

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES MEETINGS

WHIDDON ADMINISTRATION BUILDING – PRESIDENT’S OFFICE (STE. 130), BOARD ROOM

MARCH 2, 2023
1:30 P.M.

AUDIT COMMITTEE – RON GRAHAM, CHAIR

- 1 Roll Call
- 2 Approve: [Minutes](#)
- 3 Report: KPMG Audit Reports, Year ended September 30, 2022
 - [Basic Financial Statements](#)
 - [Independent Auditors’ Report on Internal Control Over Financial Reporting](#)
 - [Communication to the Audit Committee \(SAS #114 Letter\)](#)
 - [Bond Compliance Letter](#)
 - [Basic Financial Statements, USA Research and Technology Corporation](#)
 - [Basic Financial Statements, USA Health Care Authority](#)
- 4 Report: [KPMG Report on Intercollegiate Athletics](#)
- 5 Report: [Alabama Department of Examiners of Public Accounts Compliance Report, Years Ended September 30, 2020, 2021 and 2022](#)
- 6 Report: [Office of Internal Audit](#)

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE – JIM YANCE, CHAIR

- 7 Roll Call
- 8 Approve: [Minutes](#)
- 9 Report: [Endowment and Investment Performance](#) * Jaguar Investment Fund
- 10 Recommendation to Approve: [Commendation of Mr. Mark D. Brantley and Mr. Kenneth R. Barton](#)
- 11 Recommendation to Approve: [Commendation of Dr. and Mrs. Steven H. Stokes and Naming of the School of Marine and Environmental Sciences](#)
- 12 Report: Development and Alumni Relations

HEALTH AFFAIRS COMMITTEE – JIMMY SHUMOCK, CHAIR

- 13 Roll Call
- 14 Approve: [Minutes](#)
- 15 Recommendation to Approve: [USA Health Hospitals Medical Staff Appointments and Reappointments for November and December 2022 and January 2023](#)
- 16 Report: USA Health and Whiddon College of Medicine

ACADEMIC AND STUDENT AFFAIRS COMMITTEE – MIKE WINDOM, CHAIR

- 17 Roll Call
- 18 Approve: [Minutes](#)
- 19 Recommendation to Approve: [Honorary Doctorate Degree for Lonnie George Johnson](#)
- 20 Report: Academic Affairs
- 21 Recommendation to Approve: [Housing and Dining Rates, Summer 2023](#)
- 22 Report: Student Affairs
- 23 Report: Diversity and Community Engagement
- 24 Report: Research and Economic Development

BUDGET AND FINANCE COMMITTEE – TOM CORCORAN, CHAIR

- 25 Roll Call
- 26 Approve: [Minutes](#)
- 27 Report: [Quarterly Financial Statements for the Three Months Ended December 31, 2022](#)
- 28 Recommendation to Approve: [Directors of the USA Research and Technology Corporation](#)
- 29 Recommendation to Approve: [Director of the USA Foundation for Research and Commercialization](#)
- 30 Report: Facilities

LONG-RANGE PLANNING COMMITTEE – CHANDRA BROWN STEWART, CHAIR

- 31 Roll Call
- 32 Approve: [Minutes](#)
- 33 Report: Reaffirmation of Accreditation
- 34 Report: Strategic Plan and Scorecard

COMMITTEE OF THE WHOLE – ARLENE MITCHELL, CHAIR

- 35 Roll Call
- 36 Approve: [Minutes](#)
- 37 Approve: Executive Session

MARCH 3, 2023
10:30 A.M.

BOARD OF TRUSTEES MEETING – ARLENE MITCHELL, CHAIR PRO TEMPORE

- 1 Roll Call
- 2 Approve: [Minutes](#)
- 3 Report: University President
- 4 Report: Faculty Senate President
- 5 Report: Student Government Association President
- 6 Present: Certificates of Appreciation
- 7 Approve: Consent Agenda Resolutions
 - [USA Health Hospitals Medical Staff Appointments and Reappointments for November and December 2022 and January 2023](#)
 - [Honorary Doctorate Degree for Lonnie George Johnson](#)
 - [Directors of the USA Research and Technology Corporation](#)
 - [Director of the USA Foundation for Research and Commercialization](#)
- 8 Report: Audit Committee
- 9 Report: Development, Endowment and Investments Committee
- 10 Report: Health Affairs Committee
- 11 Report: Academic and Student Affairs Committee
- 12 Approve: [Housing and Dining Rates, Summer 2023](#)
- 13 Report: Budget and Finance Committee
- 14 Report: Long-Range Planning Committee
- 15 Approve: [Commendation of Mr. Mark D. Brantley and Mr. Kenneth R. Barton](#)
- 16 Approve: [Commendation of Dr. and Mrs. Steven H. Stokes and Naming of the School of Marine and Environmental Sciences](#)

UNIVERSITY OF SOUTH ALABAMA BOARD OF TRUSTEES



MEETING SCHEDULE

THURSDAY, MARCH 2, 2023:

1:30 p.m. Committee Meetings (consecutive)

**Whiddon Administration Bldg.
President's Office (Ste. 130), Board Room**

FRIDAY, MARCH 3, 2023:

10:30 a.m. Board of Trustees Meeting

**Whiddon Administration Bldg.
President's Office (Ste. 130), Board Room**

BOARD OF TRUSTEES

STANDING COMMITTEES

2022-2025

EXECUTIVE COMMITTEE:

- Arlene Mitchell, **Chair pro tempore**
- Katherine Alexis Atkins, **Vice Chair**
- Lenus Perkins, **Secretary**
- E. Thomas Corcoran
- Steven P. Furr, M.D.
- James H. Shumock
- James A. Yance

ACADEMIC AND STUDENT AFFAIRS COMMITTEE:

- Scott A. Charlton, M.D.
- Steven P. Furr, M.D., **Vice Chair**
- William Ronald Graham
- Robert D. Jenkins III
- Bill W. Lewis, II
- Lenus M. Perkins
- Margie Malone Tuckson
- Michael P. Windom, **Chair**

AUDIT COMMITTEE:

- Katherine Alexis Atkins, **Vice Chair**
- E. Thomas Corcoran
- William Ronald Graham, **Chair**
- Robert D. Jenkins III
- Bill W. Lewis, II
- Lenus M. Perkins

BUDGET AND FINANCE COMMITTEE:

- Katherine Alexis Atkins
- Chandra Brown Stewart
- E. Thomas Corcoran, **Chair**
- William Ronald Graham
- Lenus Perkins, **Vice Chair**
- James H. Shumock
- Steven H. Stokes, M.D.

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE:

- Chandra Brown Stewart
- Scott A. Charlton, M.D.
- James H. Shumock
- Steven H. Stokes, M.D.
- Margie Malone Tuckson, **Vice Chair**
- Michael P. Windom
- James A. Yance, **Chair**

EVALUATION AND COMPENSATION COMMITTEE:

- Katherine Alexis Atkins
- Scott A. Charlton, M.D., **Vice Chair**
- E. Thomas Corcoran
- Steven P. Furr, M.D.
- Robert D. Jenkins III, **Chair**
- James H. Shumock
- Michael P. Windom

HEALTH AFFAIRS COMMITTEE:

- Chandra Brown Stewart
- Scott A. Charlton, M.D.
- E. Thomas Corcoran
- Steven P. Furr, M.D., **Vice Chair**
- James H. Shumock, **Chair**
- Steven H. Stokes, M.D.
- James A. Yance
- G. Owen Bailey, ex officio
- William H. Barber IV, M.D., ex officio
- Jo Bonner, ex officio
- John V. Marymont, M.D., ex officio

LONG-RANGE PLANNING COMMITTEE:

- Chandra Brown Stewart, **Chair**
- Robert D. Jenkins III
- Bill W. Lewis, II
- Lenus M. Perkins
- Steven H. Stokes, M.D., **Vice Chair**
- Michael P. Windom
- James A. Yance

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**



**MEETING AGENDA
AND MINUTES**

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES MEETINGS**

WHIDDON ADMINISTRATION BUILDING – PRESIDENT’S OFFICE (STE. 130), BOARD ROOM

**MARCH 2, 2023
1:30 P.M.**

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**MARCH 3, 2023
10:30 A.M.**

BOARD OF TRUSTEES MEETING – ARLENE MITCHELL, CHAIR PRO TEMPORE

- 1 Roll Call
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- 3 Report: University President
- 4 Report: Faculty Senate President
- 5 Report: Student Government Association President
- 6 Present: Certificates of Appreciation
- 7 Approve: Consent Agenda Resolutions
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2023 Honorary Doctorate Degree for Lonnie George Johnson
Directors of the USA Research and Technology Corporation
Director of the USA Foundation for Research and Commercialization
- 8 Report: Audit Committee
- 9 Report: Development, Endowment and Investments Committee
- 10 Report: Health Affairs Committee
- 11 Report: Academic and Student Affairs Committee
- 12 Approve: Housing and Dining Rates, Summer 2023
- 13 Report: Budget and Finance Committee
- 14 Report: Long-Range Planning Committee
- 15 Approve: Commendation of Mr. Mark D. Brantley and Mr. Kenneth R. Barton
- 16 Approve: Commendation of Dr. and Mrs. Steven H. Stokes and Naming of the School of Marine and Environmental Sciences



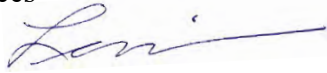
UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Board of Trustees

DATE: February 21, 2023

TO: USA Board of Trustees

FROM: Lenus M. Perkins 
Secretary, Board of Trustees

SUBJECT: Meeting Minutes

Included herein are the unapproved minutes for the Board of Trustees and standing committee meetings held on November 30 and December 1, 2022, and for special meetings of the Board of Trustees held on January 20 and February 1 and 16, 2023. Please review these documents for approval or amendment at the meetings on March 2 and 3, 2023.

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

**December 1, 2022
10:30 a.m.**

A meeting of the University of South Alabama Board of Trustees was duly convened by Ms. Arlene Mitchell, Chair *pro tempore*, on Thursday, December 1, 2022, at 10:33 a.m. in the Board Room of the Frederick P. Whiddon Administration Building. Meeting attendance was open to the public.

Members: Alexis Atkins, Chandra Brown Stewart, Scott Charlton, Steve Furr, Ron Jenkins, Bill Lewis, Arlene Mitchell, Lenus Perkins, Jimmy Shumock, Steve Stokes, Margie Tuckson, Mike Windom and Jim Yance were present.

Members Absent: Tom Corcoran, Ron Graham and Kay Ivey.

Administration & Guests: Delaware Arif (Faculty Senate), Owen Bailey, Jim Berscheidt, Joél Billingsley, Jo Bonner, Jaclyn Bunch (Faculty Senate), Camille Bonura (SGA), Lynne Chronister, Leslie Churchwell, Kennon Drew, Kristin Dukes, John Elliott, Joel Erdmann, Julie Estis, Monica Ezell, Dianne Greer, Rita Harper, Krista Harrell, Mary Jo Hrabe, Andi Kent, Kim and Nick Lawkis, John Marymont, Abe Mitchell, Mike Mitchell, Karen and Tom Peterson, Laura Schratt, Polly Stokley and Margaret Sullivan.

Chair Mitchell called the meeting to order and made brief introductory remarks, which included congratulating Dr. Furr for being elected the American Academy of Family Physicians' president-elect for 2022-2023. Following the attendance roll call, **Item 1**, Chair Mitchell asked for consideration of the minutes of the Board of Trustees meeting held on September 22, 2022, **Item 2**. On motion by Ms. Atkins, seconded by Dr. Stokes, the Board voted unanimously to adopt the minutes.

Chair Mitchell called on President Bonner to deliver the President's Report, **Item 3**. President Bonner recognized Mr. Abe Mitchell, Honorary Trustee and introduced the new staff members in the offices of the President and Executive Vice President/Provost, Ms. Leslie Churchwell, Special Assistant to the President; Ms. Dianne Greer, Administrative Assistant; and Ms. Rita Harper, Executive Assistant.

President Bonner noted it had been one year since he was named University President and he thanked the Board for its support over his and First Lady Bonner's first year at South. He highlighted several events that had occurred during the 2022 fall semester, such as the annual dinner for student organization leaders held on October 26 at the President's Home; the *Top Prof* faculty recognition program held on November 8, sponsored annually by the *Sally Steadman Azalea Chapter of Mortar Board*; the annual *Wall of Honor* ceremony held on November 11 at Moulton Tower and Alumni Plaza; the inaugural *Celebration of Life* ceremony held on October 24; and the dedication of the *USA Health Mapp Family Campus* in Fairhope on November 30. He ex-

pressed enthusiasm for the football team's winning season and impending bowl competition, as well as for the *Holiday Concert* taking place later in the evening.

Chair Mitchell called for a report from Dr. Delaware Arif, Faculty Senate President, **Item 4**. Dr. Arif discussed the faculty's involvement in the Institution's student recruitment initiative, as well as the results of a recent survey that measured the faculty's impressions about various aspects of the campus environment. He and Dr. Jaclyn Bunch, Faculty Senate Vice President, responded to questions and comments from the Trustees.

Chair Mitchell called for a report from Ms. Camille Bonura, Student Government Association (SGA) President, **Item 5**. Ms. Bonura gave an update on the SGA's work over the fall term. Among the topics she spoke on were voter registration drives held for the students; student attendance at the USA vs. Southern Mississippi football game in Hattiesburg; and her participation in the yearly walk across campus with members of the Administration and campus safety professionals to evaluate exterior lighting. On behalf of Mr. Clement Williams, Black Student Union President, she advised that the annual *Black Girls Rock* scholarship fundraiser would occur early in 2023. Judge Windom noted that the Office of Multicultural Student Affairs (OMSA) held a grand opening at its new location in the former Toulmin House and that Ms. Tuckson participated. Dr. Mitchell added that Ms. Tuckson had also donated artwork on display at OMSA. Ms. Tuckson recounted how she discovered the piece painted by Dr. James E. Kennedy, USA Professor Emeritus of Visual Arts, and acquired it through an auction in New York to bring it home to South.

Returning to **Item 3**, the President's Report, Dr. Kent discussed the student recruitment activities that had occurred over the fall term and were planned for the spring semester, such as the Bonner Bus Tour visits to campus for high school students; recruiting trips to Montgomery and Birmingham high schools; and expansion of the *Pathway USA* and implementation of the *Map Your Path* programs in partnership with community and state colleges in Alabama, Mississippi and Florida. She added that, in collaboration with the Office of Alumni Relations, an alumni event also took place in Birmingham in conjunction with the recruiting trip. She stated the second annual *Marching Band Championships* took place at Hancock Whitney Stadium on October 22 with more than 20 high school bands from Alabama, Florida and Mississippi participating. She gave an update on the searches underway and starting soon to fill dean positions for the Covey College of Allied Health Professions, Honors College, School of Computing, College of Education and Professional Studies and Mitchell College of Business, and noted that a search for Mr. Sal Liberto's successor as Associate Vice President for Enrollment Services was imminent.

Dr. Erdmann discussed the outreach activities of Jaguar Athletics that furthered goals pertaining to campus life for student athletes; civic partnerships; and educational access for high school students, first responders, and members of the armed forces. He also advised that South's football program would soon learn which bowl game it would compete in and that Coach Wommack's contract had been extended. Dr. Mitchell recognized Dr. Krista Harrell, Assistant Vice President for Student Affairs/Associate Dean of Students, who was leaving USA for a position at Old Do-

minion University. Dr. Harrell shared words reflective of her time at South. Ms. Stokley introduced Mr. John Elliott, South's new Associate Vice President for Finance and Administration in the Office of Human Resources. She added that Mr. Gerald Gattis, who previously led the Office of Human Resources as Assistant Vice President for Finance and Administration would soon retire after 34 years of service.

Chair Mitchell called for consideration of consent agenda resolutions as follows, **Item 6**, all of which were unanimously recommended for Board approval by the respective committees that met on November 30, 2022. (To view policies approved and other documents authorized, refer to Appendix A.) On motion by Dr. Stokes, seconded by Mr. Shumock, the Board voted unanimously to approve the resolutions:

RESOLUTION

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

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

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

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama hereby acknowledges and accepts the current year annual evaluation of both policies by the Development, Endowment and Investments Committee and the Committee's recommendation that no changes be made to either policy at this time.

RESOLUTION

USA HEALTH HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS FOR AUGUST, SEPTEMBER AND OCTOBER 2022

WHEREAS, the medical staff appointments and reappointments for August, September and October 2022 for the USA Health Hospitals are recommended for approval by the medical executive committees and the USA Health Credentialing Board,

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

RESOLUTION

USA HEALTH HOSPITALS MEDICAL STAFF BYLAWS AND ASSOCIATED DOCUMENTS REVISIONS

WHEREAS, revisions to USA Health Hospitals Medical Staff Bylaws and to associated documents, approved October 31, 2022, by the active voting general medical staff members via email and attached hereto, are recommended for approval by the medical executive committees and the Executive Committee of the USA Health Hospitals,

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

**RESOLUTION
SABBATICAL AWARDS**

WHEREAS, in accordance with University policy, proposals for sabbatical awards from the following faculty have been reviewed and recommended by the respective faculty committees, departmental chair, college dean, the Executive Vice President and Provost, and the University President,

- Ermanno Affuso, Associate Professor of Economics, Finance and Real Estate
- Sinead Ni Chadhain, Associate Professor of Biology
- Steven Clontz, Associate Professor of Mathematics and Statistics
- Kip Franklin, Associate Professor of Music
- Erin Nelson, Assistant Professor of Sociology and Anthropology
- Andrei Pavelescu, Associate Professor of Mathematics and Statistics
- Charlotte Pence, Associate Professor of English
- Steven Schultze, Associate Professor of Earth Sciences
- Corina Schulze, Associate Professor of Political Science/Criminal Justice
- Alex Sharland, Professor of Marketing and E-Commerce
- Elizabeth VandeWaa, Professor of Adult Health Nursing
- Rebecca Williams, Associate Professor of History
- Bob Wood, Professor of Economics, Finance and Real Estate

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees hereby approves the sabbatical awards for Fall 2023 through Spring 2024 as recommended.

**RESOLUTION
FACULTY EMERITUS**

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

ACADEMIC AFFAIRS:

- Christopher Hollingsworth, Associate Professor in the Department of English
- R. Burke Johnson, Professor in the Department of Counseling and Instructional Sciences
- John Steadman, Professor in the Department of Electrical and Computer Engineering

WHIDDON COLLEGE OF MEDICINE:

- Curtis Norman Harris, M.D., Associate Professor in the Department of Surgery,

and,

WHEREAS, in recognition of their contributions to the University through extraordinary accomplishments in teaching and in the generation of new knowledge through research and scholarship; in serving to positively inspire students; and, regarding those with clinical backgrounds, for dedication to the treatment and healing of patients; all for which, in accordance with University policy, the respective faculty committees, departmental chair and college dean, the Executive Vice President and Provost or the Vice President for Medical Affairs, and the University 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 University of South Alabama Board of Trustees 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 conveys its deep appreciation to these individuals in recognition of their significant contributions and dedicated service to the University of South Alabama.

Chair Mitchell called for a report from the Audit Committee, **Item 7**. On behalf of Mr. Graham, Audit Committee Chair, Ms. Atkins, Audit Committee Vice Chair, advised of a Committee meeting held on November 30, 2022, and provided an overview of the business that took place.

Chair Mitchell called for a report from the Development, Endowment and Investments Committee, **Item 8**. Mr. Yance, Committee Chair, stated that the Committee met on November 30, 2022, and gave a summary of the proceedings.

Chair Mitchell called for a report from the Health Affairs Committee, **Item 9**. Mr. Shumock, Committee Chair, said a Committee meeting took place on November 30, 2022, and reviewed the matters that were addressed.

Chair Mitchell called for a report from the Academic and Student Affairs Committee, **Item 10**. Judge Windom, Committee Chair, advised that the Committee held a meeting on November 30, 2022, and provided an overview of the information presented. He added that the Committee voted unanimously to recommend Board approval of **Item 11** as follows. On motion by Capt. Jenkins, seconded by Mr. Yance, the Board voted unanimously to approve the resolution:

**RESOLUTION
TENURE**

WHEREAS, in accordance with University policy, an application for tenure from Robert A. Barrington, Ph.D., a Whiddon College of Medicine faculty member, has been reviewed by faculty peers, the Chair of the Department of Microbiology and Immunology, the Dean of the Whiddon College of Medicine/Vice President for Medical Affairs, and the University President, and is hereby recommended for approval effective on January 1, 2023,

THEREFORE, BE IT RESOLVED, the University of South Alabama Board of Trustees hereby grants tenure to Robert A. Barrington, Ph.D., as recommended.

Chairman Mitchell called for a report from the Budget and Finance Committee, **Item 12**. Mr. Corcoran, Committee Chair, advised of a Committee meeting on November 30, 2022, and shared a summary of the proceedings.

Chair Mitchell called for a report from the Long-Range Planning Committee, **Item 13**. Ms. Brown Stewart, Committee Chair, stated that the Committee held a meeting on November 30, 2022, and gave a recap of the topics covered.

Chair Mitchell, Judge Windom and President Bonner stood and USA donor Ms. Mary Jo Hrabe and her friend and financial advisor, Mr. Kennon Drew, were invited to join them for the presentation of **Item 14** as follows. Judge Windom read the resolution and, on motion by Mr. Yance, seconded by Ms. Brown Stewart, the Board voted unanimously to approve the resolution. Ms. Hrabe was presented a commemorative resolution marking the occasion and she spoke briefly about the inspiration behind her gift:

**RESOLUTION
COMMENDATION OF MRS. MARY JO HRABE**

WHEREAS, the University of South Alabama (USA) pursues the vision of being a leading comprehensive public university internationally recognized for educational, research and health care excellence, as well as for its positive intellectual, cultural and economic impact on those it serves, and

WHEREAS, the mission of USA's College of Education and Professional Studies is to transform the community and expand outreach through a commitment to excellence in education and human services, advancement of innovative research and supporting the dedicated service of its faculty, staff, students and alumni, and

WHEREAS, Mrs. Mary Jo Hrabe and her late husband, Charles Fullington Hrabe, Jr., aspired to endow a scholarship honoring the memory of his sister, Patricia Ann Hrabe, and Mrs. Mary Jo Hrabe desires to fulfill this wish through a transformational gift to the College of Education and Professional Studies, and

WHEREAS, Patricia Ann Hrabe received her Bachelor of Science degree in Secondary Education in the field of Social Studies in 1972 and a Master's Degree in Health, Physical Education and Recreation in 1976, and

WHEREAS, Mrs. Mary Jo Hrabe values educators and the difference they make in our communities, and through her generosity, many future educators will be positively impacted for years to come,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama hereby recognizes the extraordinary commitment and generosity of Mrs. Mary Jo Hrabe and her late husband, Charles Fullington Hrabe, Jr., and joins the University President, faculty, staff and students in extending deepest gratitude for their impactful gift to USA.

President Bonner invited Dr. Karen Peterson, Senior Instructor in the Department of English and daughter of the late founding first couple Dr. Frederick P. Whiddon and Mrs. June Ledyard Whiddon, as well as her husband, Mr. Tom Peterson, to join Chair Mitchell, Mr. Yance and him for the presentation of **Item 15** as follows. Mr. Yance reflected on Mrs. Whiddon's service to the University as *First Lady* over more than three decades and read the resolution. On motion by Mr. Shumock, seconded by Dr. Stokes, the Board voted unanimously to approve the resolution. Dr. Peterson was presented a commemorative resolution and she expressed appreciation for the Board's recognition of her mother:

**RESOLUTION
TRIBUTE TO THE LATE MRS. JUNE LEDYARD WHIDDON**

WHEREAS, Mrs. June Ledyard Whiddon, who faithfully served the University of South Alabama (USA) as its very first *First Lady* and filled that role for nearly 35 years, passed away on October 29, 2022, and

WHEREAS, Mrs. Whiddon was born in Tuscaloosa, Alabama, to the late Charles Ledyard and Gladys Kicker Ledyard and went on to earn a Bachelor's Degree in Education before teaching elementary education in Georgia, and

WHEREAS, Mrs. Whiddon married Dr. Frederick Palmer Whiddon, who would later become the founder of the University of South Alabama, the first four-year, state-supported university in Mobile, and become its first President, and

WHEREAS, the Whiddons served as President and First Lady from the University's creation in 1964 until 1998, a period of tremendous growth and progress for USA and the greater Mobile community, and

WHEREAS, during the 1960s and 1970s, when most of the faculty members were men, Mrs. Whiddon began a Women's Club at USA and helped start a campus chapter of the Alpha Omicron Pi sorority, and

WHEREAS, Mrs. Whiddon was directly involved in the planting of beautiful azaleas and camellias that still bloom outside the Whiddon Administration Building, helping to make the University of South Alabama campus a welcoming setting for students, faculty, staff and alumni, and

WHEREAS, Mrs. Whiddon was a member of the National Society of Colonial Dames XVII Century, a member of the Society of Mayflower Descendants, a Meals on Wheels volunteer for 15 years and a member of Mount Hebron United Methodist Church in Newton, Alabama,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama acknowledges the legacy of late Mrs. June Ledyard Whiddon and pays tribute to her memory for her many contributions to the University community, local community, and people of the State of Alabama, all of whom have benefitted from her dedication, service, kindness and generosity, and

BE IT FURTHER RESOLVED, the Board of Trustees extends heartfelt sympathy to the children of Dr. Frederick P. Whiddon and Mrs. June Ledyard Whiddon, Dr. Karen Whiddon Peterson, a Senior Instructor in the Department of English; John T. Whiddon, a member of the USA Foundation Board of Directors; Charles Whiddon; and Keith F. Whiddon, and to the entire Whiddon family.

There being no further business, the meeting was adjourned at 11:54 a.m.

Attest to:

Respectfully submitted:

Lenus M. Perkins, Secretary

Arlene Mitchell, Chair pro tempore

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

**January 20, 2023
3:00 p.m.**

A special meeting of the University of South Alabama Board of Trustees was duly convened by Ms. Arlene Mitchell, Chair *pro tempore*, on Friday, January 20, 2023, at 3:00 p.m. in the Board Room of the Frederick P. Whiddon Administration Building. Meeting attendance was open to the public.

Members: Alexis Atkins, Bill Lewis, Arlene Mitchell, Mike Windom and Jim Yance were present, and Chandra Brown Stewart*, Scott Charlton, Tom Corcoran, Steve Furr*, Ron Graham*, Ron Jenkins, Lenus Perkins* and Jimmy Shumock participated remotely. (*These Trustees joined the meeting when the executive session was in progress.)

Members Absent: Kay Ivey, Steve Stokes and Margie Tuckson.

Administration & Guests: Delaware Arif (Faculty Senate), Owen Bailey, Jo Bonner, Kristin Dukes, Monica Ezell, Andi Kent, John Marymont and Polly Stokley.

The meeting came to order and the attendance roll was called, **Item 1**. Chair Mitchell turn to President Bonner for opening comments. President Bonner attested that an update on an important matter required calling a special meeting of the Board and he recommended proceeding with an executive session.

In accordance with the provisions of the Alabama Open Meetings Act, Chair Mitchell made a motion to convene an executive session for an anticipated duration of two hours for the purpose of discussing preliminary negotiations involving a matter of trade or commerce, **Item 2**. She stated Ms. Dukes had submitted the required written declaration for the minutes and that adjournment of the meeting would be effected with the conclusion of the executive session. Mr. Yance seconded and, at 3:02 p.m., the Board voted unanimously to convene an executive session, as recorded below:

AYES:

- Ms. Atkins
- Dr. Charlton
- Mr. Corcoran
- Capt. Jenkins
- Judge Lewis
- Chair Mitchell
- Mr. Shumock
- Judge Windom
- Mr. Yance

There being no further business, the meeting was adjourned at 4:48 p.m.

Attest to:

Respectfully Submitted:

Lenus M. Perkins, Secretary

Arlene Mitchell, Chair *pro tempore*

APPENDIX A

Executive Session

University of South Alabama Board of Trustees meeting on January 20, 2023.

The purpose of the executive session for the above-referenced meeting is to discuss preliminary negotiations involving a matter of trade or commerce.

This declaration is submitted pursuant to the requirements of the Alabama Open Meetings Act by Kristin Daniels Dukes, ASB number 6408o61k.

Kristin Daniels Dukes

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

**February 1, 2023
11:00 a.m.**

A special meeting of the University of South Alabama Board of Trustees was duly convened by Ms. Arlene Mitchell, Chair *pro tempore*, on Wednesday, February 1, 2023, at 11:22 a.m. in the Board Room of the Frederick P. Whiddon Administration Building. Meeting attendance was open to the public.

Members: Alexis Atkins, Chandra Brown Stewart, Tom Corcoran, Arlene Mitchell and Mike Windom were present, and Steve Furr, Ron Graham, Ron Jenkins, Jimmy Shumock, Margie Tuckson and Jim Yance participated remotely.

Members Absent: Scott Charlton, Kay Ivey, Bill Lewis, Lenus Perkins and Steve Stokes.

Administration & Guests: Delaware Arif (Faculty Senate), Owen Bailey, Jo Bonner, Kristin Dukes, Monica Ezell, Aston Hennig, Andi Kent, John Marymont, Danny Rickert and Polly Stokley.

Following the call to order, Chair Mitchell thanked everyone for their participation and the attendance roll was called, **Item 1**. Chair Mitchell turned to President Bonner for opening remarks. President Bonner recognized the Trustees for their love of the University and willingness to be available when updates on important matters under consideration by the Board necessitated calling a special meeting. He recommended proceeding to an executive session at the appropriate time. Chair Mitchell called for approval of the revised agenda, **Item 1.A**. On motion by Mr. Corcoran, seconded by Judge Windom, the Board voted unanimously to adopt the revised agenda.

Chair Mitchell called on President Bonner, who introduced Mr. Bailey to present **Item 1.B** as follows. Mr. Bailey summarized the need for USA Health to complete a comprehensive community health needs assessment, as well the goals and benefits derived through the process. He introduced Mr. Danny Rickert, USA Health Chief Policy Officer, and Ms. Ashton Hennig, USA Health Director of Outreach and Special Projects, to give additional background. On motion by Ms. Atkins, seconded by Mr. Corcoran, the Board voted unanimously to approve the resolution as follows:

**RESOLUTION
USA HEALTH COMMUNITY HEALTH NEEDS ASSESSMENT AND IMPLEMENTATION STRATEGIES**

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

WHEREAS, USA Health has conducted the above-referenced assessment for 2022-2025, and

WHEREAS, USA Health has developed implementation strategies based on the findings of the 2022-2025 community health needs assessment, and

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

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

In accordance with the provisions of the Alabama Open Meetings Act, Chair Mitchell made a motion to convene an executive session for an anticipated duration of two hours for the purpose of discussing preliminary negotiations involving a matter of trade or commerce, **Item 2**. She stated that Ms. Dukes had submitted the required written declaration for the minutes and that adjournment of the meeting would be effected with the conclusion of the executive session. Ms. Atkins seconded and, at 11:30 a.m., the Board voted unanimously to convene an executive session, as recorded below:

AYES:

- Ms. Atkins
- Ms. Brown Stewart
- Mr. Corcoran
- Dr. Furr
- Mr. Graham
- Capt. Jenkins
- Chair Mitchell
- Mr. Shumock
- Ms. Tuckson
- Judge Windom
- Mr. Yance

There being no further business, the meeting was adjourned at 1:47 p.m.

Attest to:

Respectfully Submitted:

Lenus M. Perkins, Secretary

Arlene Mitchell, Chair *pro tempore*

APPENDIX A

Executive Session

University of South Alabama Board of Trustees meeting on February 1, 2023.

The purpose of the executive session for the above-referenced meeting is to discuss preliminary negotiations involving a matter of trade or commerce.

This declaration is submitted pursuant to the requirements of the Alabama Open Meetings Act by Kristin Daniels Dukes, ASB number 6408o61k.

Kristin Daniels Dukes

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

**February 16, 2023
3:00 p.m.**

A special meeting of the University of South Alabama Board of Trustees was duly convened by Ms. Arlene Mitchell, Chair *pro tempore*, on Thursday, February 16, 2023, at 3:00 p.m. in the Board Room of the Frederick P. Whiddon Administration Building. Meeting attendance was open to the public.

Members: Alexis Atkins, Tom Corcoran, Arlene Mitchell, Jimmy Shumock and Jim Yance were present, and Chandra Brown Stewart, Steve Furr*, Ron Graham, Ron Jenkins, Lenus Perkins, Margie Tuckson and Mike Windom* participated remotely. (*These Trustees joined the meeting when the executive session was in progress.)

Members Absent: Scott Charlton, Bill Lewis, Steve Stokes and Kay Ivey.

Administration & Guests: Owen Bailey, Jo Bonner, Kristin Dukes, Monica Ezell, Andi Kent, John Marymont and Polly Stokley.

Chair Mitchell called the meeting to order and made brief remarks about the outstanding renovation of the fifth floor at USA Health Children's & Women's Hospital (CWH). Following the attendance roll call, **Item 1**, Chair Mitchell turned to President Bonner, who agreed that the new Mother/Baby Unit at CWH was a great accomplishment and indicative of the positive momentum of the University moving into its 60th anniversary. President Bonner thanked the Trustees for their support of and involvement in the progress taking place at South Alabama.

In accordance with the provisions of the Alabama Open Meetings Act, Chair Mitchell made a motion to convene an executive session for an anticipated duration of two hours for the purpose of discussing preliminary negotiations involving a matter of trade or commerce, **Item 2**. She stated that Ms. Dukes had submitted the required written declaration for the minutes and that adjournment of the meeting would be effected with the conclusion of the executive session. Mr. Yance seconded and, at 3:04 p.m., the Board voted unanimously to convene an executive session, as recorded below:

AYES:

- Ms. Atkins
- Ms. Brown Stewart
- Mr. Corcoran
- Mr. Graham
- Capt. Jenkins
- Chair Mitchell
- Mr. Perkins
- Mr. Shumock
- Ms. Tuckson
- Mr. Yance

There being no further business, the meeting was adjourned at 4:46 p.m.

Attest to:

Respectfully Submitted:

Lenus M. Perkins, Secretary

Arlene Mitchell, Chair *pro tempore*

APPENDIX A

Executive Session

University of South Alabama Board of Trustees meeting on February 16, 2023.

The purpose of the executive session for the above-referenced meeting is to discuss preliminary negotiations involving a matter of trade or commerce.

This declaration is submitted pursuant to the requirements of the Alabama Open Meetings Act by Kristin Daniels Dukes, ASB number 6408o61k.

Kristin Daniels Dukes

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**



AUDIT COMMITTEE

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

Audit Committee

November 30, 2022

1:30 p.m.

A meeting of the Audit Committee of the University of South Alabama Board of Trustees was duly convened by Ms. Alexis Atkins, Vice Chair, on behalf of Mr. Ron Graham, Chair, on Wednesday, November 30, 2022, at 1:30 p.m. in the Board Room of the Frederick P. Whiddon Administration Building. Meeting attendance was open to the public.

Members: Alexis Atkins, Tom Corcoran, Ron Jenkins, Bill Lewis and Lenus Perkins were present.

Member Absent: Ron Graham.

Other Trustees: Chandra Brown Stewart, Scott Charlton, Steve Furr, Arlene Mitchell, Jimmy Shumock, Margie Tuckson, Mike Windom and Jim Yance.

Administration & Guests: Delaware Arif (Faculty Senate), Owen Bailey, Jim Berscheidt, Joél Billingsley, Jo Bonner, Lynne Chronister, Kristin Dukes, Joel Erdmann, Julie Estis, Monica Ezell, Andi Kent, Nick Lawkis, John Marymont, Mike Mitchell, Amanda Price (KPMG), Laura Schratt, Beth Shepard (Faculty Senate), Keith Shurbutt (KPMG), Polly Stokley, Margaret Sullivan and Ashley Willson (KPMG).

