Certain Component Units,* require the University, as the primary government, to include in its basic financial statements, as a blended component unit, organizations that, even though they are legally separate entities, meet certain requirements as defined by GASB Statement No. 61 and No. 80. Based on these criteria, the University reports the Professional Liability Trust Fund (PLTF), General Liability Trust Fund (GLTF) and USA HealthCare Management, LLC (HCM) as blended component units. All significant transactions among the University and its blended component units have been eliminated in consolidation.

(Continued)

(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, University of South Alabama Health Services Foundation (USAHSF), 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, USAHSF, HCM, SAMSF, the Corporation and HCA is maintained and managed in its General Liability Trust Fund for which the University, as defined by GASB Statement No. 18, is responsible. The PLTF and GLTF are separate legal entities which are governed by the University Board of Trustees through the University president. As such, PLTF and GLTF are reported as blended component units (see note 18 for further discussion of, and disclosure for, these entities).

(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) University of South Alabama Health Services Foundation

During fiscal 2016, due to the Board's approval of governance changes and assignment of operational responsibility to the University, the USA Health Services Foundation met the criteria for blended component unit presentation. The cumulative effect of this change in reporting entity resulted in a decrease to the University's net position at October 1, 2015 in the amount of $(2,963,000). All 2016 transactions for USAHSF are blended in the University's financial statements. While USAHSF as a legal entity is still in existence, there were no activities during the year ended September 30, 2017.

(e) University of South Alabama Health Care Authority

In May 2017, the University's Board of Trustees approved a resolution to form the University of South Alabama Health Care Authority. The HCA is a public corporation created under and pursuant to the provisions of the University Authority Act of 2016. The HCA will employ physicians and staff of physician practice groups as determined appropriate by the University. Operations commenced on August 1, 2017. Because the activity of the HCA is not material to the University's financial statements, the HCA is not presented as a component unit.

(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, 2017 and 2016 were $9,603,000 and $10,455,000, 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, this discretely presented unit has been included with the most recent fiscal year. The accompanying consolidated statements of financial position and statements of activities and changes in net assets for the USA Foundation as of and for the years ended June 30, 2017 and 2016 are discretely presented.

(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, 2017 and 2016 are discretely presented.

(h) Gulf Coast Regional Care Organization

The Gulf Coast Regional Care Organization is a not-for-profit corporation that exists for the purpose of creating and operating a risk-based, community-led network to coordinate the heath care of Medicaid patients in a seven county region of southwest Alabama, one of five such regions in the state of Alabama identified by the Alabama Medicaid Agency. The RCO commenced operations in April 2015 and is currently operating a Health Home program, providing certain case management services to qualifying Medicaid beneficiaries. Because the activity of the RCO is not material to the University's financial statements, the RCO is not considered a component unit.

(i) 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.

(Continued)

(j) 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.

(k) 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.

(l) 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 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 investment income.

(m) Derivatives

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

The University entered into two interest rate swaptions in January 2008, the Series 2004 swaption and the Series 2006 swaption. As a result of entering into the swaptions, the University received up-front payments. Swaptions are considered hybrid instruments which are required to be bifurcated into the fair value of the derivative and a piece that reflects a borrowing for financial statement purposes, which will accrete interest over time.

The counterparty exercised its option related to each swaption noted above, and, as a result, the University entered into interest rate swaps. See note 5 and note 10 for further discussion.

(n) Accounts Receivable

Patient service receivables primarily result from hospital and ambulatory patient service revenues. Accounts receivable from affiliates primarily represent amounts due from the USA Foundation and the HCA. 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.

(o) Inventories

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

(p) 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, 2017 and 2016 was approximately $801,000 and $721,000, 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, 2017 and 2016, no impairments were recorded.

(Continued)

(q) Unrecognized Revenue

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

(r) Cost Sharing Multi-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.

(s) 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.

(Continued)

(t) 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 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.

(u) 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 5% of the three-year invested net asset moving average value (inclusive of net realized and unrealized gains and losses), as measured at September 30, is available annually for spending. The University's policy is to retain the endowment net interest and dividend income and net realized and unrealized appreciation with the endowment after distributions allowed by the spending policy have been made. These amounts, unless otherwise directed by the donor, are included in restricted expendable net position.

(v) 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; 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.

(w) 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.

(x) *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.

(y) *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, which includes two hospitals and a cancer treatment center, 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.

USA Medical Center has met the Medicare and Medicaid meaningful use objectives for fiscal year 2016. The hospital also expects to meet meaningful use objectives in fiscal 2017. No meaningful use payment is expected for fiscal year 2017 as a result of the transition to the Merit-Based Incentive Payment System, which is an ambulatory Eligible Professional attestation. While USA Medical Center is moving to Penalty Aversion, it is still in the Meaningful Use program for eligible hospitals. Any payment adjustments for fiscal year 2017 will not be paid until 2019.

USA Health recognized Medicare EHR incentive revenues of $208,000 and $391,000 for the years ended September 30, 2017 and 2016, respectively. EHR incentive revenues are included in other operating revenues in the accompanying statements of revenues, expenses, and changes in net position.

(z) *Compensated Absences*

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

(2) Income Taxes

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

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

(3) Cash

Pursuant to the Security for Alabama Funds Enhancement Act, funds on deposit may be placed in an institution designated as a qualified public depository (QPD) by the State of Alabama. QPD institutions pledge securities to a statewide collateral pool administered by the State Treasurer's office. Such financial institutions contribute to this collateral pool in amounts proportionate to the total amount of public fund deposits at their respective institutions. The securities are held at the Federal Reserve Bank and are designated for the State of Alabama. Additional collateral was not required for University funds on deposit with QPD institutions. At September 30, 2017 and 2016, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately $10.8 billion and $10.7 billion, respectively. The University had cash and cash equivalents in the pool of $135,864,000 and $119,082,000 at September 30, 2017 and 2016, respectively.

At September 30, 2017, restricted cash and cash equivalents consist of $4,055,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, $1,711,000 related to collateral requirements of HCM, $210,000 related to monies held for a capital project at HCM, $27,107,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture, and $33,000 related to endowment funds.

At September 30, 2016, restricted cash and cash equivalents consist of $1,584,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, $10,000,000 related to collateral requirements of the University, $1,701,000 related to collateral requirements of HCM and $5,642,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture.

(Continued)

(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 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, 2017 and 2016 (in thousands):

	2017	2016
U.S. Treasury notes	$ 1,196	$ 5,167
U.S. federal agency notes	103,345	104,895
Commingled equity funds	116,427	91,695
Commingled fixed income funds	38,181	37,439
Marketable equity securities	8,766	7,864
Real estate	308	360
Private equity	1,091	—
Managed income alternative investments (low-volatility multi-strategy funds of funds)	27,760	27,935
	$ 297,074	$ 275,355

At September 30, 2017 and 2016, $14,755,000 and $14,852,000, 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.

(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 "Fund of Funds" or multi-manager fund.

The University's exposure to credit risk and concentration of credit risk at September 30, 2017 is as follows:

	Credit rating	Percentage of total investments
Federal National Mortgage Association	AAA	14.4 %
Federal Farm Credit Banks Funding Corporation	AAA	12.5
Common Fund Bond Fund	A+	10.9
Federal Farm Credit Banks Debenture	AAA/AA+	7.5
PIMCO Pooled Bond Fund	A-/BAA+/AA	1.9
Federal Home Loan Bank Corporation	AAA	0.3

(Continued)

The University's exposure to credit risk and concentration of credit risk at September 30, 2016 is as follows:

	Credit rating	Percentage of total investments
Federal National Mortgage Association	AAA	9.0 %
Federal Farm Credit Banks Funding Corporation	AAA	23.9
Common Fund Bond Fund	A+	11.6
PIMCO Pooled Bond Fund	BAA+/BAA/AA	2.0
Federal Home Loan Bank Corporation	AAA	2.5
Federal Home Loan Mortgage Corporation	AAA	2.6

(ii) *Interest Rate Risk*

At September 30, 2017, the maturity dates of the University's fixed income investments are as follows (in thousands):

		Years to maturity			
	Fair value	Less than 1	1–5	6–10	More than 10
U.S. Treasury notes	$ 1,196	$ —	$ 1,196	$ —	$ —
U.S. federal agency notes	103,345	6,696	96,649	—	—
Commingled fixed income funds	38,181	1,393	32,512	4,276	—
	$ 142,722	$ 8,089	$ 130,357	$ 4,276	$ —

At September 30, 2016, the maturity dates of the University's fixed income investments are as follows (in thousands):

		Years to maturity			
	Fair value	Less than 1	1–5	6–10	More than 10
U.S. Treasury notes	$ 5,167	$ 3,953	$ 1,214	$ —	$ —
U.S. federal agency notes	104,895	11,014	93,881	—	—
Commingled fixed income funds	37,439	1,300	33,215	2,924	—
	$ 147,501	$ 16,267	$ 128,310	$ 2,924	$ —

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 measurements date. The University of South Alabama 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 of South Alabama'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, 2017 (in thousands):

	Asset fair value measurements at September 30, 2017			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. Treasury notes	$ 1,196	$ —	$ —	$ 1,196
U.S. federal agency notes	—	103,345	—	103,345
Commingled equity funds	68,084	48,343	—	116,427
Commingled fixed income funds	5,669	32,512	—	38,181
Marketable equity securities	8,766	—	—	8,766
Private equity	—	—	836	836
Real estate	—	—	308	308
Total investments at fair value	$ 83,715	$ 184,200	$ 1,144	269,059
Investments measured at NAV:				
Private equity				255
Managed income alternative investments (low volatility multi-strategy fund of funds)				27,760
Total investments				$ 297,074

	Liability fair value measurements at September 30, 2017			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Interest rate exchange agreements	$ —	$ 45,608	$ —	$ 45,608

The following tables summarize the fair value measurements for all investment assets and liabilities carried at fair value as of September 30, 2016 (in thousands):

Description	Asset fair value measurements at September 30, 2016 Level 1	Level 2	Level 3	Total
U.S. Treasury notes	$ 5,167	$ —	$ —	$ 5,167
U.S. federal agency notes	—	104,895	—	104,895
Commingled equity funds	49,293	42,402	—	91,695
Commingled fixed income funds	5,462	31,977	—	37,439
Marketable equity securities	7,864	—	—	7,864
Real estate	—	—	360	360
Total investments at fair value	$ 67,786	$ 179,274	$ 360	247,420
Investments measured at NAV: Managed income alternative investments (low volatility multi-strategy fund of funds)				27,935
Total investments				$ 275,355

Description	Liability fair value measurements at September 30, 2016 Level 1	Level 2	Level 3	Total
Interest rate exchange agreements	$ —	$ 56,422	$ —	$ 56,422

A rollforward schedule of amounts for Level 3 financial instruments for the fiscal year ended September 30, 2017 is as follows (in thousands):

Description	Real estate and private equity
Beginning balance	$ 360
Purchases	560
Total realized/unrealized gains (losses)	283
Sales	(59)
Ending balance	$ 1,144

(Continued)

A rollforward schedule of amounts for Level 3 financial instruments for the fiscal year ended September 30, 2016 is as follows (in thousands):

Description		Real estate
Beginning balance	$	5,548
Total realized/unrealized gains (losses)		(940)
Sales		(4,248)
Ending balance	$	360

(b) University of South Alabama Foundation

Investments in securities consist primarily of equity securities totaling $129,674,000 and $120,900,000 at June 30, 2017 and 2016, respectively.

Investment income was comprised of the following for the years ended June 30, 2017 and 2016 (in thousands):

		2017		2016
Unrealized gains	$	17,592	$	844
Realized gains		5,044		1,972
Timber sales		3,230		2,685
Interest and dividends		2,024		2,131
Rents		624		627
Royalties		70		74
	$	28,584	$	8,333

Investment related expenses in the amount of $322,000 and $324,000, respectively, are included in the USA Foundation's management and general expenses in the accompanying 2017 and 2016 consolidated statements of activities and changes in net assets.

Real estate at June 30, 2017 and 2016 consisted of the following property held (in thousands):

		2017		2016
Land and land improvements – held for investment	$	68,074	$	67,935
Building and building improvements – held for investment		1,112		1,135
	$	69,186	$	69,070

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, 2017 and 2016, 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 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 Foundation's observable values consist of investments in exchange-traded equity securities with a readily determinable market price. Other observable values are fair value measurements derived either directly or indirectly from quoted market prices (Level 2). Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable (Level 3). The Foundation's unobservable values consist of investments in timber and real estate with fair values based on independent third-party appraisals performed by qualified appraisers specializing in timber and real estate investments.

The Foundation's investment assets at June 30, 2017, are summarized based on the criteria of ASC 820 as follows (in thousands):

	Fair value measurements at June 30, 2017			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 78,517	$ 51,157	$ —	$ 129,674
Timber and mineral properties	—	—	160,351	160,351
Real estate	—	—	69,186	69,186
Other investments	—	—	5,808	5,808
	$ 78,517	$ 51,157	$ 235,345	$ 365,019

(Continued)

The Foundation's investment assets at June 30, 2016, are summarized based on the criteria of ASC 820 as follows (in thousands):

Description	Fair value measurements at June 30, 2016 Level 1	Level 2	Level 3	Total
Equity securities	$ 72,481	$ 48,419	$ —	$ 120,900
Timber and mineral properties	—	—	157,470	157,470
Real estate	—	—	69,070	69,070
Other investments	—	—	5,803	5,803
	$ 72,481	$ 48,419	$ 232,343	$ 353,243

For the year ended June 30, 2017, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description	Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	$ 157,470	$ 69,070	$ 5,803	$ 232,343
Net unrealized gains	5,759	157	5	5,921
Additions	560	—	—	560
Reforestation	100	—	—	100
Sale of property	(124)	—	—	(124)
Depreciation/depletion	(3,414)	(41)	—	(3,455)
Ending balance	$ 160,351	$ 69,186	$ 5,808	$ 235,345

For the year ended June 30, 2016, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description	Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	$ 157,064	$ 66,320	$ 5,803	$ 229,187
Net unrealized gains	3,521	2,668	—	6,189
Additions	—	115	—	115
Reforestation	239	—	—	239
Depreciation/depletion	(3,354)	(33)	—	(3,387)
Ending balance	$ 157,470	$ 69,070	$ 5,803	$ 232,343

(Continued)

As of June 30, 2017, the USA Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of the Foundation's equity securities at June 30, 2017 are considered readily liquid. Timber and mineral properties, real estate, and other investments are generally considered illiquid.