Following introductory remarks by Chair Mitchell, the Audit Committee meeting came to order and the attendance roll was called, **Item 1**. Ms. Atkins called for consideration of the minutes of the Audit Committee meeting held on September 22, 2022, **Item 2**. On motion by Capt. Jenkins, seconded by Mr. Corcoran, the Committee voted unanimously to adopt the minutes.

Ms. Atkins called on Ms. Stokley to discuss the KPMG audit reports for the year ended September 30, 2022, **Item 3**. She and Ms. Ashley Willson, KPMG lead engagement partner, stated that, going forward, the reports would not be issued until the Committee and Board had an opportunity to view and respond to the content of drafts of the reports. Ms. Willson stated that KPMG was prepared to issue the reports with an unqualified opinion on December 1, 2022. She, along with Ms. Amanda Price and Mr. Keith Shurbutt of KPMG, shared an overview of the audit results and delivered the required communications.

Mr. Atkins asked for the Committee's consideration to ratify the internal audit budget for fiscal year 2023, **Item 4**, as was presented in the 2022-2023 University Total Budget approved by the Board in September. On motion by Mr. Corcoran, seconded by Capt. Jenkins, the Committee voted unanimously to ratify the internal audit budget. Ms. Schratt presented a budget summary and stated that ratification of the budget fulfilled a requirement of the Office of Internal Audit (OIA) Charter.

Audit Committee
November 30, 2022
Page 2

Concerning **Item 5**, a report on the activities of the Office of Internal Audit, Ms. Schratt discussed the OIA's annual report for fiscal year 2022, which detailed the progress pertaining to five key performance indicators, outstanding recommendations and projects, and clarified the required annual acknowledgments and disclosures.

There being no further business, the meeting was adjourned at 1:52 p.m.

Respectfully submitted:

On behalf of:

Katherine Alexis Atkins, Vice Chair

William Ronald Graham, Chair



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

Basic Financial Statements

September 30, 2022

(With Independent Auditors' Report Thereon)

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

Basic Financial Statements
September 30, 2022

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

Basic Financial Statements

September 30, 2022

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UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2022

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, 2022 and 2021, and for the years then ended. This discussion has been prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

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

Financial Highlights

At September 30, 2022 and 2021, the University had total assets and deferred outflows of \$1,849,857,000 and \$1,932,363,000, respectively; total liabilities and deferred inflows of \$1,488,669,000 and \$1,590,053,000, respectively; and net position of \$361,188,000 and \$342,310,000, respectively.

The University has experienced a significant growth in its health care operations over the past several years incurring increases in net patient service revenues of \$97,377,000 or 16%, between 2021 and 2022. Due to significant market declines, there was a notable decrease in cash and investment balances between 2021 and 2022, decreasing by \$95,246,000, or 14% to \$604,447,000 at September 30, 2022.

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, 2022. Net position is displayed in three parts: net investment in capital assets, restricted and unrestricted. Restricted net position may be either expendable or nonexpendable and is the net position that is restricted by law or external donors. Unrestricted net position is generally designated by management for specific purposes, and is available for use by the University to meet current expenses for any purpose. The statements of net position, along with all of the University's basic financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

UNIVERSITY OF SOUTH ALABAMA
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The condensed schedules of net position at September 30, 2022 and 2021 follow (in thousands):

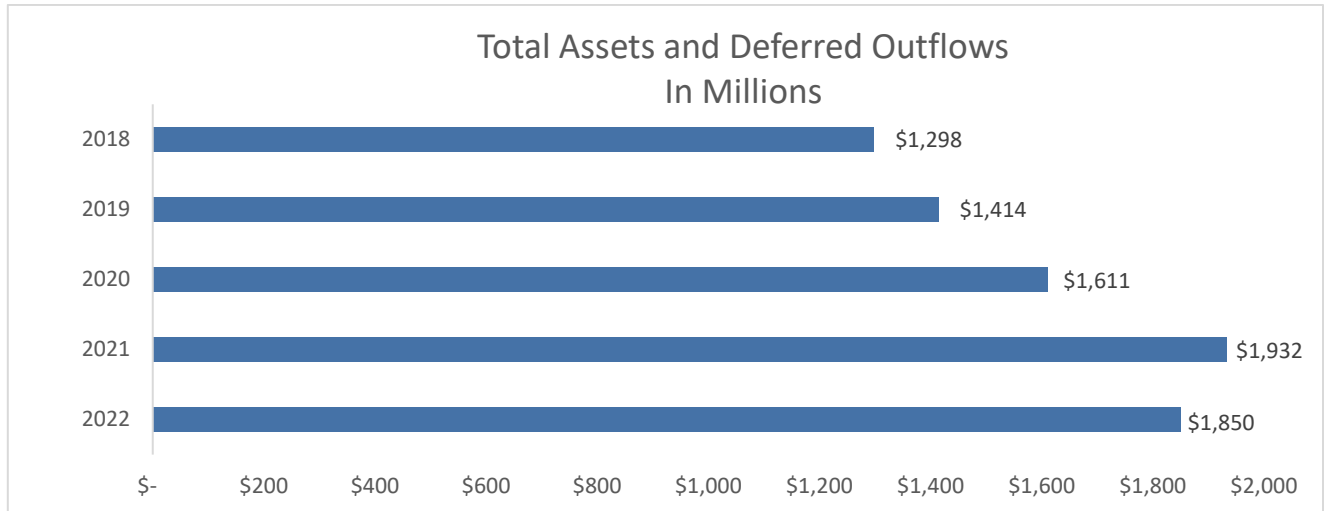
Condensed Schedules of Net Position

	<u>2022</u>	<u>2021</u>
Assets:		
Current	\$ 362,646	363,476
Capital assets, net	840,112	841,811
Other noncurrent	<u>421,804</u>	<u>448,536</u>
Total assets	1,624,562	1,653,823
Deferred outflows	<u>225,295</u>	<u>278,540</u>
Total assets and deferred outflows	<u>1,849,857</u>	<u>1,932,363</u>
Liabilities:		
Current	211,958	241,038
Noncurrent	<u>975,147</u>	<u>1,125,784</u>
Total liabilities	1,187,105	1,366,822
Deferred inflows	<u>301,464</u>	<u>223,231</u>
Total liabilities and deferred inflows	<u>1,488,569</u>	<u>1,590,053</u>
Net position:		
Net investment in capital assets	373,258	402,125
Restricted, nonexpendable	74,299	108,116
Restricted, expendable	90,534	69,527
Unrestricted deficit	<u>(176,903)</u>	<u>(237,458)</u>
Total net position	<u>\$ 361,188</u>	<u>342,310</u>

Assets included in the statement of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments and net patient receivables. Of these amounts, cash and cash equivalents, investments and net patient receivables comprise approximately 58%, 9% and 14%, respectively, of current assets at September 30, 2022. Noncurrent assets consist primarily of restricted cash and cash equivalents, restricted investments and capital assets. The decrease in total assets and deferred outflows is attributed to a decline in investment value and restricted cash and cash equivalents.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2022

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



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

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

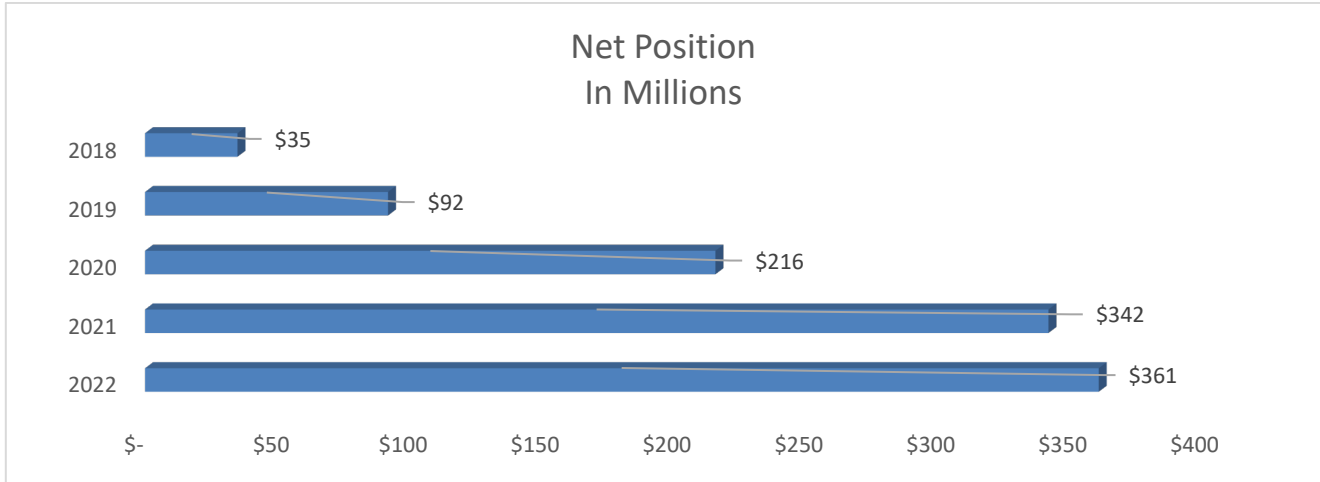
Restricted nonexpendable net position consists primarily of the University's permanent endowment funds. In accordance with the policies of the University, the earnings from these funds may be expended, but the corpus may not be expended and must remain intact with the University in perpetuity.

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

Unrestricted deficit of net position represents amounts not invested in capital assets or not subject to externally imposed stipulations. Even though these funds are not legally restricted, the majority of the University's unrestricted net position has been internally designated for various projects, all supporting the mission of the University. Unrestricted net position includes funds for various academic and research programs, auxiliary operations (including student housing and dining services), student programs, capital projects and general operations. Also included in unrestricted net position at September 30, 2022 is the impact of the net pension liability recorded pursuant to the requirements of GASB Statement No. 68 and the impact of the net OPEB liability recorded pursuant to the requirements of GASB Statement No. 75.

UNIVERSITY OF SOUTH ALABAMA
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Management's Discussion and Analysis (Unaudited)
September 30, 2022

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



All categories of restricted net position collectively decreased by approximately \$12,810,000 between September 30, 2022 and 2021, primarily due to market declines on investments. Unrestricted net position increased from \$(237,458,000) to \$(176,903,000) between September 30, 2022 and 2021. A summary of unrestricted net position (deficit) at September 30, 2022 is summarized as follows (in thousands):

Unrestricted (deficit) net position related to net pension liability	\$ (237,578)
Unrestricted (deficit) net position related to net OPEB liability	(205,378)
Unrestricted net position related to other activity	<u>266,053</u>
Unrestricted net position (deficit)	<u>\$ (176,903)</u>

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total University net position are based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of this statement is to present the 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.

UNIVERSITY OF SOUTH ALABAMA
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Management's Discussion and Analysis (Unaudited)
September 30, 2022

Nonoperating revenues have the characteristics of nonexchange transactions because generally no goods or services are provided. Such transactions include investment income, state appropriations, gifts and other contributions. State appropriations are required by GASB to be classified as nonoperating revenues. Nonoperating expenses are those expenses required in the operation and administration of the University, but not directly incurred to acquire or produce the goods and services provided in return for operating revenues. Such nonoperating expenses include interest on the University's indebtedness, losses related to the disposition of capital assets, transfers to affiliates to fund operations and transfers to intergovernmental agencies related to medical expenditures.

The condensed schedules of revenues, expenses, and changes in net position for the years ended September 30, 2022 and 2021 follow (in thousands):

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

	2022	2021
Operating revenues:		
Tuition and fees, net	\$ 130,677	128,040
Patient service revenues, net	720,055	622,678
Federal, state and private grants and contracts	48,749	44,589
Other	80,440	65,388
	979,921	860,695
Operating expenses:		
Salaries and benefits	587,844	554,587
Supplies and other services	409,008	338,512
Other	98,038	97,399
	1,094,890	990,498
Operating loss	(114,969)	(129,803)
Nonoperating revenues and expenses:		
State appropriations	140,709	126,481
Net investment income	(53,135)	54,294
Other, net	27,626	61,611
Net nonoperating revenues	115,200	242,386
Income before capital contributions and grants and additions to endowment	231	112,583

UNIVERSITY OF SOUTH ALABAMA
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Management's Discussion and Analysis (Unaudited)
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Condensed Schedules of Revenues, Expenses, and Changes in Net Position
(continued)

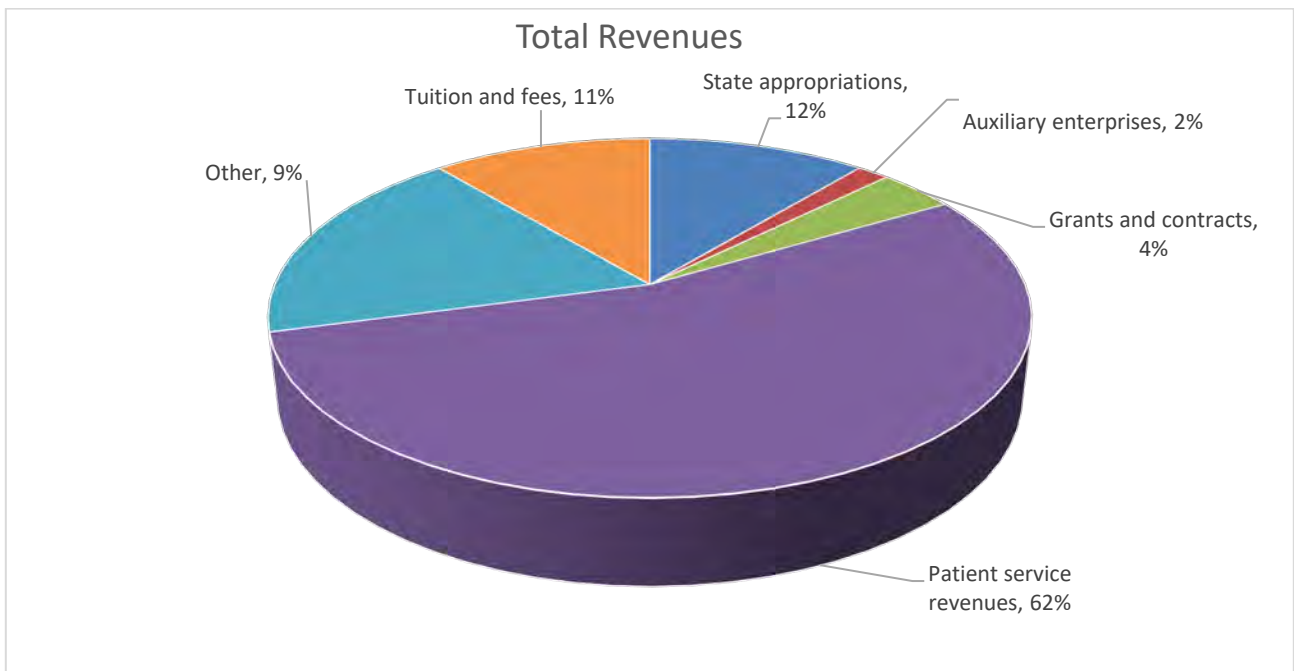
	<u>2022</u>	<u>2021</u>
Capital contributions and grants and additions to endowment	\$ 25,711	13,449
Increase in net position	<u>25,942</u>	<u>126,032</u>
Beginning net position	342,310	216,278
Cumulative effect of change in account principle	<u>(7,064)</u>	<u>—</u>
Beginning balance, as adjusted	<u>335,246</u>	<u>216,278</u>
Ending net position	<u>\$ 361,188</u>	<u>342,310</u>

In 2022, the University adopted the provisions of GASB Statement No. 87, *Leases*, which 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. GASB Statement No. 87 required the University to record financing lease right-of-use assets and the corresponding current and noncurrent portions of financing lease liabilities for noncancellable, long-term contracts related to use of tangible property under which the University is the lessee. In addition, GASB Statement No. 87 required the University to record the current and noncurrent portions of financing lease receivables and the corresponding financing lease deferred inflow of resources for noncancellable, long-term contracts related to use of tangible property under which the University is the lessor. The adoption of the provisions of GASB Statement No. 87 resulted in a restatement of beginning unrestricted net position at October 1, 2022 by decreasing unrestricted net position \$7,064,000. See note 9 for a further discussion.

UNIVERSITY OF SOUTH ALABAMA
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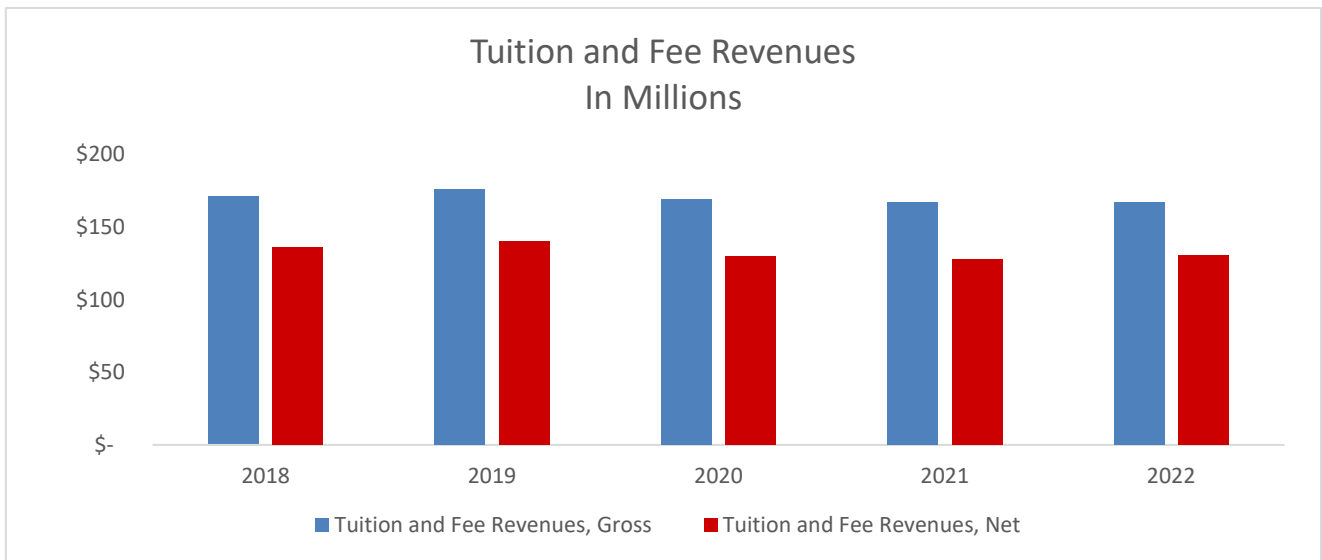
Approximately 62% of total revenues of the University were net patient service revenues in 2022. Excluding patient service revenues, tuition and fees charged to students and state appropriations represent the largest component of total University revenues, approximately 11% and 12% of total revenues in 2022, respectively. In 2022, grants and contracts (federal, state and private) represented approximately 4% of total revenues.

A summary of University revenues for the year ended September 30, 2022 is presented as follows:



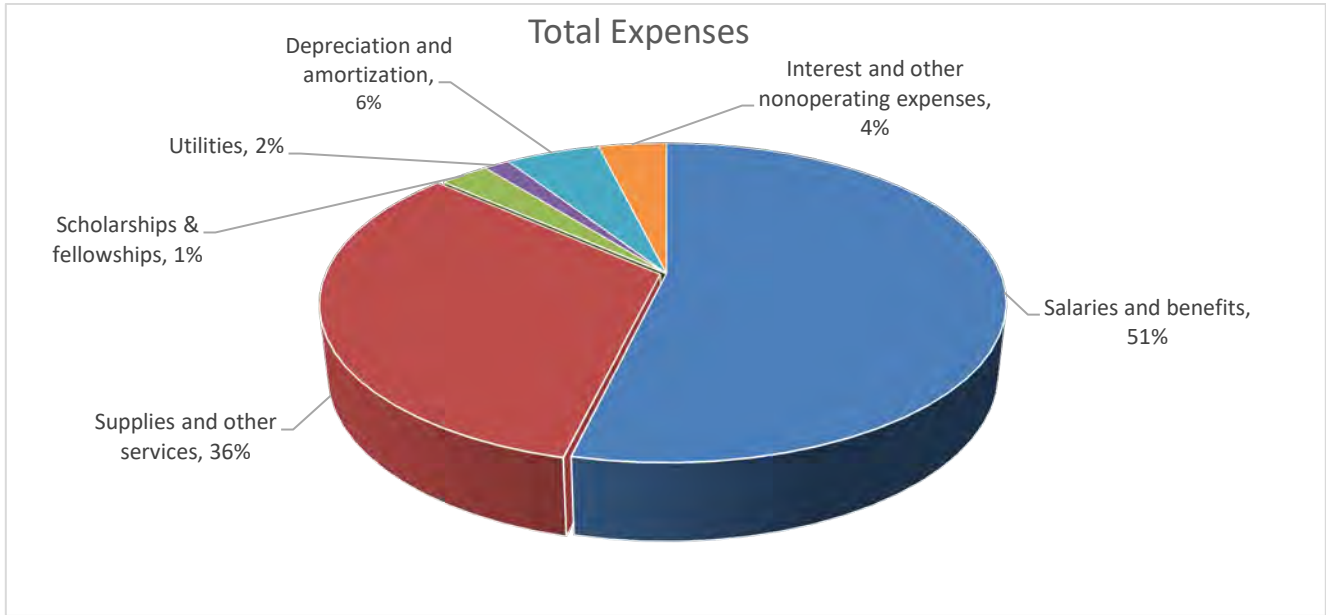
UNIVERSITY OF SOUTH ALABAMA
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Tuition revenues have generally remained steady in recent years. A decline in enrollment coupled with increases in tuition rates have caused tuition revenues to remain relatively flat. Tuition and fees, gross and net of scholarship allowances, for the past ten fiscal years are as follows:



UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2022

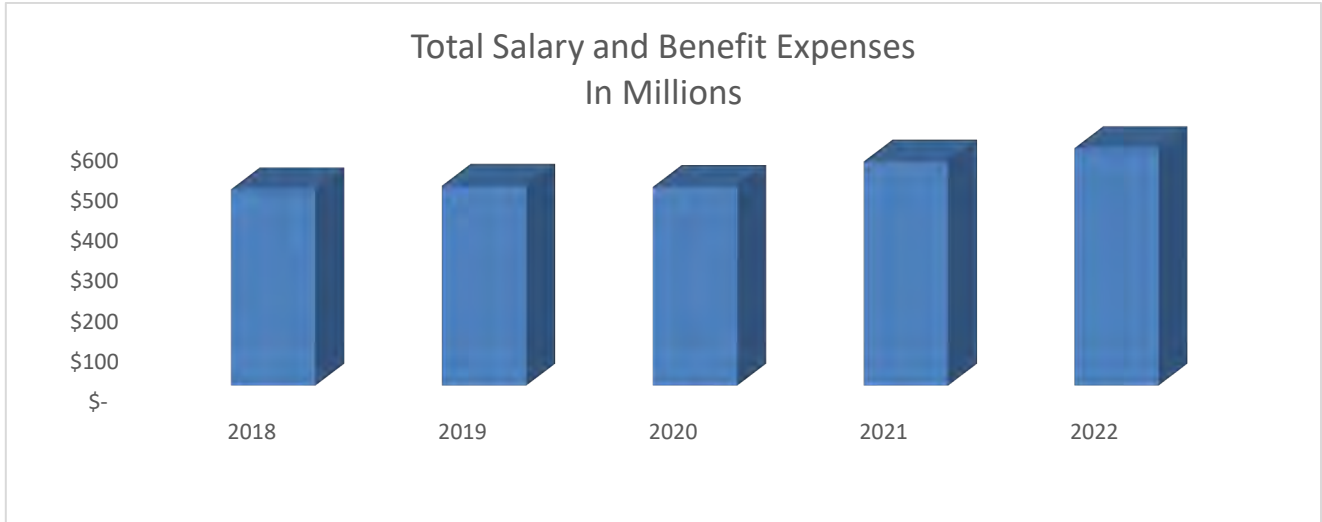
University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2022 is presented as follows:



Functional classifications represent expenses categorized based on the function within the University. Such University functions include instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant and scholarships. Expenses related to auxiliary enterprise activities, USA Health and depreciation and amortization are presented separately. Functional expense information is presented in note 18 to the basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
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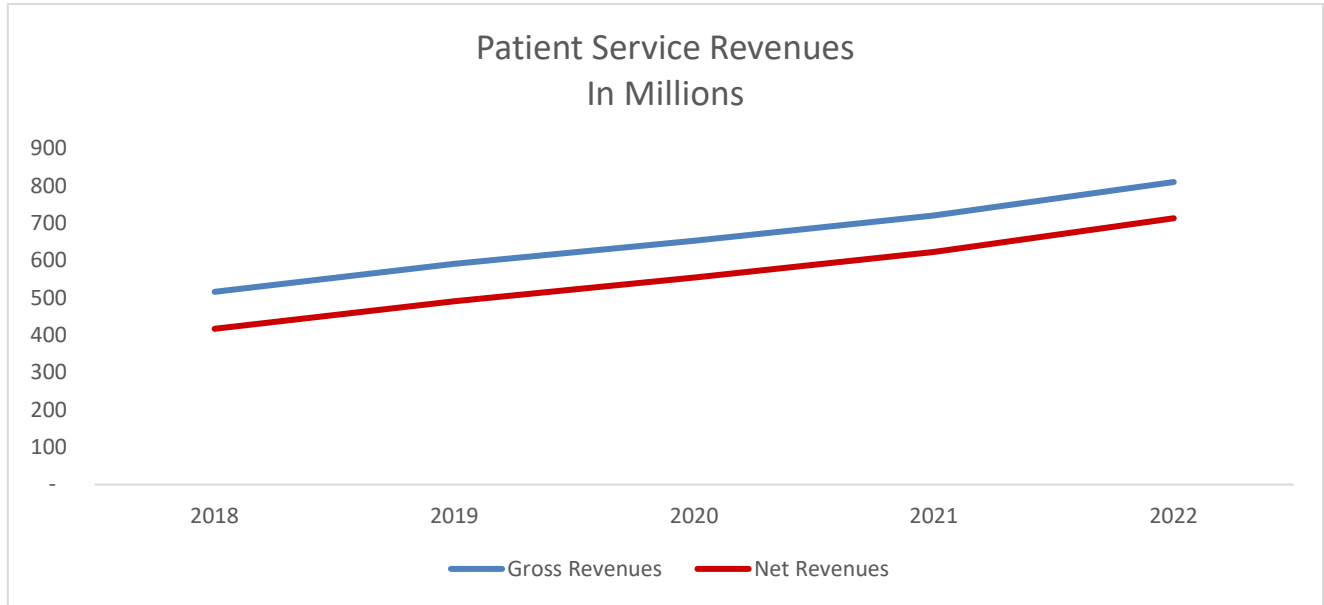
In 2022, respectively, approximately 51% of the University's total expenses were salaries and benefits.



For the year ended September 30, 2022, the University reported an operating loss of approximately \$114,969,000. The operating loss is offset partially by state appropriations, which, as mentioned earlier, are reported as nonoperating revenues. After considering all nonoperating revenues and expenses, including capital contributions and grants and additions to the endowment, the total change in net position was approximately \$25,942,000 for the year ended September 30, 2022.

UNIVERSITY OF SOUTH ALABAMA
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Management's Discussion and Analysis (Unaudited)
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USA Health represents a significant portion of total University revenues. Operating patient service revenues, gross and net, for the last five fiscal years are presented as follows:



Statement of Cash Flows

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

Capital Assets and Debt Administration

Total capital asset additions for the University were approximately \$67,239,000 in 2022. Significant construction projects that remain in progress at September 30, 2022 include the 3D Printer Lab, Science Laboratory Building renovation, Ravine Bridge replacement, new Central Energy Plant, and new College of Medicine Building along with major continued upgrades on infrastructure on the University's main campus such as the North Drive Utilities project. Major projects completed and placed into service in fiscal year 2022 include the Supply Warehouse and Jag Tran Buildings, Multi-Cultural Center Renovation, Student Disabilities Renovation, Advising and Career Services Renovation, and South Drive Utilities Project Phase 3. At September 30, 2022, the University had outstanding commitments of approximately \$36,948,000 for various capital projects. Additional information regarding the University's capital assets is included in note 5.

In March 2021, the University issued a new University Facilities Revenue Bond, Series 2021, with a face value of \$40,555,000. The proceeds, along with internal contributions from the University, are financing USA Health facilities and transportation infrastructure. In July 2021, the University refinanced the Series 2012-A Bond with the University Facilities Revenue Bond, Series 2021-B, with a face value of \$15,387,000. The terms for Bonds 2016-B, 2016-C and 2016-D were revised in September 2021 to address the removal of the LIBOR rate to be replaced by the ISDA-based replacement index after year ended September 30, 2021. The dates by which the

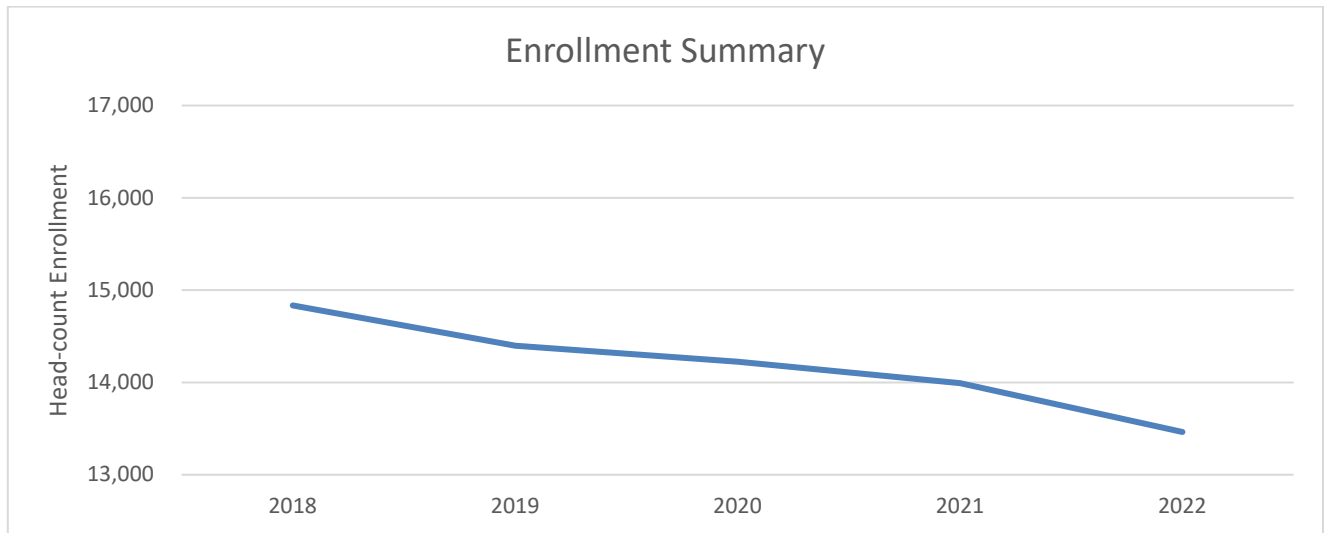
UNIVERSITY OF SOUTH ALABAMA
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Management's Discussion and Analysis (Unaudited)
September 30, 2022

Lender may cause all of the outstanding principal on such bonds to mature and become due and payable by the University were extended 5 years for each bond. On March 5, 2021, the Financial Conduct Authority (FCA) announced the final publication date for US LIBOR is June 30, 2023. Loans maturing after the end of LIBOR will be reviewed to determine if appropriate language, referred to as fallback language, is used to provide for the replacement of LIBOR with an alternative index. The Alternative Reference Rates Committee (ARRC) has recommended the Secured Overnight Financing Rate (SOFR) as an alternative to replace LIBOR.

The University's bond credit rating is A1 (Stable) as rated by Moody's Investors Service and A+ (Stable) as rated by Standard and Poor's Global Ratings. Neither rating changed during 2022 or 2021. Moody's Investors Service and Standard and Poor's Global Ratings affirmed their ratings in conjunction with their assessment of the 2021 Bond issuance. Additional information regarding the University's debt is included in note 8.

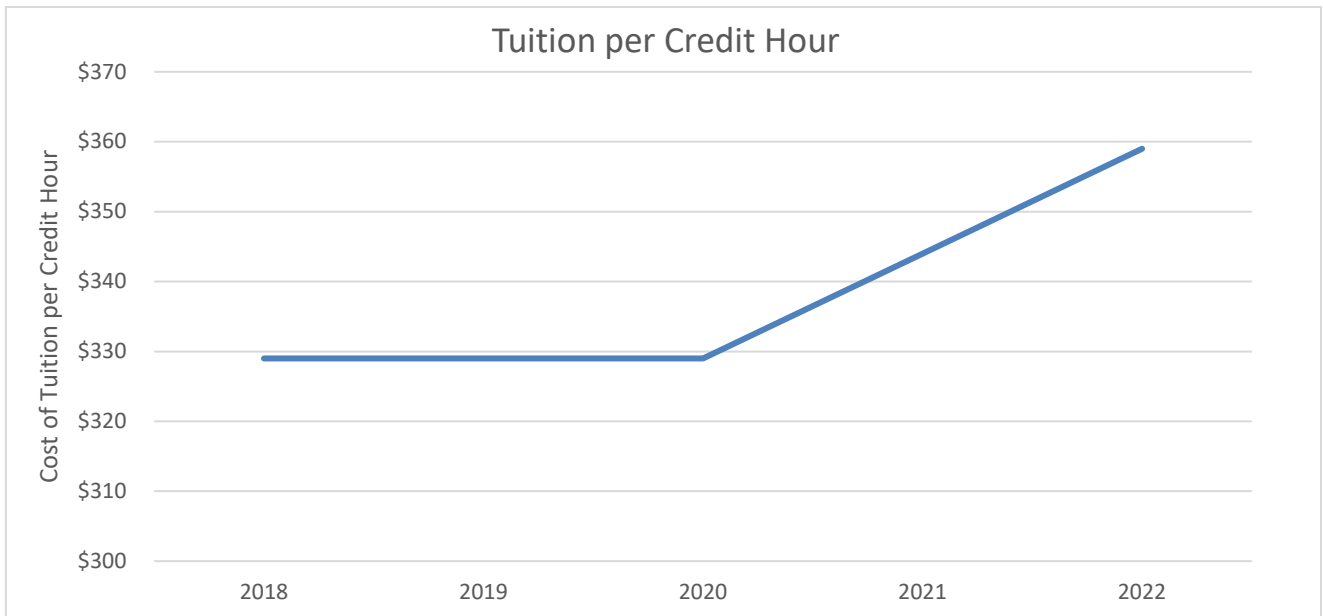
Economic Outlook

While, tuition and fee rates per credit hour have increased over the past ten years, there have been declines in enrollment since 2016. The University experienced a decline in enrollment of approximately 2% between Fall 2020 and Fall 2021 and an additional decline of 4% between Fall 2021 and Fall 2022, with declines primarily resulting from a decrease in international student enrollment and a decrease in the number of returning students. The enrollment trend for the University between 2013 and 2022 is as follows:



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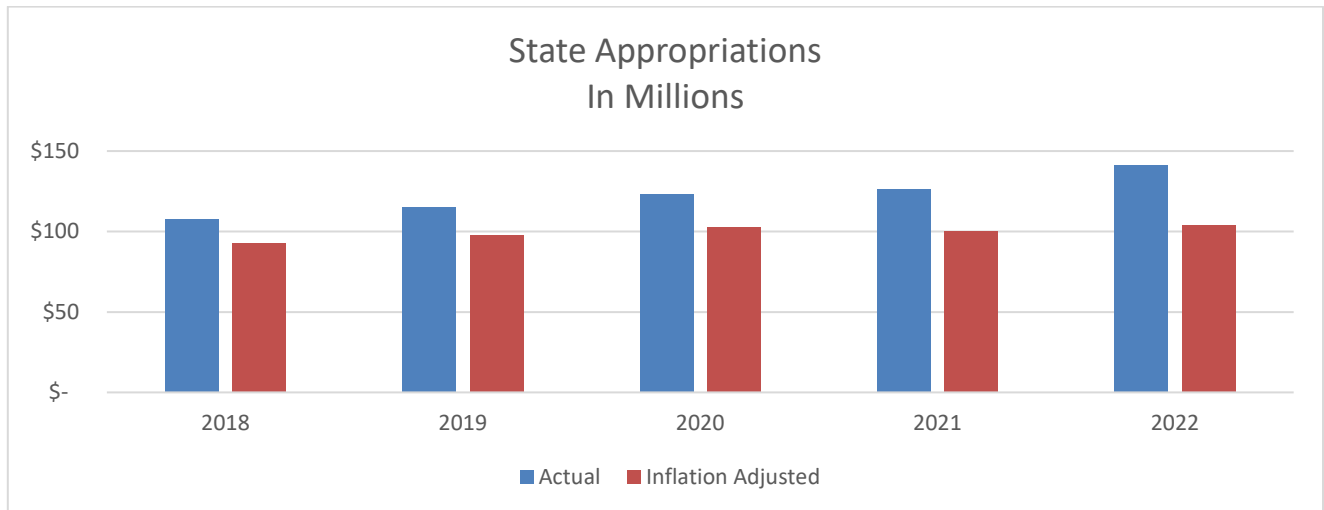
During the same period, in-state tuition per credit hour for in-person classes has increased by approximately 4%. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. Web tuition has decreased slightly during that period. The trend of in-state tuition per credit hour between 2013 and 2022 is as follows:



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September 30, 2022

A state appropriation in the amount of approximately \$129,098,000 and \$121,564,000 was authorized and received for the years ended September 30, 2022 and 2021, respectively. Additional appropriations of approximately \$4,111,000 and \$7,500,000 and \$4,017,000 and \$900,000 were received during fiscal years 2022 and 2021, respectively for advancement and technology, and certain academic and health care initiatives. A state appropriation in the amount of approximately \$140,714,000, representing an increase of approximately 9%, has been authorized for the year ending September 30, 2023. While no announcement has been made, the University is aware that reductions in the 2023 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.

During the second fiscal quarter of 2020, the United States was thrust into the midst of a pandemic health crisis related to the spread of COVID-19 (the "Crisis"). The University returned to normal operations for the Fall 2021 semester and USA Health operations have returned to a normal level with minimum impact on the finances of USA Health.

The University has taken all necessary steps to ensure that the University takes full advantage of the Coronavirus Aid, Relief and Economic Security Act of 2020 (the "CARES Act"). As of September 30, 2022, the University (including USA Health) has been awarded \$99,254,000 in CARES Act, and other funding from federal and state sources for COVID-19 relief. Of this amount \$6,189,000 was awarded in the year ended September 30, 2022 and \$68,749,000 was awarded in the year ended September 30, 2021. Of the total amount awarded \$22,464,000 has been recognized as nonoperating revenue in the statements of revenues, expenses and changes in net position for the year ended September 30, 2022.

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Management's Discussion and Analysis (Unaudited)
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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 2023 or beyond.

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 Polly Stokley; Vice President for Finance and Administration; University of South Alabama Administration Building Room 300; Mobile, Alabama 36688. These basic financial statements can be obtained from our website at <http://www.southalabama.edu/departments/financialaffairs/businessoffice/statements.html>.



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

Independent Auditors' Report

The Board of Trustees
University of South Alabama:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of University of South Alabama (the University), a component unit of the State of Alabama, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University, as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

We did not audit the financial statements of the University of South Alabama Foundation, which represent 84% and (11%), respectively, of the assets and revenues of the aggregate discretely presented component units as of September 30, 2022 and for the year then ended. 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of the University of South Alabama Foundation were not audited in accordance with *Government Auditing Standards*.

Responsibilities of Management for the Financial Statements

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

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



Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, schedule of the University's proportionate share of the net pension liability and related ratios, schedule of the University's pension contributions, schedule of the University's proportionate share of the net OPEB liability and related ratios, and schedule of the University's OPEB contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 December 1, 2022 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
December 1, 2022

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

Statement of Net Position

September 30, 2022

(In thousands)

Current assets:	
Cash and cash equivalents	\$ 210,875
Investments	33,501
Patient receivables (net of allowance for doubtful accounts of \$102,433)	50,607
Accounts receivable, other	48,129
Notes receivable, net	1,756
Prepaid expenses, inventories, and other	17,044
Financing lease receivable, current portion	734
Total current assets	362,646
Noncurrent assets:	
Restricted cash and cash equivalents	37,726
Restricted investments	244,836
Investments	77,509
Other noncurrent assets and accounts receivable	28,176
Right of use asset, net	31,874
Financing lease receivable, less current portion	1,683
Capital assets, net	840,112
Total noncurrent assets	1,261,916
Total assets	1,624,562
Deferred outflows	225,295
Total assets and deferred outflows	1,849,857
Current liabilities:	
Accounts payable and accrued liabilities	101,476
Unrecognized revenues	66,234
Deposits	3,378
Current portion of other long-term liabilities	6,508
Current portion financing lease obligations	9,374
Current portion of long-term debt	24,988
Total current liabilities	211,958
Noncurrent liabilities:	
Long-term debt, less current portion	434,546
Financing lease obligations, less current portion	22,590
Net pension liability	237,578
Net other postemployment benefits liability	205,378
Other long-term liabilities, less current portion	75,155
Total noncurrent liabilities	975,247
Total liabilities	1,187,205
Deferred inflows	301,464
Total liabilities and deferred inflows	1,488,669
Net position:	
Net investment in capital assets	373,258
Restricted, nonexpendable:	
Scholarships	39,893
Other	34,406
Restricted, expendable:	
Scholarships	30,196
Other	60,338
Unrestricted deficit	(176,903)
Total net position	\$ 361,188

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2022

(In thousands)

Operating revenues:	
Tuition and fees (net of scholarship allowances of \$36,331)	\$ 130,677
Patient service revenues (net of provision for bad debts of \$96,814)	720,055
Federal grants and contracts	25,222
State grants and contracts	10,939
Private grants and contracts	12,588
Auxiliary enterprises (net of scholarship allowances of \$1,124)	21,562
Other operating revenues	<u>58,878</u>
Total operating revenues	<u>979,921</u>
Operating expenses:	
Salaries and benefits	587,844
Supplies and other services	409,008
Scholarships and fellowships	15,109
Utilities	18,055
Depreciation and amortization	<u>64,874</u>
Total operating expenses	<u>1,094,890</u>
Operating loss	<u>(114,969)</u>
Nonoperating revenues (expenses):	
State appropriations	140,709
Net investment losses	(53,135)
Interest expense	(14,884)
Other nonoperating revenues	76,910
Other nonoperating expenses	<u>(34,400)</u>
Net nonoperating revenues	<u>115,200</u>
Income before capital contributions and grants and additions to endowment	231
Capital contributions and grants	18,177
Additions to endowment	<u>7,534</u>
Increase in net position	25,942
Net position:	
Beginning of year, before cumulative effect of change in accounting principle	342,310
Cumulative effect of change in accounting principle (note 1 section (dd))	<u>(7,064)</u>
Beginning balance, as adjusted	<u>335,246</u>
End of year	<u>\$ 361,188</u>

See accompanying notes to basic financial statements.

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

Statement of Cash Flows

Year ended September 30, 2022

(In thousands)

Cash flows from operating activities:	
Receipts related to tuition and fees	\$ 130,928
Receipts from and on behalf of patients and third-party payers	733,480
Receipts from grants and contracts	60,595
Receipts related to auxiliary enterprises	21,192
Payments to suppliers and vendors	(414,858)
Payments to employees and related benefits	(627,487)
Payments for scholarships and fellowships	(15,108)
Other operating receipts	33,956
	<u>33,956</u>
Net cash used in operating activities	<u>(77,302)</u>
Cash flows from noncapital financing activities:	
State appropriations	140,689
Endowment gifts	7,534
Agency funds received	2,331
Agency funds disbursed	(2,079)
Student loan program receipts	131,413
Student loan program disbursements	(131,338)
Other nonoperating revenues	30,460
Other nonoperating expenses	(40,992)
	<u>(40,992)</u>
Net cash provided by noncapital financing activities	<u>138,018</u>
Cash flows from capital and related financing activities:	
Capital contributions and grants	18,177
Purchases of capital assets	(64,782)
Proceeds from sales of capital assets	123
Principal payments on capital debt	(35,076)
Interest payments on capital debt	(21,268)
	<u>(21,268)</u>
Net cash used in capital and related financing activities	<u>(102,826)</u>
Cash flows from investing activities:	
Interest and dividends on investments	2,061
Purchases of investments	(89,726)
Proceeds from sales of investments	89,051
	<u>89,051</u>
Net cash provided by investing activities	<u>1,386</u>
Net decrease in cash and cash equivalents	(40,724)
Cash and cash equivalents (unrestricted and restricted):	
Beginning of year	<u>289,325</u>
End of year	<u>\$ 248,601</u>

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

Statement of Cash Flows

Year ended September 30, 2022

(In thousands)

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (114,969)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	64,874
Changes in assets and liabilities, net:	
Student receivables	1,193
Net patient receivables	3,221
Grants and contracts receivables	5,753
Other receivables	(62,027)
Prepaid expenses, inventories, and other	11,795
Accounts payable and accrued liabilities	7,533
Unrecognized revenues	<u>5,325</u>
Net cash used in operating activities	<u>\$ (77,302)</u>
Noncash investing, noncapital financing, and capital and related financing transactions:	
Net decrease in fair value of investments recognized as a component of investment losses	\$ (55,979)
Addition of financing lease obligations	29,783
Gifts of capital, investments and other assets	1,076
Increase in accounts payable related to capital assets	6,772

See accompanying notes to basic financial statements.

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

Consolidated Statement of Financial Position

June 30, 2022

(In thousands)

Assets	
Cash and cash equivalents	\$ 1,556
Investments:	
Equity securities	196,016
Timber and mineral properties	176,680
Real estate	9,034
Other	5,809
Other assets	<u>480</u>
Total assets	<u>\$ 389,575</u>
Liabilities and Net Assets	
Liabilities:	
Accounts payable	\$ 76
Other liabilities	<u>901</u>
Total liabilities	<u>977</u>
Net assets:	
Without donor restrictions	62,676
With donor restrictions	<u>325,922</u>
Total net assets	<u>388,598</u>
Total liabilities and net assets	<u>\$ 389,575</u>

See accompanying notes to basic financial statements.

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

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2022

(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, losses and other support:			
Net realized and unrealized gains (losses) on investments	\$ 4,700	(20,866)	(16,166)
Rents, royalties and timber sales	2,633	173	2,806
Interest and dividends	1,617	848	2,465
Gifts	155	2,440	2,595
Required match of donor contributions	(213)	213	—
Interfund interest	(245)	245	—
Other income	2	—	2
Net assets released from program restrictions	31,031	(31,031)	—
Total revenues, gains, losses and other support	39,680	(47,978)	(8,298)
Expenditures:			
Program services:			
Faculty support	3,236	—	3,236
Scholarships	1,167	—	1,167
Other academic programs	28,268	—	28,268
Total program service expenditures	32,671	—	32,671
Management and general	2,698	—	2,698
Other investment expense	1,255	—	1,255
Depletion expense	2,380	—	2,380
Depreciation expense	43	—	43
Total expenditures	39,047	—	39,047
Change in net assets	633	(47,978)	(47,345)
Net assets – beginning of year	62,043	373,900	435,943
Net assets – end of year	\$ 62,676	325,922	388,598

See accompanying notes to basic financial statements.

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

Statement of Net Position

September 30, 2022

(In thousands)

Assets:

Current assets:

Unrestricted cash and cash equivalents	\$	1,862
Financing lease receivable, current portion		3,546
Prepaid expenses and other current assets		10
Accrued interest receivable		58
		5,476
Total current assets		5,476

Noncurrent assets:

Intangible assets, net		181
Capital assets, net		18,853
Financing lease receivable, less current portion		10,356
		29,390
Total noncurrent assets		29,390

Deferred outflows

		761
		761
Total assets and deferred outflows		35,627

Liabilities:

Current liabilities:

Deposits, other current liabilities, and accrued expenses		223
Unrecognized rent revenue		388
Notes payable, current portion		1,390
		2,001
Total current liabilities		2,001

Noncurrent liabilities:

Notes payable, less current portion		17,989
		17,989
Total noncurrent liabilities		17,989

Deferred inflows

		13,565
		13,565
Total liabilities and deferred inflows		33,555

Net position:

Net investment in capital assets		423
Unrestricted		1,649
		2,072
Total net position	\$	2,072

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2022

(In thousands)

Operating revenues	\$ <u>4,151</u>
Operating expenses:	
Building management and operating expenses	1,135
Depreciation and amortization	1,281
Legal and administrative fees	352
Insurance	<u>34</u>
Total operating expenses	<u>2,802</u>
Operating income	<u>1,349</u>
Nonoperating revenues (expenses):	
Interest expense	(926)
Other	<u>462</u>
Net nonoperating expenses	<u>(464)</u>
Change in net position	<u>885</u>
Net position:	
Beginning of year	1,313
Cumulative effect of change in accounting principle	<u>(126)</u>
Beginning balance, as adjusted	<u>1,187</u>
End of year	\$ <u><u>2,072</u></u>

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

Statement of Net Position

September 30, 2022

(In thousands)

Assets:

Current assets:

Cash and cash equivalents	\$	3,970
Patient receivables (net of allowance for doubtful accounts of \$1,708)		2,734
Inventories		87
Financing lease receivable, current portion		248
Other current assets		1,717
		8,756
Total current assets		8,756

Noncurrent assets:

Capital assets		17,052
Right of use assets, net		11,611
Financing lease receivable, less current portion		1,347
Other noncurrent assets		15
		30,025
Total noncurrent assets		30,025

Total assets	\$	38,781
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Liabilities:

Current liabilities:

Accounts payable and accrued liabilities	\$	5,788
Accrued salaries and wages		3,523
Current portion of financing lease obligations		1,882
		11,193
Total current liabilities		11,193

Noncurrent liabilities:

Other noncurrent liabilities		221
Financing lease obligations, less current portion		9,976
		10,197
Total noncurrent liabilities		10,197

Deferred inflows

		1,585
		22,975
Total liabilities and deferred inflows	\$	22,975

Net position:

Net investment in capital assets		16,392
Unrestricted (deficit)		(586)
		15,806
Total net position	\$	15,806

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2022

(In thousands)

Operating revenues:	
Patient service revenues (net of provision for bad debts of \$1,057)	\$ 39,436
Other operating revenues	8,536
Total operating revenues	<u>47,972</u>
Operating expenses:	
Salaries and benefits	42,355
Building and equipment expenses	5,326
Medical and surgical supplies	4,789
Other expenses	16,710
Depreciation and amortization	2,827
Total operating expenses	<u>72,007</u>
Operating loss	<u>(24,035)</u>
Nonoperating revenues:	
Investment income	13
Support from University of South Alabama	33,189
Interest expense	(485)
Other nonoperating revenues	314
Total nonoperating revenues	<u>33,031</u>
Increase in net position	8,996
Net position at beginning of year	<u>6,810</u>
Net position at end of year	<u>\$ 15,806</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Notes to Basic Financial Statements
September 30, 2022

(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 reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units*, consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization is included as a component unit. Accordingly, the basic financial statements include the accounts of the University, as the primary government, and the accounts of the entities discussed below as component units.

GASB Statement No. 61 amended GASB Statements No. 14 and No. 39, and provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. Such criteria include the appointment of a voting majority of the board of the organization, the ability to impose the will of the primary government on the organization and the financial benefits/burden between the primary government and the potential component unit. The statement also clarifies reporting and disclosure requirements for those organizations. Based on these criteria as of September 30, 2022, the University reports University of South Alabama Foundation (USA Foundation), USA Research and Technology Corporation (the Corporation) and University of South Alabama Health Care Authority (HCA) as discretely presented component units. Each of these entities issue separate audited financial statements, which can be obtained by contacting Polly Stokley, Vice President for Finance and Administration, University of South Alabama Administration Building 300, Mobile, Alabama 36688.

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF), Gulf Coast TotalCare (Gulf Coast), the University of South Alabama Foundation for Research and Commercialization (FRAC), Jaguar Athletic Fund (JAF), and the USA Presidential 1963 Fund. These entities are considered component units of the University under the provisions of GASB Statements No. 14, 39, 61 and 80. However, these entities are not presented in the accompanying financial statements as the University does not consider them significant enough to warrant inclusion in the University's reporting entity.

GASB requires the University, as the primary government, to include in its basic financial statements, as a blended component unit, organizations that, even though they are legally separate entities, meet certain requirements. Based on these requirements, the University reports the Professional Liability Trust Fund (PLTF), General Liability Trust Fund (GLTF), USA HealthCare Management, LLC (HCM),

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Jaguar Realty, LLC, USA Health Physician Billing Services, LLC, USA Health Hospital Billing Services, LLC, USA Health Anesthesia Billing Services, LLC, USA Health MCI Business Services, LLC, USA Health Children's and Women's Provider Based Clinics, LLC and USA Health Reference Lab Billing Services, LLC as blended component units. All significant transactions between the University and its blended component units have been eliminated.

(b) Professional Liability and General Liability Trust Funds

The medical malpractice liability of the University is maintained and managed in its separate PLTF in which the University, HCM, SAMSF and HCA are the only participants. In accordance with the bylaws of the PLTF, the president of the University is responsible for appointing members of the PLTF policy committee. Additionally, the general liability of the University, HCM, SAMSF, the Corporation and HCA is maintained and managed in its GLTF for which the University is responsible. The PLTF and GLTF are separate legal entities, which are governed by the University Board of Trustees through the University president. As such, PLTF and GLTF are reported as blended component units (see note 19 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, payroll activities related to 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 19 for further discussion of, and disclosure for, this entity).

(d) USA Health Billing Limited Liability Companies

Over the last few years, the University formed the USA Health Physician Billing Services, LLC, USA Health Hospital Billing Services, LLC, USA Health Anesthesia Billing Services, LLC, USA Health Reference Lab Billing Services, LLC, USA Health MCI Business Services, LLC and USA Health Children's and Women's Provider Based Clinics, LLC as limited liability companies, whereby the University is the sole member. These companies were created to assist with the complex patient and insurance billing of USA Health, a division of the University that includes two hospitals, a free standing emergency department, and a cancer treatment center.

(e) University of South Alabama Health Care Authority

In May 2017, the University's Board of Trustees approved the formation of HCA. HCA is a public corporation created under and pursuant to the provisions of the State of Alabama University Authority Act of 2016. HCA employs physicians and staff of certain physician practice groups as determined appropriate by the University. HCA presents its financial statements in accordance with GASB.

HCA is the sole member of the following companies: Mobile Heart USA, LLC, USA HCA OBGYN Services, LLC, USA HCA PBC, LLC, USA Health Industrial Medicine, LLC, USA Health Daphne Family Practice, LLC, USA Health IPA, LLC, and USA BS ASC Holdco, LLC.

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In March 2022, HCA formed USA Health Mobile County ASC, LLC as a limited liability company, whereby HCA is the sole member. There was no financial activity for this entity during the year ended September 30, 2022.

In March 2022, HCA obtained an equity interest in USA Fairhope Physician Investors, LLC (FPI), a limited liability company that will develop and own real property to be used in the operation of the Baldwin County ambulatory surgery center. FPI is considered a component unit of HCA under the provisions of GASB Statements Nos. 14 and 61. However, HCA does not consider the operations of this entity to be significant enough to warrant inclusion of the discrete component unit financial statements within these financial statements. HCA's equity interest in FPI is presented within other noncurrent assets on the statement of net position.

Since inception, the HCA's operations have been partially funded by the University, with total support amounting to \$33,189,000 during the year ended September 30, 2022. This support is reported in nonoperating expenses on the University's statement of revenues, expenses, and changes in net position. Due to the significance of the relationship between the University and HCA, the HCA is considered a component unit of the University. The accompanying statement of net position and statement of revenues, expenses, and changes in net position for HCA as of and for the year ended September 30, 2022 are discretely presented.

(f) University of South Alabama Foundation

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 USA Foundation, USA Foundation is considered a component unit of the University. The Board of Directors of USA Foundation is not appointed or controlled by the University. The University receives distributions from USA Foundation primarily for scholarship, faculty and other support. Total distributions received or accrued by the University for the year ended September 30, 2022 were \$23,762,000 and are included primarily in other nonoperating revenues and capital contributions and grants in the University's statement of revenues, expenses, and changes in net position. USA Foundation presents its financial statements in accordance with standards issued by the Financial Accounting Standards Board (FASB). USA Foundation is reported in separate financial statements because of the difference in the financial reporting framework since USA Foundation follows FASB rather than GASB. USA Foundation has a June 30 fiscal year-end, which differs from the University's September 30 fiscal year-end. In accordance with GASB Statement No. 14 and GASB Statement No. 61, the University has included USA Foundation's statements for the year ended June 30, 2022 in the University's financial statements as of September 30, 2022. The accompanying consolidated statement of financial position and consolidated statement of activities and changes in net assets for USA Foundation as of and for the year ended June 30, 2022 are discretely presented.

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(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 statement of net position and statement of revenues, expenses, and changes in net position for the Corporation as of and for the year ended September 30, 2022 are discretely presented.

(h) Measurement Focus and Basis of Accounting

For financial reporting purposes, the University is considered a special purpose governmental agency engaged only in business-type activities, as defined by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Accordingly, the University's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

(i) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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

(j) Cash and Cash Equivalents

Cash and cash equivalents are defined as petty cash, demand accounts, certificates of deposit, and any short-term investments that take on the character of cash. These investments have maturities of less than three months at the time of purchase and include repurchase agreements and money market accounts. Restricted cash and cash equivalents share the same definitions and maturities of unrestricted cash and cash equivalents but are designated by external parties for specified purposes such as collateral requirements, designated gifts, or bond proceeds.

(k) Investments and Investment Income

The University reports the fair value of investments using the three-level hierarchy established under GASB Statement No. 72, *Fair Value Measurement and Application*. The fair value of alternative investments (low-volatility multi-strategy funds of funds) and certain private equity partnerships do not have readily ascertainable market values and the University values these investments in accordance

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with valuations provided by the general partners or fund managers of the underlying partnerships or companies, typically based on net asset value (NAV) of the partnership or commingled vehicle. Because some of these investments are not readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the fair value that would have been used had a ready market for the investment existed. Investments received by gift are recorded at fair value at the date of receipt. Changes in the fair value of investments are reported in net investment losses.

(l) Derivatives

The University has adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 establishes a framework for accounting and financial reporting related to derivative instruments, requiring the fair value of derivatives to be recognized in the basic financial statements. At September 30, 2022, the University had two hedging derivative instruments in the form of interest rate swap, in effect. In accordance with hedge accounting, the changes in fair values of the interest rate swaps are reported as changes in deferred inflows and outflows and the fair values of the interest rate swaps are recognized in other long-term liabilities and deferred inflows and outflows on the statement of net position since the interest rate swaps were deemed effective.

(m) Deferred Outflows and Inflows of Resources

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

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

(n) Bond Premiums, Discounts, and Loss on Extinguishment Costs

Bond premiums, discounts, and loss on extinguishment costs associated with the issuance of certain bond series are capitalized and amortized over the life of the respective bond series on a straight-line basis.

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(o) Accounts Receivable

Patient receivables primarily result from hospital and ambulatory patient service revenues. Accounts receivable – other includes amounts due from students, the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the University’s grants and contracts. Accounts and patient receivables are recorded net of estimated uncollectible amounts.

(p) Inventories

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

(q) Capital Assets

Capital assets are recorded at cost, if purchased, or, if donated, at fair 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 statement of revenues, expenses, and changes in net position.

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

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

Certain buildings are componentized for depreciation purposes.

The University evaluates impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. For the year ended September 30, 2022, no impairments were identified.

(r) Financing Leases

Financing leases as a lessee are included in financing lease right-of-use assets and financing lease obligations and the current portion thereof on the statement of net position.

Right of use assets represent the University’s right to use an underlying asset for the lease term. Lease obligations represent the University’s liability to make lease payments arising from the lease. Financing lease right of use assets and related obligations are recognized at the commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental

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borrowing rate. The commencement date is either when the University takes possession of the asset or, in the case of real estate leases, when the landlord makes the building available for use. The incremental borrowing rate is based on the information available at the commencement date in determining the present value of lease payments. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise that option. Amortization of right of use assets is recognized on a straight-line basis over the lease term or useful life of the asset, whichever is shorter. Interest expense is recognized as a component of the lease payment and recorded as such in the statement of revenues, expenses, and changes in net position.

Financing leases as a lessor are included in financing lease receivable and current portion thereof and deferred inflows of resources on the statement of net position.

Financing lease receivable represents the University's contractual right to receive cash in exchange for the right to use an asset for a specific amount of time. Deferred inflow of resources represents the University's contractual right to lease revenue in future reporting periods. Financing lease receivables and related deferred inflows of resources are recognized at the commencement date based on the present value of lease payments to be received over the lease term discounted using an appropriate incremental borrowing rate. The commencement date is either when the lessee takes possession of the asset or, in the case of real estate leases, when the landlord makes the building or office space available for use. The incremental borrowing rate is based on the information available at the commencement date. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain the lessee will exercise that option. Deferred inflow of resources are recognized on a straight-line basis over the lease term while interest revenue is recognized as a component of other nonoperating revenues on the statement of revenues, expenses, and changes in net position.

(s) *Unrecognized Revenues*

Student tuition, fees, and dormitory rentals are billed in advance and initially recorded as a component of unrecognized revenues in the statement of net position and then recognized in revenue over the applicable portion of each school term.

(t) *Cost Sharing Multiple-Employer Pension Plan*

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

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(u) Postemployment Benefits Other Than Pensions (OPEB)

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

(v) 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.

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.

(w) Scholarship Allowances and Student Financial Aid

Student tuition and fees, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and

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services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's basic financial statements based on their classification as either an exchange or a nonexchange transaction. To the extent that revenues from such programs satisfy tuition and fees and certain other student charges, the University has recorded a scholarship discount and allowance.

(x) Donor Restricted Endowments

The University is subject to the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) of the Code of Alabama. This law allows the University, unless otherwise restricted by the donor, to spend net appreciation, realized and unrealized, of the endowment assets. The law also allows the University to appropriate for expenditure or accumulate to an endowment fund such amounts as the University determines to be prudent for the purposes for which the endowment fund was established. The University's endowment spending policy provides that 4.5% of the five-year invested net asset moving average value (inclusive of net realized and unrealized gains and losses), as measured at September 30, is available annually for spending. The University's policy is to retain the endowment net interest and dividend income and net realized and unrealized appreciation with the endowment after distributions allowed by the spending policy have been made. These amounts, unless otherwise directed by the donor, are included in restricted expendable net position.

(y) Classification of Revenues

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

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

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

(z) 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.

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(aa) 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.

(bb) 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 health care 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.

(cc) Compensated Absences

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

(dd) Recently Adopted Accounting Pronouncements

In 2022, the University adopted the provisions of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. In addition, the University adopted the provisions of GASB Statement No. 92, *Omnibus 2020*, which adds clarifying language and implementation guidance for Statement Nos. 73, 74, 84 and 87. Additionally, the University adopted Statement No. 93, *Replacement of Interbank Offered Rates*, which addresses financial reporting implications related to the replacement of LIBOR, which was expected to cease to exist in its current form at the end of 2021, and Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The University also adopted the provisions of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Plans Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*, in 2022. The objective of Statement No. 97 is to improve consistency and comparability of reporting for those entities who rely on the government to perform the duties of a governing board in its absence, mitigate the costs of reporting for defined contribution plans, and improve relevance, consistency, and comparability of accounting and financial reporting of Section 457 plans that meet the definition of a pension plan. Additionally, the University adopted Statement No. 98, *the Annual Comprehensive Financial Report*, which replaces instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. There was no significant impact to the University in 2022 related to these statements.

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In 2022, the University adopted the provisions of GASB Statement No. 87, *Leases*, which 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. GASB Statement No. 87 required the University to record financing lease right-of-use assets and the corresponding current and noncurrent portions of financing lease liabilities for noncancellable, long-term contracts related to use of tangible property under which the University is the lessee. In addition, GASB Statement No. 87 required the University to record the current and noncurrent portions of financing lease receivables and the corresponding financing lease deferred inflow of resources for noncancellable, long-term contracts related to use of tangible property under which the University is the lessor. The adoption of the provisions of GASB Statement No. 87 resulted in a restatement of beginning unrestricted net position at October 1, 2022 by decreasing unrestricted net position \$7,064,000. See note 9 for further discussion.

(2) Income Taxes

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

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

(3) Cash and Cash Equivalents

Pursuant to the Security for Alabama Funds Enhancement Act, funds on deposit may be placed in an institution designated as a qualified public depository (QPD) by the State of Alabama. QPD institutions pledge securities to a statewide collateral pool administered by the State Treasurer's office. Such financial institutions contribute to this collateral pool in amounts proportionate to the total amount of public fund deposits at their respective institutions. The securities are held at the Federal Reserve Bank and are designated for the State of Alabama. Additional collateral was not required for University funds on deposit with QPD institutions. At September 30, 2022, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately \$16.8 billion. The University had cash and cash equivalents, including restricted cash and cash equivalents, in the pool of \$248,601,000 at September 30, 2022.

At September 30, 2022, restricted cash and cash equivalents consist of \$3,281,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, \$29,134,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture, \$4,577,000 related to restricted donations related to certain capital projects, \$734,000 related to endowment funds.

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(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.

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Investments and restricted investments of the University, by type, at fair value at September 30, 2022 (in thousands) are as follows:

U.S. Treasury securities	\$	12,339
U.S. federal agency notes		79,569
Commingled equity funds		90,850
Commingled fixed income funds		49,208
Marketable equity securities		48,910
Marketable debt securities		10,370
Private credit alternative fixed income investments		3,707
Private REIT alternative real estate investments		5,856
Private equity alternative investments		17,568
Real estate		979
Managed income alternative investments (low-volatility multi-strategy funds of funds)		36,490
	\$	<u>355,846</u>

At September 30, 2022, restricted investments consist of endowment funds, funds held in the PLTF and GLTF to pay insurance liability claims and funds related to collateral requirements of the interest rate swaps.

At September 30, 2022, \$27,892,000 of cumulative decrease in fair value of investments of donor-restricted endowments was recognized and is included in restricted expendable net position in the accompanying statement of net position.

The University invests in several private equity and private credit funds. At September 30, 2022, the University had outstanding capital commitments to those funds of \$22,297,000.

(i) *Credit Risk and Concentration of Credit Risk*

Nonendowment Cash Pool Investment Policy

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

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

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Endowment Fund Investment Policy

The University Investment Policies limit investment in fixed income securities to securities with a minimum “BAA” rating, at the time of purchase, by both Moody’s and Standard and Poor’s. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor’s, and/or Moody’s. Investment in fixed income securities within the fixed income portfolio shall be restricted to only investment grade bonds rated “BAA” or higher. Any investment in below investment grade bonds shall be considered an equity or fixed income alternative investment.

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

The University’s exposure to credit risk and concentration of credit risk at September 30, 2022 is as follows:

	<u>Credit rating</u>	<u>Percentage of total investments</u>
Federal National Mortgage Association	AAA	1.1 %
Federal Home Loan Mortgage Corporation	AAA	6.1
Federal Home Loan Banks	AAA	11.9
Federal Farm Credit Banks Funding Corporation	AAA	3.2
Common Fund Bond Fund	Various	5.1
PIMCO Pooled Bond Fund	AA+/A-	8.5
Blackrock Credit Strategies Income Fund	Various	0.2
US Treasury securities	AAA	3.5
Marketable debt securities	Various	2.9

(ii) *Interest Rate Risk*

At September 30, 2022, the maturity dates of the University’s fixed income investments are as follows (in thousands):

	<u>Fair value</u>	<u>Years to maturity</u>			
		<u>Less than 1</u>	<u>1–5</u>	<u>6–10</u>	<u>More than 10</u>
U.S. Treasury securities	\$ 12,339	408	4,706	7,225	—
U.S. federal agency notes	79,569	—	73,169	199	6,201
Marketable debt securities	10,370	3,905	4,204	2,261	—
Commingled fixed income funds	49,208	—	27,104	4,037	18,067
	<u>\$ 151,486</u>	<u>4,313</u>	<u>109,183</u>	<u>13,722</u>	<u>24,268</u>

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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 that the University must follow; however, they do require that the maturity range of investments be consistent with the liquidity requirements of the University.

(iii) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, an organization will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The University's investments are held by third-party institutions in the name of the University. The University's Investment Policies do not specifically address custodial credit risk.

(iv) 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.

(v) Fair Value Measurement

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

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

The level in the fair value hierarchy that determines the classification of an asset or liability depends on the lowest level input that is significant to the fair value measurement. Observable inputs are derived from quoted market prices for assets or liabilities traded on an active market where there is sufficient activity to determine a readily determinable market price. Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable inputs. The University's assets that have unobservable inputs consist of the investment in real estate, with fair value based on an independent third-party appraisal performed by qualified appraisers specializing in real estate investments, and of investments in private capital, with fair value determined by the investment managers and primarily utilizes management assumptions and best estimates after considering internal and external factors. Other assets included in the University's investment portfolio with unobservable inputs are the shares or units in

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certain partnerships or other commingled funds that do not have readily determinable fair values. For these funds, fair value is estimated using the NAV 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 statement of net position.

The following tables summarize the fair value measurements for all investment assets and liabilities carried at fair value at September 30, 2022 (in thousands):

<u>Description</u>	<u>Asset fair value measurements at September 30, 2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Treasury securities	\$ 12,339	—	—	12,339
U.S. federal agency notes	—	79,569	—	79,569
Commingled equity funds	65,166	25,684	—	90,850
Commingled fixed income funds	31,142	18,066	—	49,208
Marketable equity securities	48,910	—	—	48,910
Marketable debt securities	10,370	—	—	10,370
Private credit alternative fixed income	3,707	—	—	3,707
Private REIT alternative real estate investments	5,856	—	—	5,856
Private equity alternative investments	—	—	15,399	15,399
Real estate	—	—	979	979
Total investments at fair value	<u>\$ 177,490</u>	<u>123,319</u>	<u>16,378</u>	317,187
Investments measured at NAV:				
Private equity funds				2,169
Managed income alternative investments (low volatility multi-strategy funds of funds)				<u>36,490</u>
Total investments			<u>\$ 355,846</u>	

<u>Description</u>	<u>Liability fair value measurements at September 30, 2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Interest rate exchange agreements	\$ —	18,070	—	18,070

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A rollforward schedule for Level 3 financial instruments for the year ended September 30, 2022 is as follows (in thousands):

Beginning balance	\$	19,510
Purchases		3,058
Net realized/unrealized gains (losses)		(474)
Sales		(1,160)
Adjustment		<u>(4,556)</u>
Ending balance	\$	<u>16,378</u>

(b) University of South Alabama Foundation

Investments in securities consist primarily of equity securities totaling \$196,016,000 at June 30, 2022.