(5) Derivative Transactions – Swaptions

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

Objective of the Derivative Transactions

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

Terms

A summary of the transactions is as follows:

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

As further discussed in note 10, in December 2013, the counterparty exercised its option with respect to the 2004 swaption. The University refunded its Series 2004 Bonds, and issued the Series 2014-A variable rate bond. As a result of the exercise of the option by the counterparty, the swaption was terminated and the borrowing arising from the Series 2004 swaption of $1,696,000 and the investment derivative (liability) of $5,213,000 were written off and an investment loss of $2,229,000 was recognized and reported in the statement of revenues, expenses and changes in net position for the year ended September 30, 2014. An original borrowing arising from the 2014 swap of $9,138,000 was recognized and is reported, net of current year amortization and adjustments to fair market value, as other long-term liabilities, in the amounts of $5,865,000 and $6,854,000, in the statements of net position at September 30, 2017 and 2016, respectively.

As further discussed in note 10, in September 2016, the counterparty exercised its option with respect to the 2006 swaption. The University refunded its Series 2006 bonds, issued the Series 2016-B, C & D variable rate bonds and terminated the Series 2006 swaption. As a result of this termination, the borrowing arising from the Series 2006 swaption of $6,939,000 and the investment derivative of $41,017,000 were written off and an investment loss of $19,123,000 was recognized and reported in the statement of revenues, expenses and changes in net position. An original obligation arising from the 2016 swap of $48,530,000 was recognized and is reported, net of current year amortization and adjustments to fair market value, as other long-term liabilities, in the amounts of $39,743,000 and $47,893,000 in the statements of net position at September 30, 2017 and 2016, respectively.

Interest on the 2006 swaption was being accreted on, and added to the borrowings through the exercise date of the option, September 1, 2016. For the year ended September 30, 2016, $344,000 was accreted and is included in interest expense in the 2016 statement of revenues, expenses, and changes in net position.

The change in the fair value of the swaption derivative until the exercise date of September 1, 2016 is reported as a component of investment income in the 2016 statement of revenues, expenses and changes in net position. For the year ended September 30, 2016, the change in the fair value of the derivative was ($19,123,000).

(6) Capital Assets

(a) University of South Alabama

A summary of the University's capital asset activity for the year ended September 30, 2017 follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Land and other	$ 22,840	$ —	$ —	$ —	$ 22,840
Construction-in-progress	113,510	60,219	(43,705)	—	130,024
	136,350	60,219	(43,705)	—	152,864
Capital assets being depreciated:					
Land improvements	33,190	389	324	(89)	33,814
Buildings, fixed equipment, and infrastructure	709,648	5,793	36,649	(973)	751,117
Other equipment	155,356	15,926	6,732	(2,098)	175,916
Equipment, net	1,377	—	(1,377)	—	—
Library materials	67,477	3,593	—	—	71,070
	967,048	25,701	42,328	(3,160)	1,031,917

		Beginning balance		Additions		Transfers		Reductions		Ending balance
Less accumulated depreciation for:										
Land improvements	$	(20,527)	$	(1,355)	$	(54)	$	90	$	(21,846)
Buildings, fixed equipment, and infrastructure		(257,108)		(21,214)		(1,518)		887		(278,953)
Other equipment		(120,478)		(18,143)		1,572		2,023		(135,026)
Library materials		(51,988)		(3,000)		—		—		(54,988)
		(450,101)		(43,712)		—		3,000		(490,813)
Capital assets being depreciated, net		516,947		(18,011)		43,705		(1,537)		541,104
Capital assets, net	$	653,297	$	42,208	$	—	$	(1,537)	$	693,968

At September 30, 2017, the University had commitments of approximately $19,746,000 related to various construction projects.

A summary of the University's capital asset activity for the year ended September 30, 2016 follows (in thousands):

		Beginning balance		Additions		Transfers		Reductions		Ending balance
Capital assets not being depreciated:										
Land and other	$	22,516	$	213	$	111	$	—	$	22,840
Construction-in-progress		82,913		60,972		(30,375)		—		113,510
		105,429		61,185		(30,264)		—		136,350
Capital assets being depreciated:										
Land improvements		32,361		35		794		—		33,190
Buildings, fixed equipment, and infrastructure		676,831		4,474		28,751		(408)		709,648
Other equipment		150,661		8,104		719		(4,128)		155,356
Equipment, net		—		1,377		—		—		1,377
Library materials		63,964		3,513		—		—		67,477
		923,817		17,503		30,264		(4,536)		967,048

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Less accumulated depreciation for:					
Land improvements	$ (19,218)	$ (1,309)	$ —	$ —	$ (20,527)
Buildings, fixed equipment, and infrastructure	(237,648)	(19,747)	—	287	(257,108)
Other equipment	(113,656)	(10,918)	—	4,096	(120,478)
Library materials	(49,094)	(2,894)	—	—	(51,988)
	(419,616)	(34,868)	—	4,383	(450,101)
Capital assets being depreciated, net	504,201	(17,365)	30,264	(153)	516,947
Capital assets, net	$ 609,630	$ 43,820	$ —	$ (153)	$ 653,297

At September 30, 2016, the University had commitments of approximately $10,867,000 related to various construction projects.

(b) *USA Research and Technology Corporation*

Changes in capital assets for the year ended September 30, 2017 are as follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land and land improvements	$ 2,199	$ —	$ —	$ —	$ 2,199
Buildings	28,148	—	143	—	28,291
Tenant improvements	1,186	71	—	(103)	1,154
Construction in progress	145	3	(143)	(2)	3
Other equipment	256	20	—	(1)	275
	31,934	94	—	(106)	31,922
Less accumulated depreciation for:					
Land improvements	(1,124)	(94)	—	—	(1,218)
Buildings	(7,299)	(738)	—	—	(8,037)
Tenant improvements	(751)	(110)	—	103	(758)
Other equipment	(193)	(27)	—	—	(220)
	(9,367)	(969)	—	103	(10,233)
Capital assets, net	$ 22,567	$ (875)	$ —	$ (3)	$ 21,689

Changes in capital assets for the year ended September 30, 2016 are as follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land and land improvements	$ 2,199	$ —	$ —	$ —	$ 2,199
Buildings	27,923	225	—	—	28,148
Tenant improvements	972	234	—	(20)	1,186
Construction in progress	143	2	—	—	145
Other equipment	256	—	—	—	256
	31,493	461	—	(20)	31,934
Less accumulated depreciation for:					
Land improvements	(1,030)	(94)	—	—	(1,124)
Buildings	(6,584)	(715)	—	—	(7,299)
Tenant improvements	(672)	(99)	—	20	(751)
Other equipment	(167)	(26)	—	—	(193)
	(8,453)	(934)	—	20	(9,367)
Capital assets, net	$ 23,040	$ (473)	$ —	$ —	$ 22,567

(7) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the year ended September 30, 2017 follows (in thousands):

	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable	$ 367,557	$ 145,035	$ (123,168)	$ 389,424	$ 18,470	$ 370,954
Notes payable	3,484	2,265	(207)	5,542	3,711	1,831
Capital lease obligations	17,771	3,161	(3,600)	17,332	3,597	13,735
Total long-term debt	388,812	150,461	(126,975)	412,298	25,778	386,520
Other noncurrent liabilities						
Net pension liability	329,294	7,183	—	336,477	—	336,477
Other long-term liabilities	105,262	11,956	(15,226)	101,992	6,884	95,108
Total other noncurrent liabilities	434,556	19,139	(15,226)	438,469	6,884	431,585
Total noncurrent liabilities	$ 823,368	$ 169,600	$ (142,201)	$ 850,767	$ 32,662	$ 818,105

(Continued)

A summary of the University's noncurrent liability activity for the year ended September 30, 2016 follows (in thousands):

	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable	$ 373,991	$ 101,241	$ (107,675)	$ 367,557	$ 18,046	$ 349,511
Notes payable	1,263	2,221	—	3,484	3,484	—
Capital lease obligations	15,143	3,677	(1,049)	17,771	3,486	14,285
Total long-term debt	390,397	107,139	(108,724)	388,812	25,016	363,796
Other noncurrent liabilities						
Net pension liability	297,734	31,560	—	329,294	—	329,294
Other long-term liabilities	88,789	73,332	(56,859)	105,262	9,336	95,926
Total other noncurrent liabilities	386,523	104,892	(56,859)	434,556	9,336	425,220
Total noncurrent liabilities	$ 776,920	$ 212,031	$ (165,583)	$ 823,368	$ 34,352	$ 789,016

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

During 2017, USA Health entered into a note payable for a period of ten years payable monthly at $18,882. This agreement commenced in November 2016 to finance improvements of the HVAC system. The amount outstanding on the note at September 30, 2017 is $2,058,138 with no stated interest rate.

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 is $5,000,000 and interest on the outstanding amounts accrue at the rate of the London InterBank Offered Rate (LIBOR) plus 1.00% with a maturity date of April 15, 2017. During fiscal year 2017, the line of credit was renewed until April 14, 2018. The amount outstanding at September 30, 2017 and 2016 is $3,434,000, and is reported as current portion of long-term debt in the statements of net position.

In June 2016, the University entered into a variable interest rate revolving line of credit with Compass Bank to, among other reasons, fund certain capital improvements to various health care facilities for USA Health. The total amount available under the line of credit is $30,000,000 and interest on the outstanding amounts is accrued at the rate of 65% of the LIBOR plus 77 basis points. The maturity date is June 10, 2018. The amount outstanding at September 30, 2017 and 2016 is $50,000, and is reported as current portion of long-term debt in the statements of net position.

(a) USA Research and Technology Corporation

(i) Notes Payable

Notes payable consisted of the following (in thousands):

		2017		2016
Wells Fargo Bank, N.A. promissory note, one-month LIBOR plus 0.85% (2.085% and 1.377% at September 30, 2017 and 2016, respectively) payable through 2028	$	12,247	$	13,034
PNC Bank promissory note, 4.50%, payable through 2021		8,007		8,282
	$	20,254	$	21,316

The note payable to Wells Fargo Bank, N.A. was incurred by the Corporation to acquire Buildings II and III in the USA Technology & Research Park and to provide funds for renovations and tenant finishing costs. The loan is a fully amortizing promissory note with a 20-year term. As more fully described below, the Corporation entered into a "receive-variable, pay-fixed" types of interest rate swap on the promissory note, which will yield a synthetic fixed interest rate of 0%. The promissory note payable is secured by an interest in the ground lease with respect to the parcels of land on which Buildings II and III stand, an interest in Buildings II and III, an interest in tenant leases for Buildings II and III, and an interest in income received from rental of Buildings II and III.

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

In connection with each note, the University entered into an agreement with the lender providing that for any year in which the Corporation's debt service coverage ratio is less than 1 to 1, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to 1 to 1. The debt service coverage ratio is calculated by dividing the sum of unrestricted cash and cash equivalents at the beginning of the year (reduced by current year capital assets additions) and current year change in net position (determined without depreciation, amortization, and interest expense) by current year debt service. For fiscal 2017 the Corporation's debt service coverage ratio was 1.16 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2017.

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

At September 30, 2017, total future debt service by fiscal year is as follows (in thousands):

	Debt service on notes		
	Principal	Interest	Total
2018	$ 1,119	$ 1,094	$ 2,213
2019	1,194	1,020	2,214
2020	1,264	949	2,213
2021	8,111	670	8,781
2022	1,072	500	1,572
2023–2027	6,471	1,386	7,857
2028–2029	1,023	24	1,047
Total	$ 20,254	$ 5,643	$ 25,897

(iii) *Derivative Transaction*

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

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

The swap will terminate on May 1, 2028, when the loan matures. The notional amount of the swap will at all times match the outstanding principal amount of the loan. Under the swap, the Corporation pays the counterparty a fixed payment of 6.10% and receives a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the loan bears interest at the one-month LIBOR rate plus 0.85%. The Corporation paid $555,844 and $651,955 under the interest rate swap agreement for the years ended September 30, 2017 and 2016, respectively, which are reflected as increases in interest expense.

Fair value. The interest rate swap had a negative fair value of ($2,252,006) and ($3,414,981) at September 30, 2017 and 2016, respectively. The changes in fair value are reported as deferred outflows on the accompanying statements of net position since the interest rate swap is a hedging derivative instrument.

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

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

Credit risk. As of September 30, 2017 and 2016, the Corporation was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivative becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa2 by Moody's Investors Services and AA- by Standard & Poor's Ratings Services as of September 30, 2017 and 2016.

Termination risk. The interest rate swap contracts use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard default and termination events, such as failure to make payments, breach of agreement, and bankruptcy. At September 30, 2017 and 2016, no events of default or termination had occurred. If the interest rate swap is terminated, interest rate risk associated with the variable rate debt would no longer be hedged. Also, if at the time of termination, the interest rate swap had a negative fair value, the Corporation would be liable to the counterparty for a payment equal to the interest rate swap's fair value. To allow the Corporation the maximum flexibility to manage the utilization of Buildings II and III while at the same time providing protection for the counterparty, the Corporation granted the counterparty a $2,000,000 mortgage secured by an interest in the ground lease with respect to the parcel of land on which Building II stands, an interest in Building II, a security interest in Building II tenant leases, and a security interest in income received from rental of Building II.