Investment losses was composed of the following for the year ended June 30, 2022 (in thousands):

Unrealized losses	\$	(22,085)
Realized gains		5,919
Timber sales		1,951
Interest and dividends		2,465
Rents		751
Royalties		<u>104</u>
Total investment losses, net	\$	<u>(10,895)</u>

Investment related expenses in the amount of \$477,000 are included in USA Foundation's management and general expenses in the accompanying consolidated statement of activities and changes in net assets for the year ended June 30, 2022.

Real estate at June 30, 2022 consisted of the following property held (in thousands):

Land and land improvements – held for investment	\$	7,989
Building and building improvements – held for investment		<u>1,045</u>
	\$	<u>9,034</u>

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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, 2022 include an equity interest in a timberland management company. The company's primary assets consist of timberland. USA 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, and amounted to \$176,680,000.

USA Foundation has adopted Accounting Standards Codification (ASC) 820, *Fair Value Measurement and Disclosures*. ASC 820 provides a single definition of fair value and a hierarchical framework for measuring it, as well as establishing additional disclosure requirements about the use of fair value to measure assets and liabilities. Fair value measurements are classified as either observable or unobservable in nature. Observable fair values are derived from quoted market prices for investments traded on an active exchange or in dealer markets where there is sufficient activity and liquidity to allow price discovery by substantially all market participants (Level 1). USA Foundation's observable values consist of investments in exchange-traded equity securities with a readily determinable market price. Other observable values are fair value measurements derived either directly or indirectly from quoted market prices (Level 2). Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable (Level 3). USA Foundation's unobservable values consist of investments in timber and real estate with fair values based on independent third-party appraisals performed by qualified appraisers specializing in timber and real estate investments.

USA Foundation's investment assets at June 30, 2022, are summarized based on the criteria of ASC 820 as follows (in thousands):

Description	Level 1	Level 2	Level 3	Total
Equity securities	\$ 114,806	—	—	114,806
Timber and mineral properties	—	—	176,680	176,680
Real estate	—	—	9,034	9,034
Other investments	—	—	5,809	5,809
	<u>\$ 114,806</u>	<u>—</u>	<u>191,523</u>	<u>306,329</u>
Investment in Commonfund measured at NAV				<u>81,210</u>
			<u>\$</u>	<u><u>387,539</u></u>

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A rollforward schedule for Level 3 financial instruments for the fiscal year ended June 30, 2022 is as follows (in thousands):

<u>Description</u>	<u>Timber and mineral properties</u>	<u>Real estate</u>	<u>Other investments</u>	<u>Total</u>
Beginning balance	\$ 171,385	19,904	5,809	197,098
Net unrealized gains	7,214	352	—	7,566
Reforestation	461	—	—	461
Gift of real estate	—	1,142	—	1,142
Sale of real estate	—	(1,330)	—	(1,330)
Contribution of Brookely Property	—	(11,000)	—	(11,000)
Depreciation/depletion	(2,380)	(34)	—	(2,414)
Ending balance	\$ <u>176,680</u>	<u>9,034</u>	<u>5,809</u>	<u>191,523</u>

As of June 30, 2022 USA Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of USA Foundation's equity securities at June 30, 2022 are liquid. Timber and mineral properties, real estate, and other investments are generally illiquid.

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(5) Capital Assets

(a) University of South Alabama

A summary of the University's capital asset activity for the year ended September 30, 2022 follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets not being depreciated:					
Land and other	\$ 30,143	1,781	337	—	32,261
Construction-in-progress	76,183	36,480	(44,423)	—	68,240
	<u>106,326</u>	<u>38,261</u>	<u>(44,086)</u>	<u>—</u>	<u>100,501</u>
Capital assets being depreciated:					
Land improvements	71,829	161	4,811	—	76,801
Buildings, fixed equipment, and infrastructure	975,010	9,430	38,468	(9,428)	1,013,480
Other equipment	261,807	14,857	807	(41,508)	235,963
Library materials	87,810	4,530	—	—	92,340
	<u>1,396,456</u>	<u>28,978</u>	<u>44,086</u>	<u>(50,936)</u>	<u>1,418,584</u>
Less accumulated depreciation for:					
Land improvements	(30,657)	(3,498)	—	—	(34,155)
Buildings, fixed equipment, and infrastructure	(371,981)	(27,942)	—	2,921	(397,002)
Other equipment	(190,217)	(19,568)	—	33,781	(176,004)
Library materials	(68,116)	(3,696)	—	—	(71,812)
	<u>(660,971)</u>	<u>(54,704)</u>	<u>—</u>	<u>36,702</u>	<u>(678,973)</u>
Capital assets being depreciated, net	<u>735,485</u>	<u>(25,726)</u>	<u>44,086</u>	<u>(14,234)</u>	<u>739,611</u>
Capital assets, net	<u>\$ 841,811</u>	<u>12,535</u>	<u>—</u>	<u>(14,234)</u>	<u>840,112</u>

Depreciation of capital assets for the year ended September 30, 2022 was \$54,704,000 for the University.

At September 30, 2022, the University had commitments of approximately \$36,948,000 related to various construction projects.

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(b) USA Research and Technology Corporation

Changes in capital assets for the year ended September 30, 2022 are as follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets not being depreciated:					
Land and other	\$ 223	—	—	—	223
Construction-in-progress	116	25	(121)	—	20
	<u>339</u>	<u>25</u>	<u>(121)</u>	<u>—</u>	<u>243</u>
Capital assets being depreciated:					
Land improvements	1,985	—	—	—	1,985
Buildings	28,519	118	5	—	28,642
Tenant improvements	2,489	48	116	—	2,653
Other equipment	390	—	—	—	390
	<u>33,383</u>	<u>166</u>	<u>121</u>	<u>—</u>	<u>33,670</u>
Less accumulated depreciation for:					
Land improvements	(1,595)	(94)	—	—	(1,689)
Buildings	(10,964)	(768)	—	—	(11,732)
Tenant improvements	(954)	(329)	—	—	(1,283)
Other equipment	(332)	(24)	—	—	(356)
	<u>(13,845)</u>	<u>(1,215)</u>	<u>—</u>	<u>—</u>	<u>(15,060)</u>
Capital assets being depreciated, net	<u>19,538</u>	<u>(1,049)</u>	<u>121</u>	<u>—</u>	<u>18,610</u>
Capital assets, net	<u>\$ 19,877</u>	<u>(1,024)</u>	<u>—</u>	<u>—</u>	<u>18,853</u>

Depreciation expense totaled \$1,214,000 for the year ended September 30, 2022.

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(c) Health Care Authority

A summary of HCA's capital assets activity for the year ended September 30, 2022 follows (in thousands):

	2022				
	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets not being depreciated:					
Construction in progress	\$ 2,245	10,907	(952)	(1)	12,199
Works of art	1	—	—	—	1
	<u>2,246</u>	<u>10,907</u>	<u>(952)</u>	<u>(1)</u>	<u>12,200</u>
Capital assets being depreciated:					
Leasehold improvements	1,014	1,109	839	(279)	2,683
Equipment	3,367	760	113	(145)	4,094
Computer software	129	—	—	—	129
	<u>4,510</u>	<u>1,869</u>	<u>952</u>	<u>(424)</u>	<u>6,906</u>
Less accumulated depreciation for:					
Leasehold improvements	(85)	(147)	—	38	(194)
Equipment	(1,307)	(552)	—	44	(1,815)
Computer software	(16)	(29)	—	—	(45)
	<u>(1,408)</u>	<u>(728)</u>	<u>—</u>	<u>82</u>	<u>(2,054)</u>
Capital assets being depreciated, net	<u>3,102</u>	<u>1,141</u>	<u>952</u>	<u>(342)</u>	<u>4,852</u>
Capital assets, net	<u>\$ 5,348</u>	<u>12,048</u>	<u>—</u>	<u>(343)</u>	<u>17,052</u>

Depreciation of capital assets for the year ended September 30, 2022 was \$729,000 for HCA.

At September 30, 2022, HCA had commitments of \$412,000 related to various construction projects.

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(6) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the year ended September 30, 2022 follows (in thousands):

	Adjusted Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable	\$ 482,244	—	(23,328)	458,916	24,370	434,546
Notes payable from direct borrowings	1,336	—	(718)	618	618	—
Capital lease obligations	3,046	—	(3,046)	—	—	—
Financing lease obligations	12,121	29,873	(10,030)	31,964	2,374	29,590
Total long-term debt	<u>498,747</u>	<u>29,873</u>	<u>(37,122)</u>	<u>491,498</u>	<u>27,362</u>	<u>464,136</u>
Other noncurrent liabilities:						
Net pension liability	315,591	—	(78,013)	237,578	—	237,578
Net OPEB liability	260,646	—	(55,268)	205,378	—	205,378
Other long-term liabilities	90,370	7,172	(15,879)	81,663	6,508	75,155
Total other noncurrent liabilities	<u>666,607</u>	<u>7,172</u>	<u>(149,160)</u>	<u>524,619</u>	<u>6,508</u>	<u>518,111</u>
Total noncurrent liabilities	<u>\$ 1,165,354</u>	<u>37,045</u>	<u>(186,282)</u>	<u>1,016,117</u>	<u>40,810</u>	<u>975,307</u>

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

In 2018, the University converted a line of credit into a term loan for a period of five years, with monthly payments of \$63,000 and interest accruing at the fixed rate of 3.85% per annum. The amount outstanding at September 30, 2022 is \$618,000, and is reported as long-term debt (and current portion thereof) in the statement of net position.

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(a) USA Research and Technology Corporation

(i) Notes Payable

Notes payable from direct borrowings consisted of the following at September 30, 2022 (in thousands):

PNC Bank promissory note, 4.38%, payable through 2028	\$	11,245
University of South Alabama, 3.00%, payable through 2023		406
Hancock Whitney promissory note, 3.08%, payable through 2031		7,728
	\$	19,379

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

The promissory note payable to the University of South Alabama has a 4-year term and amortization is based on a 4-year term.

The promissory note payable to Hancock Whitney Bank has a 10-year term and is secured by an interest in rental leases and an interest in income received from rental of Building I. 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 the PNC note and the Hancock Whitney note, the University entered into an agreement with both lenders 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. As of September 30, 2022, the Corporation's debt service coverage ratio was 2.10 to 1.

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

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

At September 30, 2022, total future debt service by year is as follows (in thousands):

	Debt service on notes		
	Principal	Interest	Total
2023	\$ 1,390	720	2,110
2024	1,022	676	1,698
2025	1,061	637	1,698
2026	1,101	597	1,698
2027	1,144	554	1,698
2028–2032	13,661	710	14,371
Total	\$ 19,379	3,894	23,273

(iii) *Derivative Transaction*

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

The swap was terminated on June 20, 2018 as part of a transaction refunding the Wells Fargo loan with the proceeds of a loan from PNC Bank. The fee paid by the Corporation to Wells Fargo to terminate the swap was \$1,478,000. Pursuant to GASB Statement No. 65, the fee is reported in deferred outflows on the statement of net position and amortized to interest expense according to the percentage of annual interest paid on the loan from PNC Bank to the total interest to be paid on that loan over the 118 months that were remaining on the Wells Fargo loan when the swap was terminated. As of September 30, 2022, the unamortized balance in deferred outflows was \$760,767.

(7) Deferred Outflows and Inflows

Deferred outflows of resources are consumption of net assets that are applicable to a future reporting period. In 2016, the University issued its Series 2016 Bond. The proceeds from this series were used to partially defease the Series 2008 Bonds resulting in a loss of the difference between the acquisition price of the new debt and the net carrying amount of the old debt. In accordance with GASB Statement Nos. 63 and 65, this loss was recorded as a deferred outflow and is being amortized over the remaining life of the Series 2016 Bonds. Additionally, in accordance with GASB Statements Nos. 68 and 75, changes in assumptions, changes in the proportion of total net liabilities relative to other plan participants, differences between employer contributions and the proportionate share of contributions, and employer contribution subsequent to the measurement date of the net pension liability but prior to the end of the fiscal year are presented as a deferred outflow of resources.

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The components of deferred outflows of resources as of September 30, 2022 are summarized below (in thousands):

Deferred Outflows	
Loss on refunding of 2016 bonds	\$ 5,498
Pension	57,944
OPEB	161,853
	\$ 225,295

Deferred inflows of resources are net asset acquisitions that are applicable to a future reporting period. In 2016, the University issued its 2016-B, C & D Bonds. In accordance with GASB Statement Nos. 63 and 65, the proceeds from these series refunded the remaining outstanding 2006 bonds and the resulting gain is being amortized over the remaining life of the Series 2016-B, C & D Bonds as a deferred inflow of resources. Additionally, the University is a party to two derivatives in which the change in fair value is reported as a deferred outflow. Additionally, in accordance with GASB Statement Nos. 68 and 75, the difference between the expected and actual experience and the net difference between projected and actual earnings on investments are presented as a deferred inflow of resources. Finally, in accordance with GASB Statement No. 87, the deferred inflow of resources attributable to financing leases is recognized on a straight-line basis over the respective lease terms.

The components of deferred inflows of resources as of September 30, 2022 are summarized below (in thousands):

Deferred Inflows	
Gain on refunding of 2016 Series B, C & D bonds	\$ 3,215
Interest Rate Swaps	17,251
Pension	91,655
OPEB	186,979
Financing leases	2,364
	\$ 301,464

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(8) Bonds Payable

Bonds payable consisted of the following at September 30, 2022 (in thousands):

University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2.83% payable through August 2033	\$	19,776
University Facilities Revenue Capital Improvement Bonds, Series 2013-B, 2.83% payable through August 2033		4,943
University Facilities Revenue Capital Improvement Bonds, Series 2013-C, 2.78% payable through August 2028		4,499
University Facilities Revenue Refunding Bonds, Series 2014-A, variable rate payable at 68% of one month LIBOR plus .73%, (2.848% at September 30, 2022), payable through March 2024		16,505
University Facilities Revenue Capital Improvement Bonds, Series 2015, 2.47% payable through August 2030		3,000
University Facilities Revenue Refunding Bonds, Series 2016-A, 3.00% to 5.00% payable through November 2037		74,455
University Facilities Revenue Refunding Bonds, Series 2016-B, variable rate payable at 79% of one month LIBOR plus .72%, (3.203% at September 30, 2022), payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2026		20,000
University Facilities Revenue Refunding Bonds, Series 2016-C, variable rate payable at 79% of one month LIBOR plus .77%, (3.253% at September 30, 2022), payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2028		35,000
University Facilities Revenue Refunding Bonds, Series 2016-D, variable rate payable at 79% of one month LIBOR plus .83%, (3.313% at September 30, 2022), payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2031		45,000
University Facilities Revenue Bonds, Series 2017, 2.00% to 5.00%, payable through October 2037		32,320
University Facilities Revenue Bonds, Series 2019-A, 5.00%, payable through April 2049		47,750
University Facilities Revenue Bonds, Series 2019-B, 3.09% to 4.10%, payable through April 2033		15,930

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University Facilities Revenue Bonds, Series 2019-C, 1.87%, payable through April 1, 2030	\$ 14,528
University Facilities Revenue Bonds, Series 2020, 4%, payable through April 1, 2040	35,090
University Facilities Revenue Bonds, Series 2021, 4%, payable through April 1, 2041	39,380
University Facilities Revenue Bonds, Series 2021-B 1.398%, payable through August 1, 2032	14,128
	422,304
Plus unamortized premium	38,019
Less unamortized debt extinguishment costs	(1,407)
	\$ 458,916

Substantially all student tuition and fee and auxiliary revenues secure University bonds. Additionally, security for all bonds includes USA Health Children's and Women's Hospital revenues in an amount not exceeding \$10,000,000. The Series 2013-A, 2013-B and 2013-C Bonds began maturing in August 2014 and are redeemable beginning in June 2023. The Series 2014-A Bonds began maturing in March 2015 and are redeemable at any time. The Series 2015 Bonds began maturing in August 2015 and were redeemable beginning in June 2020. The Series 2016-A Bonds began maturing in November 2018 and are redeemable beginning in November 2026. The Series 2016-B, C and D Bonds will begin maturing in December 2024 and became redeemable as of December 2017. The Series 2017 Bonds began maturing in October 2017 and are redeemable beginning in October 2027. The Series 2019-A Bonds will begin maturing in April 2033. The Series 2019-B Bonds began maturing in April 2021. Both Series 2019-A and 2019-B are both redeemable beginning in April 2029. The Series 2019-C Bonds began maturing in April 2020 and are not subject to redemption at the option of the University. Series 2020 Bonds began maturing in April 2021 and are redeemable beginning April 2030. Series 2021 Bonds will begin maturing in April 2022 and are redeemable beginning April 2041. The Series 2021-B Bonds will begin maturing in August 2022 and are not subject to redemption.

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-A Bonds were used to partially defease the Series 2008 Bonds. The funds were deposited into escrow trust funds to provide for the subsequent repayment of the Series 2008 Bonds when they were called in December 2018. Neither the assets of the escrow trust account, nor the defeased indebtedness is included in the accompanying statement of net position. The loss on the defeasement of the Series 2008 Bonds of \$7,859,000 was recorded as a deferred outflow and is being amortized over the remaining life of the Series 2016-A Bonds. The balance of the related deferred outflow totaled \$5,498,000, at September 30, 2022. The principal outstanding on all defeased bonds is \$74,455,000 at September 30, 2022.

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In December 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016-B, C & D, with a face value totaling \$100,000,000. The proceeds refunded the remaining outstanding Series 2006 Bonds. The gain on the refunding of the Series 2006 Bonds of \$4,539,000 was recorded as a deferred inflow and is being amortized over the remaining life of the Series 2016-B, C & D Bonds. The balance of the related net deferred inflow at September 30, 2022 totaled \$3,215,000.

In September 2021, the terms for Bonds 2016-B, 2016-C and 2016-D were revised to address the removal of the LIBOR rate to be replaced by the ISDA-based replacement index after the year ended September 30, 2021. The dates by which the Lender may cause all of the outstanding principal on such bonds to mature and become due and payable by the University were extended 5 years for each bond.

On March 5, 2021, the FCA announced the final publication date for US LIBOR is June 30, 2023. Loans maturing after the end of LIBOR will be reviewed to determine if appropriate language, referred to as fallback language, is used to provide for the replacement of LIBOR with an alternative index. The ARRC has recommended the SOFR as an alternative to replace LIBOR.

Approximately \$1,354,000 of proceeds from the issuance of the Series 2020 Bonds remained unspent at September 30, 2022 and are included in restricted cash and cash equivalents on the statement of net position. Approximately \$27,780,000 of proceeds from the issuance of the Series 2021 Bonds remained unspent at September 30, 2022 and are included in restricted cash and cash equivalents on the statement of net position. All bond funds are restricted for capital purposes as outlined in the bond indentures. The University is subject to arbitrage restrictions on its bonded indebtedness prescribed by the U.S. Internal Revenue Service. As such, amounts are accrued as needed in the University's basic financial statements for any expected arbitrage liabilities. At September 30, 2022, no amounts were due or recorded in the financial statements.

The University is subject to restrictive covenants related to its bonds payable.

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Debt Service on Long-Term Obligations

Total debt service (which includes bonds and notes payable) by year is as follows at September 30, 2022 (in thousands):

	Debt service on notes and bonds				
	Bonds		Notes payable from direct borrowing		
	Principal	Interest	Principal	Interest	Total
2023	\$ 22,324	14,095	618	11	37,048
2024	23,292	13,550	—	—	36,842
2025	21,289	12,962	—	—	34,251
2026	22,190	12,343	—	—	34,533
2027	23,095	11,701	—	—	34,796
2028–2032	121,199	47,206	—	—	168,405
2033–2037	125,410	26,508	—	—	151,918
2038–2042	41,380	9,885	—	—	51,265
2043–2047	15,950	3,928	—	—	19,878
2048–2052	6,175	468	—	—	6,643
Subtotal	422,304	\$ 152,646	618	11	575,579
Plus (less):					
Unamortized bond premium	38,019		—		
Unamortized debt extinguishment costs	(1,407)		—		
Total	\$ 458,916		618		

(9) Financing Leases

(a) University of South Alabama

Lessee Activities

The University determines whether an arrangement is a lease at inception by evaluating whether the contract conveys the right to use an identified asset and whether the University obtains substantially all of the economic benefits from and has the right to control the asset. Any lease identified as a financing lease is recorded as a right of use asset and financing lease obligation. Financing lease right of use assets and related obligations are recognized at the commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate. Amortization of right of use assets is recognized on a straight-line basis over the lease term or useful life of the asset, whichever is shorter. Interest expense is recognized as a component of the lease payment and recorded as such in the statement of revenues, expenses, and changes in net position. The difference in methodology between the amortization of the right of use asset and the reduction in liability balance related to principal payments will result in a difference between the net right of use asset and related financing lease obligation.

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A summary of the University's financing lease right of use assets activity for the year ended September 30, 2022 follows (in thousands):

	Adjusted Beginning Balance	Additions	Reductions	Ending Balance
Right of use assets:				
Automobile	\$ 15	—	—	15
Buildings	63	7,895	—	7,958
Equipment	12,043	17,181	(1,345)	27,879
Office space	—	4,797	(415)	4,382
	<u>12,121</u>	<u>29,873</u>	<u>(1,760)</u>	<u>40,234</u>
Less accumulated amortization for right of use assets:				
Automobile	—	(6)	—	(6)
Buildings	—	(1,248)	—	(1,248)
Equipment	—	(7,552)	1,345	(6,207)
Office space	—	(1,314)	415	(899)
	<u>—</u>	<u>(10,120)</u>	<u>1,760</u>	<u>(8,360)</u>
Right of use assets, net	<u>\$ 12,121</u>	<u>19,753</u>	<u>—</u>	<u>31,874</u>

The University leases various automobiles, buildings, equipment and office space under financing leases expiring at various dates through 2042. Aggregate future minimum lease payments under noncancelable finance leases as of September 30, 2022, by year, are as follows (in thousands):

	Principal	Interest	Total
2023	\$ 9,374	1,338	10,712
2024	7,632	1,019	8,651
2025	4,223	694	4,917
2026	2,631	519	3,150
2027	2,283	384	2,667
2028 - 2032	5,795	631	6,426
2033 - 2037	21	4	25
2038 - 2042	5	—	5
Financing lease obligations	<u>\$ 31,964</u>	<u>4,589</u>	<u>36,553</u>

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These amounts are included in financing lease obligations and the current portion thereof in the accompanying statement of net position.

The University has commitments of \$1,543,000 under financing leases for which the lease term has not commenced as of September 30, 2022.

The University leases space under financing leases from the Corporation and HCA. See additional details in the following sections.

Lessor Activities

The University leases land, buildings, and suites to various lessees under financing leases expiring at various dates through 2042. For the year ended September 30, 2022, the University recognized a total of \$856,000 of inflows of resources from leases, of which \$749,000 was recognized as lease revenue and \$108,000 was recognized as a component of interest income in the statement of revenues, expenses, and changes in net position.

(b) USA Research and Technology Corporation

The Corporation leases land, buildings, and suites to various lessees under financing leases and short-term leases expiring at various dates through 2057. In Building I, space is leased to five tenants under financing leases. The first lease has a 5-year initial term expiring in October 2023 with two 5-year renewal options. The second lease has a 5-year initial term expiring in August 2024 with one 5-year renewal option. The third lease has a 7.5-year initial term expiring in June 2025 with two 5-year renewal options. The fourth and fifth lease have 5-year terms expiring in April 2024 and July 2024 with no renewal options.

Space in Buildings II and III is leased under both financing leases and short-term leases to the University and various other tenants. The leases have remaining terms varying from month-to-month to seven years.

Under leases for Buildings I, II, and III, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, and insurance. Tenants will reimburse the Corporation for such expenses only as the total expenses for a year increase over the total expenses for the base year of the lease (which generally is the first calendar year of the lease term).

Space under lease to the University was 78,123 square feet at September 30, 2022.

The Corporation owns a building located on the premises of the USA University Hospital, which is leased to a single tenant under a financing lease. 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 had a 10-year initial term, expiring in March 2020, with three 5-year renewal options. The lease was renewed for an additional 5 years, expiring in March 2025, 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.

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The Corporation, as lessor, had three ground leases in place at September 30, 2022. One lease is for a 40-year initial term expiring in October 2046 with two renewal options, the first for 20-years and the second for 15-years. 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 two renewal options, the first for 20-years and the second for 15-years.

The terms and conditions of each lease agreement vary by tenant with some including early termination options. Of the existing lease agreements, four have early termination options. Two tenants in Building I and two tenants in Building II have options to terminate their lease agreement early if notice is given within the stated timeframe and all, if any, monetary obligations have been met.

For the year ended September 30, 2022, the Corporation recognized a total of \$4,151,000 of inflows of resources from financing leases, of which \$3,691,000 was recognized as lease revenue and \$459,000 was recognized as interest income in other nonoperating revenues.

The following table provides future minimum lease revenue by year that is included in the measurement of the financing lease receivable (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 3,546	380	3,926
2024	2,047	287	2,334
2025	1,092	239	1,331
2026	630	213	843
2027	450	197	647
2027 - 2032	1,895	782	2,677
2033 - 2037	1,099	577	1,676
2038 - 2042	1,398	386	1,784
2043 - 2047	1,451	148	1,599
2048 - 2052	131	36	167
2053 - 2056	162	13	175
Financing lease obligations	<u>\$ 13,901</u>	<u>3,258</u>	<u>17,159</u>

(c) Health Care Authority

Lessee Activities

HCA determines whether an arrangement is a lease at inception by evaluating whether the contract conveys the right to use an identified asset and whether HCA obtains substantially all of the economic benefits from and has the right to control the asset. Any lease identified as a financing lease is recorded as a right-of-use asset and financing lease obligations.

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A summary of HCA's financing lease right-of-use assets activity for the year ended September 30, 2022 follows (in thousands):

	Adjusted Beginning Balance	Additions	Reductions	Ending Balance
Right of use assets:				
Buildings	\$ 12,824	806	(135)	13,495
Equipment	66	14	—	80
	<u>12,890</u>	<u>820</u>	<u>(135)</u>	<u>13,575</u>
Less accumulated amortization for right of use:				
Buildings	—	(2,062)	135	(1,927)
Equipment	—	(37)	—	(37)
	<u>—</u>	<u>(2,099)</u>	<u>135</u>	<u>(1,964)</u>
Right of use assets, net	\$ <u>12,890</u>	<u>(1,279)</u>	<u>—</u>	<u>11,611</u>

HCA leases various buildings and equipment under financing leases expiring at various dates through 2032.

Aggregate future minimum lease payments under noncancelable financing leases at September 30, 2022, by year, are as follows (in thousands):

	Principal	Interest	Total
2023	\$ 1,882	440	2,322
2024	1,853	366	2,219
2025	1,876	290	2,166
2026	1,671	219	1,890
2027	1,683	152	1,835
2028 - 2032	<u>2,893</u>	<u>196</u>	<u>3,089</u>
Financing lease obligations	\$ <u>11,858</u>	<u>1,663</u>	<u>13,521</u>

These amounts are included in financing lease obligations and current portion thereof in the accompanying statement of net position.

HCA has commitments of \$15,562,000 under financing leases for which the lease term has not commenced as of September 30, 2022.

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Lessor Activities

HCA subleases buildings and suites to the University of South Alabama under financing leases expiring at various dates through 2032. For the year ended September 30, 2022, HCA recognized a total of \$60,000 of inflows of resources from leases, of which \$50,000 was recognized as lease revenue and \$11,000 was recognized as interest income. Lease revenue is included within other operating revenues and interest income is included within investment income on the statement of revenues, expenses, and changes in net position.

(10) Derivative Transactions – Interest Rate Swaps

The University is a party to two derivatives with Wells Fargo Bank, the counterparty. The income associated with the derivatives is a component of investment income and the corresponding expense is a component of interest expense. The terms of the derivatives require the University to post collateral when certain criteria are met. Such amounts as of September 30, 2022 totaled \$20,842,000.

The 2014 swap will terminate in March 2024, when the Series 2014-A Bonds mature. The notional amount of the swap will at all times match the outstanding principal amount of the related 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 73 basis points.

The 2016 swap will terminate in December 2036, when the Series 2016-B, C & D Bonds mature. The notional amount of the swap will at all times match the outstanding principal amount of the related 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 25 basis points. Conversely, the Series 2016-B, C & D Bonds bear interest at a variable rate of 79% of the benchmark plus 72, 77 and 83 basis points, respectively.

Fair value: The 2014 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 swap as other long-term liabilities in the amount of \$294,000 in the statement of net position at September 30, 2022. The change in the fair value of the swap of \$1,369,000, during the year ended September 30, 2022, is reported as a deferred inflow and contra liability (other long-term liabilities) in the statement of net position since the interest rate swap is a hedging derivative instrument. Net deferred inflows of resources for the 2014 interest rate swap totaled \$1,076,000 at September 30, 2022.

The 2016 swap had a negative fair value of approximately \$48,530,000 at its inception. This amount, net of any amortization and adjustments to fair value, is reported as a borrowing arising from the 2016 swap as other long-term liabilities in the amount of \$17,776,000 in the statement of net position at September 30, 2022. The change in the fair value of the swap of \$18,877,000 during the year ended September 30, 2022, is reported as a deferred outflow and contra asset (other noncurrent assets) in the statement of net position at September 30, 2022 since the interest rate swap is a hedging derivative instrument. Net deferred inflows and outflows of resources for the 2016 swap totaled \$16,175,000 at September 30, 2022.

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The fair values of the interest rate swaps are 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 related 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 related bonds.

Credit risk: As of September 30, 2022, the University was not exposed to credit risk on the interest rate swaps because they had a negative fair value. However, if interest rates change and the fair value of the derivatives become positive, the University would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa2 by Moody's Investor Services and A+ by Standard & Poor's Ratings Services as of September 30, 2022.

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, 2022 and calculating interest for subsequent years using forward rates of one-month LIBOR, debt service requirements for the 2014 swap payments, by year, are as follows (in thousands):

	Variable rate note		Interest rate swap, net	Total
	Principal	Interest		
2023	\$ 8,050	305	376	8,731
2024	8,455	123	108	8,686
Total	\$ 16,505	428	484	17,417

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

	<u>Variable rate note</u>		<u>Interest rate</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>swap, net</u>	
2023	\$ —	2,693	2,847	5,540
2024	—	2,849	2,691	5,540
2025	5,600	2,440	2,937	10,977
2026–2030	32,610	9,389	12,380	54,379
2031–2035	41,880	4,916	6,575	53,371
2036–2039	19,910	382	708	21,000
Total	\$ <u>100,000</u>	<u>22,669</u>	<u>28,138</u>	<u>150,807</u>

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

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

Medicare – Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Additionally, USA Health is reimbursed for both direct and indirect medical education costs (as defined), principally based on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. USA Health is generally paid for certain retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by USA Health and audits by the Medicare fiscal intermediary.

USA Health University Hospital’s Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2015.

USA Health Children’s & Women’s Hospital’s Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2020.

Revenues from the Medicare program accounted for approximately 13% of USA Health’s patient service revenues for the year ended September 30, 2022.

Blue Cross Blue Shield – Inpatient services rendered to Blue Cross subscribers are paid at a contractually determined per diem rate based upon Medicare Severity Diagnosis Related Groups. Outpatient services are reimbursed under a contractually determined reimbursement methodology based on Blue Cross Enhanced Ambulatory Patient Groups.

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Revenues from the Blue Cross program accounted for approximately 27% of USA Health’s patient service revenues for the year ended September 30, 2022.

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

USA Health qualifies as a Medicaid essential provider and, therefore, also receives supplemental payments based on formulas established by the Alabama Medicaid Agency. There can be no certainty 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 23% of USA Health’s patient service revenues for the year ended September 30, 2022.

Other – USA Health has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments to USA Health under these agreements include discounts from established charges and prospectively determined daily and case rates.

The composition of patient service revenues for the year ended September 30, 2022 follows (in thousands):

Gross patient service revenues	\$	1,884,224
Less:		
Provision for contractual and other adjustments		(1,067,355)
Provision for bad debts		<u>(96,814)</u>
	\$	<u><u>720,055</u></u>

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately \$435,000 in patient service revenues for the year ended September 30, 2022.

(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

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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 60 with 10 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 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest five of the last ten years) for each year of service. Members are eligible for disability retirement if they have ten years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status, and eligibility for retirement.

(c) Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered Tier 1 members of the TRS are required by statute to contribute 7.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6.2% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rates were 12.43% of annual pay for Tier 1 members and 11.32% of annual pay for Tier 2 members. These required contribution rates are a percentage of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were \$22,005,000 for the year ended September 30, 2022.

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

At September 30, 2022, the University reported a liability of \$237,578,000 for its proportionate share of the collective net pension liability. At September 30, 2022, the collective net pension liability was measured as of September 30, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2020. The University's proportion of the collective net pension liability is based on the employer's shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At the measurement date of September 30, 2021, the University's proportion of contributions to the pension plan was 2.521971%, which was a decrease of 0.029359% from its proportion measured as of September 30, 2020 of 2.551330%.

For the year ended September 30, 2022, the University recognized pension expense of approximately \$5,810,000, which is included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

At September 30, 2022, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ —	56,080
Changes of assumptions	24,939	—
Differences between expected and actual experience	11,000	13,842
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	21,733
Employer contributions subsequent to measurement date	<u>22,005</u>	<u>—</u>
	<u>\$ 57,944</u>	<u>91,655</u>

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At September 30, 2022, approximately \$22,005,000 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2023. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ending September 30:		
2023	\$	(14,587)
2024		(10,976)
2025		(13,258)
2026		<u>(16,896)</u>
	\$	<u><u>(55,717)</u></u>

(e) Actuarial Assumptions

The total pension liability as of September 30, 2022 was determined by an actuarial valuation as of September 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Investment rate of return*	7.45 %
Projected salary increases	3.25-5.00 %

* Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2020 valuation were based on the results of an actuarial experience study for the period October 1, 2015 through September 30, 2020. Mortality rates for TRS were based on the Pub-2010 Teacher Below Median tables adjusted for males (108% ages < 63, 96% ages > 67; phasing down 63-67) and for females (112% ages < 69, 98% > age 74, phasing down 69-74), projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2019.

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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	15.0 %	2.8 %
U.S. large stocks	32.0	8.0
U.S. mid stocks	9.0	10.0
U.S. small stocks	4.0	11.0
International developed market stocks	12.0	9.5
International emerging market stocks	3.0	11.0
Alternatives	10.0	9.0
Real estate	10.0	6.5
Cash equivalents	5.0	2.5
	100.0 %	

* Includes assumed rate of inflation of 2%

(f) Discount Rate

The discount rate used to measure the total pension liability as of September 30, 2022 was 7.45%. 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.

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(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 7.45%, 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 (6.45%) or 1-percentage point higher (8.45%) than the current rate (in thousands):

	September 30, 2022		
	1% Decrease (6.45)%	Current rate (7.45)%	1% Increase (8.45)%
University's proportionate share of collective net pension liability	\$ 349,692	237,578	143,149

(h) Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Annual Comprehensive Financial Report for the fiscal year ended September 30, 2021 as well as prior year reports. The supporting actuarial information is included in the GASB Statement No. 68 Report for the TRS prepared as of September 30, 2021. The auditors' report dated January 19, 2022 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, 2021 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

Certain employees of the University also participate in a defined contribution pension plan. The defined contribution pension plan covers certain academic and administrative employees, and participation by eligible employees is optional. The plan is administered by the University and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) and Variable Annuity Life Insurance Company (VALIC). Under this plan, contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University contributed \$400,000 in 2022, representing 177 employees for 2022 participating in this Plan.

All employees of HCM working at least half time are eligible to participate in a defined contribution pension plan. The plan is administered by HCM and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, TIAA-CREF and VALIC. Under this plan, contributions by eligible employees are matched equally by HCM up to a maximum of 5% of current annual pay. HCM contributed \$7,459,000 in 2022, representing 2,294 employees, participating in this plan. University

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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 36 months; at which time they become 100% vested in the plan.

Effective April 1, 2022, HCM adopted a deferred compensation retirement plan. All nonstudent employees are eligible to defer receipt of a portion of their salary until a later date. The plan is administered by HCM and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, TIAA-CREF. Under this plan, contributions by eligible employees are not matched by HCM. Through September 30, 2022, 69 employees are participating in this plan. All eligible employees are fully vested in their accounts under this plan immediately upon contributing.

(b) Compensated Absences

Regular University employees accumulate vacation and sick leave and hospital and clinical employees accumulate paid time off. These are subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon separation of employment, employees who were hired before January 1, 2012 are paid all unused accrued vacation at their regular rate of pay up to a maximum of two times their annual accumulation rate. Employees hired after January 1, 2012 are not eligible for payment of unused accrued vacation or PTO hours upon separation of employment. The accompanying statement of net position include accruals for vacation pay and paid time off of approximately \$12,085,000 at September 30, 2022. The accrual is included in other long-term liabilities (and current portion thereof) in the accompanying financial statements. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

(14) Other Postemployment Benefit Plans

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

(a) Plan Description

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

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(b) Benefits Provided

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

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

(c) Contributions

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

Total employer contributions to the OPEB plan from the University were \$5,859,000 for the year ended September 30, 2022.

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

At September 30, 2022, the University reported a liability of \$205,378,000 for its proportionate share of the net OPEB liability. At September 30, 2022, the net OPEB liability was measured as of September 30, 2021 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At the measurement date of September 30, 2021, the University's proportion of contributions to the OPEB plan was 3.974950%, which was a decrease of 0.041260% from its proportion measured as of September 30, 2020 of 4.016210%.

For the year ended September 30, 2022, the University recognized OPEB expense of approximately \$1,286,000, which is included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

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At September 30, 2022, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on OPEB plan investments	\$ —	6,406
Differences between expected and actual experience	4,859	71,452
Changes of assumptions	73,144	79,606
Changes in proportion and differences between employer contributions and proportionate share of contributions	77,991	29,515
Employer contributions subsequent to the measurement date	5,859	—
	\$ 161,853	186,979

At September 30, 2022, approximately \$5,859,000 reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2023.

Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB income (expense) as follows (in thousands):

Year ending September 30:	
2023	\$ (15,970)
2024	(16,131)
2025	(15,794)
2026	14,704
2027	8,516
Thereafter	(6,310)
	\$ (30,986)

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(e) Actuarial Assumptions

The total OPEB liability as of September 30, 2022 was determined by an actuarial valuation performed as of September 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Projected salary increases*	3.25-5.00 %
Long-term investment rate of return**	7.00 %
Municipal bond index rate at the measurement date	2.29 %
Projected year for fiduciary net position to be depleted	2051
Single equivalent interest rate at the measurement date	3.97 %
Health care cost trend rate	
Pre-medicare eligible	6.50 %
Medicare eligible	***
Ultimate trend rate	
Pre-medicare eligible	4.50 %
Medicare eligible	4.50 %
Year of ultimate trend rate	
Pre-medicare eligible	2028
Medicare eligible	2025

* Includes 2.75% wage inflation

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

*** Initial medicare claims are set based on scheduled increases through plan year 2021

Mortality rates were based on the Pub-2010 Teacher Below Median tables adjusted for males (108% ages < 63, 96% ages > 67; phasing down 63-67) and for females (112% ages < 69, 98% > age 74, phasing down 69-74), projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2019.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2020, submitted to and adopted by the TRS on September 13, 2021. The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) of the total OPEB liability were based on the September 30, 2020 valuation.

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

	Target allocation	Long-term expected real rate of return*
Fixed income	30 %	4.40 %
U.S. large stocks	38	8.00
U.S. mid stocks	8	10.00
U.S. small stocks	4	11.00
International developed market stocks	15	9.50
Cash	5	1.50
	100 %	

* Geometric mean, includes 2.5% inflation

(f) Discount Rate

The discount rate used to measure the total OPEB liability at September 30, 2021 was 3.97%. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating employers must contribute for each active employee. 12.990% of the employer contributions were used to assist in funding retiree benefit payments in 2021. It is assumed that the 12.990% will increase at the same rate as expected benefit payments for the closed group until reaching an employer rate of 20.000%, at which point this amount will increase by \$800 with inflation at 2.5% starting in 2024. The long-term expected rate of return on OPEB plan investments will be determined based on the allocation by the asset class and by the mean and variance of real returns. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Therefore, the projected future benefit payments for all current plan members were projected through 2119. The long-term rate of return is used until the assets are expected to be depleted in 2051, after which the municipal bond rate is used.

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

The following table presents the University's proportionate share of the net OPEB liability calculated using the health care cost trend rate of 4.50%, as well as what the net OPEB liability would be if calculated using 1-percentage point lower 3.50% or 1-percentage point higher 5.50% than the current rate (in thousands):

	September 30, 2022		
	1% Decrease (3.50)%	Current rate (4.50)%	1% Increase (5.50)%
University's proportionate share of collective net OPEB liability	\$ 161,155	205,378	262,356

The following table presents the University's proportionate share of the net OPEB liability calculated using the discount rate of 3.97%, as well as what the net OPEB liability would be if calculated using 1-percentage point lower 2.97% or 1-percentage point higher 4.97% than the current rate (in thousands):

	September 30, 2022		
	1% Decrease (2.97)%	Current rate (3.97)%	1% Increase (4.97)%
University's proportionate share of collective net OPEB liability	\$ 252,624	205,378	167,482

(h) OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the Alabama Retired Education Employees' Health Care Trust's financial statements for the fiscal year ended September 30, 2021. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2021. Additional financial and actuarial information is available at www.rsa-al.gov.

(15) Risk Management

The University, HCM, SAMSF and HCA participate in the PLTF and the University, HCM, SAMSF, the Corporation and HCA participate in the GLTF. An independent trustee administers both funds. These trust funds are revocable and use contributions by the University and HCA, together with earnings thereon, to pay liabilities arising from the performance of its employees, trustees and other individuals acting on behalf of the University. Any risk related to the payment of claims is the responsibility of the PLTF and GLTF. If the trust funds are ever terminated, appropriate provision for payment of related claims will be made and any remaining balance may be distributed to the participating entities in proportion to contributions made.

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As discussed in note 1, the PLTF and GLTF are blended component units of the University, and as such are included in the financial statements of the University for the year ended September 30, 2022. Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. These liabilities are generally based on actuarial valuations and are reported at their present value.

The University, HCM and HCA each participate in a separate self-insured health plan administered by unaffiliated entities. Administrative fees paid by the University for such services were approximately \$2,613,000 in 2022. Contributions by the University and its employees, together with earnings thereon, are used to pay liabilities arising from health care claims. It is the opinion of University administration that plan assets are sufficient to meet future plan obligations.

The changes in the total self-insurance liabilities for the year ended September 30, 2022 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

Balance, beginning of year	\$	41,610
Liabilities incurred and other additions		95,550
Claims, administrative fees paid and other reductions		<u>(87,145)</u>
Balance, end of year	\$	<u><u>50,015</u></u>

These amounts are included in other long-term liabilities in accounts payable and accrued liabilities in the accompanying statement of net position.

(16) Other Related Parties and Related-Party Transactions

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. At September 30, 2022, SAMSF had total assets of \$10,652,000, net assets of \$10,627,000, and total revenues of \$1,509,000 for the year then ended.

(17) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2022, the University had been awarded approximately \$82,936,000 in grants and contracts for which resources had not been received and for which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements, as the eligibility requirements of the awards have not been met. Advances are included in unrecognized revenues, and include amounts received from grant and contract sponsors that 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.

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(b) Litigation

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

(c) Rent Supplement Agreements

The University has entered into two irrevocable rent supplement agreements with the Corporation and a financial institution. The agreements require that, in the event the Corporation fails to maintain a debt service coverage ratio of one to one with respect to all of its outstanding indebtedness, the University will pay to the Corporation any and all rent amounts necessary to cause the Corporation's net operating income to be equal to the Corporation's annual debt service obligations (see note 6). As of September 30, 2022, no amounts were payable pursuant to these agreements.

(d) USA Research and Technology Corporation Leases

The University has commitments under financing leases with the Corporation. Space under lease to the University was 78,123 square feet at September 30, 2022. See note 9 for additional details.

(18) Functional Expense Information

Operating expenses by functional classification for the year ended September 30, 2022 are as follows (in thousands).

Instruction	\$	116,918
Research		28,720
Public service		11,908
Academic support		25,888
Student services		36,573
Institutional support		27,097
Operation and maintenance of plant		30,313
Scholarships		16,766
USA Health		722,957
Auxiliary enterprises		12,876
Depreciation and amortization		64,874
	\$	<u>1,094,890</u>

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(19) Blended Component Units

As more fully described in note 1, HCM, PLTF and GLTF are reported as blended component units. Required combining financial information of the aggregate blended component units as of and for the year ended September 30, 2022 as follows (in thousands):

Current assets	\$	19,810
Noncurrent assets		51,617
Total assets		71,427
Current liabilities		22,342
Noncurrent liabilities		44,558
Total liabilities		66,900
Net position	\$	4,527
Operating revenues	\$	328,392
Operating expenses		(317,464)
Operating income		10,928
Nonoperating revenues		—
Nonoperating expenses		(10,128)
Change in net position	\$	800

(20) Recently Issued Accounting Pronouncements

The GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, in May 2020. Statement 95 was effective immediately to provide temporary relief in light of the COVID-19 pandemic by postponing the effective dates of certain provisions of other GASB statements that are effective or scheduled to become effective for periods beginning after June 15, 2018. The effective date of the statements noted below have been adjusted to reflect the postponed effective date as provided by Statement No. 95.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, which will be effective beginning with the fiscal year ending September 30, 2023. The objective of this statement is to clarify the definition of conduit debt obligations, establish that conduit debt is not a liability of the issuer, establish standards for reporting additional commitments and voluntary commitments extended by issuer, and improve note disclosures.

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In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective beginning with the fiscal year ending September 30, 2023. Statement No. 96 requires subscription-based information technology arrangements (SBITA) be recorded as both an intangible asset and a corresponding subscription liability, provides capitalization criteria for outlays related to nonsubscription payments, and requires note disclosures for SBITA.

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of the statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements and accounting and financial reporting for financial guarantees. The statement extends the use of LIBOR for accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement Nos. 53 and 63 effective upon issuance. The requirements related to leases, public-private and public-public partnerships (PPP) and SBITA are effective for fiscal years beginning after June 15, 2022 and the requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*. The statement, effective for periods beginning after June 15, 2023, requires changes in accounting principles and error corrections be reported retroactively by restating prior periods, changes to or within the financial reporting entity to be reported by adjusting beginning balances of the current period and changes in accounting estimates be reported prospectively by recognizing the change in the current period.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, which is effective for fiscal years beginning after December 15, 2023. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.

The effect of the implementation of GASB Statement Nos. 91, 96, 99, 100 and 101 on the University has not yet been determined.

(21) COVID-19 Pandemic

COVID-19, a respiratory disease caused by a novel strain of the coronavirus, has spread around the world, including the State of Alabama. The Centers for Disease Control confirmed the spread of the disease to the United States in February 2020 and the World Health Organization declared the COVID-19 outbreak a pandemic in March 2020.

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The CARES Act was signed into law on March 27, 2020 and is designed to provide economic relief to Higher Education Institutions and other entities for a number of situations including the provision of direct financial support for students in need, reimbursement for the costs incurred as a result of moving instruction online, to provide relief funds for health care providers for purposes of covering costs incurred and lost revenues due to the pandemic. Through September 30, 2022, the University (including USA Health) has been awarded \$99,254,000 in CARES Act, and other funding from federal and state sources for COVID-19 relief. Of this amount \$6,189,000 was awarded during the year ended September 30, 2022. Of the total amounts awarded \$22,464,000 has been recognized as nonoperating revenue in the statement of revenues, expenses, and changes in net position for the year ended September 30, 2022.

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Required Supplementary Information

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

Teachers' Retirement Plan of Alabama

September 30 of each year from 2015 to 2022

(In thousands)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
University's proportion of the net pension liability	2.521971 %	2.551330 %	2.664536 %	2.843720 %	3.018313 %	3.108048 %	3.185471 %	3.322348 %
University's proportionate share of the net pension liability	\$ 237,578	315,591	294,615	282,739	296,654	336,477	329,294	297,734
University's covered-employee payroll	188,126	184,984	181,875	190,559	191,520	200,464	198,378	201,858
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	126.29 %	170.60 %	161.99 %	148.37 %	154.89 %	167.85 %	165.99 %	147.50 %
Plan fiduciary net position as a percentage of the total pension liability	76.44 %	67.72 %	69.85 %	72.29 %	71.50 %	67.93 %	67.51 %	71.01 %

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

Unaudited - see accompanying auditors' report.

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Required Supplementary Information

Schedule of the University's Pension Contributions (Unaudited)

Teachers' Retirement Plan of Alabama

September 30 of each year from 2015 to 2022

(In thousands)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 22,005	21,566	21,413	22,481	22,262	23,664	23,405	23,524
Contributions in relation to the contractually required contribution	<u>22,005</u>	<u>21,566</u>	<u>21,413</u>	<u>22,481</u>	<u>22,262</u>	<u>23,664</u>	<u>23,405</u>	<u>23,524</u>
Contribution deficiency (excess)	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
University's covered-employee payroll	\$ 188,126	184,984	181,875	190,559	191,520	200,464	198,378	201,858
Contributions as a percentage of covered-employee payroll	11.70%	11.66%	11.77%	11.80%	11.62%	11.80%	11.80%	11.65%

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

Unaudited - see accompanying auditors' report.

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(A Component Unit of the State of Alabama)

Required Supplementary Information

Schedule of the University's Proportionate Share of the Net OPEB Liability and Related Ratios (Unaudited)

Alabama Retired Education Employees' Health Care Trust

September 30 of each year from 2017 to 2022

(In thousands)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
University's proportion of the net OPEB liability	3.974950 %	4.016210 %	2.737717 %	3.156420 %	3.449076 %	2.963813 %
University's proportionate share of the net OPEB liability	\$ 205,378	260,646	103,288	259,418	256,178	238,060
University's covered-employee payroll	188,126	184,984	181,875	190,559	191,520	200,464
University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	109.17 %	140.90 %	56.79 %	136.14 %	133.76 %	118.75 %
Plan fiduciary net position as a percentage of the total OPEB liability	27.11 %	19.80 %	28.14 %	14.81 %	15.37 %	13.38 %

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

Unaudited - see accompanying auditors' report.

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

Required Supplementary Information

Schedule of the University's OPEB Contributions (Unaudited)

Alabama Retired Education Employees' Health Care Trust

September 30 of each year from 2017 to 2022

(In thousands)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 5,859	6,868	7,947	7,772	7,728	8,373
Contributions in relation to the contractually required contribution	5,859	6,868	7,947	7,772	7,728	8,373
Contribution deficiency (excess)	\$ —	—	—	—	—	—
University's covered-employee payroll	\$ 188,126	184,984	181,875	190,559	191,520	200,464
Contributions as a percentage of covered-employee payroll	3.11 %	3.71 %	4.37 %	4.08 %	4.04 %	4.18 %

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

Unaudited - see accompanying auditors' report.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Notes to Required Supplementary Schedules (Unaudited)
September 30, 2022

(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, 2022 was determined by an actuarial valuation as of September 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Investment rate of return*	7.45 %
Projected salary increases	3.25-5.00 %

* Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2020 valuation were based on the results of an actuarial experience study for the period October 1, 2015 through September 30, 2020. Mortality rates for TRS were based on the Pub-2010 Teacher Below Median tables adjusted for males (108% ages < 63, 96% ages > 67; phasing down 63-67) and for females (112% ages < 69, 98% > age 74, phasing down 69-74), projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2019.

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, 2022 was 7.45%. 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)
Notes to Required Supplementary Schedules (Unaudited)
September 30, 2022

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

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

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28.3 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increase	3.25% to 5.00%, including inflation
Investment rate of return	7.70%, net of pension plan investment expense, including inflation

(2) Summary of OPEB Plan Provisions and Assumptions

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

(a) Changes in Actuarial Assumptions

In 2020, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to more closely reflect actual experience.

Mortality rates were based on the Pub-2010 Teacher Below Median tables adjusted for males (108% ages < 63, 96% ages > 67; phasing down 63-67) and for females (112% ages < 69, 98% > age 74, phasing down 69-74), projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2019.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2020, submitted to and adopted by the TRS on September 13, 2021. The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) of the total OPEB liability were based on the September 30, 2020 valuation.

(b) Recent Plan Changes

Beginning in plan year 2021, the Medicaid Advantage Prescription Drug plan premium rates exclude the ACA Health Insurer Fee, which was repealed on December 20, 2019.

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

The Health Plan is changed each year to reflect the ACA maximum annual out-of-pocket amounts.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Notes to Required Supplementary Schedules (Unaudited)
September 30, 2022

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

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, 2018, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule for the year ended September 30, 2022:

Actuarial cost method	Entry age normal
Amortization method	Level percent of pay, closed
Remaining amortization period	23 years
Asset valuation method	Market value of assets
Inflation	2.750%
Health care cost trend rate:	
Pre-medicare eligible	6.75%
Medicare eligible	5.00%
Ultimate trend rate:	
Pre-medicare eligible	4.75%
Medicare eligible	4.75%
Year of ultimate trend rate	2026 for Pre-medicare eligible 2024 for Medicare eligible
Investment rate of return	5.00%, including inflation
Optional plans trend rate	2.00%



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

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

The Board of Trustees
University of South Alabama:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, and the aggregate discretely presented component units, of University of South Alabama, a component unit of the State of Alabama, (the University), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 1, 2022. The financial statements of the University of South Alabama Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the University of South Alabama Foundation.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 results 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
December 1, 2022



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

December 1, 2022

Audit Committee of the Board of Trustees
University of South Alabama
Mobile, Alabama

To the Audit Committee of University of South Alabama:

We have audited the basic financial statements of University of South Alabama (the University) as of September 30, 2022 and for the year then ended, and have issued our report thereon dated December 1, 2022. Under our professional standards, we provided you with a presentation dated November 30, 2022 that related to our audit of the basic financial statements of the University as of September 30, 2022 and for the year then ended. This communication is an update to that presentation and should be considered only in conjunction with such presentation.

The following matters update our previous communications to you:

Resolution of Outstanding Matters

All outstanding matters communicated to you on November 30, 2022, were satisfactorily resolved.

Written Communications

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

1. Engagement letter and
2. Management representation letter.

Update to Required Communications

No other matters have come to our attention subsequent to November 30, 2022 and through the date of this report that would require us to provide you with additional information related to our audit of the basic financial statements of the University as of September 30, 2022 and for the year then ended.

* * * * *

This letter to the audit committee is intended solely for the information and use of the audit committee and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



KPMG LLP
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July 9, 2020

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

Dear Scott,

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

Objectives and Limitations of Services

Financial Statement Audit Services

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

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (Government Auditing Standards), with the objectives of obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to error or fraud, and issuing an auditor's report that includes our opinion as to whether the presentation of the financial statements conforms with U.S. generally accepted accounting principles.

Reasonable assurance is a high level of assurance but it is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit. We also will:

- Identify and assess the risks of material misstatement of the financial statements, whether due to error or fraud, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion on the financial statements.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall financial statement presentation, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



University of South Alabama
July 9, 2020
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- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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, and noncompliance with laws and regulations 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*. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

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 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) which is presented for the purpose of additional analysis and is not a required part of the 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 financial statements. The information will be subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Subject to the remainder of this paragraph, we will issue a written report upon completion of our audit of the University's financial statements addressed to the Board of Trustees of the University. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinion, add an emphasis-of-matter paragraph or other-matter paragraph to our auditor's report, or if necessary, 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

We will obtain an understanding of the University's internal control relevant to the audit in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the University's internal control.

The objective of our audit of the financial statements is not to report on the University's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. As part of obtaining reasonable assurance



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

In accordance with Government Auditing Standards, we will prepare a written report, Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. This report will include any material weaknesses and significant deficiencies identified during the audit. This report will also include any of the following that we identify or suspect:

- Instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements or other financial data significant to the audit objectives.
- Instances of fraud that are material, either qualitatively or quantitatively, to the financial statements or other financial data significant to the audit objectives.

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 communicate in writing when:

- Identified or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements comes to our attention during the course of our audit that has an effect on the financial statements or other financial data significant to the audit objectives that is less than material but warrants the attention of those charged with governance, or
- We obtained evidence of identified or suspected instances of fraud that have an effect on the financial statements or other financial data significant to the audit objectives 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 identified or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or instances of fraud 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.



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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. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material noncompliance, fraud, and noncompliance with laws and regulations may exist and not be detected even though the audit is properly planned and performed in accordance with *Government Auditing Standards*. The risk of not detecting material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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 Engagement 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 financial statements and our audit report(s) thereon into a future exempt filing, the University agrees that the aforementioned auditor's report, or reference to KPMG LLP, will not be included in any such offering document without our prior permission or consent. Additionally, we may be required by the professional standards to perform procedures depending on our involvement with the exempt offering document. Any agreement to perform work in connection with an exempt offering document, including an agreement to provide permission or consent, will be a separate engagement and the specific terms of our future services with respect to future exempt offerings will be determined at the time the services are to be performed.

In the event the University does not obtain our permission or consent to include or incorporate by reference our report(s) on such financial statements, and we are not otherwise associated with the offering document, then the University agrees to include the following language in the offering document:

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

Our Responsibility to Communicate with the Audit Committee

We will communicate our planned scope and timing for our audits with the audit committee, including significant risks identified in planning our audit of the financial statements.

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

- Material, corrected misstatements that were brought to the attention of management as a result of audit procedures.



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- 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 audits.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Significant findings from the compliance audit.

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 instances of noncompliance or suspected noncompliance with laws and regulations, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud. Further, to the extent they come to our attention, we also will communicate directly to the audit committee any instances of noncompliance or suspected noncompliance with laws and regulations, unless they are clearly inconsequential, material errors in the financial statements, and any instances of fraud that involve senior management or that, in our judgment, cause a material misstatement of the financial statements.

Management Responsibilities

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

- a. 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 instances of noncompliance or suspected noncompliance with laws, regulations and provisions of contracts and grant agreements;
- b. providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAGAS or single audit report within 10 days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the report(s), the report(s) will indicate management did not provide written responses;
- c. distributing the reports issued by KPMG.

Management also is responsible 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. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.



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

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon, taken as a whole. Because of the importance of management's representations to the effective performance of our services, the University will release KPMG and its personnel from any claims, liabilities, costs and expenses relating to our services under this Engagement 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;



University of South Alabama
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- Summary schedule of prior audit findings;
- Corrective action plan; and
- Data collection form (auditee sections).

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 Engagement 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 August 15, 2020.

Use of Internal Audit

Management 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 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 (Including the SEFA)

We will assist management in preparing the financial statements and related notes in accordance with U.S. generally accepted accounting principles. We will use information from the trial balance and/or other source documents provided by management to assist management in preparing the financial statements and related notes.

We may also provide advice and recommendations to assist management of the University in performing its responsibilities. We will not assume management responsibilities on behalf of the University.

The University 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.



University of South Alabama
July 9, 2020
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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 Engagement Letter shall serve 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.

In an effort to facilitate efficient communication between KPMG and the University related to the audit and to track engagement progress during the course of the engagement, KPMG may provide the University with access to certain online tools. If such access is provided to the University, the University shall be responsible for: (i) its users' access and use of such tools (including the information its users may upload to such tools and compliance with all laws and regulations applicable to use or access by the University's users outside of the United States (e.g. export control and data privacy laws and regulations)), and (ii) protecting the security of the account credentials in its possession for each user including timely informing KPMG when the University individuals' access should be removed. The University acknowledges that it shall not provide third parties (agents or contractors) with access to such tools without KPMG's written



University of South Alabama
July 9, 2020
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consent, use such tools as a system of record, nor use such tools other than for purposes of the audit engagement.

Except as permitted by law or as set forth in this paragraph, neither party shall acquire hereunder any right to use the name or logo of the other party or any part thereof, and any such use shall require the express written consent of the owner party. The University agrees that KPMG may list the University as a client in KPMG's internal and external marketing materials, including KPMG websites and social media, indicating the general services rendered (e.g., "University of South Alabama is an Audit client of KPMG LLP"). Further, for purposes of the services described in this Engagement 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.

The University and KPMG acknowledge and agree that each shall comply with all applicable United States export control laws and regulations in the performance of each party's respective responsibilities under the Engagement Letter. Unless requested by KPMG to allow it to complete its audit, the University will not provide KPMG, or grant KPMG access to, (a) information (including technical data or technology), verbally, electronically, or in hardcopy, (b) software or (c) hardware, that is controlled for export by the United States government under the Arms Export Control Act of 1976, Export Control Reform Act of 2018, the International Traffic in Arms Regulations ("ITAR"), Export Administration Regulations ("EAR"), Department of Energy Part 810 Regulations or Nuclear Regulatory Commission Part 110 Regulations, except information, software or hardware that is classified as EAR99 under the EAR ("Export Controlled Information"). If KPMG requests Export Controlled Information from the University, the University shall provide KPMG with notice of provision of Export Controlled Information at least 48 hours prior to providing such Export Controlled Information to KPMG.

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 Engagement 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 appropriate individuals and certain audit documentation available in a 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.



University of South Alabama
July 9, 2020
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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, or analytical services to KPMG and these third party service providers may in the performance of such services have access to your confidential information. In particular, KPMG's audit technologies, software productivity tools and certain technology infrastructure and, necessarily, your confidential information, may be hosted in cloud environments operated by KPMG Firms or such third party service providers. We will perform tests of the University's compliance with federal statutes, regulations, and the terms and conditions related to the University's major federal program, Student Financial Assistance, that we determine to be necessary based on the 2020 OMB Compliance Supplement. We expect the 2020 OMB Compliance Supplement to include a requirement that auditors provide the US Department of Education information on all samples used to test disbursements and returns of Pell Grants and Direct Loans. We also expect it to request that auditors provide information for these two programs related to all instances of noncompliance, including those that are less than the \$25,000 Uniform Guidance reporting threshold. While this does not include direct access to the work papers, we believe this information request is within the scope of *Government Auditing Standards*, and we will provide the information to the US Department of Education. We will provide such information directly to the US Department of Education within 60 days of the filing of the Data Collection Form. In addition, for purposes of fulfilling our professional responsibilities, such as maintaining independence and performing conflict checks, the University of South Alabama will be listed as a client in internal KPMG systems accessible on a need to know basis to certain professionals in KPMG International member firms. 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 all the University's information for other purposes consistent with our professional standards, such as improving the delivery or quality of audit and other services or technology to you and to other clients, thought leadership projects, to allow you and other clients to evaluate various business transactions and opportunities, and for use in presentations to you, other clients and non-clients. When your information is used outside of the KPMG Firms or such third parties assisting them as outlined above, the University will not be identified as the source of the information.

It may be necessary or convenient for the University to use KPMG-owned or -licensed software, software agents, scripts, technologies, tools or applications (collectively "KPMG Technology") designed to extract data from the University's electronic books and records systems or other systems (collectively, "Systems"), in connection with the audit. The University understands and agrees that it is solely responsible for following appropriate change management policies, processes and controls relating to use of such technology (including without limitation appropriate backup of the University's information and Systems) (collectively, "Change Management Processes") before such KPMG Technology is utilized to extract data



from the Systems. In the event the University fails to use such Change Management Processes or if such Change Management Processes prove to be inadequate, the University acknowledges that the Systems and/or KPMG Technology may not function as intended. In consideration of the foregoing, KPMG hereby grants the University the right to use KPMG Technology solely to facilitate the University's necessary or convenient provision of information to KPMG in connection with the audit, and this grant does not extend to any other purposes or use by third parties outside of your organization without our prior written approval, provided that third party contractors of the University having a need to know in order to perform their services to the University are permitted to use KPMG Technology to the extent necessary for such parties to perform such services, so long as the University exercises the same level of care to protect such KPMG Technology and KPMG confidential information as it uses to protect its own confidential information, but in no event less than reasonable care. Other than as expressly permitted hereby, the University agrees to keep KPMG Technology confidential, using no less than a reasonable standard of care to protect it from unauthorized disclosure or use, and to notify KPMG of any legal compulsions to disclose it, in accordance with the provisions governing legal demand of confidential information which appear in this engagement letter with respect to which the KPMG Technology is being used, *mutatis mutandis*. If the KPMG Technology is subject to any third party license terms and conditions before being provided to the University, the University may be required to accept such terms and conditions before using the KPMG Technology, in which case KPMG will provide such license terms and conditions to the University in writing before the University elects to use the KPMG Technology.

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.

Reports, Services and Associated Fees

Appendix I to this Engagement Letter lists the reports we will issue and the services we will provide as part of this engagement and our fees for professional services to be performed under this Engagement 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 Engagement 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 Engagement 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



University of South Alabama
July 9, 2020
Page 12 of 12

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

Very truly yours,

KPMG LLP

Ashley E. Willson
Partner

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

ACCEPTED

University of South Alabama

Authorized Signature

Vice President for Finance & Administration
Title

7/10/2020
Date

Reports, Services and Associated Fees

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

2020

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

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

Report

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

The above estimates are based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred. The fees assume that you will provide routine client assistance activities such as preparation of financial statements, certain account analyses, document retrieval and confirmation preparation. The fees also assume a commitment of appropriately 400 hours of internal audit assistance related to the audit. The fees also assume no significant changes in operations and no significant increase in the purchase of additional alternative investments. The above fees do not consider any time associated with implementing any future GASB pronouncements. Any additional time associated with GASB pronouncements will be billed separately. The above fees also do not include any changes in the scope of KPMG's hours related to the NCAA agreed upon procedures report or Uniform Guidance procedures. 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.

Professional standards also indicate that independence may be impaired if fees for professional services are outstanding for an extended period of time; therefore, it is important that our fees be paid promptly when billed. If a situation arises in which it may appear that our independence would be questioned because of past due unpaid fees, we may be prohibited from issuing our audit report and associated consent.

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.



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

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

December 16, 2021

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

Attention: Mr. Weldon:

This letter amends our engagement letter dated July 9, 2020, confirming our understanding to provide professional audit services to the University of South Alabama (the University) and the entities set forth in Appendix I, by substituting the attached Appendix I for the Appendix I originally attached to our engagement letter and amending its terms as noted below.

For your information, certain auditing standards generally accepted in the United States of America have changed for audits of periods ending after December 15, 2021. While we do not believe these amendments substantively change the nature of our engagement, they will affect the form and content of our audit report, our communications with the audit committee and the representations requested from management.

Annual Report

The auditing standards require us to read the other information in the University's annual report and consider whether a material inconsistency exists between the other information and the financial statements. Management has identified the following document comprising the annual report: University of South Alabama 2022 Financial Report.

Management will provide final versions of these documents to us in a timely manner, and if possible, before the date of our auditor's report. If some or all of the documents are not available until after that date, management will provide written representation that the final documents will be provided when available and prior to issuance by the University.

Other Matters

The parties agree that the paragraph in the engagement letter that references providing access to certain online tools shall be revised to add the following at the end of such paragraph: "The KPMG online tools include technology licensed from Microsoft, and the University's use of such Microsoft technology is subject to the Microsoft End-User Terms available at http://www.kpmginfo.com/NDPPS/media/docs/144_210-1A_NAS_MicrosoftEnd-UserTerms.pdf."

Except for the sentence contained in the "Other Matters" section of the engagement letter regarding KPMG Firms utilizing, in their discretion, the services of third party service providers within or outside of the United States to complete the services under the engagement letter, all other references to "KPMG Firms" contained in the engagement letter are replaced by the term "KPMG Parties." The term "KPMG Parties" shall mean the KPMG Firms, together with the entities comprising KPMG International.

For purposes of clarification, the paragraph contained in the "Other Matters" section of the engagement letter which states that KPMG Parties and third party service providers may have access to your confidential



University of South Alabama
December 16, 2021
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information is revised to include the following and is subject to the representations and other protective provisions set forth in such paragraph: "In particular, KPMG's audit technologies, software productivity tools and certain technology infrastructure and, necessarily, your confidential information, may be hosted in cloud environments operated by KPMG Parties or such third party service providers. In addition, KPMG Parties may have access to certain of your information in respect to engagement acceptance and other professional responsibilities such as maintaining independence and performing conflict checks."

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

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

For the purpose of complying with the AICPA Code of Professional Conduct, the University agrees to provide to KPMG, at least annually, a complete and accurate legal entity listing and a listing of other affiliated entities not included on the legal entity listing (e.g., parent company, entities under common control, joint ventures, equity method investments, and others). The University further agrees to provide a listing of the University's officers, directors, and individuals owning 10% or more of the University's outstanding voting equity securities or other ownership interests. The University also agrees to provide information to KPMG about acquisitions, investments or other transactions that may result in changes to the legal entity listing or the listing of other



University of South Alabama
December 16, 2021
Page 3 of 3

affiliated entities, not included on the legal entity listing, prior to the effective date of the acquisition, investment or other transaction. The attached Appendix I lists the services to be rendered and related fees to provide each specified service for the identified time period. Except as specified in this letter and in the Appendix I attached to this letter, all provisions of the aforementioned engagement letter remain in effect until either the audit committee or we terminate this agreement or mutually agree to the modification of its terms.

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

Very truly yours,

KPMG LLP

Ashley E. Willson
Partner

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

ACCEPTED

University of South Alabama

Scott Weldon

Vice President for Finance and Administration
Title

12/16/21
Date

Reports, Services and Associated Fees

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

Audits of financial statements and related notes to the financial statements of the University and the USA Research and Technology Corporation as of and for the years ended September 30, 2022, 2023, and 2024 and the other reports detailed below (includes KPMG performing the audit of one major program in connection with the Uniform Guidance)

2022	\$636,000
2023	\$661,000
2024	\$694,000

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
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 the financial statements, certain account analyses, document retrieval and confirmation preparation. The fees also assume a committee of approximately 400 hours of internal audit assistance related to the audit. The fees also assume no significant changes in operations and no significant increase in the purchase of additional alternative investments. The above fees do not consider any time associated with implementing any future GASB pronouncements. Any additional time associated with GASB pronouncements will be billed separately. The above fees also do not include any changes in the scope of KPMG's hours related to the NCAA agreed upon procedures report or Uniform Guidance procedures. 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.

Our standard billing practice is to submit regular progress billings over the course of the engagement. You agree that such billings will be paid within thirty days. The timing of these billings is detailed below.

May 1, 2022	\$200,000
July 15, 2022	150,000
September 1, 2022	250,000
October 15, 2022	36,000

In addition, we also will be issuing our audit report on the University of South Alabama Health Care Authority. Those fees will be billed at 40% of our standard rates applicable at the time the services are

provided. An initial fee of \$75,000 will be billed on May 1, 2022. Expenses are also billed for reimbursement as incurred.

Professional standards prohibit us from performing services for audit clients where the fee for such services is contingent, or has the appearance of being contingent, upon the results of such services.

Professional standards also indicate that independence may be impaired if fees for professional services are outstanding for an extended period of time; therefore, it is important that our fees be paid promptly when billed. If a situation arises in which it may appear that our independence would be questioned because of past due unpaid fees, we may be prohibited from issuing our audit report and associated consent, if applicable.

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.