Derivative payments and hedged debt. As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of September 30, 2017, debt service requirements by fiscal year of the variable rate debt and net derivative payments, assuming current interest rates remain the same in the future, are as follows (in thousands):

	Variable rate loan		Interest rate	
	Principal	Interest	swap, net	Total
2018	$ 832	$ 253	$ 487	$ 1,572
2019	893	232	447	1,572
2020	949	212	409	1,570
2021	1,008	193	371	1,572
2022	1,072	171	329	1,572
2023–2027	6,470	474	912	7,856
2028–2029	1,023	8	16	1,047
Total	$ 12,247	$ 1,543	$ 2,971	$ 16,761

(8) Bonds Payable

Bonds payable consisted of the following at September 30, 2017 and 2016 (in thousands):

	2017	2016
University Tuition Revenue Bonds, Series 1999 Capital Appreciation, 4.70% to 5.25%, payable November 2011 through November 2018	$ 14,614	$ 21,382
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, 5.00%, refunded in December 2016	—	100,000
University Facilities Revenue and Capital Improvement Bonds, Series 2008, 3.00% to 5.00%, payable through August 2018	2,850	5,565
University Facilities Revenue and Capital Improvement Bonds, Series 2010, 3.81%, payable through August 2030	21,820	23,102
University Facilities Revenue Capital Improvement Bonds, Series 2012-A, 2.92% payable through August 2032	19,950	21,025
University Facilities Revenue Capital Improvement Bonds, Series 2012-B, 2.14% payable through February 2018	1,365	2,690
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2.83% payable through August 2033	26,944	28,261
University Facilities Revenue Capital Improvement Bonds, Series 2013-B, 2.83% payable through August 2033	6,736	7,065
University Facilities Revenue Capital Improvement Bonds, Series 2013-C, 2.78% payable through August 2028	7,722	8,315
University Facilities Revenue Refunding Bonds, Series 2014-A, variable rate payable at 68% of LIBOR plus 0.73%, 1.57% at September 30, 2017, payable through March 2024	39,670	40,285
University Facilities Revenue Capital Improvement Bonds, Series 2015, 2.47% payable through August 2030	4,875	5,250
University Facilities Revenue Refunding Bonds, Series 2016-A, 3.00% to 5.00% payable through November 2037	85,605	85,605
University Facilities Revenue Refunding Bonds, Series 2016-B, variable rate payable at 68% of one-month LIBOR plus 0.72%, 1.56% at September 30, 2017, payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2021	20,000	—
University Facilities Revenue Refunding Bonds, Series 2016-C, variable rate payable at 68% of one-month LIBOR plus 0.77%, 1.61% at December 30, 2017, payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2023	35,000	—
University Facilities Revenue Refunding Bonds, Series 2016-D, variable rate payable at 68% of one-month LIBOR plus 0.83%, 1.67% at September 30, 2017, payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2026	45,000	—

(Continued)

	2017	2016
University Facilities Revenue Bonds, Series 2017, 2.00% to 5.00%, payable through October 2037	$ 37,410	$ —
	369,561	348,545
Plus unamortized premium	21,822	20,640
Less unaccreted discount	(10)	(16)
Less prepaid bond insurance	(1,949)	(1,612)
	$ 389,424	$ 367,557

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. Series 1999 Capital Appreciation Bonds began maturing in November 2011. Series 1999 Bonds are not redeemable prior to maturity. Series 2006 Bonds were refunded in December 2016 with the issuance of the University Facilities Revenue Refunding Bonds, Series 2016-B, C and D Bonds, with a face value totaling $100,000,000. Series 2008 Bonds began maturing in August 2009 and are redeemable beginning in August 2018. The Series 2010 Bonds began maturing in August 2011 and are redeemable beginning in February 2020. The 2012-A and 2012-B Bonds began maturing in August 2013. The 2012-A Bonds are redeemable beginning in August 2021 and the 2012-B Bonds are redeemable at any time. The 2013-A, 2013-B and 2013-C Bonds began maturing in August 2014 and are redeemable beginning in June 2023. The Series 2014-A 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 will begin 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 beginning in December 2017. The Series 2017 Bonds will begin maturing in October 2017 and are redeemable beginning in October 2027.

In September 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016-A, 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 are 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 2008 Bonds of $7,859,000 is recorded as a deferred outflow and amortized over the remaining life of the 2016-A Bonds. The principal outstanding on all defeased bonds is $93,540,000 at September 30, 2017 and 2016. The remaining undefeased portion of the Series 2008 bonds at September 30, 2017 and 2016 is $2,850,000 and $5,565,000, respectively, and is included in current portion of long-term debt and long-term debt, respectively, on the accompanying 2017 and 2016 statements of net position.

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 from the Series 2016 Bonds were used to refund the remaining outstanding 2006 Bonds.

In June 2017, the University issued its University Facilities Revenue Bonds, Series 2017, with a face value of $38,105,000. The proceeds from the Series 2017 Bonds are financing a new residence hall on the campus of the University and supporting ongoing infrastructure improvement projects.

During the years ended September 30, 2017 and 2016, the maturity value of the Capital Appreciation Bonds increased $782,000 and $1,099,000, respectively, over the original principal amount of $19,810,000, reflecting accretion of interest.

Approximately $27,107,000 of proceeds from the issuance of the Series 2017 Bonds remained unspent at September 30, 2017 and is included in restricted cash and cash equivalents in the 2017 statement of net position. These funds are restricted for capital purposes as outlined in the bond indenture.

Approximately $2,551,000, $1,638,000 and $1,452,000 of proceeds from the issuance of Series 2012, Series 2013-A and Series 2015 Bonds, respectively, remained unspent as of September 30, 2016. These funds were restricted for capital purposes as outlined in the respective bond indentures. During the year ended September 30, 2017, all of these remaining funds were allocated to capital projects.

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, 2017 and 2016, 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, 2017 and 2016, management believes the University was in compliance with such financial covenants.

Debt Service on Long-Term Obligations

Total debt service (which includes bonds and notes payable) by fiscal year is as follows as of September 30, 2017 (in thousands):

	Debt service on notes and bonds			
	Principal	Interest	Additional maturity	Total
2018	$ 21,235	$ 9,247	$ (427)	$ 30,055
2019	17,482	9,776	(49)	27,209
2020	16,544	9,409	—	25,953
2021	17,271	9,003	—	26,274
2022	18,036	8,580	—	26,616
2023–2027	92,221	35,828	—	128,049
2028–2032	94,720	21,983	—	116,703
2033–2037	90,064	7,875	—	97,939
2038	8,006	135	—	8,141
Subtotal	375,579	$ 111,836	$ (476)	$ 486,939

	Debt service on notes and bonds			
	Principal	Interest	Additional maturity	Total
Plus (less):				
Additional maturity	$ (476)			
Unamortized bond premium	21,822			
Unaccreted bond discount	(10)			
Unamortized debt extinguishment costs	(1,949)			
Total	$ 394,966			

The principal amount of debt service due on bonds at September 30, 2017 and 2016, includes $782,000 and $1,099,000, respectively, representing additional maturity value on Series 1999 Capital Appreciation Bonds. These bonds mature through 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.

(9) Capital Lease Obligations

In April 2015, the University signed a seven-year purchase agreement, with a $1,000,000 initial payment and quarterly payments thereafter of $590,000 until March 2022, as a method of financing the purchase of certain computer software and hardware for USA Health. In July 2015, the University signed a second seven-year purchase agreement, with a $100,000 initial payment and quarterly payments thereafter of $62,000 until March 2022, as a method of financing additional laboratory software and hardware for USA Health. Also, in July 2015, and modified in September 2016, the University signed a three-year purchase agreement, with modified monthly payments of $30,000 until February 2020, to finance the purchase of a heat recovery system for USA Health. In September 2016, the University signed a six-year purchase agreement, with monthly payments of $66,000 until May 2022, as a method of financing the purchase of certain hospital equipment for USA Health. In December 2016, the University signed a five-year tax-exempt capital lease, with monthly payments of $37,000 until October 2022, to finance the acquisition of additional hospital equipment for USA Health.

Future minimum capital lease payments at September 30, 2017, are as follows (in thousands).

Year ending September 30:		
2018	$	4,138
2019		4,200
2020		3,994
2021		3,845
2022		2,474
Thereafter		37
		18,688
Less amounts representing interest		(1,356)
Net minimum lease payments	$	17,332

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

(10) Derivative Transaction – Interest Rate Swaps

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

As more fully described in note 5, 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 2006 Bonds, the University redeemed those bonds in December 2016 with proceeds from the 2016-B, C & D Bonds (see note 8).

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 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 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 $5,865,000 in the statement of net position at September 30, 2017. The change in the fair value of the swap of $2,664,000 and $609,000 as of September 30, 2017 and 2016, respectively, is reported as a deferred inflow and derivative asset on the statements of net position since the interest rate swap is a hedging derivative instrument.

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 market value, is reported as a borrowing arising from the 2016 interest rate swap as other long-term liabilities in the amount of $39,743,000 in the statement of net position at September 30, 2017. The change in the fair value of the swap of $8,787,000 and $637,000 as of September 30, 2017 and 2016, respectively, is reported as a deferred outflow and contra liability (other long-term liabilities) on the statements of net position since the interest rate swap is a hedging derivative instrument.

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 2014-A and 2016-B, C & D Bonds.

Credit risk. As of September 30, 2017 and 2016, 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 AA – by Standard & Poor's Ratings Services as of September 30, 2017 and 2016.

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, 2017 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
2018	$ 640	$ 614	$ 1,533	$ 2,787
2019	665	659	1,451	2,775
2020	6,925	621	1,282	8,828
2021	7,280	510	1,006	8,796
2022	7,655	385	724	8,764
2023–2024	16,505	328	585	17,418
Total	$ 39,670	$ 3,117	$ 6,581	$ 49,368

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
2018	$ —	$ 1,569	$ 3,901	$ 5,470
2019	—	1,704	3,766	5,470
2020	—	1,779	3,691	5,470
2021	—	1,832	3,638	5,470
2022	—	1,891	3,579	5,470
2023–2027	17,675	9,513	16,398	43,586
2028–2032	36,040	6,707	11,035	53,782
2033–2037	46,285	2,292	4,235	52,812
Total	$ 100,000	$ 27,287	$ 50,243	$ 177,530

(11) 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 the 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 Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2012.

USA Children's & Women's Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2013.

Revenues from the Medicare program accounted for approximately 19% and 16% of USA Health's net patient service revenues for the years ended September 30, 2017 and 2016, 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 Medical Center's and USA Children's & Women's Hospital's Blue Cross cost reports have been audited by Blue Cross through September 30, 2016.

Revenues from the Blue Cross program accounted for approximately 36% and 27% of USA Health's net patient service revenues for the years ended September 30, 2017 and 2016, 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.

The Health System 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 37% and 30% of USA Health's net patient service revenues for the years ended September 30, 2017 and 2016, respectively.

Other – USA Health has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The bases 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, 2017 and 2016 follows (in thousands):

		2017		2016
Gross patient service revenues	$	859,493	$	791,625
Less provision for contractual and other adjustments		(380,288)		(347,757)
Less provision for bad debts		(88,274)		(83,211)
	$	390,931	$	360,657

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately $1,043,000 and $5,638,000 in patient service revenues for the years ended September 30, 2017 and 2016, respectively.

(12) Defined Benefit Cost Sharing Pension Plan

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

(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 form further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status, and eligibility for retirement.

(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 12.01% of annual pay for Tier 1 members and 10.82% 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 $23,664,000 and $23,405,000 for the years ended September 30, 2017 and 2016, respectively.

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

At September 30, 2017 and 2016, the University reported a liability of $336,477,000 and $329,294,000, respectively, for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015. The University's proportion of the collective net pension liability was based on the employer's shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2016, the University's proportion of contributions to the pension plan was 3.108048%, which was a decrease of 0.077423% from its proportion measured as of September 30, 2015.

For the years ended September 30, 2017 and 2016, the University recognized pension expense of approximately $31,138,000 and $20,116,000, respectively, which is included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

At September 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	$ 4,863	$ —
Change of assumptions	23,757	—
Difference between expected and actual experience	—	8,665
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	21,485
Employer contributions subsequent to measurement date	22,943	—
	$ 51,563	$ 30,150

At September 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	$ 21,827	$ —
Difference between expected and actual experience	—	1,806
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	20,962
Employer contributions subsequent to measurement date	22,691	—
	$ 44,518	$ 22,768

(Continued)

At September 30, 2017, approximately $22,943,000 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ending September 30:		
2018	$	(2,800)
2019		(2,800)
2020		4,652
2021		(1,296)
2022		714
	$	(1,530)

(e) *Actuarial Assumptions*

The total pension liability as of September 30, 2017 and 2016 was determined by an actuarial valuation as of September 30, 2015 and 2014, respectively, using the following actuarial assumptions, applied to all periods included in the measurement:

	2017	2016
Inflation	2.75 %	3.00 %
Investment rate of return*	7.75	8.00
Projected salary increases	3.25–5.00	3.50–8.25

* Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2015 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 actuarial assumptions used in the September 30, 2014 valuation were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which was effective at the beginning of the fiscal year 2012. Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

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

	Target allocation	Long-term expected rate of return*
Fixed income	17.00 %	4.40 %
U.S. large stocks	32.00	8.00
U.S. mid stocks	9.00	10.00
U.S. small stocks	4.00	11.00
International developed market stocks	12.00	9.50
International emerging market stocks	3.00	11.00
Alternatives	10.00	10.10
Real estate	10.00	7.50
Cash	3.00	1.50
	100.00 %	

* 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, 2017 was 7.75%. 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 7.75%, 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 (6.75%) or 1-percentage point higher (8.75%) than the current rate (in thousands):

	1% Decrease (6.75)%	Current rate (7.75)%	1% Increase (8.75)%
University's proportionate share of collective net pension liability	$ 448,262	$ 336,477	$ 241,839

(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, 2016 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, 2016. The auditors' report dated August 1, 2017 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, 2016 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

(13) Other Employee Benefits

(a) Other Pension Plans

Employees of the University also participate in a defined contribution pension plan. The defined contribution pension plan covers certain academic and administrative employees, and participation by eligible employees is optional. Under this plan, administered by Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University contributed $643,000 and $711,000 in 2017 and 2016, respectively, representing 270 and 350 employees, respectively, participating in this Plan.