UNIVERSITY OF SOUTH ALABAMA

December 1, 2022

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

We are providing this letter in connection with your audits of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and the related notes to the financial statements of University of South Alabama as of and for the year ended September 30, 2022, for the purpose of expressing opinions as to whether these financial statements present fairly, in all material respects, the respective financial positions, changes in financial positions, and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles (U.S. GAAP). We are also providing this letter to confirm our understanding that the purpose of your testing of transactions and records relating to the University's federal programs, in accordance with Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), was to obtain reasonable assurance that the University had complied, in all material respects, with the requirements of federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

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 December 1, 2022:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 16, 2021, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
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 University from whom you determined it necessary to obtain audit evidence; and

BUSINESS OFFICE

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

- d. All minutes of the meetings of Board of Trustees, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.
3. Except as disclosed to you in writing, there have been no communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
4. There are no known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements
5. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
6. There are no side agreements or other arrangements (either written or oral).
7. All events subsequent to the date of the statement of net position and through the date of this letter for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
9. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
10. The effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements for each respective opinion unit.
11. We acknowledge our responsibility for the design, implementation, and maintenance of programs and controls to prevent, deter, and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements, whether due to error or fraud. We understand that the term "fraud" is defined as an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception that results in a misstatement in financial statements that are the subject of an audit.
12. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the University's

ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in AU-C Section 265.07, *Communicating Internal Control Related Matters Identified in an Audit*.

13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud affecting the University involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the University's financial statements communicated by employees, former employees, analysts, regulators, or others.
16. We have no knowledge of any officer or trustee or member of governing body 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.
17. The methods, data, and significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in accordance with U.S. GAAP.
18. We have disclosed to you the identity of all our related parties and all the related party relationships and transactions of which we are aware.
19. 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. GAAP, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments and amounts receivable from or payable to related parties. The term "related party" refers to government's related organizations, joint ventures, and jointly governed organizations, as defined in GASB Statement No. 14, *The Financial Reporting Entity*, as amended; elected and appointed officials of the government; its management; members of the immediate families of elected or appointed officials of the government and its management; and other parties with which the government may deal if one party can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting

parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

- b. Guarantees, whether written or oral, under which the University is contingently liable.
 - c. The existence of and transactions with joint ventures and other related organizations.
20. 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.
21. The University has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
22. The University's reporting entity includes all entities that are component units of the University.
23. 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. GAAP. 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.
24. To the best of our knowledge and belief, we have provided you with a complete and accurate listing of our affiliates as defined by the AICPA Code of Professional Conduct interpretation ET 1.224.020, *State and Local Government Client Affiliates*.
25. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.
26. KPMG LLP assisted management in drafting the financial statements and notes. In accordance with *Government Auditing Standards*, we confirm that we have reviewed, approved, and accept responsibility for the financial statements and notes.
27. We acknowledge our responsibility for the presentation of the required supplementary information which includes, such as management's discussion and analysis, schedule of the University's proportionate share of the net pension liability and related ratios, schedule of the University's pension contributions, schedule of the University's proportionate share of the net OPEB liability and related ratios, and schedule of the University's OPEB contributions be presented to supplement the basic financial statements.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.
- c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate.

We confirm having made such inquiries as we considered necessary for the purposes of appropriately informing ourselves, as of December 1, 2022 the following representations made to you during your single audit:

28. We are responsible for the design, implementation, and maintenance of effective internal control over compliance for federal programs that provides reasonable assurance that the University is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award.
29. We are responsible for understanding and complying with the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of the University's federal programs.
30. We are responsible for taking corrective action on audit findings of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.
31. We are responsible for the design, implementation, and maintenance of internal controls to prevent and detect fraud in the administration of federal programs. We have no knowledge of any fraud or suspected fraud affecting the University'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 federal statutes, regulations, and the terms and conditions of federal awards related to its federal programs.
32. We are responsible for the presentation of the schedule of expenditures of federal awards (SEFA) in accordance with the Uniform Guidance and:
 - a. The SEFA, including its form and content, is fairly presented in accordance with the requirements of the Uniform Guidance.

- b. The SEFA includes all expenditures made during the year ended September 30, 2022, for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, cooperative agreements, interest subsidies, insurance, noncash assistance (such as free rent, food commodities, donated property or donated surplus property), direct appropriations, and other assistance.
- c. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period.
- d. The significant assumptions or interpretations underlying the measurement or presentation of the SEFA are reasonable and appropriate in the circumstances.
- e. We will make the audited financial statements readily available to the intended users of the SEFA no later than the date of issuance by the University 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 December 1, 2022, the following representations made to you during your single audit:

- 33. The University is responsible for complying, and has complied, with the requirements of the Uniform Guidance.
- 34. We have identified and disclosed all of our government programs and related activities subject to the Uniform Guidance compliance audit.
- 35. The University has designed, implemented, and maintained effective internal control over compliance for federal programs that provides reasonable assurance that the University is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award that could have a material effect on its federal programs.
- 36. 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 federal statutes, regulations, and the terms and conditions of federal awards. 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.

37. The University has complied with requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of its major federal programs.
38. The University has charged costs to federal awards in accordance with the applicable cost principles.
39. Federal program financial reports and claims for advances and reimbursements are supported by the accounting records from which the financial statements have been prepared.
40. The copies of federal program 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.
41. We have monitored subrecipients, as necessary, to determine that they have expended subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.
42. We have issued management decisions on a timely basis (within six months of acceptance of the audit report by the FAC) for audit findings that relate to federal awards made to subrecipients. Additionally, management has followed up ensuring that the subrecipient takes timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient by the University.
43. We have considered the results of subrecipient audits and have made any necessary adjustments to the University's accounting records.
44. We have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major federal program.
45. We have provided to you our interpretations of any compliance requirements that are subject to varying interpretations.
46. We have made available all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements, for major federal programs.
47. We have made available all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities related to major federal programs.
48. We have identified and disclosed to you all questioned costs and any known noncompliance with the requirements of federal awards.
49. We have disclosed to you any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the compliance requirements over federal programs, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
50. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly

relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.

51. We have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
52. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance.
53. We have advised you of all contracts or other agreements with service organizations.
54. We have disclosed to you all communications from the University's service organizations relating to noncompliance at the service organizations.
55. We have disclosed to you whether any changes in internal control over compliance or other factors that might significantly affect internal control over major federal programs, including any corrective action taken by management with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to the period covered by the auditors' report.
56. We have disclosed to you all known noncompliance relating to major federal programs occurring subsequent to the period covered by the auditors' report.
57. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance over major federal programs during the reporting period.
58. The reporting package does not contain protected personally identifiable information
59. KPMG LLP assisted management in completing Part II, Part III, item 3(d), and items 4(a)-(d), and Part IV of the data collection form. In accordance with Government Auditing Standards, we confirm that we have reviewed, approved, and accept responsibility for the information included in Part II, Part III, item 3(d), and items 4(a)-(d), and Part IV of the data collection form.
60. We have accurately completed the appropriate sections of the data collection form.

Sincerely,

University of South Alabama

Josiah R. Bonner, Jr.

Josiah R. Bonner, Jr.

University President

Polly Stokley

Polly Stokley

Vice President for Finance and Administration

Kristen Roberts

Kristen Roberts

Assistant Vice President of Finance and Administration



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

Independent Auditors' Report

The Board of Trustees
University of South Alabama:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the business type activities and aggregate discretely presented component units of University of South Alabama (the University), a component unit of the State of Alabama, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements for the year then ended, and have issued our report thereon dated December 1, 2022. We did not audit the financial statements of University of South Alabama Foundation, which represent 84% of the total assets of the discretely presented component units as of September 30, 2022 and - 11% of the total revenues, gains and other support for the year then ended. 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 University of South Alabama Foundation, is based solely on the report of the other auditors.

In connection with our audit, nothing came to our attention that caused us to believe that the University failed to comply with the terms, covenants, provisions, or conditions of Article X of the Trust Indenture, as amended, on June 28, 2013, authorizing the issuance of \$50,000,000 University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B and 2013-C, as amended on March 14, 2014, authorizing the issuance of \$41,245,000 University Facilities Revenue Refunding Bond, Series 2014-A, as amended on June 15, 2015, authorizing the issuance of \$6,000,000 University Facilities Revenue Capital Improvement Bond, Series 2015, as amended on September 14, 2016, authorizing the issuance of \$85,605,000 University Facilities Revenue Refunding Bonds, Series 2016-A, as amended on December 7, 2016 and on September 23, 2021, authorizing the issuance of \$100,000,000 University Facilities Revenue Refunding Bonds, Series 2016-B, 2016-C, and 2016-D, as amended June 15, 2017, authorizing the issuance of \$38,105,000 University Facilities Revenue Bonds, Series 2017, as amended on February 7, 2019, authorizing the issuance of \$66,190,000 University Facilities Revenue Bonds, Series 2019-A and 2019-B, as amended on December 12, 2019, authorizing the issuance of \$19,086,000 University Facilities Revenue Bonds, Series 2019-C, as amended on March 10, 2020, authorizing the issuance of \$37,005,000 University Facilities Revenue Bonds, Series 2020, as amended on March 10, 2021, authorizing the issuance of \$40,555,000 University Facilities Revenue Bonds, Series 2021, as amended on July 8, 2021, authorizing the issuance of \$15,387,000 of University Facilities Revenue Bonds, Series 2021-B, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the University's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the 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 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
December 1, 2022



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

Basic Financial Statements

September 30, 2022

(With Independent Auditors' Report Thereon)

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

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USA RESEARCH AND TECHNOLOGY CORPORATION
(A Component Unit of the University of South Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2022

Introduction

The following discussion presents an overview of the financial position and financial activities of USA Research and Technology Corporation (the Corporation) as of and for the year ended September 30, 2022. 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), and one building located on the premises of the USA University Hospital. Housing both University and third-party tenants, the area available for lease totals 228,757 square feet of gross leasable space. At September 30, 2022, total square feet under lease was 220,389. 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. During 2022 the implementation of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, resulted in increases to current and noncurrent assets, deferred inflow of resources and nonoperating revenues, discussion of which can be found in the sections below.

At September 30, 2022, the Corporation had total assets and deferred outflows of \$35,627,484 and; total liabilities and deferred inflows of \$33,555,318; and net position of \$2,072,166.

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

Condensed Financial Information

Condensed financial information for the Corporation as of and for the years ended September 30, 2022 and 2021, follows (in thousands):

Condensed Schedules of Net Position

	2022	2021
Assets and deferred outflows:		
Current	\$ 5,476	1,785
Capital assets – noncurrent	18,854	19,877
Other noncurrent assets	10,536	205
Deferred outflows	761	921
	\$ 35,627	22,788

USA RESEARCH AND TECHNOLOGY CORPORATION
(A Component Unit of the University of South Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2022

Condensed Schedules of Net Position
(continued)

	<u>2022</u>	<u>2021</u>
Liabilities:		
Current	\$ 2,001	2,096
Noncurrent	17,989	19,379
Deferred inflows	13,565	—
	<u>\$ 33,555</u>	<u>21,475</u>
Net position:		
Net investment in capital assets	\$ 423	282
Unrestricted	1,649	1,031
	<u>\$ 2,072</u>	<u>1,313</u>

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

	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 4,150	3,795
Operating expenses:		
Depreciation and amortization	1,281	1,173
Other	1,521	1,345
Net operating expenses	<u>2,802</u>	<u>2,518</u>
Operating income	<u>1,348</u>	<u>1,277</u>
Nonoperating (expenses) revenues:		
Interest expense	(926)	(998)
Other	462	3
Net nonoperating expenses	<u>(464)</u>	<u>(995)</u>
Change in net position	884	282
Beginning net position	1,313	1,031
Cumulative effect of change in accounting principle	<u>(125)</u>	<u>—</u>
Ending net position	<u>\$ 2,072</u>	<u>1,313</u>

USA RESEARCH AND TECHNOLOGY CORPORATION
(A Component Unit of the University of South Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2022

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 deferred inflows, 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, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is exchanged.

Current assets consist of cash and cash equivalents, rent receivables, financing lease receivables, prepaid expenses and other current assets as of September 30, 2022. The increase in current assets was driven by the implementation of GASB Statement No. 87 which resulted in the recognition of financing lease receivables, which represents the Corporation's contractual right to receive cash in exchange for the right-to-use an asset for a specific amount of time. Noncurrent assets as of September 30, 2022 consist primarily of capital assets and noncurrent financing lease receivables. Similarly to current assets, noncurrent assets increased as a result of the recognition of financing lease receivables due to the implementation of GASB Statement No. 87.

The decrease in deferred outflows resulted from the amortization of the swap termination fee.

Current liabilities primarily consist of unrecognized rent revenue, accrued expenses, and the current portion of notes payable as of September 30, 2022. Noncurrent liabilities consist of notes payable at September 30, 2022.

Deferred inflows are a result of the implementation of GASB Statement No. 87, *Leases*, and represent the Corporation's right to operating revenue from leases in future reporting periods.

Net position represents the residual interest in the Corporation's assets and deferred outflows after liabilities and deferred inflows 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.

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. Implementation of Statement No. 87 resulted in the recognition of financing lease interest income, which is included in other nonoperating revenues.

For the year ended September 30, 2022, the Corporation reported a change in net position of \$884,310.

USA RESEARCH AND TECHNOLOGY CORPORATION
(A Component Unit of the University of South Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2022

The adoption of the provisions of GASB Statement No. 87 resulted in the restatement of beginning unrestricted net position at October 1, 2021 by decreasing unrestricted net position \$125,617. See Note 7 for further information.

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 year ended September 30, 2022 were \$191,046 due to tenant improvement costs incurred for new leases and building improvements. In fiscal year 2021, the Corporation entered into an agreement with Hancock Whitney Bank to refinance a promissory note bearing interest at 4.50% with a new promissory note payable over ten years. See notes 3, 5, and 6 to the basic financial statements for further information related to capital assets and debt.

Economic Outlook

Based on leases in effect as of September 30, 2022 and estimates of future operating expenses, it is expected that fiscal year 2023 financial performance will be comparable to fiscal year 2022 results. Corporation management is not aware of any other currently known facts, decisions, or conditions that are expected to have a significant effect on the Corporation's financial position or results of operations during fiscal year 2023 beyond the unknown variables.

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 Polly Stokley; Vice President for Finance and Administration; University of South Alabama – Suite 300; Mobile, Alabama 36688.



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

Independent Auditors' Report

The Board of Directors
USA Research and Technology Corporation:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the USA Research and Technology Corporation (the Corporation), a component unit of the University of South Alabama, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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

Basis for Opinion

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

Emphasis of Matter

As discussed in note 1(m) to the basic financial statements, in 2022, the Corporation adopted Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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



Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 December 1, 2022 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
December 1, 2022

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

Statement of Net Position

September 30, 2022

Assets:

Current assets:

Cash and cash equivalents	\$	1,861,549
Rent receivable (net of allowance for doubtful accounts of \$11,835)		50
Financing lease receivable, current portion		3,545,961
Prepaid expenses and other current assets		10,128
Accrued interest receivable		58,576
		58,576
Total current assets		5,476,264

Noncurrent assets:

Intangible assets, net		180,745
Capital assets, net		18,853,633
Financing lease receivable, less current portion		10,356,075
		10,356,075
Total noncurrent assets		29,390,453

Deferred outflows

760,767

Total assets and deferred outflows

35,627,484

Liabilities:

Current liabilities:

Deposits, other current liabilities, and accrued expenses		223,213
Unrecognized rent revenue		387,939
Notes payable, current portion		1,390,309
		1,390,309
Total current liabilities		2,001,461

Noncurrent liabilities:

Notes payable, less current portion		17,988,971
		17,988,971
Total noncurrent liabilities		17,988,971

Deferred inflows

13,564,886

Total liabilities and deferred inflows

33,555,318

Net position:

Net investment in capital assets		423,290
Unrestricted		1,648,876
		1,648,876
Total net position	\$	2,072,166

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2022

Operating revenues	\$	4,150,514
Operating expenses:		
Building management and operating expenses		1,134,762
Depreciation and amortization		1,281,143
Legal and administrative fees		352,094
Insurance		33,916
Total operating expenses		2,801,915
Operating income		1,348,599
Nonoperating revenues (expenses):		
Interest expense		(926,192)
Other		461,903
Net nonoperating expenses		(464,289)
Change in net position		884,310
Net position:		
Beginning of year		1,313,473
Cumulative effect of change in accounting principle		(125,617)
Beginning balance, as adjusted		1,187,856
End of year	\$	2,072,166

See accompanying notes to basic financial statements.

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

Statement of Cash Flows

Year ended September 30, 2022

Cash flows from operating activities:	
Collections from lessees for rent and operating expense reimbursement	\$ 4,264,289
Payments for expenses of leasing activity	(1,180,769)
Payments to service providers and vendors for general corporate operating expenses	(453,435)
Payment of leasing commissions	(13,556)
Security deposits collected	5,252
Vending commissions	6,861
Net cash provided by operating activities	<u>2,628,642</u>
Cash flows from capital and related financing activities:	
Interest paid on notes payable	(768,524)
Principal repaid on notes payable	(1,342,175)
Purchases of capital assets	(223,907)
Net cash used in capital and related financing activities	<u>(2,334,606)</u>
Cash flows from investing activities:	
Investment income	2,550
Net cash provided by investing activities	<u>2,550</u>
Net change in cash and cash equivalents	296,586
Cash and cash equivalents:	
Beginning of year	<u>1,564,963</u>
End of year	<u>\$ 1,861,549</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,348,599
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,281,143
Decrease in operating expense payable to the University of South Alabama	(93,364)
Increase in receivables and prepaid expenses	(13,471,489)
Increase in unrecognized revenue	13,590,748
Increase in other assets	(13,556)
Decrease in other current liabilities, excluding items that are not components of operating income	<u>(13,439)</u>
Net cash provided by operating activities	<u>\$ 2,628,642</u>
Noncash investing and capital and related financing transactions:	
Interest expense from amortization of deferred cash flows related to debt refinancing	\$ (160,628)

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

September 30, 2022

(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).

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*., and GASB Statement No. 80, *Blending Requirements for Certain Component Units*, consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete. Accordingly, the basic financial statements include the accounts of the Corporation, as the primary government.

The basic financial statements include the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows.

(b) Measurement Focus and Basis of Accounting

For financial reporting purposes, and by virtue of its affiliation with the University, the Corporation is considered a special-purpose governmental agency engaged only in business-type activities, as defined by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Accordingly, the Corporation’s basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

(c) Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash and cash equivalents are defined as demand accounts, certificates of deposit and any short-term investments that take on the character of cash, such as a money market account, with original maturities of 90 days or less.

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

Notes to Basic Financial Statements

September 30, 2022

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 Corporation funds on deposit with QPD institutions. At September 30, 2022, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately \$16.8 billion. The Corporation had cash and cash equivalents in the pool of \$1,862,000 at September 30, 2022.

(e) Rent receivable

Rent receivable relates to short term leases and 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 five 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) Financing Leases

Financing leases as a lessor are included in financing lease receivable and current portion thereof and deferred inflow of resources on the statement of net position.

Financing lease receivable represents the Corporation's contractual right to receive cash in exchange for the right-to-use an asset for a specific amount of time. Deferred inflow of resources represents the Corporation's contractual right to lease revenue in future reporting periods. Financing lease receivables and related deferred inflows of resources are recognized at commencement date based on the present value of lease payments to be received over the lease term discounted using an appropriate incremental borrowing rate. The commencement date is either when the lessee takes possession of the asset or, in the case of real estate leases, when the landlord makes the building or office space available for use. The incremental borrowing rate is based on the information available at commencement date. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain the lessee will exercise that option. Deferred inflow of resources is recognized on a straight-line basis over the lease term while interest revenue is recognized as a component of the lease payments received and is included in other nonoperating revenues on the statement of revenues, expenses and changes in net position.

(h) Intangible Assets

Leasing commissions are capitalized and amortized over the term of the related lease. Capitalized software is amortized over an estimated useful life of three years. Amortization for these assets is calculated using the straight-line method.

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

Notes to Basic Financial Statements

September 30, 2022

(i) 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. As of and for the year ended September 30, 2022, the Corporation did not hold any derivative instruments.

(j) Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of the unamortized balance of the swap termination fee. See Note 6 for further discussion.

Deferred inflows of resources consist of the value of contractual rights to financing lease revenue in future reporting periods.

(k) 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 capital related debt obligations (including the payable to University of South Alabama related to building renovations) and accrued construction costs related to those 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.

(l) Classification of Revenues

The Corporation has classified its rental revenues as operating revenues, as these activities have the characteristics of exchange transactions. Rental revenues are recognized in accordance with GASB Statement No. 87, *Leases*.

(m) Recently Adopted Accounting Pronouncements

In fiscal 2022, the Corporation adopted the provisions of GASB Statement No. 87, *Leases*, which 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. GASB Statement No. 87 required the Corporation to record the current and noncurrent portions of financing lease receivables and the corresponding financing lease deferred inflow of resources for non-cancellable, long-term contracts related to use of tangible property under which the Corporation is the lessor. The adoption of the provisions of GASB Statement No. 87 resulted in the restatement of beginning unrestricted net position at October 1, 2021 by decreasing unrestricted net position \$125,617. See Note 7 for a further discussion.

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

Notes to Basic Financial Statements

September 30, 2022

In fiscal 2022, the Corporation adopted the provisions of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period in 2022*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. In addition, the Corporation adopted the provisions of GASB Statement No. 92, *Omnibus 2020*, which adds clarifying language and implementation guidance for statements 73, 74, 84 and 87. The Corporation also adopted Statement No. 93, *Replacement of Interbank Offered Rates*, which addresses financial reporting implications related to the replacement of LIBOR, which was expected to cease to exist in its current form at the end of 2021, and Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. Additionally, the Corporation adopted Statement No. 98, *the Annual Comprehensive Financial Report and its acronym ACFR*, which replaces instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. There was no significant impact to the Corporation in the adoption of these pronouncements.

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

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

Notes to Basic Financial Statements

September 30, 2022

(3) Capital Assets

Changes in capital assets for the year ended September 30, 2022 are as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets not being depreciated:					
Land	\$ 223,290	—	—	—	223,290
Construction-in-progress	116,364	24,899	(120,863)	—	20,400
	<u>339,654</u>	<u>24,899</u>	<u>(120,863)</u>	<u>—</u>	<u>243,690</u>
Capital assets being depreciated:					
Land improvements	1,985,207	—	—	—	1,985,207
Buildings	28,518,415	117,531	4,499	—	28,640,445
Tenant improvements	2,488,340	48,616	116,364	—	2,653,320
Other equipment	390,600	—	—	—	390,600
	<u>33,382,562</u>	<u>166,147</u>	<u>120,863</u>	<u>—</u>	<u>33,669,572</u>
Less accumulated depreciation for:					
Land improvements	(1,594,674)	(93,873)	—	—	(1,688,547)
Buildings	(10,964,374)	(767,640)	—	—	(11,732,014)
Tenant improvements	(953,715)	(328,542)	—	—	(1,282,257)
Other equipment	(332,490)	(24,321)	—	—	(356,811)
	<u>(13,845,253)</u>	<u>(1,214,376)</u>	<u>—</u>	<u>—</u>	<u>(15,059,629)</u>
Capital assets being depreciated, net	<u>19,537,309</u>	<u>(1,048,229)</u>	<u>120,863</u>	<u>—</u>	<u>18,609,943</u>
Capital assets, net	\$ <u>19,876,963</u>	<u>(1,023,330)</u>	<u>—</u>	<u>—</u>	<u>18,853,633</u>

Depreciation expense totaled \$1,214,376 for the year ended September 30, 2022.

(4) Property Taxes

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

(5) Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended September 30, 2022 are as follows:

	<u>September 30, 2022</u>					
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Less amounts due within one year</u>	<u>Noncurrent liabilities</u>
Notes payable	\$ 20,721,455	—	(1,342,175)	19,379,280	1,390,309	17,988,971

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

Notes to Basic Financial Statements

September 30, 2022

(6) Notes Payable

(a) Notes Payable

Notes payable from direct borrowings consisted of the following at September 30, 2022:

PNC Bank promissory note, 4.38%, payable through 2028	\$ 11,244,904
University of South Alabama, 3.00%, payable through 2023	406,174
Hancock Whitney promissory note, 3.08%, payable through 2031	<u>7,728,202</u>
	<u>\$ 19,379,280</u>

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

The promissory note payable to the University of South Alabama has a 4-year term and amortization is based on a 4-year term.

The promissory note payable to Hancock Whitney Bank has a 10-year term and is secured by an interest in rental leases and an interest in income received from rental of Building I. 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 the PNC note and the Hancock Whitney note, the University entered into an agreement with both lenders 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. As of September 30, 2022, the Corporation's debt service coverage ratio was 2.10 to 1.

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

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

Notes to Basic Financial Statements

September 30, 2022

(b) Debt Service on Long-Term Obligations

At September 30, 2022, total future debt service by fiscal year is as follows:

	Debt service on notes payable		
	Principal	Interest	Total
2023	\$ 1,390,309	720,389	2,110,698
2024	1,021,701	676,194	1,697,895
2025	1,060,743	637,151	1,697,894
2026	1,101,325	596,570	1,697,895
2027	1,143,506	554,388	1,697,894
2028-2032	13,661,696	709,718	14,371,414
Total	\$ 19,379,280	3,894,410	23,273,690

(c) Derivative Transaction

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

The swap was terminated on June 20, 2018 as part of a transaction refunding the Wells Fargo loan with the proceeds of a loan from PNC Bank. The fee paid by the Corporation to Wells Fargo to terminate the swap was \$1,478,000. Pursuant to GASB Statement No. 65, the fee is reported in deferred outflows on the statement of net position and amortized to interest expense according to the percentage of annual interest paid on the loan from PNC Bank to the total interest to be paid on that loan over the 118 months that were remaining on the Wells Fargo loan when the swap was terminated. As of September 30, 2022, the unamortized balance in deferred outflows was \$760,767.

(7) Leases

The Corporation leases land, buildings, and suites to various lessees under financing leases and short-term leases expiring at various dates through 2057. In Building I, space is leased to five tenants under financing leases. The first lease has a 5-year initial term expiring in October 2023 with two 5-year renewal options. The second lease has a 5-year initial term expiring in August 2024 with one 5-year renewal option. The third lease has a 7.5-year initial term expiring in June 2025 with two 5-year renewal options. The fourth and fifth lease have 5-year terms expiring in April 2024 and July 2024 with no renewal options.

Space in Buildings II and III is leased under both financing leases and short-term leases to the University and various other tenants. The leases have remaining terms varying from month-to-month to seven years.

Under leases for Buildings I, II, and III, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, and insurance. Tenants will reimburse the Corporation for such expenses only as the total expenses for a year increase over the total expenses for the base year of the lease (which generally is the first calendar year of the lease term).

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

Notes to Basic Financial Statements

September 30, 2022

Space under lease to the University was 78,123 square feet at September 30, 2022.

The Corporation owns a building located on the premises of the USA University Hospital, which is leased to a single tenant under a financing lease. 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 had a 10-year initial term, expiring in March 2020, with three 5-year renewal options. The lease was renewed for an additional 5 years, expiring in March 2025, 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, 2022. One lease is for a 40-year initial term expiring in October 2046 with two renewal options, the first for 20-years and the second for 15-years. 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 two renewal options, the first for 20-years and the second for 15-years.

The terms and conditions of each lease agreement vary by tenant with some including early termination options. Of the existing lease agreements, four have early termination options. Two tenants in Building I and two tenants in Building II have options to terminate their lease agreement early if notice is given within the stated timeframe and all, if any, monetary obligations have been met.

For the year ended September 30, 2022, the Corporation recognized a total of \$4,150,685 of inflows of resources from financing leases, of which \$3,691,448 was recognized as lease revenue and \$459,237 was recognized as interest income in other nonoperating revenues.

The following table provides future minimum lease revenue by fiscal year that is included in the measurement of the financing lease receivable:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 3,545,961	380,169	3,926,130
2024	2,047,174	286,713	2,333,887
2025	1,092,368	238,935	1,331,303
2026	630,267	213,385	843,652
2027	450,133	197,250	647,383
2028 - 2032	1,894,747	782,472	2,677,219
2033 - 2037	1,099,221	576,943	1,676,164
2038 - 2042	1,397,759	385,961	1,783,720
2043 - 2047	1,451,499	147,635	1,599,134
2048 - 2052	131,064	35,542	166,606
2052 - 2056	161,843	13,094	174,937
Financing lease receivable	\$ <u>13,902,036</u>	<u>3,258,099</u>	<u>17,160,135</u>

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

Notes to Basic Financial Statements

September 30, 2022

(8) Related Parties

University of South Alabama

The Corporation was formed exclusively for the purpose of supporting the educational and scientific research missions of the University. To ensure this relationship continues, the Corporation's bylaws require its directors to be either University trustees or employees, or approved by the University board of trustees.

During fiscal 2022, the Corporation engaged in several transactions with the University. The University was charged \$1,342,706 during the year ended September 30, 2022, for rental space as described in note 7. The University provides certain administrative, property management, utilities, and other support services to the Corporation, for which the University charged \$472,544 for such services during fiscal year 2022. These charges are reflected in the Corporation's building management and operating expenses as well as legal and administrative fees on the statement of revenues, expenses and changes in net position.

The Corporation has four ground leases with the University for approximately 39 acres of land for \$1.00 per year in connection with the acquisition or construction of buildings held for lease.

(9) Recently Issued Accounting Pronouncements

The GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, in May 2020. Statement No. 95 was effective immediately to provide temporary relief in light of the COVID-19 pandemic by postponing the effective dates of certain provisions of other GASB statements that are effective or scheduled to become effective for periods beginning after June 15, 2018. The effective date of the statements noted below have been adjusted to reflect the postponed effective date as provided by Statement No. 95.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, which will be effective beginning with the fiscal year ending September 30, 2023. The objective of this statement is to clarify the definition of conduit debt obligations, establish that conduit debt is not a liability of the issuer, establish standards for reporting additional commitments and voluntary commitments extended by issuer, and improve note disclosures.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective beginning with the fiscal year ending September 30, 2023. Statement No. 96 requires subscription-based information technology arrangements (SBITA) be recorded as both an intangible asset and a corresponding subscription liability, provides capitalization criteria for outlays related to non-subscription payments, and requires note disclosures for SBITA.

In April 2022, the GASB issued Statement No. 99, *the Omnibus 2022*. The objectives of the statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements and accounting and financial reporting for financial guarantees. The statement extends the use of LIBOR for accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement Nos. 53 and 63 effective upon issuance. The requirements related to leases, PPPs and SBITAs are effective for fiscal

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

Notes to Basic Financial Statements

September 30, 2022

years beginning after June 15, 2022 and the requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*. The statement, effective for periods beginning after June 15, 2023, requires changes in accounting principles and error corrections be reported retroactively by restating prior periods, changes to or within the financial reporting entity to be reported by adjusting beginning balances of the current period and changes in accounting estimates be reported prospectively by recognizing the change in the current period.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, which is effective for fiscal years beginning after December 15, 2023. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.

The effect of the implementation of GASB Statement Nos. 91, 96, 99, 100 and 101 on the Corporation has not yet been determined.



UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY

(A Component Unit of the University of South Alabama)

Basic Financial Statements

September 30, 2022

(With Independent Auditors' Report Thereon)

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

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UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY

(A Component Unit of the University of South Alabama)

Management's Discussion and Analysis (Unaudited)

September 30, 2022

Introduction

The following discussion presents an overview of the financial position and financial activities of the University of South Alabama Health Care Authority (HCA) at September 30, 2022, and for the year then ended. This discussion has been prepared by HCA management and should be read in conjunction with the basic financial statements and notes thereto, which follow.

Financial Highlights

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

At September 30, 2022 and 2021, HCA had total assets of \$38,781,000 and \$13,785,000; total liabilities and deferred inflows of \$22,975,000 and \$6,975,000; and net position of \$15,806,000 and \$6,810,000, respectively.

The annual change in net position for HCA is primarily the result of the timing of support payments from the University, which are largely made based on cash flow needs. During the year ended September 30, 2022 support payments were made at an accelerated rate as HCA invested in infrastructure and capital assets. There were over \$10,000,000 of additions to construction in progress during the fiscal year ended September 30, 2022.

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

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

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
(A Component Unit of the University of South Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2022

Condensed Financial Information

Condensed financial information for HCA as of and for the years ended September 30, 2022 and 2021 is as follows (in thousands):

Condensed Schedule of Net Position
(In thousands)

	2022	2021
Assets:		
Current	\$ 8,756	8,437
Capital assets	17,052	5,348
Other noncurrent assets	12,973	
Total assets	\$ 38,781	13,785
Liabilities:		
Current	\$ 11,193	6,771
Noncurrent	10,197	204
Total liabilities	21,390	6,975
Deferred inflows	1,585	—
Total liabilities and deferred inflows	\$ 22,975	6,975
Net position:		
Net investment in capital assets	\$ 16,392	5,165
Unrestricted (deficit)	(586)	1,645
Total net position	\$ 15,806	6,810

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY

(A Component Unit of the University of South Alabama)

Management's Discussion and Analysis (Unaudited)

September 30, 2022

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

(In thousands)

	<u>2022</u>	<u>2021</u>
Operating revenues:		
Net patient service revenues	\$ 39,436	27,906
Other operating revenues	8,536	2,208
Total operating revenues	<u>47,972</u>	<u>30,114</u>
Operating expenses:		
Salaries and benefits	42,355	33,283
Other operating expenses	29,652	16,488
Total operating expenses	<u>72,007</u>	<u>49,771</u>
Operating loss	(24,035)	(19,657)
Nonoperating revenues:		
Support from affiliate	33,189	25,765
Other nonoperating revenues and expenses, net	(158)	471
(Decrease) increase in net position	8,996	6,579
Net position at beginning of year	<u>6,810</u>	<u>231</u>
Net position at end of year	<u>\$ 15,806</u>	<u>6,810</u>

Analysis of Financial Position and Results of Operations

Statement of Net Position

The statement of net position presents the assets, liabilities and deferred inflows, and net position of HCA at September 30, 2022. Net position is displayed in two parts: net investment in capital assets and unrestricted. Net investment in capital assets represents HCA's capital assets less accumulated depreciation and outstanding principal balances of the debt attributable to the acquisition, construction, or improvement of those assets. Unrestricted net position is available for use by HCA to meet current expenses for any purpose. The statement of net position, along with all of HCA's basic financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by HCA, regardless of when cash is exchanged.

Assets included in the statement of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, patient receivables, and the current portion of financing lease receivables. Of these amounts, cash and cash equivalents comprise approximately 45% and 41% of current assets at September 30, 2022 and 2021, respectively. Patient receivables comprise approximately 31% of current assets at both September 30, 2022 and 2021. Current assets consist of cash and cash equivalents of approximately \$3,970,000 and \$3,524,000, patient accounts receivable of approximately \$2,734,000 and

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\$2,641,000, inventories of approximately \$87,000 and \$74,000, current portion of financing lease receivables of approximately \$248,000 and \$0, and other current assets in the amount of approximately \$1,717,000 and \$2,199,000 at September 30, 2022 and 2021, respectively. Noncurrent assets consist of capital assets of approximately \$17,052,000 and \$5,348,000, noncurrent portion of financing lease receivable of approximately \$1,348,000 and \$0, and other noncurrent assets of \$11,626,000 and \$0 at September 30, 2022 and 2021, respectively.