All employees of HCM working at least half time are eligible to participate in a defined contribution pension plan, administered by TIAA-CREF or Variable Annuity Life Insurance Company of America (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 $4,468,000 and $3,900,000 in 2017 and 2016, respectively, representing 1,345 and 1,425 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 $14,596,000 and $15,158,000 at September 30, 2017 and 2016, respectively. The current portion of the accrual is included in accounts payable and accrued liabilities and the noncurrent portion is included in other long-term liabilities in the accompanying basic financial statements. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

(c) Other Postretirement Employee Benefits

As the provider of postretirement benefits to state retirees, the state is responsible for applying GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In September 2003, the State of Alabama Legislature passed legislation that requires all colleges and universities to fund the healthcare premiums of its participating retirees. In prior years, such costs have been paid by the State. Beginning in October 2003, the University was assessed a monthly premium by the Public Education Employees' Health Insurance Plan (PEEHIP) based on the number of retirees in the system and an actuarially determined premium. During the years ended September 30, 2017 and 2016, the University's expense related to PEEHIP was $8,413,000 and $9,184,000, respectively.

(14) Risk Management

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

As discussed in note 1, the PLTF and GLTF are blended component units of the University, as defined by GASB Statement No. 14, and as such are included in the basic financial statements of the University for the years ended September 30, 2017 and 2016. Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. These liabilities are generally based on actuarial valuations and are reported at their present value.

The University and HCM participate in a self-insured health plan, administered by an unaffiliated entity. Administrative fees paid by the University for such services were approximately $2,237,000 and $2,019,000 in 2017 and 2016, 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, 2017 and 2016 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

		2017		2016
Balance, beginning of year	$	39,581	$	23,130
Liabilities incurred and other additions		65,690		79,226
Claims, administrative fees paid and other reductions		(66,156)		(62,775)
Balance, end of year	$	39,115	$	39,581

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

(15) Other Related Parties

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. At September 30, 2017, SAMSF had total assets of $13,112,000, net assets of $11,121,000, and total revenues of $2,403,000. At September 30, 2016, SAMSF had total assets of $13,884,000, net assets of $10,935,000, and total revenues of $3,544,000. SAMSF reimburses the University for certain administrative expenses and other related support services. Total amounts received for such expenses were approximately $672,000 and $775,000 in 2017 and 2016, respectively, and are reflected as private grants and contracts in the accompanying statements of revenues, expenses, and changes in net position.

HCA, formed in May 2017, is a public corporation that employs physicians and staff of physician practice groups. At September 30, 2017, $5,002,000 is due to the University and is reported in accounts receivable, affiliates on the 2017 statement of net position.

(16) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2017 and 2016, the University had been awarded approximately $20,465,000 and $25,411,000, 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 revenue, 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) Letters 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, 2017 and 2016.

In connection with RCO participation in the Alabama Medicaid Agency's Health Home Regional Care Organization Program, HCM has established a $1,689,000 irrevocable standby letter of credit with Hancock Bank. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds were advanced under this letter during the years ended September 30, 2017 and 2016. As a requirement of the issuance of this letter of credit, HCM is required to establish collateral in the same amount as the letter of credit. As such, a collateral account in the amount of $1,689,000 has been established and is included in restricted cash and cash equivalents on the statements of net position as of September 30, 2017 and 2016.

(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. A draft report was subsequently received by the University and a response to this draft was sent to the U.S. Department of Education. On October 10, 2017, the University received the final program review determination letter. Management is currently evaluating the letter, but believes there will be no liability to the University beyond that which is accrued in the financial statements.

(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 8). As of September 30, 2017 and 2016, no amounts were payable pursuant to these agreements.

(f) USA Research and Technology Corporation Leases

The Corporation leases space in Building I to two tenants under operating leases. One lease has a 5-year initial term expiring in October 2018 with two 5-year renewal options. Another lease has a 67-month initial term expiring in December 2018 with no renewal options.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. These leases have terms varying from month-to-month to 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 nine 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 (the Corporation's fiscal year beginning after the date the lease is signed). Under Hub leases, the Corporation must pay all operating expenses of the space, without reimbursement from tenants.

Space under lease to the University was 51,168 and 40,345 square feet at September 30, 2017 and 2016, respectively.

The Corporation owns a building located on the premises of the USA Medical Center which is leased to a single tenant. The Corporation paid for construction of the building shell and land improvements while the tenant paid for the cost of finishing the building's interior. The lease has a ten-year initial term expiring in March 2020 with three five-year renewal options. Under the lease, the tenant must also pay for utilities, taxes, insurance, and interior repairs and maintenance. The Corporation is responsible for repairs and maintenance to the exterior and HVAC system.

The Corporation, as lessor, had three ground leases in place at September 30, 2017 and 2016. 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):

2018	$	2,311
2019		1,517
2020		1,068
2021		859
2022		779
2023–2048		6,010
Total	$	12,544

(Continued)

(17) Functional Expense Information

Operating expenses by functional classification for the years ended September 30, 2017 and 2016 are listed below (in thousands). In preparing the basic financial statements, all significant transactions and balances among accounts have been eliminated.

	2017	2016
Instruction	$ 113,700	$ 112,521
Research	25,764	25,229
Public service	1,304	3,209
Academic support	24,921	21,465
Student services	34,512	32,920
Institutional support	36,865	22,464
Operation and maintenance of plant	33,955	35,184
Scholarships	13,218	13,106
USA Health	424,788	397,353
Auxiliary enterprises	21,650	24,642
Depreciation and amortization	36,740	36,174
	$ 767,417	$ 724,267

(18) Blended Component Units

As more fully described in note 1, HCM, PLTF and GLTF are component units pursuant to the provisions of GASB Statement No. 61. In accordance with that statement, the HCM, PLTF and GLTF are reported as blended component units. Required combining financial information of the aggregate blended component units as of and for the years ended September 30, 2017 and 2016 is presented below (in thousands):

(Continued)

	2017	2016
Current assets	$ 13,500	$ 15,292
Noncurrent assets	62,016	56,041
Total assets	75,516	71,333
Current liabilities	39,596	34,453
Noncurrent liabilities	34,302	35,833
Total liabilities	73,898	70,286
Net position	$ 1,618	$ 1,047
Operating revenues	$ 176,060	$ 212,376
Operating expenses	(179,535)	(216,869)
Operating loss	(3,475)	(4,493)
Nonoperating revenues	4,046	3,007
Change in net position	$ 571	$ (1,486)

(19) Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 changes accounting and financial reporting for entities which participate in plans providing postemployment benefits other than pensions and will be effective for the University's year ending September 30, 2018. In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose specific information about the agreements. This statement is effective for the University beginning with the fiscal year ending September 30, 2017. In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends Statement No. 68 to exclude pensions that are not governmental pension plans and establishes requirements for the recognition and measurement of nongovernmental pension plans that are offered to government employees. Also in December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial statement purposes. Both Statements No. 78 and 79 are effective for the University beginning with the fiscal year ending September 30, 2017.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. This statement is effective for the University of South Alabama beginning with the fiscal year ending September 30, 2017. Statement No. 80 amends the blending requirements for financial statement presentation and requires the blending of a component unit that is incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* and Statement No. 82, *Pension Issues*. Both statements are effective for the University of South Alabama beginning with the fiscal year ending September 30, 2017. Statement No. 81 changes the reporting requirements for gifts given to the University in which USA is a beneficiary of a split-interest agreement. Statement No. 82 was issued to address certain matters that have been raised from Statements No. 67, 68 and 73 and clarifies the presentation of payroll-related measures in the required supplementary information, the selection of assumptions and treatment of deviations from the guidance, and the classification of payments made by employers to satisfy employee contribution requirements. In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement will be effective for the University beginning with the fiscal year ending September 30, 2019. 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 No. 84 addresses the criteria for identifying fiduciary activities of all state and local governments. In March 2017 the GASB issued Statement No. 85, *Omnibus 2017*, which will be effective for the University beginning with the fiscal year ending September 30, 2018. The objective of Statement No. 85 is to ensure consistency in the application of accounting and financial reporting requirements related to various topics, including blending component units, goodwill, fair value measurement and application, and postemployment benefits. The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues,* in May 2017. This statement will be effective for the University beginning with the fiscal year ending September 30, 2018. Statement 86 addresses financial reporting for in-substance defeasance of debt and prepaid insurance on debt that is extinguished. 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 statement of net position.

The effect of the implementation of GASB Statements Nos. 75, 84, 85, 86 and 87 on the University has not yet been determined.

Statement Nos. 77, 78, 79, 80, 81, 82 and 83 do not have an 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, 2017

(In thousands)

	2017	2016	2015
University's proportion of the net pension liability	3.108048 %	3.185471 %	3.322348 %
University's proportionate share of the net pension liability	$ 336,477	$ 329,294	$ 297,734
University's covered-employee payroll	$ 200,464	$ 198,378	$ 201,858
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	167.85 %	165.99 %	147.50 %
Plan fiduciary net position as a percentage of the total pension liability	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 University's Contributions (Unaudited)

Teachers' Retirement Plan of Alabama

September 30, 2017

(In thousands)

		2017		2016		2015
Contractually required contribution	$	23,664	$	23,405	$	23,524
Contributions in relation to the contractually required contribution		23,664		23,405		23,524
Contribution deficiency (excess)	$	—	$	—	$	—
University's covered-employee payroll	$	200,464	$	198,378	$	201,858
Contributions as a percentage of covered-employee payroll		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.

(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, 2017 and 2016 was determined by an actuarial valuation as of September 30, 2015 and 2014, respectively, using the following actuarial assumptions, applied to all periods included in the measurement:

	2017	2016
Inflation	2.75 %	3.00 %
Investment rate of return*	7.75	8.00
Projected salary increases	3.25–5.00	3.50–8.25

* Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2015 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.

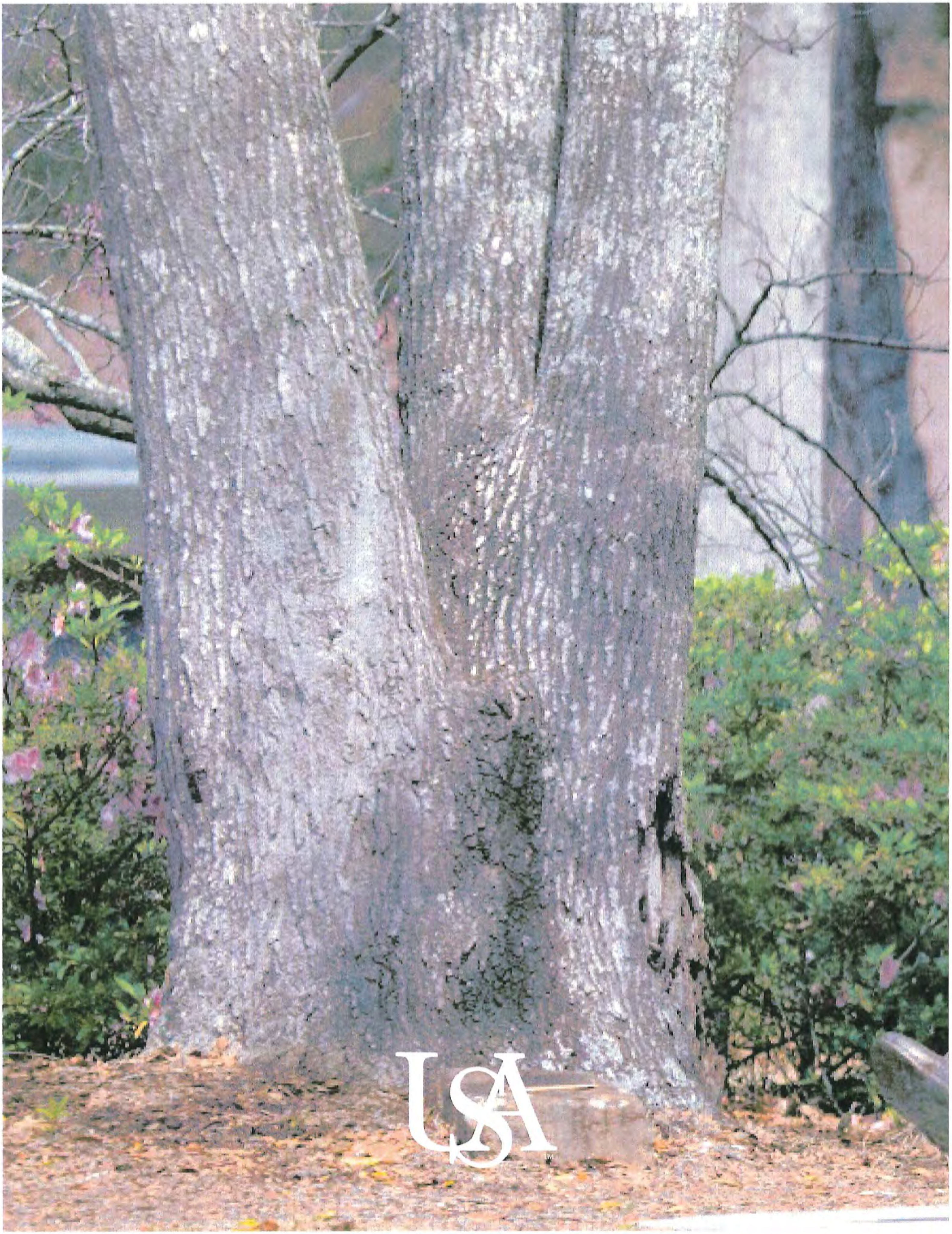
The actuarial assumptions used in the September 30, 2014 valuation were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of the fiscal year 2012. Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

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

(Continued)

(b) Discount Rate

The discount rate used to measure the total pension liability as of September 30, 2017 was 7.75%. 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.



RESOLUTION

ADOPTION OF AFFILIATION AGREEMENTS

WHEREAS, the University of South Alabama Foundation for Research and Commercialization, the USA Research and Technology Corporation, the Jaguar Athletic Fund, Inc., the University of South Alabama College of Medicine-Medical Alumni Association, Inc., and The University of South Alabama National Alumni Association were each established as non-profit, educational and charitable organizations ("Organizations") for the purposes of serving the University of South Alabama ("University") and promoting the mission of the University pursuant to their respective Articles of Incorporation, by furthering the mission of the University through support of its academic programs, scientific research and development initiatives, and enhancement of the University's educational and training opportunities, and

WHEREAS, the University and the Organizations anticipate that the University will continue to provide the Organizations with specified services and facilities with which to carry out their responsibilities in exchange for the development, financial, and other service, support, and assistance the Organizations shall provide the University, and

WHEREAS, the Board of Trustees of the University wishes to define the arrangements concerning services, facilities, premises, and activities as set forth in the affiliation agreements between the University of South Alabama and each of the above-referenced Organizations, attached hereto,

THEREFORE, BE IT RESOLVED that the Board of Trustees of the University does hereby approve and adopt the attached affiliation agreements between the University of South Alabama and the following 501(c)(3) organizations -- the University of South Alabama Foundation for Research and Commercialization, the USA Research and Technology Corporation, the Jaguar Athletic Fund, Inc., the University of South Alabama College of Medicine-Medical Alumni Association, Inc., and The University of South Alabama National Alumni Association.

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Office of the Vice President for Research and Economic Development

Date:
November 13, 2017

To:
Tony G. Waldrop, Ph.D.
President

From:
Lynne U. Chronister
Vice President Research and Economic Development

Subject:
Agenda Item for November 30, 2017 University of South Alabama Board of Trustees Meeting -Affiliation Agreement Between University of South Alabama and University of South Alabama Foundation for Research and Commercialization and the Affiliation Agreement Between University of South Alabama and University of South Alabama Research and Technology Corporation

Attached are resolutions for consideration by the Board of Trustees of the University of South Alabama concerning the adoption of the Affiliation Agreement Between University of South Alabama and University of South Alabama Foundation for Research and Commercialization and the Affiliation Agreement Between University of South Alabama and University of South Alabama Research and Technology Corporation which discusses obligations and expectations of each to the other. These Affiliation Agreements have been approved by the Board of Directors of University of South Alabama Foundation for Research and Commercialization and the Board of Directors of University of South Alabama Research and Technology Corporation. With your approval, this item will be presented to Board of Trustees for approval. Further, I recommend the adoption of the resolution by the Board of Trustees.

LUC/bu

Attachment

REC'D
Office of the President
NOV 13 2017
University of South Alabama

Affiliation Agreement
Between
University of South Alabama
and the
University of South Alabama Foundation for Research and Commercialization

This Agreement is made and entered into this ________ day of ______________, _______ (the Effective Date) by and between University of South Alabama (hereinafter "USA" or "University"), a public body corporate, and the University of South Alabama Foundation for Research and Commercialization, a corporation duly organized under the laws of the State of Alabama (hereinafter "Foundation").

RECITALS

WHEREAS, USA is a state institution of higher learning established pursuant to the laws of the State of Alabama; and

WHEREAS, Foundation has been established as a non-profit, educational and charitable organization under Section 501(c)(3) of the Internal Revenue Code of 1986 for the purposes outlined in its Articles of Incorporation, a copy of which is attached to this Agreement as "Exhibit A;" and

WHEREAS, Foundation serves University and promotes its mission as indicated in "Exhibit A," by, among other things, furthering the educational and scientific mission of University through support of its academic programs, scientific research and development initiatives, and enhancement of University's educational and training opportunities through, among other things, promotion of development, growth and retention of high technology industries and research in Alabama, and to create, develop, construct, operate, manage, and finance one or more research and technology parks to further scientific research activities of University; and

WHEREAS, Foundation has the responsibility as an affiliated entity to use its resources in a responsible and effective manner to further the mission of University and to support University; and

WHEREAS, University and Foundation will interact and cooperate in ways that will serve the interests of University; and

WHEREAS, USA has the authority and right to enter into agreements with affiliated 501(c)(3), not-for-profit organizations; and

WHEREAS, University and Foundation anticipate that University will provide Foundation with specified services and facilities with which to carry out its responsibilities in exchange for the development, financial, and other service, support, and assistance Foundation shall provide University; and

WHEREAS, USA and Foundation desire to define the arrangements concerning services, facilities, premises and activities as set forth in this Agreement.

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, University and Foundation do hereby agree as follows:

ARTICLE 1. PERSONNEL AND SERVICES

Foundation may utilize, with the approval of the President of University, such University administrative, professional and other employees from time to time as are needed to carry out the purposes of Foundation as agreed by University.

ARTICLE 2. FOUNDATION OBLIGATIONS

2.1 Foundation agrees to provide the services and compensate University as from time to time agreed upon between University of South Alabama and Foundation.

2.2 Foundation agrees that it may only use its resources to advance University's mission as outlined in its Articles of Incorporation. Foundation further agrees that it may not amend its Articles of Incorporation or By-Laws during the life of this Agreement unless University consents to the proposed amendment.

2.3 Foundation agrees to maintain its financial and accounting records in accordance with Generally Accepted Accounting Principles. Foundation agrees to retain all books, accounts, reports, files and other records of Foundation relating to this Agreement, if any, and make such records available at all reasonable times for inspection and audit by University, or their agents, during the term of and for a period of five years after the completion of this Agreement.

2.4 Foundation agrees to submit to an audit, by request of University, of Foundation's books, records, and expenditures, if any. University shall have the right to audit all records, financial and otherwise, if any, of Foundation to assure that funds, resources and services provided by University are expended for the ultimate benefit of University and are expended by Foundation for purposes consistent with the terms of this Agreement. If University funds are expended for purposes inconsistent with this Agreement, Foundation, upon demand by University, shall reimburse University for such misused funds, and University shall have all rights provided by law, including the right to suspend further provision of resources under this Agreement and to terminate this Agreement.

2.5 To the extent that Foundation engages in fundraising on behalf of University, Foundation agrees to accept or solicit only those gifts that are consistent with University's missions, goals or objectives.

2.6 Foundation shall not accept any gift, donation, grant or enter into any transaction that creates any liability for University, without advance written approval of the University President.

2.7 Foundation acknowledges and agrees that University owns all copyright, interest in and right to all trademarks, trade names, logos, and service marks developed by University for use by Foundation, including all such trademarks, service marks, and trade names historically associated with Foundation.

2.8 Foundation shall adopt and maintain a conflict of interest policy.

2.9 Foundation shall provide the University President reasonable notice of any regular, annual, or special meetings of its Board of Directors or of its Executive Committee, and the President or his designee shall have the right to attend any such meetings as well as the meetings of any other Foundation committees.

2.10 If Foundation should cease to exist, any Foundation assets donated to Foundation for the benefit of University must be transferred to University or to another 501(c)(3) non-profit entity designated by University through its Board of Trustees.

2.11 University may from time to time make other requests of Foundation or seek other assistance from Foundation in accomplishing the mission of University, and Foundation agrees that it will not unreasonably deny any such requests or assistance.

ARTICLE 3. UNIVERSITY OBLIGATIONS AND OTHER IN-KIND SUPPORT

3.1 University grants Foundation a non-exclusive, non-transferable license to use University trademarks, service marks, and logos consistent with University policy and its agreement with any outside contractors pertaining to the licensing thereof, including but not limited to a license to use marks developed by University for use by Foundation.

3.2 University grants Foundation an exclusive, transferable license to use University trademarks, service marks, and logos historically associated with Foundation or developed by University or Foundation for Foundation's use.

3.3 University agrees to designate Foundation as an official affiliated entity of University.

3.4 University shall provide Foundation such other rights, privileges or benefits as it may under applicable law and as the University President, in the President's sole discretion, may determine will assist Foundation in discharging its obligations under this Agreement.

3.5 The University President shall be an ex-officio director on the Board of Foundation and President of Foundation, and shall be given reasonable notice of any meeting of the Board or Executive Committee.

3.6 Subject to the availability of funding and the budget process, University agrees to provide Foundation with resources suitable in University's judgment for the accomplishment of Foundation's activities for University's benefit, and may include services and supplies, staff support, office space, and such financial support as agreed upon between the parties from time to time. The amount and nature of such resources shall be determined annually, on a fiscal year basis, in connection with the program planning and budget processes of University and Foundation. No provision in this Agreement shall be construed to give Foundation any legal entitlement to any University funding, personnel or other resources in any particular fiscal year. All University assets, including personal property, made available to Foundation under the terms of this Agreement shall remain the property of University unless sold, conveyed or transferred to Foundation by way of a separate written agreement.

3.7 The University President will encourage all parts of University to collaborate with Foundation in implementing Foundation's programs and services.

3.8 The University President agrees to inform Foundation on a regular basis of University's needs and priorities.

ARTICLE 4. COMPLIANCE

Foundation shall comply with any and all applicable federal, state, and local laws and regulations.

ARTICLE 5. INDEMNIFICATION

Foundation agrees to indemnify and hold harmless University, including its agents and employees from any and all claims, demands, suits or liabilities of any nature, or on account of any of the actions or inactions of Foundation. Foundation agrees to reimburse University and its agents and employees for any expenses incurred by them or as a result of legal action or inaction, including reasonable attorney fees, provided funds are available for such purpose.

ARTICLE 6. INSURANCE

Foundation agrees to carry insurance satisfactory to University through the appropriate and approved University liability trust fund or outside agency to cover directors' and officers' liability, special event liability, premises liability, and general liability.

ARTICLE 7. REPORTING

Foundation shall, within one hundred twenty (120) days following the close of its Fiscal Year, submit a detailed annual report of the work and financial condition of Foundation to the President of University, and any other reports as required by this Agreement, by the Bylaws of Foundation, or by applicable law.

ARTICLE 8. TERMINATION AND RENEWAL

8.1 This Agreement shall continue until terminated as provided below.

8.2 This Agreement may be terminated for any reason by written approval and consent of University and Foundation upon ninety (90) days written notice.

8.3 Either party may terminate this Agreement for cause, including a breach of this Agreement, upon thirty (30) days written notice.

8.4 If this Agreement is terminated for any reason, including because the Agreement has expired without being renewed under Article 8.1, the following articles shall survive the termination: Articles 2.10, 5, 8 and 9.

8.5 The Foundation agrees to cease using the University's name, marks and logos in the event the Foundation dissolves, ceases to be a non-profit corporation, ceases to be recognized as a tax exempt entity under Section 50l(c)(3) of the Internal Revenue Code, or this Agreement is terminated.

ARTICLE 9. MISCELLANEOUS PROVISIONS

9.1 This Agreement shall be construed, governed, interpreted and applied in accordance with the laws of the State of Alabama.

9.2 The parties agree that Foundation is not the agent or employee of University, and nothing in this Agreement creates an employment or other agency relationship between the parties. Foundation is not a subsidiary of University and is not directly or indirectly controlled by University.

9.3 University and the Foundation agree that Foundation's donor and giving records and any other financial or commercial information possessed by Foundation or provided by Foundation to University concerning individuals or corporations that provide Foundation financial support are confidential and proprietary. Unless required to disclose such information by applicable law, University and Foundation agree not to disclose to third parties and to keep confidential the giving records, giving history, and financial or commercial information of individuals and corporations that provide financial support to Foundation.

9.4 In the performance of this Agreement, Foundation shall not deny opportunities, employment or otherwise, to any person on the basis of race, color, religion, national origin, age, sex, sexual orientation, disability status, genetic information or veteran status.

9.5 The parties hereto acknowledge that this Agreement sets forth the entire Agreement and understanding of the parties hereto as to the subject matter hereof, and shall not be subject to any change or modification except by the execution of a written instrument subscribed to by the parties hereto.

9.6 The provisions of this Agreement are severable, and in the event that any provisions of this Agreement shall be determined to be invalid or non-enforceable under any controlling body of the law, such invalidity or non-enforceability shall not in any way affect the validity or enforceable nature of the remaining provisions hereof.

9.7 The failure of either party to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right or excuse a similar subsequent failure to perform any such term or condition by the other party.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals and duly executed this Agreement the day and year set forth below.

University of South Alabama	University of South Alabama Foundation for Research and Commercialization
By: ______________________	By: Lynne Chronister
Name: ______________________	Name: Lynne U. Chronister
Title: ______________________	Title: VP, Research and Economic Development
Date: ______________________	Date: 11/28/17
By: ______________________	
Name: ______________________	
Title: ______________________	
Date: ______________________	

Affiliation Agreement
Between
University of South Alabama
and the
USA Research and Technology Corporation

This Agreement is made and entered into this ________ day of __________________, ___________ (the Effective Date) by and between University of South Alabama (hereinafter "USA" or "University"), a public body corporate, and the USA Research and Technology Corporation, a corporation duly organized under the laws of the State of Alabama (hereinafter "USARTC").

RECITALS

WHEREAS, USA is a state institution of higher learning established pursuant to the laws of the State of Alabama; and

WHEREAS, USARTC has been established as a non-profit, educational and charitable organization under Section 501(c)(3) of the Internal Revenue Code of 1986 for the purposes outlined in its Articles of Incorporation, a copy of which is attached to this Agreement as "Exhibit A;" and

WHEREAS, USARTC serves University and promotes its mission as indicated in "Exhibit A," by, among other things, furthering the educational and scientific mission of University through support of its academic programs, scientific research and development initiatives, and enhancement of University's educational and training opportunities through, among other things, promotion of development, growth and retention of high technology industries and research in Alabama, and to create, develop, construct, operate, manage, and finance one or more research and technology parks to further scientific research activities of University; and

WHEREAS, USARTC has the responsibility as an affiliated entity to use its resources in a responsible and effective manner to further the mission of University and to support University; and

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

WHEREAS, USA has the authority and right to enter into agreements with affiliated 501(c)(3), not-for-profit organizations; and

WHEREAS, University and USARTC anticipate that University will provide USARTC with specified services and facilities with which to carry out its responsibilities in exchange for the development, financial, and other service, support and assistance USARTC shall provide University; and

WHEREAS, USA and USARTC desire to define the arrangements concerning services, facilities, premises and activities as set forth in this Agreement.

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, University and USARTC do hereby agree as follows:

ARTICLE 1. PERSONNEL AND SERVICES

USARTC may utilize, with the approval of the President of University, such University administrative, professional and other employees from time to time as are needed to carry out the purposes of USARTC as agreed by University. See Exhibit B, attached hereto.