Current liabilities at September 30, 2022 consist of accounts payable of approximately \$5,788,000, accrued salaries and wages of approximately \$3,523,000, and current portion of financing lease obligations of approximately \$1,882,000. Current liabilities at September 30, 2021 consist of accounts payable of approximately \$3,923,000, accrued salaries and wages of approximately \$2,064,000, unrecognized revenue of approximately \$770,000, and current portion of financing lease obligations of approximately \$14,000. Noncurrent liabilities at September 30, 2022 consist of other noncurrent liabilities of approximately \$221,000 and financing lease obligations of approximately \$9,976,000. Noncurrent liabilities at September 30, 2021 consist of other noncurrent liabilities of approximately \$195,000 and financing lease obligations of approximately \$10,000.

HCA implemented the standards under GASB Statement No. 87, *Leases*, in fiscal year 2022 and was impacted as both a lessee and a lessor. As a lessee, HCA recorded financing lease right-of-use assets of approximately \$12,890,000 and related financing lease liabilities in the same amount. As a lessor, HCA recorded financing lease receivables of approximately \$1,635,000 and related deferred inflows of resources. Further discussion of the implementation of GASB Statement No. 87 and the related financing lease assets and liabilities can be found in Notes 1(f) and 4.

Deferred inflows in 2022 result from the implementation of GASB Statement No. 87, *Leases*, and represent HCA's right to receive lease revenue in future reporting periods. At September 30, 2022, deferred inflows approximated \$1,585,000.

Statement of Revenues, Expenses, and Changes in Net Position

The change in total HCA net position is based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of the statement is to present the change in net position resulting from revenues earned and expenses incurred by HCA.

For the year ended September 30, 2022, HCA reported an increase in net position of approximately \$8,997,000, and for the year ended September 30, 2021, HCA reported an increase in net position of approximately \$6,579,000.

Statement of Cash Flows

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

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Capital Assets and Debt Administration

Total capital asset additions for HCA were approximately \$12,776,000 and \$4,000,000 in 2022 and 2021, respectively. Significant construction projects that remain in progress at September 30, 2022 included a Physicians' Office Building and Medical Office Building. A major project that was completed and placed into service in fiscal year 2022 include a renovation to the Coastal OBGYN clinic. At September 30, 2022, HCA had outstanding commitments of approximately \$412,000 for various capital projects. Additional information regarding HCA's capital assets is included in note 3.

Economic Outlook

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

During the second fiscal quarter of 2020, the United States was thrust into the midst of a pandemic health crisis related to the spread of the 2019 novel coronavirus, or COVID-19 (the "Crisis"). HCA operations have returned to a normal level with a minimum impact on the finances of HCA.

Requests for Information

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



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

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the University of South Alabama Health Care Authority (HCA), a component unit of the University of South Alabama, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise HCA's basic financial statements for the year then ended as listed in the table of contents.

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from



fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HCA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HCA's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2022 on our consideration of HCA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance



and the results of that testing, and not to provide an opinion on the effectiveness of HCA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HCA's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
December 1, 2022

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

Statement of Net Position

September 30, 2022

Current assets:	
Cash and cash equivalents	\$ 3,970,062
Patient receivables (net of allowance for doubtful accounts of approximately \$1,708,000)	2,734,055
Inventories	87,069
Financing lease receivable, current portion	247,912
Other current assets	<u>1,717,043</u>
Total current assets	8,756,141
Noncurrent assets:	
Capital assets, net	17,051,565
Financing lease right-of-use assets, net	11,611,187
Financing lease receivable, less current portion	1,347,539
Other noncurrent assets	<u>15,000</u>
Total noncurrent assets	<u>30,025,291</u>
Total assets	<u>\$ 38,781,432</u>
Current liabilities:	
Accounts payable and accrued liabilities	\$ 5,787,804
Accrued salaries and wages	3,522,926
Financing lease obligations, current portion	<u>1,882,370</u>
Total current liabilities	11,193,100
Noncurrent liabilities:	
Other noncurrent liabilities	220,768
Financing lease obligations, less current portion	<u>9,976,205</u>
Total noncurrent liabilities	10,196,973
Deferred inflows	<u>1,584,993</u>
Total liabilities and deferred inflows	<u>\$ 22,975,066</u>
Net position:	
Net investment in capital assets	\$ 16,392,485
Unrestricted (deficit)	<u>(586,119)</u>
Total net position	<u>\$ 15,806,366</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
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Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2022

Operating revenues:	
Patient service revenues (net of provision for bad debts of approximately \$1,057,000)	\$ 39,436,085
Other operating revenues	8,536,464
Total operating revenues	<u>47,972,549</u>
Operating expenses:	
Salaries and benefits	42,354,971
Building and equipment expenses	5,325,426
Medical and surgical supplies	4,789,322
Other expenses	16,709,684
Depreciation and amortization	2,827,849
Total operating expenses	<u>72,007,252</u>
Operating loss	<u>(24,034,703)</u>
Nonoperating revenues (expenses):	
Investment income	12,952
Support from University of South Alabama	33,188,768
Interest expense	(485,016)
Other nonoperating revenues	314,602
Total nonoperating revenues, net	<u>33,031,306</u>
Increase in net position	8,996,603
Net position at beginning of period	<u>6,809,763</u>
Net position at end of period	<u>\$ 15,806,366</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
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Statement of Cash Flows

Year ended September 30, 2022

Cash flows from operating activities:	
Receipts from and on behalf of patients and third-party payors	\$ 38,573,050
Payments to suppliers and vendors	(24,004,374)
Payments to employees and related benefits	(42,161,058)
Other operating receipts	<u>9,319,192</u>
Net cash used in operating activities	<u>(18,273,190)</u>
Cash flows from noncapital financing activities:	
Support from University of South Alabama	<u>33,188,768</u>
Net cash provided by noncapital financing activities	<u>33,188,768</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(12,498,508)
Proceeds from sales of capital assets	314,602
Principal payments on financing leases	(1,851,799)
Interest payments on financing leases	<u>(431,698)</u>
Net cash used in capital and related financing activities	(14,467,403)
Cash flows from investing activities:	
Interest and dividends on investments	12,952
Purchase of equity investment	<u>(15,000)</u>
Net cash used in capital and related financing activities	<u>(2,048)</u>
Net increase in cash and cash equivalents	446,127
Cash and cash equivalents:	
Beginning of year	<u>3,523,935</u>
End of year	<u>\$ 3,970,062</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (24,034,703)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	2,827,849
Changes in assets and liabilities, net:	
Net patient receivables	(93,464)
Inventories and other current assets	(1,127,110)
Accounts payable and accrued liabilities	4,923,809
Unrecognized revenue	<u>(769,571)</u>
Net cash used in operating activities	<u>\$ (18,273,190)</u>
Noncash capital and related financing transactions:	
Addition of financing lease obligations	\$ 820,209
Increase in accounts payable related to capital assets	277,960

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
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Notes to Basic Financial Statements

September 30, 2022

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The accompanying basic financial statements present the financial position and activities of the University of South Alabama Health Care Authority (HCA), which is a component unit of the University of South Alabama (the University).

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

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

Over the past several years, HCA has formed not-for-profit limited liability companies to manage the complex patient and insurance billings. HCA is the sole member of these LLCs. Three of such not-for-profit limited liability companies were formed during fiscal year 2022. Governmental Accounting Standards Board (GASB) requires HCA, as the primary government, to include in its basic financial statements, as a blended component unit, organizations that, even though they are legally separate entities, meet certain requirements. Based on these requirements, HCA reports Mobile Heart USA, LLC, USA HCA OBGYN Services, LLC, USA HCA PBC, LLC, USA Health Industrial Medicine, LLC, USA Health IPA, LLC, USA Health Daphne Family Practice, LLC and USA Health Mobile County ASC, LLC as blended component units. All significant transactions among HCA and its blended component unit have been eliminated.

In August 2020, HCA formed USA Health IPA, LLC (the IPA), a limited liability company of which HCA is the sole member. The IPA was formed to operate an independent physician association, which began in August 2021. Revenues of approximately \$3,531,000 of the IPA are included within other operating revenues on the statement of revenues, expenses, and changes in net position. Expenses of approximately \$3,094,000 of the IPA are included within other expenses on the statement of revenues, expenses, and changes in net position. All significant transactions among HCA and the IPA have been eliminated. The IPA has a calendar year end, which differs from HCA's September 30 year end. In accordance with GASB Statement No. 14 and GASB Statement No. 61, HCA has included the IPA's financial statements for the year ended December 31, 2021 in HCA's financial statements as of September 30, 2022. For the nine months ended September 30, 2022 the IPA has paid approximately \$780,000 in claims to HCA.

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In 2020, USA formed a majority owned limited liability company, USA BC ASC Holdco, LLC, which is anticipated to be an equity method investment. USA BC ASC Holdco, LLC also owns 100% of USA Baldwin County ASC, LLC. There has been no financial activity to date for USA BC ASC Holdco, LLC or USA Baldwin County ASC, LLC.

During fiscal year 2022, HCA obtained an equity interest in a multi-member limited liability company, USA Fairhope Physician Investors, LLC (FPI). FPI is considered a component unit of HCA under the provisions of GASB Statement Nos. 14, *The Financial Reporting Entity*, and 61, *The Financial Reporting Entity: Omnibus—An Amendment of GASB Statements No. 14 and No. 34*. However, HCA does not consider the operations of this entity to be significant enough to warrant inclusion of the discrete component unit financial statements within these financial statements. HCA's equity interest in FPI is presented within other noncurrent assets on the 2022 statement of net position.

(b) Measurement Focus and Basis of Accounting

For financial reporting purposes, HCA is considered a special-purpose governmental agency engaged only in business-type activities, as defined by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Accordingly, HCA's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

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

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

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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

(e) Cash and Cash Equivalents

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

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

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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 HCA funds on deposit with QPD institutions. At September 30, 2022, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately \$16.8 billion. HCA had cash and cash equivalents in the pool of approximately \$3,970,000 at September 30, 2022.

(f) Patient Receivables

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

(g) Inventories

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

(h) Capital Assets

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

All capital assets other than construction in progress, land, and works of art are depreciated using the following asset lives:

Leasehold improvements	10–20 years
Equipment	4–20 years
Computer software	3–5 years

(i) Financing Leases

Financing leases as a lessee are included in financing lease right-of-use assets and financing lease obligations and the current portion thereof on the statement of net position.

Right-of-use assets represent HCA's right to use an underlying asset for the lease term. Lease obligations represent HCA's liability to make lease payments arising from the lease. Financing lease right-of-use assets and related obligations are recognized at the commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate. The commencement date is either when HCA takes possession of the asset or, in the case of real estate leases, when the landlord makes the building available for use. The incremental borrowing rate is based on the information available at commencement date in determining the present value of lease payments. The value of an option to extend or terminate a lease is reflected to the extent

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it is reasonably certain management will exercise that option. Amortization of right-to-use assets is recognized on a straight-line basis over the lease term or useful life of the asset, whichever is shorter. Interest expense is recognized as a component of the lease payment.

Financing leases as a lessor are included in financing lease receivable and current portion thereof and deferred inflow of resources on the statement of net position.

Financing lease receivable represents HCA's contractual right to receive cash in exchange for the right-to-use an asset for a specific amount of time. Deferred inflow of resources represents HCA's contractual right to receive lease revenue in future reporting periods. Financing lease receivables and related deferred inflows of resources are recognized at the commencement date based on the present value of lease payments to be received over the lease term discounted using an appropriate interest rate. The commencement date is either when the lessee takes possession of the asset or, in the case of real estate leases, when the landlord makes the building or office space available for use. The incremental borrowing rate is based on the information available at the commencement date. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain the lessee will exercise that option. Deferred inflow of resources are recognized on a straight-line basis over the lease term while interest revenue is recognized as a component of the lease payments received.

(j) Classification of Net Position

HCA's net position is classified as follows:

- Net investment in capital assets represents HCA's total investment in capital assets less related debt.
- Unrestricted net position (deficit) represents resources derived from operations and support from the University. While unrestricted net position may be designated for specific purposes, neither management nor the board of directors have designated any part of unrestricted net position for such purposes. HCA's investment in infrastructure and capital assets during fiscal year 2022 has resulted in a deficit of unrestricted net position.

(k) Patient Service Revenues

Patient service revenues are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, and include estimated retroactive revenue adjustments (if necessary) due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

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

For uninsured patients, HCA recognizes revenue based on established rates, subject to certain discounts as determined by HCA. An estimated provision for uncollectible accounts is recorded that results in patient service revenues being reported at the net amount expected to be received. HCA has

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determined that patient service revenues are primarily recorded prior to assessing the patient's ability to pay and as such, the entire provision for uncollectible accounts related to patient revenues are recorded as a deduction from patient service revenues in the accompanying statement of revenues, expenses, and changes in net position.

Patient receivables are reduced by an allowance for doubtful accounts. The allowance for doubtful accounts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverage, major payor sources, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for doubtful accounts to establish an appropriate allowance for doubtful accounts. After satisfaction of amounts due from insurance, HCA follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by HCA.

(I) Recently Adopted Accounting Pronouncements

In 2022, HCA adopted the provisions of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. In addition, HCA adopted the provisions of GASB Statement No. 92, *Omnibus 2020*, which adds clarifying language and implementation guidance for Statement Nos. 73, 74, 84 and 87. HCA also adopted GASB Statement No. 93, *Replacement of Interbank Offered Rates* which addresses financial reporting implications related to the replacement of LIBOR and Statement No. 94, *Public Private and Public-Public Partnerships and Availability Payment Arrangements*. HCA also adopted the provisions of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans (an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32)* in 2022. The objective of Statement No. 97 is to improve consistency and comparability of reporting for those entities who rely on the government to perform the duties of a governing board in its absence, mitigate the costs of reporting for defined contribution plans, and improve relevance, consistency, and comparability of accounting and financial reporting of Section 457 plans that meet the definition of a pension plan. HCA also adopted the provisions of GASB Statement No. 98, *The Annual Comprehensive Financial Report and its acronym ACFR*. The statement, effective for periods after December 15, 2021, replaces instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. There was no significant impact to HCA in 2022 related to these statements.

In 2022, HCA adopted the provisions of GASB Statement No. 87, *Leases*, which 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. GASB Statement No. 87 required HCA to record financing lease right-of-use assets and the corresponding current and noncurrent portions of financing lease liabilities for non-cancellable, long-term contracts related to use of tangible property under which HCA is the lessee. In addition, GASB Statement No. 87 required HCA to record the current and

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Notes to Basic Financial Statements

September 30, 2022

noncurrent portions of financing lease receivables and the corresponding deferred inflow of resources for non-cancellable, long-term contracts related to use of tangible property under which HCA is the lessor. Impact of the adoption to prior periods was not material to the financial statements. See Note 4 for a further discussion.

(2) Income Taxes

HCA was incorporated in Alabama as a public corporation. HCA is an instrumentality of the State of Alabama by virtue of its control by the University. As an integral part of the State of Alabama, the income of HCA is exempt from federal and state income taxes. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements.

In addition, HCA's blended 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 these designations, no provision for income taxes has been made in the accompanying basic financial statements.

(3) Capital Assets

A summary of HCA's capital assets activity for the year ended September 30, 2022 is as follows:

	2022				Ending balance
	Beginning balance	Additions	Transfers	Reductions	
Capital assets not being depreciated:					
Construction in progress	\$ 2,245,479	10,907,161	(951,635)	(1,650)	12,199,355
works for art	1,400	—	—	—	1,400
	<u>2,246,879</u>	<u>10,907,161</u>	<u>(951,635)</u>	<u>(1,650)</u>	<u>12,200,755</u>
Capital assets being depreciated:					
Leasehold improvements	1,013,698	1,109,219	839,120	(278,541)	2,683,496
Equipment	3,367,252	760,088	112,515	(145,531)	4,094,324
Computer software	128,678	—	—	—	128,678
	<u>4,509,628</u>	<u>1,869,307</u>	<u>951,635</u>	<u>(424,072)</u>	<u>6,906,498</u>
Less accumulated depreciation for:					
Leasehold improvements	(85,808)	(147,478)	—	37,176	(196,110)
Equipment	(1,306,975)	(551,857)	—	44,387	(1,814,445)
Computer software	(15,805)	(29,328)	—	—	(45,133)
	<u>(1,408,588)</u>	<u>(728,663)</u>	<u>—</u>	<u>81,563</u>	<u>(2,055,688)</u>
Capital assets being depreciated, net	<u>3,101,040</u>	<u>1,140,644</u>	<u>951,635</u>	<u>(342,509)</u>	<u>4,850,810</u>
Capital assets, net	<u>\$ 5,347,919</u>	<u>12,047,805</u>	<u>—</u>	<u>(344,159)</u>	<u>17,051,565</u>

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
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Notes to Basic Financial Statements

September 30, 2022

Depreciation expense totaled \$728,663 for the year ended September 30, 2022.

At September 30, 2022, HCA had commitments of \$411,693 related to various construction projects.

(4) Financing Leases

Lessee Activities

HCA determines whether an arrangement is a lease at inception by evaluating whether the contract conveys the right to use an identified asset and whether HCA obtains substantially all of the economic benefits from and has the right to control the asset. Any lease identified as a financing lease is recorded as a right-of-use asset with a related financing lease liability. Financing lease right of use assets and related obligations are recognized at the commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate. Amortization of right of use assets is recognized on a straight-line basis over the lease term or useful life of the asset, whichever is shorter. Interest expense is recognized as a component of the lease payment and recorded as such in the statement of revenues, expenses, and changes in net position. The difference in methodology between the amortization of the right of use asset and the reduction in liability balance related to principal payments will result in a difference between the net right of use asset and related financing lease liability.

A summary of HCA's financing lease right-of-use assets activity for the year ended September 30, 2022 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Right-of-use assets:					
Buildings	\$ 12,824,306	806,055	—	(135,429)	13,494,932
Equipment	65,858	14,154	—	—	80,012
	<u>12,890,164</u>	<u>820,209</u>	<u>—</u>	<u>(135,429)</u>	<u>13,574,944</u>
Less accumulated amortization for right-of-use:					
Buildings	—	(2,061,642)	—	135,429	(1,926,213)
Equipment	—	(37,544)	—	—	(37,544)
	<u>—</u>	<u>(2,099,186)</u>	<u>—</u>	<u>135,429</u>	<u>(1,963,757)</u>
Right-of-use assets, net	<u>\$ 12,890,164</u>	<u>(1,278,977)</u>	<u>—</u>	<u>—</u>	<u>11,611,187</u>

HCA leases various buildings and equipment under financing leases expiring at various dates through 2032.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
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Notes to Basic Financial Statements

September 30, 2022

Aggregate future minimum lease payments under noncancelable financing leases as of September 30, 2022, by fiscal year, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 1,882,370	439,711	2,322,081
2024	1,853,452	365,277	2,218,729
2025	1,875,832	290,670	2,166,502
2026	1,670,549	219,057	1,889,606
2027	1,682,709	152,405	1,835,114
2028 - 2032	<u>2,893,663</u>	<u>196,237</u>	<u>3,089,900</u>
	<u>\$ 11,858,575</u>	<u>1,663,357</u>	<u>13,521,932</u>

These amounts are included in financing lease obligations and current portion thereof in the accompanying statement of net position.

HCA has commitments under leases before the commencement of the lease term of \$15,562,417 as of September 30, 2022.

Lessor Activities

HCA subleases buildings and suites to the University of South Alabama under financing leases expiring at various dates through 2032. For the year ended September 30, 2022, HCA recognized a total of \$60,239 of inflows of resources from leases, of which \$49,573 was recognized as lease revenue and \$10,666 was recognized as interest income. Lease revenue is included within other operating revenues and interest income is included within investment income on the statement of revenues, expenses, and changes in net position.

(5) Patient Service Revenues

HCA has agreements with governmental and other third-party payors that provide for reimbursement to HCA at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between HCA's billings at established rates and amounts reimbursed by third-party payors. Third-party payor activity for HCA principally involves Blue Cross, Medicare, and Medicaid programs. Services rendered to beneficiaries under these programs are generally paid at prospectively determined procedural rates.

For patient accounts receivables associated with self-pay or uninsured patients, including patients with deductibles and copayment balances for third-party coverage, HCA records an estimated allowance for doubtful accounts. The allowance for doubtful accounts is approximately \$1,708,000 at September 30, 2022.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
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Notes to Basic Financial Statements

September 30, 2022

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

Gross patient service revenues	\$	67,970,751
Provision for contractual and other adjustments		(27,478,055)
Provision for bad debts		<u>(1,056,611)</u>
Net patient service revenues	\$	<u><u>39,436,085</u></u>

The composition of gross patient service revenues before the provision for contractual and other adjustments and the provision for bad debts by major payor source is as follows for the year ended September 30, 2022:

	<u>Gross patient service revenues</u>	<u>Percentage</u>
Blue Cross	\$ 25,300,006	37 %
Medicare managed care	17,658,561	26
Medicare	9,169,922	13
Other	7,825,970	12
Medicaid	6,688,221	10
Self-pay	<u>1,328,071</u>	<u>2</u>
	<u><u>\$ 67,970,751</u></u>	<u><u>100 %</u></u>

(6) Related Party Transactions

During the year ended September 30, 2022, the University provided support of approximately \$33,189,000 to HCA. That amount is reflected on the accompanying statement of revenues, expenses, and changes in net position as nonoperating revenues.

During the fiscal year ended September 30, 2022, the University was charged a total of \$60,239 for rental space as described in note 4. The total financing lease receivable balance recorded by HCA is related to subleases to the University.

(7) Business and Credit Concentrations

HCA grants credit to patients, substantially all of whom reside in HCA's service area. HCA generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, preferred provider arrangements, and commercial insurance policies).

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

Notes to Basic Financial Statements

September 30, 2022

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

Medicare managed care	27 %
Self-pay	25
Blue Cross	16
Other	14
Medicare	9
Medicaid	9
	100 %

(8) Employee Benefits

(a) Pension Plans

Employees of HCA participate in a combined deferred compensation plan/money purchase pension plan arrangement. The arrangement covers all eligible employees, and participation by eligible employees is optional. Under this plan, administered by HCA, contributions by eligible nonphysician employees are matched equally by HCA up to a maximum of 5% of current annual pay. Contributions by eligible physician employees up to the 457(b) deferred compensation plan limit are matched at a 25% rate by HCA. HCA contributed \$770,616 for the year ended September 30, 2022, representing 331 employees in this plan. These contributions are included within salaries and benefits expenses on the statement of revenues, expenses, and changes in net position.

Physician employees of HCA also have the option to participate in a second money purchase pension plan. This plan is funded entirely by pretax deductions from the participating physicians' salaries.

(b) Compensated Absences

Regular HCA employees accumulate paid time off (PTO). These are subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Employees that are hired by HCA directly from clinics where they were previously employed are grandfathered in with their date of hire. Employees hired before January 1, 2012 are eligible for payout of their PTO. Anyone hired after January 1, 2012 is not eligible for payment of PTO hours upon separation of employment. The accompanying statement of net position includes accruals for PTO of approximately \$241,000 at September 30, 2022. The accrual is included in accrued salaries and wages in the accompanying basic financial statements.

(9) Risk Management

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

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

Notes to Basic Financial Statements

September 30, 2022

HCA, along with the University and other entities affiliated with the University, participates in a self-insured health plan, which is administered by an unaffiliated entity. Contributions by employees and assets of the participating entities, together with earnings thereon, are used to pay liabilities arising from healthcare claims. Any risk related to the payment of claims is the responsibility of the plan. It is the opinion of HCA management that plan assets are sufficient to meet future plan obligations.

(10) Blended Component Unit

As more fully described in Note 1, HCA reports USA Health IPA, LLC as a blended component unit. Required combining financial information of the blended component unit as of and for the year ended September 30, 2022 is presented below:

Current assets	\$	2,193
Total assets		2,193
Current liabilities		2,193
Total liabilities		2,193
Total net position	\$	—
Operating revenues	\$	3,531
Operating expenses		(3,531)
Operating profit		—
Decrease in net position	\$	—

(11) Recently Issued Accounting Pronouncements

The GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, in May 2020. Statement 95 is effective immediately to provide temporary relief in light of the COVID-19 pandemic by postponing the effective dates of certain provisions of other GASB statements that are effective or scheduled to become effective for periods beginning after June 15, 2018. The effective date of the statements noted below have been adjusted to reflect the postponed effective date as allowed by Statement 95.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, which will be effective beginning with the fiscal year ending September 30, 2023. The objective of this statement is to clarify the definition of conduit debt obligations, establish that conduit debt is not a liability of the issuer, establish standards for reporting additional commitments and voluntary commitments extended by issuers and improve note disclosures.

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

Notes to Basic Financial Statements

September 30, 2022 and 2021

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective beginning with the fiscal year ending September 30, 2023. Statement No. 96 requires subscription-based information technology arrangements (SBITA) be recorded as both an intangible asset and a corresponding subscription liability, provides capitalization criteria for outlays related to non-subscription payments, and requires note disclosures for SBITA.

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of the statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements and accounting and financial reporting for financial guarantees. The statement extends the use of LIBOR for accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement Nos. 53 and 63 effective upon issuance. The requirements related to leases, Public Private and Public-Public Partnerships (PPPs) and SBITAs are effective for fiscal years beginning after June 15, 2022 and the requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*, as an amendment of GASB Statement No. 62. The statement, effective for periods after June 15, 2023, requires changes in accounting principles and error corrections be reported retroactively by restating prior periods, changes to or within the financial reporting entity to be reported by adjusting beginning balances of the current period and changes in accounting estimates be reported prospectively by recognizing the change in the current period.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, which is effective for fiscal years beginning after December 15, 2023. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.

The effect of the implementation of GASB Statement Nos. 91, 96, 99, 100 and 101 on HCA has not yet been determined.



**UNIVERSITY OF SOUTH ALABAMA INTERCOLLEGIATE
ATHLETICS DEPARTMENT**

Statement of Revenues and Expenses

Year Ended September 30, 2022

(With Independent Accountants' Agreed-Upon
Procedures Report Thereon)

**UNIVERSITY OF SOUTH ALABAMA INTERCOLLEGIATE
ATHLETICS DEPARTMENT**

Year ended September 30, 2022

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

Independent Accountants' Agreed-Upon Procedures Report

Josiah R. Bonner, Jr., President
University of South Alabama:

We have performed the procedures enumerated in the attached Appendix I on the University of South Alabama's (the University) Statement of Revenues and Expenses of the Intercollegiate Athletics Department (the Statement) for the year ended September 30, 2022. The University is responsible for the Statement and its compliance with the requirements referenced below.

The University has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of evaluating whether the statement is in compliance with the National Collegiate Athletic Association (NCAA) Bylaw 3.2.4.17. The procedures are specified in The 2022 Agreed-Upon Procedures Guidelines promulgated by the NCAA. This report may not be suitable for any other purpose. No other parties have agreed to or acknowledged the appropriateness of these procedures for the intended purpose or any other purpose.

The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes. We make no representation regarding the appropriateness of the procedures either for the intended purpose or for any other purpose.

The procedures and the associated findings are included in the attached Appendix I. For purposes of this report, all amounts have been rounded to the nearest dollar. For purposes of performing these procedures, no exceptions were reported for differences less than \$10.

Between September 30, 2022 and January 15, 2023, we received one or more preliminary Statements on which to perform our procedures. In performing those procedures, we identified differences which were communicated to the University. The final information included in the Statement represents the revised information reflecting resolution of differences communicated as determined appropriate by the University. We performed the procedures on the revised Statement and the results of those procedures are reflected herein.

We were engaged by the University to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants, which involves us performing the specific procedures agreed to and acknowledged above and reporting on findings based on performing those procedures. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Statement. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.



This report is intended solely for the information and use of the President, management and the Board of Trustees of the University, and is not intended to be, and should not be, used by anyone other than the specified parties.

KPMG LLP

Jackson, Mississippi
January 15, 2023

Statement of Revenues and Expenses – Agreed-Upon Procedures

1. We obtained the University of South Alabama’s (the University) Statement of Revenues and Expenses of the Intercollegiate Athletic Department (Athletic Department) for the year ended September 30, 2022, as prepared by management. We tested the mathematical accuracy of the Statement and the reconciliation prepared by the University of the amounts on the Statement to corresponding amounts in the University’s general ledger after considering the University management’s post-closing and reclassification and elimination entries. We found no exceptions as a result of the procedures.
2. We compared actual 2022 Athletic Department revenues and expenses greater than 10% of total revenues and expenses per the University’s Statement with budgeted amounts. No budget is prepared by management at the same level of detail presented in the Statement for the Athletic Department.

Accordingly, this procedure could not be performed.

3. For individual categories that exceeded 10% of total revenues and expenses per the Statement, we compared actual 2022 Athletic Department revenues and expenses per the University’s Statement to actual Athletic Department revenues and expenses for 2021 and inquired of Athletic Department management as to variances greater than 10%.

No individual revenue or expense line items exceeded the thresholds for explanation, except Athletic Student Aid. We obtained the following explanation from management: Athletic Student Aid decreased from the prior year by approximately 10%, or \$797,000 due to the additional year of eligibility granted to student athletes in 2021 due to the COVID-19 pandemic.

Operating Revenues – Agreed-Upon Procedures

The procedures that we performed on the specific revenue reporting categories greater than 4% of total operating revenues on the Statement are as follows:

4. Student Fees – We compared and agreed student fees reported by the University in the Statement to student enrollments during the same reporting period and recalculated totals. We obtained documentation of the University’s methodology for allocating student fees to intercollegiate athletics programs. As the athletics department reports that an allocation of student fees should be countable as generated revenue, we recalculated the totals of their methodology for supporting that they are able to count each sport. We agreed the calculation to supporting documents such as participant counts reported on the Sports Sponsorship and Demographics Form and student fee totals. We found no exceptions as a result of the procedures.
5. Direct State or Other Governmental Support – We compared direct state or other governmental support per the Statement for the year ended September 30, 2022 with state appropriations, institutional authorizations and/or other corroborative supporting documentation provided by management and recalculated totals. We found no exceptions as a result of the procedures.
6. Direct Institutional Support – We compared the direct institutional support per the Statement for the year ended September 30, 2022 with the institutional supporting budget transfers documentation and other corroborative supporting documentation provided by management and recalculated totals. We found no exceptions as a result of the procedures.
7. Indirect Institutional Support – Athletic Facilities Debt Service – We compared the indirect institutional support per the Statement for the year ended September 30, 2022 with expense payments, cost allocation detail and other corroborative supporting documentation provided by management and recalculated totals. We found no exceptions as a result of the procedures.

8. Guarantees – We obtained a detail of all settlement reports and selected a sample of 5 settlement reports for away games during the year ended September 30, 2022 and agreed each selection to the University's general ledger and/or the Statement and recalculated totals. For each of these selections, we obtained the contractual agreements pertaining to revenues derived from guaranteed contests during the year ended September 30, 2022 and compared and agreed each selection to the University's general ledger and/or Statement and recalculated totals. We found no exceptions as a result of the procedures.
9. Contributions – We compared contributions on the Statement with supporting schedules from the University's accounting records and compared the totals on the supporting schedules to the University's general ledger.

We noted one individual contribution exceeded 10 percent of all contributions received for intercollegiate athletics reported on the Statement for the year ended September 30, 2022. We obtained and reviewed supporting documentation for the individual contribution and recalculated totals. We found no exceptions as a result of the procedures.

10. Conference Distributions (Non Media or Bowl) – We obtained and inspected agreements related to the University's Sunbelt Conference distributions and participation in revenues from tournaments during the year ended September 30, 2022 for relevant terms and conditions. We compared and agreed the related revenues per the agreements to the University's general ledger and the Statement and recalculated totals. We found no exceptions as a result of the procedures.

Operating Expenses – Agreed-Upon Procedures

The procedures that we performed on the specific expense reporting categories greater than 4% of total operating expenses on the Statement are as follows:

11. Athletics Student Aid – We obtained a detail of student athletes from management. We tested the mathematical accuracy of the detail and agreed the total to the Statement. We selected a sample of 60 student-athletes from the listing of institutional student aid recipients during the year ended September 30, 2022. As the University utilizes averages to determine the amount of aid recorded for each student athlete and to calculate the revenue distribution equivalencies within the NCAA Membership Financial Reporting System (FRS) as allowable by the NCAA Bylaws, we obtained the calculation of the amount of aid recorded for each selected student-athlete and tested the mathematical accuracy of the calculation and compared the total to the total aid within the FRS. We also obtained the calculation of the revenue distribution equivalency for each selected student-athlete and tested the mathematical accuracy of the calculation and compared to the value recorded in the FRS. We recalculated totals for each sport and overall. We found no exceptions as a result of the procedures, except that for 17 of the 60 selected student-athletes, the revenue distribution equivalency calculation did not agree to the value recorded in the FRS. We note that these selections were subsequently updated in the FRS and we agreed the updated values to the recalculation without exception.
12. Coaching Salaries, Benefits, and Bonuses Paid by the University – We obtained and inspected a listing of coaches employed by the University during the year ended September 30, 2022. We selected a sample of 11 coaches' contracts including football, and men's and women's basketball from the listing. We compared and agreed the financial terms and conditions of each selection to the related coaching salaries, benefits, and bonuses recorded by the University in the Statement for the year ended September 30, 2022. We obtained and inspected payroll summary registers for the reporting year for each selection. We compared and agreed payroll summary registers from the reporting period to the related coaching salaries, benefits and bonuses paid by the University expense recorded by the University in the Statement for the year ended September 30, 2022. We compared and agreed the totals recorded to any employment contracts executed for the sample selected and recalculated totals. We found no exceptions as a result of the procedures.

13. Support Staff Administrative Compensation, Benefits, and Bonuses Paid by the University – We obtained a listing of support staff employed by the University during the year ended September 30, 2022. We selected a sample of 10 support staff/administrative personnel employed by the University during the year ended September 30, 2022. We obtained and inspected reporting period summary payroll registers for each selection. We compared and agreed related summary payroll registers to the related support staff administrative salaries, benefits and bonuses paid by the University expense recorded by the University in the Statement for the year ended September 30, 2022 and recalculated totals. We found no exceptions as a result of the procedures.
14. Team Travel- We obtained documentation of the University’s team travel policies. We inquired of management as to whether there were any known deviations from NCAA policies and management represented there were none. We obtained the general ledger detail, compared to the total expenses reported in the Statement and recalculated totals. We additionally selected a sample of 9 transactions to validate existence of the transaction and accuracy of recording by agreeing to invoice copies and direct pay requests or purchase orders (as applicable) and recalculated totals. We found no exceptions as a result of the procedures.
15. Sports Equipment, Uniforms and Supplies – We obtained the general ledger detail and compared to the total expenses reported in the Statement. We selected a sample of 12 transactions to validate existence of the transaction and accuracy of recording by agreeing to invoice copies and direct pay requests or purchase orders (as applicable) and recalculated totals. We found no exceptions as a result of the procedures.
16. Athletic Facility Debt Service, Leases and Rental Fees – We obtained a listing of debt service schedules, lease payments and rental fees for athletics facilities for the year ended September 30, 2022. We selected a sample of 10 facility payments, including the top two highest facility payments, and compared to supporting documentation provided by management. We compared amounts recorded in the Statement to amounts listed in the general ledger detail and recalculated totals. We found no exceptions as a result of the procedures.
17. Other Operating Expenses – We obtained the general ledger detail and compared to the total expenses reported in the Statement. We selected a sample of 13 transactions to validate existence of the transaction and accuracy of recording by agreeing to invoice copies and direct pay requests or purchase orders (as applicable) and recalculated totals. We found no exceptions as a result of the procedures.

Additional Minimum Agreed-Upon Procedures

18. Grants-in-Aid – We compared and agreed the sports sponsored reported in FRS to the equivalency calculations from the University. We found no exceptions as a result of the procedures.