ARTICLE 2. USARTC OBLIGATIONS

2.1 USARTC agrees to provide the services and compensate University as outlined in the First Amendment to Agreement for Services between University of South Alabama and USA Research and Technology Corporation, attached hereto as "Exhibit B."

2.2 USARTC agrees that it may only use its resources to advance University's mission as outlined in its Articles of Incorporation. USARTC further agrees that it may not amend its Articles of Incorporation or By-Laws during the life of this Agreement unless University consents to the proposed amendment.

2.3 USARTC agrees to maintain its financial and accounting records in accordance with Generally Accepted Accounting Principles. USARTC agrees to retain all books, accounts, reports, files and other records of USARTC relating to this Agreement, if any, and make such records available at all reasonable times for inspection and audit by University, or their agents, during the term of and for a period of five years after the completion of this Agreement.

2.4 USARTC agrees to submit to an audit, by request of University, of USARTC's books, records, and expenditures, if any. University shall have the right to audit all records, financial and otherwise, if any, of USARTC to assure that funds, resources and services provided by University are expended for the ultimate benefit of University and are expended by USARTC for purposes consistent with the terms of this Agreement. If University funds are expended for purposes inconsistent with this Agreement, USARTC, upon demand by University, shall reimburse University for such misused funds, and University shall have all rights provided by law, including the right to suspend further provision of resources under this Agreement and to terminate this Agreement.

2.5 To the extent that USARTC engages in fundraising on behalf of University, USARTC agrees to accept or solicit only those gifts that are consistent with University's missions, goals or objectives.

2.6 USARTC shall not accept any gift, donation, grant or enter into any transaction that creates any liability for University, without advance written approval of the University President.

2.7 USARTC acknowledges and agrees that University owns all copyright, interest in and right to all trademarks, trade names, logos, and service marks developed by University for use by USARTC, including all such trademarks, service marks, and trade names historically associated with USARTC.

2.8 USARTC shall adopt and maintain a conflict of interest policy.

2.9 USARTC shall provide the University President reasonable notice of any regular, annual, or special meetings of its Board of Directors or of its Executive Committee, and the President or his designee shall have the right to attend any such meetings as well as the meetings of any other USARTC committees.

2.10 If USARTC should cease to exist, any USARTC assets donated to USARTC for the benefit of University must be transferred to University or to another 501(c)(3) non-profit entity designated by University through its Board of Trustees.

2.11 University may from time to time make other requests of USARTC or seek other assistance from USARTC in accomplishing the mission of University, and USARTC agrees that it will not unreasonably deny any such requests or assistance.

ARTICLE 3. UNIVERSITY OBLIGATIONS AND OTHER IN-KIND SUPPORT

3.1 University grants USARTC a non-exclusive, non-transferable license to use University trademarks, service marks, and logos consistent with University policy and its agreement with any outside contractors pertaining to the licensing thereof, including but not limited to a license to use marks developed by University for use by USARTC.

3.2 University grants USARTC an exclusive, transferable license to use University trademarks, service marks, and logos historically associated with USARTC or developed by University or USARTC for USARTC's use.

3.3 University agrees to designate USARTC as an official affiliated entity of University.

3.4 University shall provide USARTC such other rights, privileges or benefits as it may under applicable law and as the University President, in the President's sole discretion, may determine will assist USARTC in discharging its obligations under this Agreement.

3.5 The University President shall be an ex-officio director on the Board of USARTC and President of USARTC, and shall be given reasonable notice of any meeting of the Board or Executive Committee.

3.6 Subject to the availability of funding and the budget process, University agrees to provide USARTC with resources suitable in University's judgment for the accomplishment of USARTC's activities for University's benefit, and may include services and supplies, staff support, office space, and such financial support as agreed upon between the parties from time to time. The amount and nature of such resources shall be determined annually, on a fiscal year basis, in connection with the program planning and budget processes of University and USARTC. No provision in this Agreement shall be construed to give USARTC any legal entitlement to any University funding, personnel or other resources in any particular fiscal year. All University assets, including personal property, made available to USARTC under the terms of this Agreement shall remain the property of University unless sold, conveyed or transferred to USARTC by way of a separate written agreement.

3.7 The University President will encourage all parts of University to collaborate with USARTC in implementing USARTC's programs and services.

3.8 The University President agrees to inform USARTC on a regular basis of University's needs and priorities.

ARTICLE 4. COMPLIANCE

USARTC shall comply with any and all applicable federal, state, and local laws and regulations.

ARTICLE 5. INDEMNIFICATION

USARTC agrees to indemnify and hold harmless University, including its agents and employees from any and all claims, demands, suits or liabilities of any nature, or on account of any of the actions or inactions of USARTC. USARTC agrees to reimburse University and its agents and employees for any expenses incurred by them or as a result of legal action or inaction, including reasonable attorney fees, provided funds are available for such purpose.

ARTICLE 6. INSURANCE

USARTC agrees to carry insurance satisfactory to University through the appropriate and approved University liability trust fund or outside agency to cover directors' and officers' liability, special event liability, premises liability, and general liability.

ARTICLE 7. REPORTING

USARTC shall, within one hundred twenty (120) days following the close of its Fiscal Year, submit a detailed annual report of the work and financial condition of USARTC to the President of University, and any other reports as required by this Agreement, by the Bylaws of USARTC, or by applicable law.

ARTICLE 8. TERMINATION AND RENEWAL

8.1 This Agreement shall continue until terminated as provided below.

8.2 This Agreement may be terminated for any reason by written approval and consent of University and USARTC upon ninety (90) days written notice.

8.3 Either party may terminate this Agreement for cause, including a breach of this Agreement, upon thirty (30) days written notice.

8.4 If this Agreement is terminated for any reason, including because the Agreement has expired without being renewed under Article 8.1, the following articles shall survive the termination: Articles 2.10, 5, 8 and 9.

8.5 The USARTC agrees to cease using the University's name, marks and logos in the event the USARTC dissolves, ceases to be a non-profit corporation, ceases to be recognized as a tax exempt entity under Section 501(c)(3) of the Internal Revenue Code, or this Agreement is terminated.

ARTICLE 9. MISCELLANEOUS PROVISIONS

9.1 This Agreement shall be construed, governed, interpreted and applied in accordance with the laws of the State of Alabama.

9.2 The parties agree that USARTC is not the agent or employee of University, and nothing in this Agreement creates an employment or other agency relationship between the parties. USARTC is not a subsidiary of University and is not directly or indirectly controlled by University.

9.3 University and the USARTC agree that USARTC's donor and giving records and any other financial or commercial information possessed by USARTC or provided by USARTC to University concerning individuals or corporations that provide USARTC financial support are confidential and proprietary. Unless required to disclose such information by applicable law, University and USARTC agree not to disclose to third parties and to keep confidential the giving records, giving history, and financial or commercial information of individuals and corporations that provide financial support to USARTC.

9.4 In the performance of this Agreement, USARTC shall not deny opportunities, employment or otherwise, to any person on the basis of race, color, religion, national origin, age, sex, sexual orientation, disability status, genetic information or veteran status.

9.5 The parties hereto acknowledge that this Agreement sets forth the entire Agreement and understanding of the parties hereto as to the subject matter hereof, and shall not be subject to any change or modification except by the execution of a written instrument subscribed to by the parties hereto.

9.6 The provisions of this Agreement are severable, and in the event that any provisions of this Agreement shall be determined to be invalid or non-enforceable under any controlling body of the law, such invalidity or non-enforceability shall not in any way affect the validity or enforceable nature of the remaining provisions hereof.

9.7 The failure of either party to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right or excuse a similar subsequent failure to perform any such term or condition by the other party.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals and duly executed this Agreement the day and year set forth below.

University of South Alabama	USA Research and Technology Corporation
By: ______________	By: [signature]
Name: ______________	Name: Lynne U. Chronister
Title: ______________	Title: VP, Research and Economic Development
Date: ______________	Date: 11/28/17

By: ______________

Name: ______________

Title: ______________

Date: ______________

Office/Department/College

UNIVERSITY OF SOUTH ALABAMA

Date:
November 17, 2017

To:
Tony G. Waldrop, Ph.D.
President

From:
Joel W. Erdmann, Ph.D.

Subject:
Jaguar Athletic Fund, Inc. Affiliation Agreement

Attached is a resolution for consideration by the Board of Trustees of the University of South Alabama concerning the adoption of the revised Affiliation Agreement between the University of South Alabama and the Jaguar Athletic Fund, Inc., which discusses obligations and expectations of each to the other. This Affiliation Agreement has been approved by the Board of Directors of the Jaguar Athletic Fund, Inc. With your approval, this item will be presented to Board of Trustees for approval. Further, I recommend the adoption of the resolution by the Board of Trustees.

JWE/rcc

attachment

cc: Jean Tucker, University Attorney

AFFILIATION AGREEMENT
BETWEEN
UNIVERSITY OF SOUTH ALABAMA
AND THE
JAGUAR ATHLETIC FUND, INC.

This Agreement is made and entered into this _________ day of ___________________, ___________ (the Effective Date) by and between University of South Alabama (hereinafter "USA" or "University"), a public body corporate, and the Jaguar Athletic Fund, Inc., a corporation duly organized under the laws of the State of Alabama (hereinafter "JAF").

RECITALS

WHEREAS, USA is a state institution of higher learning established pursuant to the laws of the State of Alabama; and

WHEREAS, JAF has been established as a non-profit, educational and charitable organization under Section 501(c)(3) of the Internal Revenue Code of 1986 for the purposes outlined in its Articles of Incorporation, a copy of which is attached to this Agreement as "Exhibit A;" and

WHEREAS, JAF serves University and promotes its mission as indicated in "Exhibit A," by, among other things, providing support to its educational and athletic functions, including its athletic programs; and

WHEREAS, JAF has the responsibility as an affiliated entity to use its resources in a responsible and effective manner to further the mission of University and to support University; and

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

WHEREAS, University has the authority and right to enter into agreements with affiliated 501(c)(3), not-for-profit organizations; and

WHEREAS, University and JAF anticipate that University will provide JAF with specified services and facilities with which to carry out its responsibilities in exchange for the development, financial, and other service, support and assistance JAF shall provide University; and

WHEREAS, USA and JAF desire to define the arrangements concerning services, facilities, premises and activities as set forth in this Agreement.

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, University and JAF do hereby agree as follows:

ARTICLE 1. PERSONNEL AND SERVICES

JAF may utilize, with the approval of the President of University, such University administrative, professional and other employees from time to time as are needed to carry out the purposes of JAF as agreed by University.

ARTICLE 2. JAF OBLIGATIONS

2.1 JAF agrees to provide the services and compensate University as requested by University.

2.2 JAF agrees that it may only use its resources to advance University's mission as outlined in its Articles of Incorporation.

2.3 JAF agrees to maintain its financial and accounting records in accordance with Generally Accepted Accounting Principles. JAF agrees to retain all books, accounts, reports, files and other records of JAF relating to this Agreement, if any, and make such records available at all reasonable times for inspection and audit by University, or their agents, during the term of and for a period of five years after the completion of this Agreement.

2.4 JAF agrees to submit to an audit, by request of University, of JAF's books, records, and expenditures, if any. University shall have the right to audit all records, financial and otherwise, if any, of JAF to assure that funds, resources and services provided by University are expended for the ultimate benefit of University and are expended by JAF for purposes consistent with the terms of this Agreement. If University funds are expended by JAF for purposes inconsistent with this Agreement, JAF, upon demand by University, shall reimburse University for such misused funds, and University shall have all rights provided by law, including the right to suspend further provision of resources under this Agreement and to terminate this Agreement.

2.5 To the extent that JAF engages in fundraising on behalf of University, JAF agrees to accept or solicit only those gifts that are consistent with University's missions, goals or objectives.

2.6 JAF shall not accept any gift, donation, grant or enter into any transaction that creates any liability for University, without advance written approval of the University President.

2.7 JAF acknowledges and agrees that University owns all copyright, interest in and right to all trademarks, trade names, logos, and service marks developed by University for use by JAF, including all such trademarks, service marks, and trade names historically associated with JAF.

2.8 JAF shall adopt and maintain a conflict of interest policy.

2.9 JAF shall provide the University President reasonable notice of any regular, annual, or special meetings of its Board of Directors or of any such Executive Committee as may be formed, and the President or his designee shall have the right to attend any such meetings as well as the meetings of any other JAF committees.

2.10 If JAF should cease to exist, any JAF assets donated to JAF for the benefit of University will be transferred to University for the use of USA Athletics.

2.11 University may from time to time make other requests of JAF or seek other assistance from JAF in accomplishing the mission of University, and JAF agrees that it will not unreasonably deny any such requests or assistance.

ARTICLE 3. UNIVERSITY OBLIGATIONS AND OTHER IN-KIND SUPPORT

3.1 University grants JAF a non-exclusive, non-transferable license to use University trademarks, service marks, and logos consistent with University policy and its agreement with any outside contractors pertaining to the licensing thereof, including but not limited to a license to use marks developed by University for use by JAF.

3.2 University grants JAF an exclusive, transferable license to use University trademarks, service marks, and logos historically associated with JAF or developed by University or JAF for JAF's use.

3.3 University agrees to designate JAF as an official affiliated entity of University.

3.4 University shall provide JAF such other rights, privileges or benefits as it may under applicable law and as the University President, in the President's sole discretion, may determine will assist JAF in discharging its obligations under this Agreement.

3.5 The University President, or his/her designee, shall be a director on the Board of JAF and shall be given reasonable notice of any meeting of the Board or Executive Committee.

3.6 Subject to the availability of funding and the budget process, University agrees to provide JAF with resources suitable in University's judgment for the accomplishment of JAF's activities for University's benefit, and may include services and supplies, staff support, office space, and such financial support as agreed upon between the parties from time to time. The amount and nature of such resources shall be determined annually, on a fiscal year basis, in connection with the program planning and budget processes of University and JAF. No provision in this Agreement shall be construed to give JAF any legal entitlement to any University funding, personnel or other resources in any particular fiscal year. All University assets, including personal property, made available to JAF under the terms of this Agreement shall remain the property of University unless sold, conveyed or transferred to JAF by way of a separate written agreement.

3.7 The University President will encourage all parts of University to collaborate with JAF in implementing JAF's programs and services.

3.8 The University President agrees to inform JAF on a regular basis of University's needs and priorities.

ARTICLE 4. COMPLIANCE

JAF shall comply with any and all applicable federal, state, and local laws and regulations.

ARTICLE 5. INDEMNIFICATION

JAF agrees to indemnify and hold harmless University, including its agents and employees from any and all claims, demands, suits or liabilities of any nature, or on account of any of the actions or inactions of JAF. JAF agrees to reimburse University and its agents and employees for any expenses incurred by them or as a result of legal action or inaction, including reasonable attorney fees, provided funds are available for such purpose.

ARTICLE 6. INSURANCE

JAF agrees to carry insurance satisfactory to University through the appropriate and approved University fund or outside agency to cover directors' and officers' liability, special event liability, premises liability, and general liability.

ARTICLE 7. REPORTING

JAF shall, within one hundred twenty (120) days following the close of its Fiscal Year, submit a detailed annual report of the work and financial condition of JAF to the President of University, and any other reports as required by this Agreement, by the Bylaws of JAF, or by applicable law.

ARTICLE 8. TERMINATION AND RENEWAL

8.1 This Agreement shall continue until terminated as provided below.

8.2 This Agreement may be terminated for any reason by written approval and consent of University upon ninety (90) days written notice.

8.3 Either party may terminate this Agreement for cause, including a breach of this Agreement, upon thirty (30) days written notice.

8.4 If this Agreement is terminated for any reason, including because the Agreement has expired without being renewed under Article 8.1, the following articles shall survive the termination: Articles 2.10, 5, 8 and 9.

8.5 The JAF agrees to cease using the University's name, marks and logos in the event the JAF dissolves, ceases to be a non-profit corporation, ceases to be recognized as a tax exempt entity under Section 501(c)(3) of the Internal Revenue Code, or this Agreement is terminated.

ARTICLE 9. MISCELLANEOUS PROVISIONS

9.1 This Agreement shall be construed, governed, interpreted and applied in accordance with the laws of the State of Alabama.

9.2 The parties agree that JAF is not the agent or employee of University, and nothing in this Agreement creates an employment or other agency relationship between the parties. JAF is not a subsidiary of University and is not directly or indirectly controlled by University.

9.3 University and the JAF agree that JAF's donor and giving records and any other financial or commercial information possessed by JAF or provided by JAF to University concerning individuals or corporations that provide JAF financial support are confidential and proprietary. Unless required to disclose such information by applicable law, University and JAF agree not to disclose to third parties and to keep confidential the giving records, giving history, and financial or commercial information of individuals and corporations that provide financial support to JAF.

9.4 In the performance of this Agreement, JAF shall not deny opportunities, employment or otherwise, to any person on the basis of race, color, religion, national origin, age, sex, sexual orientation, disability status, genetic information or veteran status.

9.5 The parties hereto acknowledge that this Agreement sets forth the entire Agreement and understanding of the parties hereto as to the subject matter hereof, and shall not be subject to any change or modification except by the execution of a written instrument subscribed to by the parties hereto.

9.6 The provisions of this Agreement are severable, and in the event that any provisions of this Agreement shall be determined to be invalid or non-enforceable under any controlling body of the law, such invalidity or non-enforceability shall not in any way affect the validity or enforceable nature of the remaining provisions hereof.

9.7 The failure of either party to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right or excuse a similar subsequent failure to perform any such term or condition by the other party.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals and duly executed this Agreement the day and year set forth below.

University of South Alabama	Jaguar Athletic Fund, Inc.
By: ______________	By: ______________
Name: ______________	Name: JAMES H SHUMOCK
Title: ______________	Title: PRESIDENT
Date: ______________	Date: 11/16/2017

By: ______________

Name: ______________

Title: ______________

Date: ______________

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Development and Alumni Relations

Date:
November 17, 2017

To:
Dr. Tony Waldrop

From:
Mrs. Margaret Murray Sullivan MMS

Subject:
Agenda Item for November 30, 2017, University of South Alabama Board of Trustees Meeting – Affiliation Agreement Between University of South Alabama and the University of South Alabama Medical Alumni Association

Attached is a resolution for consideration by the Board of Trustees of the University of South Alabama concerning the adoption of the Affiliation Agreement Between University of South Alabama and the University of South Alabama Medical Alumni Association which discusses obligations and expectations of each to the other. This Affiliation Agreement has been approved by the Board of Directors of the University of South Alabama Medical Alumni Association. With your approval, this item will be presented to Board of Trustees for approval. Further, I recommend the adoption of the resolution by the Board of Trustees.

Affiliation Agreement
Between the
University of South Alabama
and the
University of South Alabama College of Medicine-
Medical Alumni Association, Inc.

This Agreement is made and entered into this _________ day of ____________________, 20___ (the Effective Date) by and between University of South Alabama (hereinafter "USA" or "University"), a public body corporate, and the University of South Alabama College of Medicine-Medical Alumni Association, Inc., a corporation duly organized under the laws of the State of Alabama (hereinafter "Corporation").

RECITALS

WHEREAS, USA is a state institution of higher learning established pursuant to the laws of the State of Alabama; and

WHEREAS, Corporation has been established as a non-profit, educational and charitable organization under Section 501(c)(3) of the Internal Revenue Code of 1986 for the purposes outlined in its Articles of Incorporation, a copy of which is attached to this Agreement as "Exhibit A;" and

WHEREAS, Corporation has as its purpose to support University through the promotion of medical education, academic and scientific research and educational projects and activities of the University of South Alabama College of Medicine (hereinafter "USACOM") and its students, as well as granting scholarships to students entering or attending USACOM, as indicated in its Bylaws, which are attached hereto as "Exhibit B;" and

WHEREAS, Corporation has the responsibility as an affiliated entity to use its resources in a responsible and effective manner to further the mission of University and to support University; and

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

WHEREAS, University has the authority and right to enter into agreements with affiliated 501(c)(3), not-for-profit organizations; and

WHEREAS, University and Corporation anticipate that University will provide Corporation with specified services, financial resources and facilities with which to carry out its responsibilities in exchange for the program, financial, private gifts support, and other service, support and assistance Corporation shall provide University; and

WHEREAS, USA and Corporation desire to define the arrangements concerning services, facilities, activities, program and financial relationship as set forth in this Agreement.

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, University and Corporation do hereby agree as follows:

ARTICLE 1. PERSONNEL AND SERVICES

Corporation may utilize, with the approval of the President of University, such University administrative, professional and other employees from time to time as are needed to carry out the purposes of Corporation as agreed by University.

ARTICLE 2. CORPORATION OBLIGATIONS

2.1 Corporation agrees to provide the services and compensate University as requested by University and consistent with organizational documents of both entities.

2.2 Corporation agrees that it may only use its resources to advance University's mission as outlined in its Articles of Incorporation.

2.3 Corporation agrees to maintain its financial and accounting records in accordance with Generally Accepted Accounting Principles. Corporation agrees to retain all books, accounts, reports, files and other records of Corporation relating to this Agreement, if any, and make such records available at all reasonable times for inspection and audit by University, or their agents, during the term of and for a period of five years after the completion of this Agreement.

2.4 Corporation agrees to submit to an audit, by request of University, of Corporation's books, records, and expenditures, if any. University shall have the right to audit all records, financial and otherwise, if any, of Corporation to assure that funds, resources and services provided by University are expended for the ultimate benefit of University and the Association, and are expended by Corporation for purposes consistent with the terms of this Agreement. If University funds are expended by Corporation for purposes inconsistent with this Agreement, Corporation, upon demand by University, shall reimburse such misused funds, and University shall have all rights provided by law, including the right to suspend further provision of resources under this Agreement and to terminate this Agreement.

2.5 To the extent that Corporation engages in fundraising on behalf of University, Corporation agrees to accept or solicit only those gifts that are consistent with University's missions, goals or objectives.

2.6 Corporation shall not accept any gift, donation, grant or enter into any transaction that creates any liability for University, without advance written approval of the University President.

2.7 Corporation acknowledges and agrees that University owns all copyright, interest in and right to all trademarks, trade names, logos, and service marks developed by University for use by Corporation or which contain the words "University of South Alabama," including all such trademarks, service marks, and trade names historically associated with Corporation.

2.8 Corporation shall adopt and maintain a conflict of interest policy.

2.9 Corporation shall provide the University President reasonable notice of any regular, annual, or special meetings of its Board of Directors or of Executive Committee, and the President or his designee, the dean of the College of Medicine, shall have the right to attend any such meetings as well as the meetings of any other Corporation committees.

2.10 If Corporation should cease to exist, any Corporation assets donated to Corporation for the benefit of University must be transferred to University or to another 501(c)(3) non-profit entity designated by University through its Board of Trustees for use by the University and the College of Medicine as scholarships for students pursuing their undergraduate medical education.

ARTICLE 3. UNIVERSITY OBLIGATIONS AND OTHER IN-KIND SUPPORT

3.1 University grants Corporation a non-exclusive, non-transferable license to use University trademarks, service marks, and logos consistent with University policy and its agreement with any outside contractors pertaining to the licensing thereof, including but not limited to a license to use marks developed by University for use by Corporation.

3.2 University grants Corporation an exclusive, transferable license to use University trademarks, service marks, and logos historically associated with Corporation or developed by University or Corporation for Corporation's use.

3.3 University agrees to designate Corporation as an official affiliated entity of University.

3.4 University shall provide Corporation such other rights, privileges or benefits as it may under applicable law and as the University President, in the President's sole discretion, may determine will assist Corporation in discharging its obligations under this Agreement.

3.5 Subject to the availability of funding and the budget process, University agrees to provide Corporation with resources suitable in University's judgment for the accomplishment of Corporation's activities for University's benefit, and may include services and supplies, staff support, office space, and such financial support as agreed upon between the parties from time to time. The amount and nature of such resources shall be determined annually, on a fiscal year basis, in connection with the program planning and budget processes of University and Corporation. No provision in this Agreement shall be construed to give Corporation any legal entitlement to any University funding, personnel or other resources in any particular fiscal year. All University assets, including personal property, made available to Corporation under the terms of this Agreement shall remain the property of University unless sold, conveyed or transferred to Corporation by way of a separate written agreement.

3.6 The University President will encourage all parts of University to collaborate with Corporation in implementing Corporation's programs and services.

3.7 The University President agrees to inform Corporation on a regular basis of University's needs and priorities.

ARTICLE 4. COMPLIANCE

Corporation shall comply with any and all applicable federal, state, and local laws and regulations.

ARTICLE 5. INDEMNIFICATION

Corporation agrees to indemnify and hold harmless University, including its agents and employees from any and all claims, demands, suits or liabilities of any nature, or on account of any of the actions or inactions of Corporation. Corporation agrees to reimburse University and its agents and employees for any expenses incurred by them or as a result of legal action or inaction, including reasonable attorney fees, provided funds are available for such purpose.

ARTICLE 6. INSURANCE

Corporation agrees to carry insurance satisfactory to University through the appropriate and approved University fund or outside agency to cover directors' and officers' liability, special event liability, premises liability, and general liability.

ARTICLE 7. REPORTING

Corporation shall, within one hundred twenty (120) days following the close of its Fiscal Year, submit a detailed annual report of the work and financial condition of Corporation to the President of University, and any other reports as required by this Agreement, by the Bylaws of Corporation, or by applicable law.

ARTICLE 8. TERMINATION AND RENEWAL

8.1 This Agreement shall continue until terminated as provided below.

8.2 This Agreement may be terminated for any reason by written approval and consent of University and Corporation upon ninety (90) days written notice.

8.3 Either party may terminate this Agreement for cause, including a breach of this Agreement, upon thirty (30) days written notice.

8.4 If this Agreement is terminated for any reason, the following articles shall survive the termination: Articles 2.10, 5, 8 and 9.

8.5 The Corporation agrees to cease using the University's name, marks and logos in the event the Corporation dissolves, ceases to be a non-profit corporation, ceases to be recognized as a tax exempt entity under Section 501(c)(3) of the Internal Revenue Code, or this Agreement is terminated.

ARTICLE 9. MISCELLANEOUS PROVISIONS

9.1 This Agreement shall be construed, governed, interpreted and applied in accordance with the laws of the State of Alabama.

9.2 The parties agree that Corporation is not the agent or employee of University, and nothing in this Agreement creates an employment or other agency relationship between the parties. Corporation is not a subsidiary of University and is not directly or indirectly controlled by University.

9.3 University and the Corporation agree that Corporation's donor and giving records and any other financial or commercial information possessed by Corporation or provided by Corporation to University concerning individuals or corporations that provide Corporation financial support are confidential and proprietary. Unless required to disclose such information by applicable law, University and Corporation agree not to disclose to third parties and to keep confidential the giving records, giving history, and financial or commercial information of individuals and corporations that provide financial support to Corporation.

9.4 In the performance of this Agreement, Corporation shall not deny opportunities, employment or otherwise, to any person on the basis of race, color, religion, national origin, age, sex, sexual orientation, disability status, genetic information or veteran status.

9.5 The parties hereto acknowledge that this Agreement sets forth the entire Agreement and understanding of the parties hereto as to the subject matter hereof, and shall not be subject to any change or modification except by the execution of a written instrument subscribed to by the parties hereto.

9.6 The provisions of this Agreement are severable, and in the event that any provisions of this Agreement shall be determined to be invalid or non-enforceable under any controlling body of the law, such invalidity or non-enforceability shall not in any way affect the validity or enforceable nature of the remaining provisions hereof.

9.7 The failure of either party to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right or excuse a similar subsequent failure to perform any such term or condition by the other party.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals and duly executed this Agreement the day and year set forth below.

University of South Alabama

By: ______________________

Name: ______________________

Title: ______________________

Date: ______________________

By: ______________________

Name: ______________________

Title: ______________________

Date: ______________________

University of South Alabama College of Medicine-Medical Alumni Association, Inc.

By: ______________________

Name: William E. Blaylock, M.D.

Title: President, USA COM Medical Alumni Association

Date: Nov. 16, 2017

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Development and Alumni Relations

Date:
November 16, 2017

To:

Tony G. Waldrop
President

From:

Margaret Murray Sullivan Margaret Sullivan
Vice President
Development and Alumni Relations

Subject:
University of South Alabama National Alumni Association Affiliation Agreement

It is my pleasure to recommend presentation of the attached resolution requesting approval of the revised affiliation agreement to the Board of Trustees.

MMS/sd

attachment

c: Karen Edwards, Executive Director
University of South Alabama National Alumni Association
Jean Tucker, University Attorney
Monica Ezell, Executive Assistant

REC'D
Office of the President
NOV 17 2017
University of South Alabama

Affiliation Agreement
Between the
University of South Alabama
and
The University of South Alabama National Alumni Association

This Agreement is made and entered into this _________ day of ___________________, 2017 (the Effective Date) by and between University of South Alabama (hereinafter "USA" or "University"), a public body corporate, and The University of South Alabama National Alumni Association, a corporation duly organized under the laws of the State of Alabama (hereinafter "Association").

RECITALS

WHEREAS, USA is a state institution of higher learning established pursuant to the laws of the State of Alabama; and

WHEREAS, Association has been established as a non-profit, educational and charitable organization under Section 501(c)(3) of the Internal Revenue Code of 1986 for the purposes outlined in its Articles of Incorporation and amendments thereto, a copy of which are attached to this Agreement as "Exhibit A;" and

WHEREAS, Association has as its mission "to support and positively influence the goals of the University through an active relationship with the University, its alumni, students and friends [, and] to provide comprehensive programs, services and resources to benefit the University, its alumni, students and friends," as indicated in its Constitution, which is attached hereto as "Exhibit B;" and

WHEREAS, Association has the responsibility as an affiliated entity to use its resources in a responsible and effective manner to further the mission of University and to support University; and

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

WHEREAS, University has the authority and right to enter into agreements with affiliated 501(c)(3), not-for-profit organizations; and

WHEREAS, University and Association anticipate that University will provide Association with specified services, financial resources and facilities with which to carry out its responsibilities in exchange for the program, financial, private gifts support, and other service, support and assistance Association shall provide University; and

WHEREAS, USA and Association desire to define the arrangements concerning services, facilities, activities, program and financial relationship as set forth in this Agreement.

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, University and Association do hereby agree as follows:

ARTICLE 1. PERSONNEL AND SERVICES

Association may utilize, with the approval of the President of University, such University administrative, professional and other employees from time to time as are needed to carry out the purposes of Association as agreed by University.

ARTICLE 2. ASSOCIATION OBLIGATIONS

2.1 Association agrees to provide any and all services reasonably requested by the University which are consistent with the mission and purpose of the Association and to compensate University as requested for goods and services provided by University.

2.2 Association agrees that it may only use its resources to advance University's mission as outlined in its Articles of Incorporation.

2.3 Association agrees to maintain its financial and accounting records in accordance with Generally Accepted Accounting Principles. Association agrees to retain all books, accounts, reports, files and other records of Association relating to this Agreement, if any, and make such records available at all reasonable times for inspection and audit by University, or their agents, during the term of and for a period of five years after the completion of this Agreement.

2.4 Association agrees to submit to an audit, by request of University, of Association's books, records, and expenditures, if any. University shall have the right to audit all records, financial and otherwise, if any, of Association to assure that funds, resources and services provided by University are expended for the ultimate benefit of University and the Association, and are expended by Association for purposes consistent with the terms of this Agreement. If University funds are expended by Association for purposes inconsistent with this Agreement, Association, upon demand by University, shall reimburse such misused funds, and University shall have all rights provided by law, including the right to suspend further provision of resources under this Agreement and to terminate this Agreement.

2.5 To the extent that Association engages in fundraising on behalf of University, Association agrees to accept or solicit only those gifts that are consistent with University's missions, goals or objectives.

2.6 Association shall not accept any gift, donation, grant or enter into any transaction that creates any liability for University, without advance written approval of the University President.

2.7 Association grants University a non-exclusive, non-transferable license to use trademarks, service marks, and logos to the extent which are owned by Association.

2.8 Association shall adopt and maintain a conflict of interest policy.

2.9 Association shall provide the University President reasonable notice of any regular, annual, or special meetings of its Board of Directors or of Executive Committee, and the President or his designee shall have the right to attend any such meetings as well as the meetings of any other Association committees.

2.10 If Association should cease to exist, any Association assets donated to Association for the benefit of University must be transferred to University or to another 501(c)(3) non-profit entity designated by University through its Board of Trustees. If the University should cease to exist, Association assets shall be utilized in such as manner as to carry out as closely as possible the intentions of the donors of the funds, to the extent applicable at the time.

2.11 University may from time to time make other requests of Association or seek other assistance from Association in accomplishing the mission of University, and Association agrees that it will not unreasonably deny any such requests or assistance.

ARTICLE 3. UNIVERSITY OBLIGATIONS AND OTHER IN-KIND SUPPORT

3.1 University grants Association a non-exclusive, non-transferable license to use University trademarks, service marks, and logos consistent with University policy and its agreement with any outside contractors pertaining to the licensing thereof, including but not limited to a license to use marks developed by University for use by Association.

3.2 University grants Association an exclusive, transferable license to use University trademarks, service marks, and logos historically associated with Association or developed by University or Association for Association's use.

3.3 University agrees to designate Association as an official affiliated entity of University.

3.4 University shall provide Association such other rights, privileges or benefits as it may under applicable law and as the University President, in the President's sole discretion, may determine will assist Association in discharging its obligations under this Agreement.

3.5 Subject to the availability of funding and the budget process, University agrees to provide Association with resources suitable in University's judgment for the accomplishment of Association's activities for University's benefit, and may include services and supplies, staff support, office space, and such financial support as agreed upon between the parties from time to time. The amount and nature of such resources shall be determined annually, on a fiscal year basis, in connection with the program planning and budget processes of University and Association. No provision in this Agreement shall be construed to give Association any legal entitlement to any University funding, personnel or other resources in any particular fiscal year; however, once a particular resource is expended by the University on behalf of Association, University may not later request that Association compensate University for said resource. All University assets, including personal property, made available to Association under the terms of this Agreement shall remain the property of University unless sold, conveyed or transferred to Association by way of a separate written agreement.

3.6 The University President will encourage all parts of University to collaborate with Association in implementing Association's programs and services.

3.7 The University President agrees to inform Association on a regular basis of University's needs and priorities.

ARTICLE 4. COMPLIANCE

Association shall comply with any and all applicable federal, state, and local laws and regulations.

ARTICLE 5. INDEMNIFICATION

Association agrees to indemnify and hold harmless University, including its agents and employees from any and all claims, demands, suits or liabilities of any nature, or on account of any of the actions or inactions of Association. Association agrees to reimburse University and its agents and employees for any expenses incurred by them or as a result of legal action or inaction, including reasonable attorney fees, provided funds are available for such purpose.

ARTICLE 6. INSURANCE

Association agrees to carry insurance satisfactory to University through the appropriate and approved University fund or outside agency to cover directors' and officers' liability, special event liability, premises liability, and general liability.

ARTICLE 7. REPORTING

Association shall, within one hundred twenty (120) days following the close of its Fiscal Year, submit a detailed annual report of the work and financial condition of Association to the President of University, and any other reports as required by this Agreement, by the Bylaws of Association, or by applicable law.

ARTICLE 8. TERMINATION AND RENEWAL

8.1 This Agreement shall continue until terminated as provided below.

8.2 This Agreement may be terminated for any reason by written approval and consent of University and Association upon ninety (90) days written notice.

8.3 Either party may terminate this Agreement for cause, including a breach of this Agreement, upon thirty (30) days written notice.

8.4 If this Agreement is terminated for any reason, the following articles shall survive the termination: Articles 2.10, 5, 8 and 9.

8.5 The Association agrees to cease using the University's name, marks and logos in the event the Association dissolves, ceases to be a non-profit corporation, ceases to be recognized as a tax exempt entity under Section 501(c)(3) of the Internal Revenue Code, or this Agreement is terminated.

ARTICLE 9. MISCELLANEOUS PROVISIONS

9.1 This Agreement shall be construed, governed, interpreted and applied in accordance with the laws of the State of Alabama.

9.2 The parties agree that Association is not the agent or employee of University, and nothing in this Agreement creates an employment or other agency relationship between the parties. Association is not a subsidiary of University and is not directly or indirectly controlled by University.

9.3 University and the Association agree that Association's donor and giving records and any other financial or commercial information possessed by Association or provided by Association to University concerning individuals or corporations that provide Association financial support are confidential and proprietary. Unless required to disclose such information by applicable law, University and Association agree not to disclose to third parties and to keep confidential the giving records, giving history, and financial or commercial information of individuals and corporations that provide financial support to Association.

9.4 In the performance of this Agreement, Association shall not deny opportunities, employment or otherwise, to any person on the basis of race, color, religion, national origin, age, sex, sexual orientation, disability status, genetic information or veteran status.

9.5 The parties hereto acknowledge that this Agreement sets forth the entire Agreement and understanding of the parties hereto as to the subject matter hereof, and shall not be subject to any change or modification except by the execution of a written instrument subscribed to by the parties hereto.

9.6 The provisions of this Agreement are severable, and in the event that any provisions of this Agreement shall be determined to be invalid or non-enforceable under any controlling body of the law, such invalidity or non-enforceability shall not in any way affect the validity or enforceable nature of the remaining provisions hereof.

9.7 The failure of either party to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right or excuse a similar subsequent failure to perform any such term or condition by the other party.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals and duly executed this Agreement the day and year set forth below.

University of South Alabama

By: ______________________

Name: ______________________

Title: ______________________

Date: ______________________

By: ______________________

Name: ______________________

Title: ______________________

Date: ______________________

The University of South Alabama National Alumni Association

By: Doug Whitmore

Name: DOUGLAS WHITMORE

Title: PRESIDENT

Date: 17 NOVEMBER 2017

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

COMMITTEE OF THE WHOLE

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

COMMITTEE OF THE WHOLE

September 7, 2017
4:59 p.m.

A meeting of the Committee of the Whole of the University of South Alabama Board of Trustees was duly convened by Judge Kenneth O. Simon, Chair *pro tempore*, on Thursday, September 7, 2017, at 4:59 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Alexis Atkins, Chandra Brown Stewart, Tom Corcoran, Steve Furr, Ron Jenkins, Bettye Maye, Arlene Mitchell, John Peek, Jimmy Shumock, Ken Simon, Steve Stokes, Mike Windom and Jim Yance.
Members Absent:	Scott Charlton, Kay Ivey and Bryant Mixon.
Administration and Others:	Owen Bailey, Robert Berry, Lynne Chronister, Joel Erdmann, Monica Ezell, Mike Finan, Happy Fulford, Mike Haskins, David Johnson, Melva Jones, John Marymont, Mike Mitchell, John Smith, Margaret Sullivan, Carl Thomas (SGA), Jean Tucker, Elizabeth VandeWaa (Faculty Senate), Tony Waldrop and Scott Weldon.

The meeting came to order and the attendance roll was called. Chairman Simon called for adoption of the revised agenda. On motion by Mr. Peek, seconded by Mr. Corcoran, the revised agenda was adopted unanimously.

Chairman Simon called for consideration of the minutes of the meeting held on June 1, 2017. On motion by Mr. Peek, seconded by Mr. Shumock, the minutes were approved unanimously.

Due to the time, Chairman Simon suggested that resolutions honoring Trustees Maye, Peek and Mixon for their service to the University, **Items 21.A, 21.B** and **21.C,** respectively, as well as an executive session, be deferred to the Board of Trustees meeting on September 8.

There being no further business, the meeting was adjourned at 5:01 p.m.

Respectfully submitted:

____

Kenneth O. Simon, Chair *pro tempore*

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

LONG-RANGE PLANNING COMMITTEE

September 7, 2017
4:52 p.m.

A meeting of the Long-Range Planning Committee of the University of South Alabama Board of Trustees was duly convened by Mr. Mike Windom, Chair, on Thursday, September 7, 2017, at 4:52 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Chandra Brown Stewart, Ron Jenkins, Bettye Maye, Jimmy Shumock and Mike Windom.
Other Trustees:	Alexis Atkins, Tom Corcoran, Steve Furr, Arlene Mitchell, John Peek, Ken Simon, Steve Stokes and Jim Yance.
Administration and Others:	Owen Bailey, Robert Berry, Lynne Chronister, Angela Coleman, Joel Erdmann, Monica Ezell, Mike Finan, Happy Fulford, Mike Haskins, David Johnson, Melva Jones, John Marymont, Mike Mitchell, John Smith, Margaret Sullivan, Carl Thomas (SGA), Jean Tucker, Elizabeth VandeWaa (Faculty Senate), Tony Waldrop and Scott Weldon.

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 1, 2017. On motion by Mr. Shumock, seconded by Ms. Brown Stewart, the minutes were adopted unanimously.

Mr. Windom called for a presentation on the 2017 Scorecard, **ITEM 21**. Provost Johnson reminded the group of prior adoption of an updated strategic plan for the period 2016-2020. He introduced Dr. Angela Coleman, Associate Vice President for Institutional Effectiveness, who made brief remarks on the University's process of tracking progress toward the achievement of objectives tied to the Institution's five strategic priorities and the 2017 Scorecard, which documents assessment results.

There being no further business, the meeting was adjourned at 4:59 p.m.

Respectfully submitted:

Michael P. Windom, Chair

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 Board of Trustees of the University of South Alabama approves the appointment of the following Trustees to serve on the Executive Committee with terms concurrent with the term of the current Chair *pro tempore*:

Chandra Brown Stewart
E. Thomas Corcoran
Steven P. Furr, M.D.
Arlene Mitchell
James H. Shumock
Kenneth O. Simon
James A. Yance