We compared 2022 Grants-in-Aid revenue distribution equivalencies totals per the NCAA Membership Financial Reporting Revenue Distribution – Grants in Aid schedule to 2021 reported equivalencies per the Membership Financial Report submission. An unfavorable variance from the 2021 equivalency calculation of 6.77 percent was noted. Management represented that the decline was due to fewer participants in certain sports, which resulted in a decline in individuals receiving aid.

19. Sports Sponsorship – We obtained the University's Sports Sponsorship and Demographics Form submitted to the NCAA for 2022. We validated that the countable NCAA sports reported by the University met the minimum requirements set forth in Bylaw 20.9.6.3 related to the number of contests and the number of participants. We compared the 2022 number of Sports Sponsored to the 2021 reported total per the Membership Financial Report submission. We noted the same number of Sports Sponsored in both 2022 and 2021.

20. Pell Grants – We obtained a detail of student athletes receiving Pell Grants from management. We agreed the total number of Division 1 student-athletes who during the academic year 2021-2022 received a Pell Grant award and the total dollar amount of these Pell Grants reported in the NCAA Membership Financial Reporting System to a report generated out of the University's financial aid records of all student-athletes receiving Pell Grants. We found no exceptions as a result of the procedures. We compared 2022 Pell Grants total to 2021 reported total per the Membership Financial Report submission. No variances were noted greater than 20 grants.

Minimum Agreed-Upon Procedures for Other Reporting Items

21. Total Athletics Related Debt – We obtained repayment schedules for all outstanding intercollegiate athletics debt as of September 30, 2022 from management. We recalculated annual maturities provided in the schedules obtained. We agreed the total annual maturities and total outstanding athletic related debt to the University's Analysis of Athletics Related Debt and Debt Service Schedule, which is reconciled the University's audited financial statements. We found no exceptions as a result of the procedures.

22. Total University Debt – We agreed total outstanding University debt to supporting documentation provided by management and the University's audited financial statements. We found no exceptions as a result of the procedures.

23. Fair Value of Athletics Dedicated Endowments – We obtained a schedule of all athletics dedicated endowments maintained by athletics, the University, and affiliated organizations from management. We agreed the fair value in the schedule to supporting documentation, the general ledger and audited financial statements. We found no exceptions as a result of the procedures.

24. Value of University Endowments – We agreed the total fair value of University endowments to supporting documentation and the University's audited financial statements. We found no exceptions as a result of the procedures.

25. Total Athletics Related Capital Expenditures – We obtained a schedule of athletics related capital expenditures made by athletics and the University during the year ended September 30, 2022 from management. We obtained a general ledger detail and compared to the total expenses reported in the Statement. We selected a sample of 7 transactions to validate existence of the transactions and accuracy of recording and recalculated totals by agreeing the items to the capital assets rollforward details that were reconciled to the University's audited financial statements. We found no exceptions as a result of the procedures.

UNIVERSITY OF SOUTH ALABAMA INTERCOLLEGIATE
ATHLETICS DEPARTMENT

Statement of Revenues and Expenses

Year Ended September 30, 2022

(Unaudited)

NAAC Description	Not Related To Team	Men's Baseball	Men's Basketball	Men's Golf	Men's Tennis	Men's Track	Men's Football	Women's Basketball	Women's Golf	Women's Soccer	Women's Tennis	Women's Track	Women's Volleyball	Women's Softball	Total
Operating Revenues:															
Ticket Sales	\$ 55	68,660	129,173	—	—	—	945,369	5,451	—	—	—	—	—	—	27,541
Direct State and Other Government Support	2,204,687	—	—	—	—	—	—	—	—	—	—	—	—	—	2,204,687
Student Fees	—	241,116	73,383	52,417	41,933	608,032	6,341,955	73,383	36,692	125,800	52,417	503,199	104,833	131,041	8,386,201
Direct Institutional Support	3,858,630	1,061,227	2,141,925	318,505	314,244	85,285	768,459	1,281,796	273,111	717,309	408,631	69,779	628,591	884,495	12,811,987
Indirect Institutional Support – Athletic Facilities Debt Service	5,519,580	—	—	—	—	—	—	—	—	—	—	—	—	—	5,519,580
Guarantees	—	—	125,000	—	—	—	2,500,000	37,000	—	—	—	—	—	—	2,668,000
Contributions	1,492,671	81,330	52,401	19,459	2,400	7,182	40,663	1,300	(3,475)	11,295	1,100	—	23,242	2,000	2,688,000
NCAA Distributions	—	90,963	27,684	19,774	15,820	229,384	268,933	27,684	13,842	47,459	19,774	189,835	39,549	49,436	1,733,840
Conference Distributions (Non Media or Bowl)	—	170,362	51,849	37,035	29,628	429,608	503,678	51,849	25,925	88,884	37,035	355,537	74,070	92,588	1,948,048
Program, Novelty, Parking and Concession Sales	—	7,768	4,318	—	—	—	308,033	—	—	—	—	—	—	—	400
Royalties, Licensing, Advertisement and Sponsorships	147,340	104,475	178,715	—	—	—	439,321	—	—	—	—	—	—	—	869,851
Sports Camps Revenues	6,110	4,438	325	—	67	8,027	6,385	359	—	1,502	—	—	312	1,257	28,782
Athletics Restricted Endowment and Investments Income	454	—	—	—	—	—	—	—	—	—	—	—	—	—	454
Other Operating Revenue	242,842	—	—	38,990	—	34,951	3,942	—	84,904	—	—	—	—	—	405,629
Total Operating Revenues	13,472,369	1,830,339	2,784,773	486,180	404,092	1,402,469	12,126,758	1,478,822	430,999	992,249	518,957	1,118,350	874,597	1,199,030	39,119,994
Operating Expenses:															
Athletic Student Aid	(231,695)	363,894	442,785	178,422	192,386	434,976	2,719,691	491,818	192,683	525,303	298,295	603,695	386,992	352,838	6,952,083
Guarantee Expenses	—	44,562	117,000	—	—	—	500,000	11,800	—	—	—	—	2,000	—	675,362
Coaching Salaries, Benefits and Bonuses Paid by the University	—	687,869	1,017,549	112,945	115,743	177,474	3,603,971	573,018	94,117	268,722	121,817	145,206	253,679	407,063	7,579,173
Support Staff Administrative Compensation, Benefits and Bonuses Paid by the University	3,828,208	13,504	9,450	17,021	13,375	16,467	592,174	11,422	1,292	4,230	4,993	—	—	—	16,492
Severance Payments	—	—	—	—	—	—	4,530	—	—	—	—	—	—	—	4,530
Recruiting	49	36,423	109,257	7,505	—	4,190	268,797	44,583	1,237	9,423	2,833	3,428	23,818	23,607	535,150
Team Travel	9,037	204,072	418,188	36,329	37,764	102,162	1,160,974	180,269	28,038	93,891	50,819	83,987	91,350	210,121	2,706,801
Sports Equipment, Uniforms and Supplies	23,987	140,838	211,692	20,974	29,436	17,410	711,444	53,468	15,400	54,338	26,484	14,244	30,400	107,018	1,457,133
Game Expenses	246,064	55,788	114,689	500	6,254	10,500	473,697	64,741	—	12,631	7,800	—	8,591	7,898	1,037,544
Fundraising, Marketing and Promotions	178,218	—	—	—	—	—	6,350	—	—	—	—	—	—	—	184,568
Sports Camp Expense	—	5,665	—	—	—	1,103	1,146	—	—	—	—	902	852	7,015	16,683
Spirit Groups	333,230	—	—	—	—	—	—	—	—	—	—	—	—	—	333,230
Athletic Facilities Debt Service, Leases and Rental Fees	108,759	743,802	75,400	7,772	—	—	1,728,548	40,600	7,772	—	—	—	—	—	2,712,653
Direct Facilities, Maintenance and Rentals	603,226	5,299	1,729	14,301	—	3,523	94,665	—	465	3,597	—	2,882	562	1,190	731,439
Medical Expense and Medical Insurance	459,608	—	—	—	—	439	351,041	—	—	139	—	359	—	6,053	817,639
Membership and Dues	182,327	39,410	43,331	8,587	1,749	1,403	139,901	23,531	6,738	8,073	500	1,148	13,747	11,425	481,870
Student-Athlete Meals (Non-Travel)	2,534	7,378	44,157	2,327	2,438	192	470,894	20,583	919	13,720	1,988	157	5,583	7,342	580,212
Other Operating Expenses	838,450	38,554	58,205	53,235	119	14,699	351,569	29,007	100,508	38,488	576	12,026	38,912	46,488	1,620,636
Total Operating Expenses	6,582,002	2,387,058	2,663,432	459,918	399,264	784,538	13,179,392	1,544,840	449,169	1,032,555	516,105	876,225	855,793	1,225,043	32,955,334
Excess (deficiency) of revenues over (under) expenses	\$ 6,890,367	(556,719)	121,341	26,262	4,828	617,931	(1,052,634)	(66,018)	(18,170)	(40,306)	2,852	242,125	18,804	(26,013)	6,164,650
Excess Transfers to University	\$ —	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Conference Realignment Expenses	\$ —	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total Athletics Related Debt	\$ 78,158,500	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total University Debt	\$ 459,534,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Fair Value of Athletics Dedicated Endowments	\$ 1,489,826	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Fair Value of University Endowments	\$ 218,586,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total Athletics Related Capital Expenses	\$ 493,253	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total Athletic Fund Balance	\$ 2,822,592	—	—	—	—	—	—	—	—	—	—	—	—	—	—

See accompanying independent accountants' agreed-upon procedures report and notes to statement of revenues and expenses.

**UNIVERSITY OF SOUTH ALABAMA INTERCOLLEGIATE
ATHLETICS DEPARTMENT**

Notes to Statement of Revenues and Expenses

Year ended September 30, 2022

(Unaudited)

(1) Summary of Significant Accounting Policies and Reporting Practices

The accompanying statement of revenues and expenses (the Statement) includes revenue, expense, and transfer accounts of the University of South Alabama Intercollegiate Athletics Department (the Department), which oversees the University of South Alabama's (the University) intercollegiate athletics program. The Statement is not intended to, and does not represent the revenues and expenses of the University. The Statement was prepared in accordance with the accrual basis of accounting.

Included in the Statement are allocations made by the University to the Department, in accordance with the University's practice of allocations.

(2) Financial Aid

The Statement includes athletic financial aid awards for students participating in athletic programs. Financial aid awarded to athletic participants on the basis of other criteria, such as need or academic excellence, is not reflected in the Statement.

(3) Booster Activities

The revenues and expenses of the Jaguar Athletic Fund are recorded in the Statement. The University has no other outside booster clubs.

(4) Capitalization of Assets

Equipment is capitalized if the individual item equals or exceeds \$5,000. Building additions are capitalized per the policies of the University. Depreciation is provided over the estimated useful life of each class of depreciable assets using the straight-line method.

(5) Athletics Facility Related Debt

Future principal payments due through maturity dates are as follows as of September 30, 2022:

2023	\$	2,115,017
2024		2,198,528
2025		2,140,542
2026		2,227,060
2027		2,311,891
Thereafter		<u>67,165,462</u>
	\$	<u><u>78,158,500</u></u>

(6) Contributions

The Department received one individual contribution of approximately \$227,000 which exceeded 10% of the total contributions for the year ended September 30, 2022.

**UNIVERSITY OF SOUTH ALABAMA INTERCOLLEGIATE
ATHLETICS DEPARTMENT**

Notes to Statement of Revenues and Expenses

Year ended September 30, 2022

(Unaudited)

(7) Pledges Dedicated to Athletics

The University has pledges supporting athletics valued at \$7,786,121 as of September 30, 2022.



Alabama Department of Examiners of Public Accounts

Report on the **University of South Alabama Mobile, Alabama**

October 1, 2019 through September 30, 2022

Filed: February 10, 2023

AUDEMUS JURA NOSTRA DEFENDERE
ALABAMA STATE HOUSE

Rachel Laurie Riddle, Chief Examiner



Rachel Laurie Riddle
Chief Examiner

State of Alabama
Department of
Examiners of Public Accounts

P.O. Box 302251, Montgomery, AL 36130-2251
401 Adams Avenue, Suite 280
Montgomery, Alabama 36104-4338
Telephone (334) 242-9200
FAX (334) 242-1775

Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

An examination was conducted on the University of South Alabama, Mobile, Alabama, for the period October 1, 2019 through September 30, 2022, by Examiners Misty Medders and Miranda Taylor. I, Misty Medders, served as the Examiner-in-Charge on the engagement, and under the authority of the *Code of Alabama 1975*, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the examination.

Respectfully submitted,

A handwritten signature in blue ink that reads 'Misty C. Medders'.

Misty C. Medders
Examiner of Public Accounts

rb

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Contains items pertaining to state compliance, University operations and other matters.	
Schedule of State Compliance and Other Findings	C
Contains detailed information about findings pertaining to state legal compliance and other findings.	
Additional Information	1
Provides basic information related to the University.	
Exhibit #1 Board Members and Officials – a listing of the University Board members and officials.	2



Department of
Examiners of Public Accounts

SUMMARY

**University of South Alabama
October 1, 2019 through September 30, 2022**

The University of South Alabama (the “University”) is a public institution of higher learning and awards baccalaureate, masters, educational specialist, doctor of education, doctor of nursing practice, doctor of physical therapy, doctor of audiology, doctor of occupational therapy, doctor of philosophy, and doctor of medicine degrees. The University offers studies in ten colleges/schools: Allied Health Professions, Arts and Sciences, Business, Education and Professional Studies, Engineering, Honors, Medicine, Nursing, Computing, and the Graduate School. A joint pharmacy program between the University and Auburn University has also been established. The University owns and operates University Hospital, University of South Alabama Children’s and Women’s Hospital, and University of South Alabama Mitchell Cancer Institute.

The firm of KPMG, LLP, conducted the financial audits of the University for the fiscal years ended September 30, 2020, 2021, and 2022.

This report presents the results of an examination of the University and a review of compliance by the University with applicable laws and regulations of the State of Alabama in accordance with the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12.

FINDING

The following instance of noncompliance with state laws and regulations and other matters was found during the examination as shown on the Schedule of State Compliance and Other Findings and is summarized below.

- ◆ 2022-001: The University did not comply with the *Code of Alabama 1975*, Section 31-13-15, regarding verification of employment eligibility of new hires.

EXIT CONFERENCE

The following officials/employees were invited to an exit conference to discuss the results of the examination: Polly Stokley, Vice-President for Finance and Administration and Kristen Roberts, Assistant Vice-President for Finance and Administration. The following individuals attended the exit conference: Polly Stokley, Vice-President for Finance and Administration and Kristen Roberts, Assistant Vice-President for Finance and Administration. Representing the Department of Examiners of Public Accounts were Bodie Pickens, Audit Manager and Misty Medders and Miranda Taylor, Examiners.

*Schedule of State Compliance
and Other Findings*

Schedule of State Compliance and Other Findings
October 1, 2019 through September 30, 2022

Ref. No.	Finding/Noncompliance
2022-001	<p><u>Finding:</u> The <i>Code of Alabama 1975</i>, Section 31-13-15 states, “(a) No business entity, employer, or public employer shall knowingly employ, hire for employment, or continue to employ an unauthorized alien to perform work within the State of Alabama. Knowingly employ, hire for employment, or continue to employ an unauthorized alien means the actions described in 8 U.S.C. § 1324a. (b) Effective April 1, 2012, every business entity or employer in this state shall enroll in E-Verify and thereafter, according to the federal statutes and regulations governing E-Verify, shall verify the employment eligibility of the employee through E-Verify. A business entity or employer that uses E-Verify to verify the work authorization of an employee shall not be deemed to have violated this section with respect to the employment of that employee...” A listing of all employees hired between October 1, 2019 through September 30, 2022 was obtained. A total of 7,725 employees were hired and a sample of 25 new hires was selected for review. Due to a lack of policies and procedures requiring that the employment eligibility of all new hires be verified through E-Verify, the University did not verify any of the employees selected. As a result, the University is not in compliance with <i>Code of Alabama 1975</i>, Section 31-13-15, regarding verification of employment eligibility of new hires.</p> <p><u>Recommendation:</u> The University should develop policies and procedures to ensure compliance with <i>Code of Alabama 1975</i>, Section 31-13-15.</p>

Additional Information

Board Members and Officials
October 1, 2019 through September 30, 2022

Board Members		Term Expires
Hon. Kay Ivey, Governor	President, Ex-Officio	
Hon. Arlene Mitchell	Chair Pro Tempore	2027
Hon. Katherine A. Atkins	Vice-Chair	2025
Hon. Lenus M. Perkins	Secretary	2023
Hon. Kenneth O. Simon	Member	2021
Hon. Steven P. Furr, M.D.	Member	2023
Hon. William R. Graham	Member	2023
Hon. Steven H. Stokes, M.D.	Member	2023
Hon. Margie M. Tuckson	Member	2023
Hon. Robert D. Jenkins, III	Member	2025
Hon. Bill W. Lewis II	Member	2025
Hon. Chandra B. Stewart	Member	2025
Hon. Michael P. Windom	Member	2025
Hon. Scott A. Charlton, M.D.	Member	2027
Hon. E. Thomas Corcoran	Member	2027
Hon. James H. Shumock	Member	2027
Hon. James A. Yance	Member	2027

Board Members and Officials
October 1, 2019 through September 30, 2022

Officials

Jo Bonner (Effective December 2, 2021)	President
Dr. John W. Smith (July 1, 2021 through December 1, 2021)	Interim President
Dr. Tony G. Waldrop (Retired June 30, 2021)	President
Polly Stokley (Effective January 1, 2022)	Vice-President for Finance and Administration
Scott Weldon (Retired December 31, 2021)	Vice-President for Finance and Administration
Benny Stover (Effective April 1, 2020)	USA Health Chief Financial Officer
Traci Jones (Through March 31, 2020)	USA Health Chief Financial Officer



2023

Office of Internal Audit Quarterly Report
Key Performance Indicators as of FY23Q1
10/01/2022 to 12/31/2022

Prepared for the:

University of South Alabama Board of
Trustees Audit Committee

Issued: 2/2023

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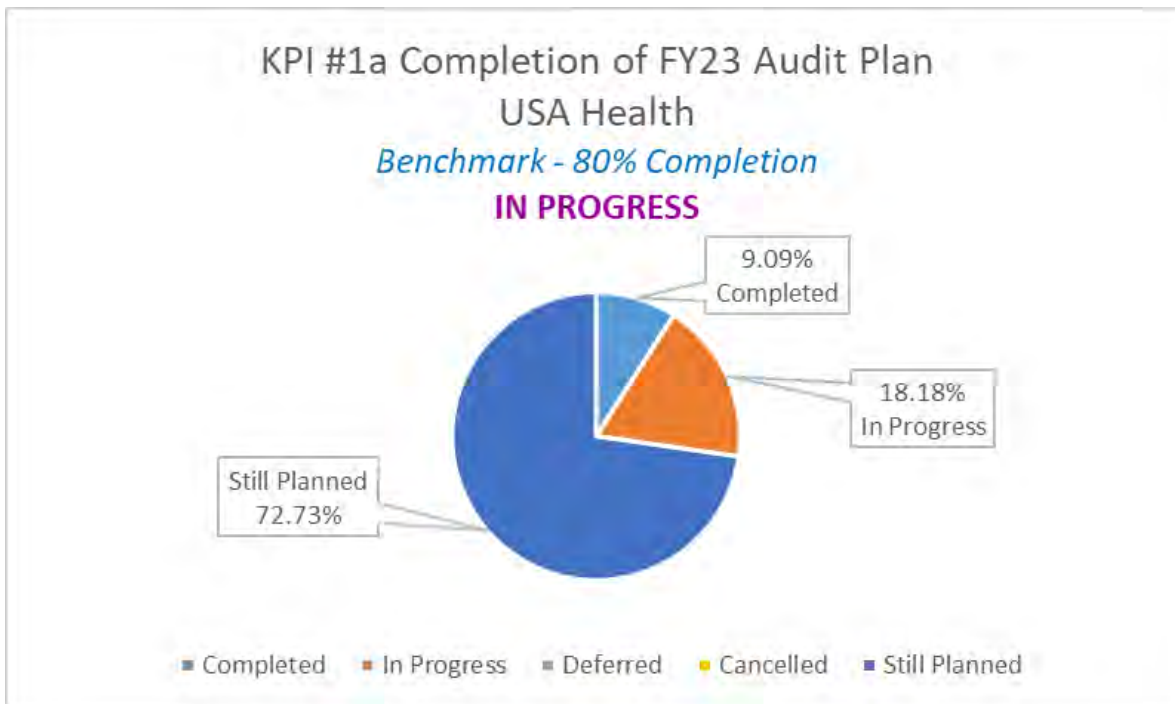
EXECUTIVE SUMMARY

The Fiscal 2023, Quarter I (FY23Q1) Office of Internal Audit (OIA) Quarterly KPI Report provides quantitative and qualitative data for benchmarking key departmental operational factors in addition to an update on outstanding OIA issued recommendations. All data is as of 12/31/2022.

KEY PERFORMANCE INDICATORS

In accordance with the Institute of Internal Auditors (IIA) Standards included as part of the *International Professional Practices Framework (IPPF)*, OIA developed performance measurements designed to evaluate the effectiveness and efficiency of the internal audit function. Five Key Performance Indicator (KPI) areas are being utilized (some with numerous components); Completion of the Audit Plan, Client Satisfaction, Staff Qualifications, Stakeholder Communication and Implementation of 2019 Warren Averett QAR recommendations. A chart or table indicating performance to the established benchmark is included for each of these KPI as well as an indication of **ACHIEVED** or **IN PROGRESS**.

KPI #1 – Completion of the Audit Plan

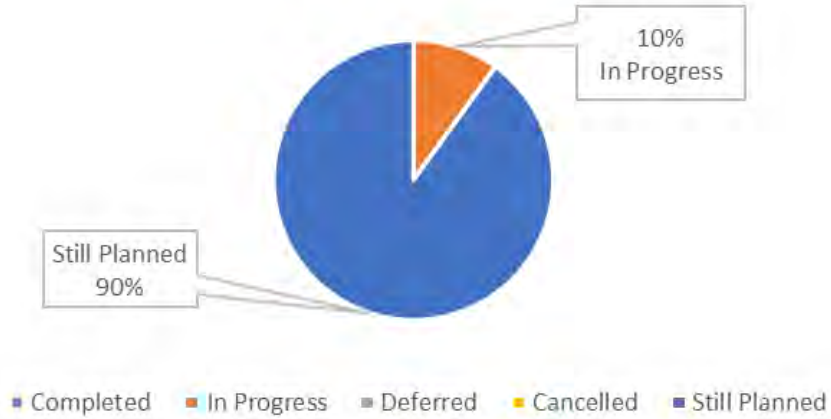


KPI #1b Completion of FY23 Audit Plan

University

Benchmark - 80% Completion

IN PROGRESS

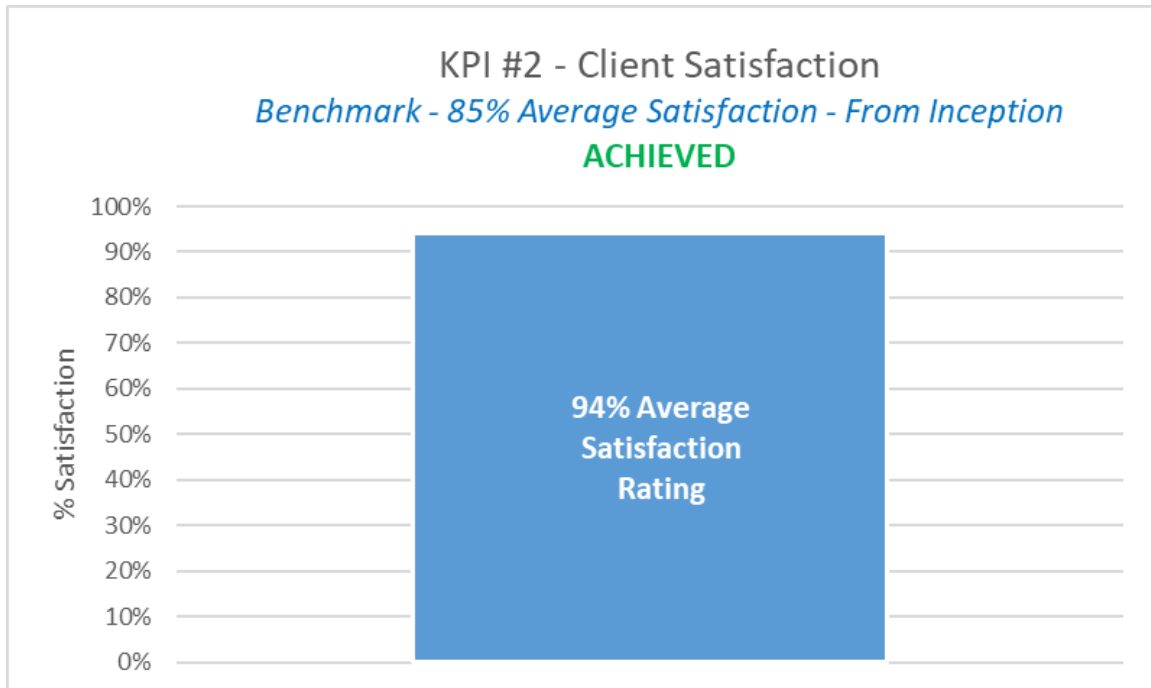


KPI # 2 – Client Satisfaction

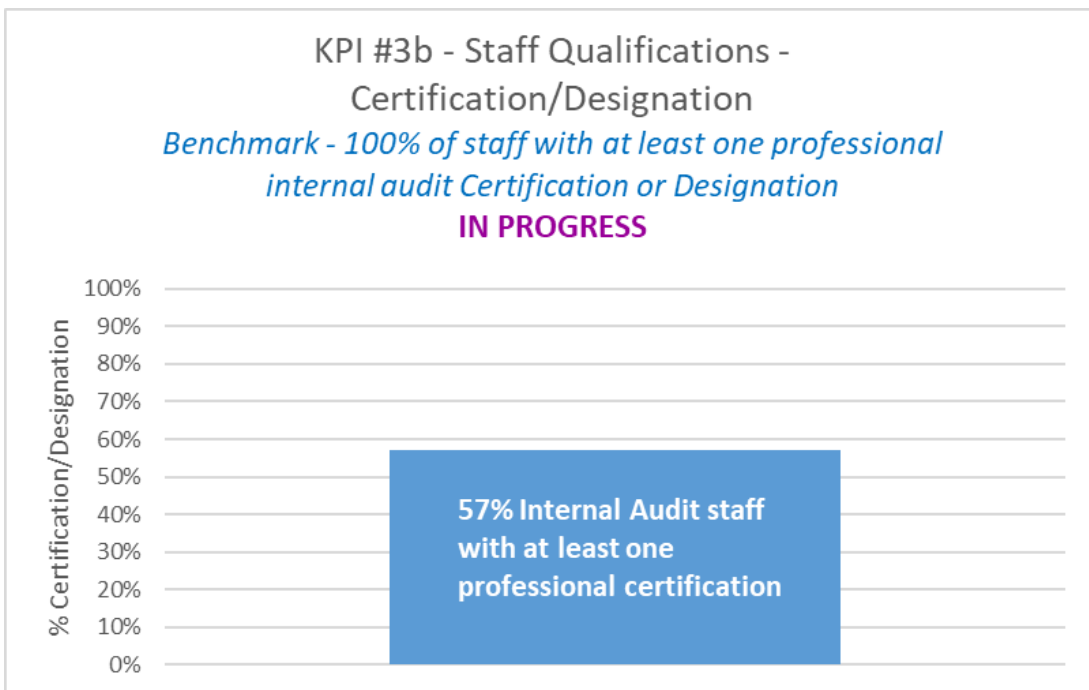
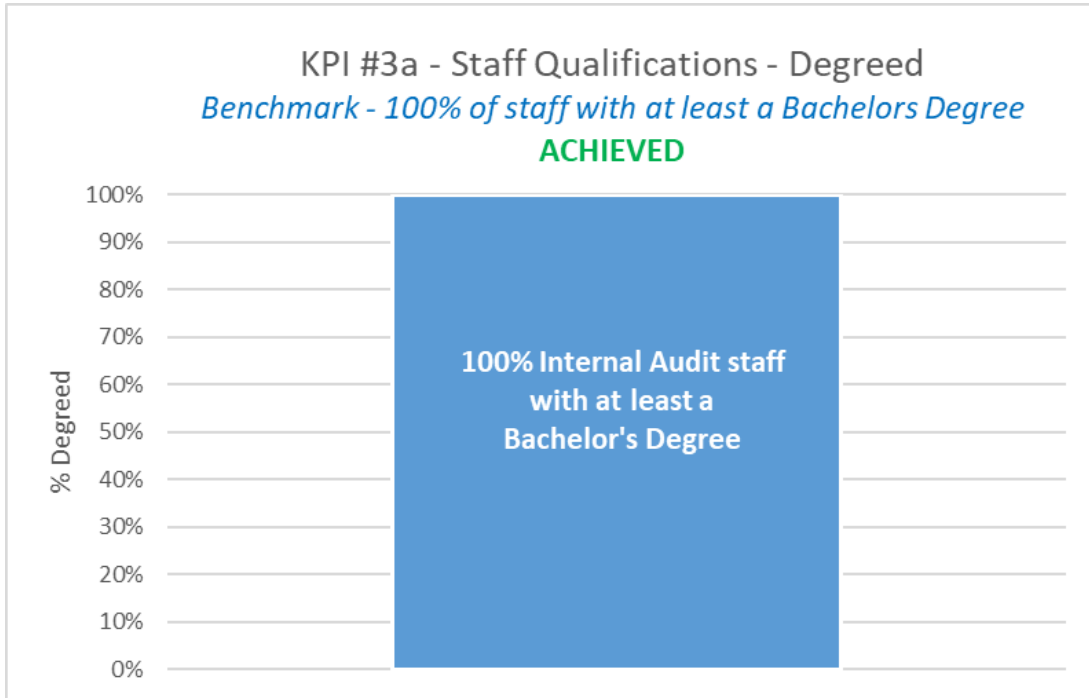
KPI #2 - Client Satisfaction

Benchmark - 85% Average Satisfaction - From Inception

ACHIEVED



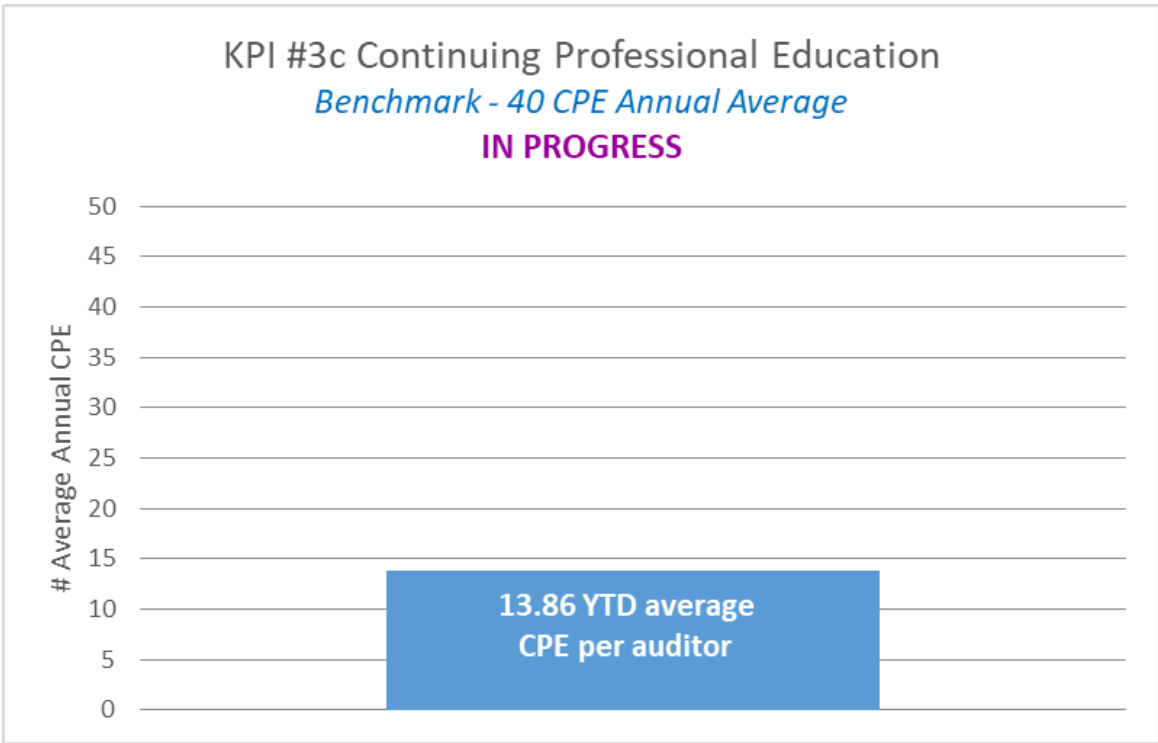
KPI #3 – Staff Qualifications



KPI #3c Continuing Professional Education

Benchmark - 40 CPE Annual Average

IN PROGRESS

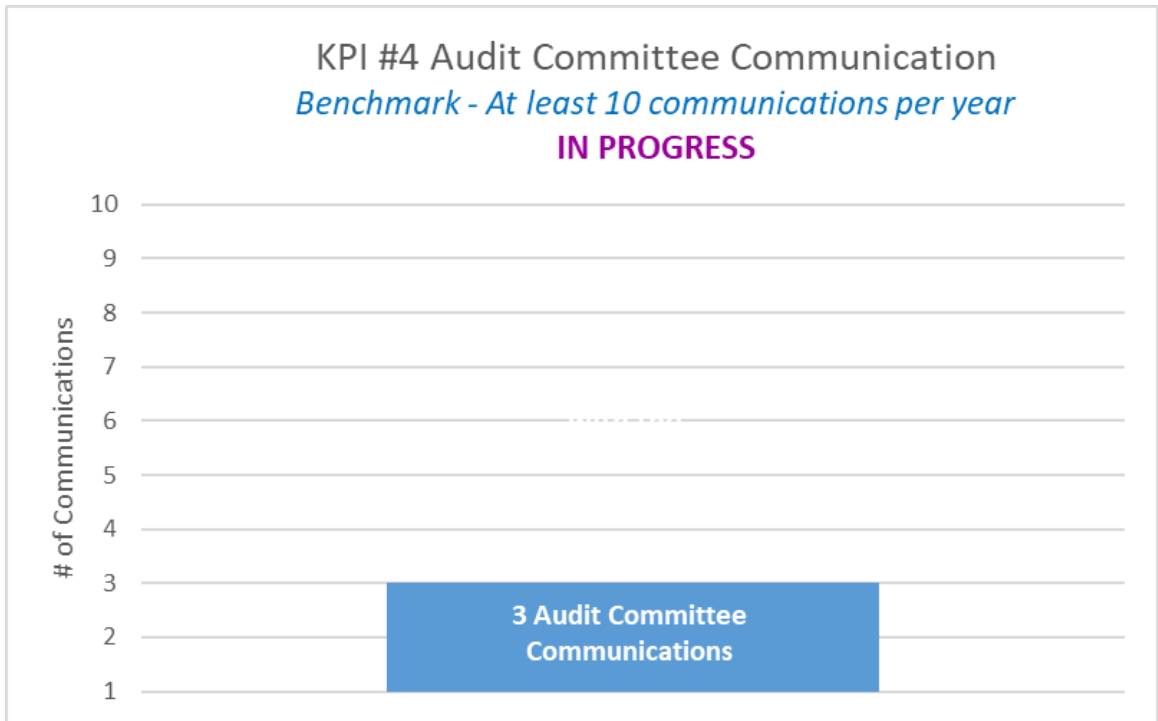


KPI #4 – Stakeholder Communication

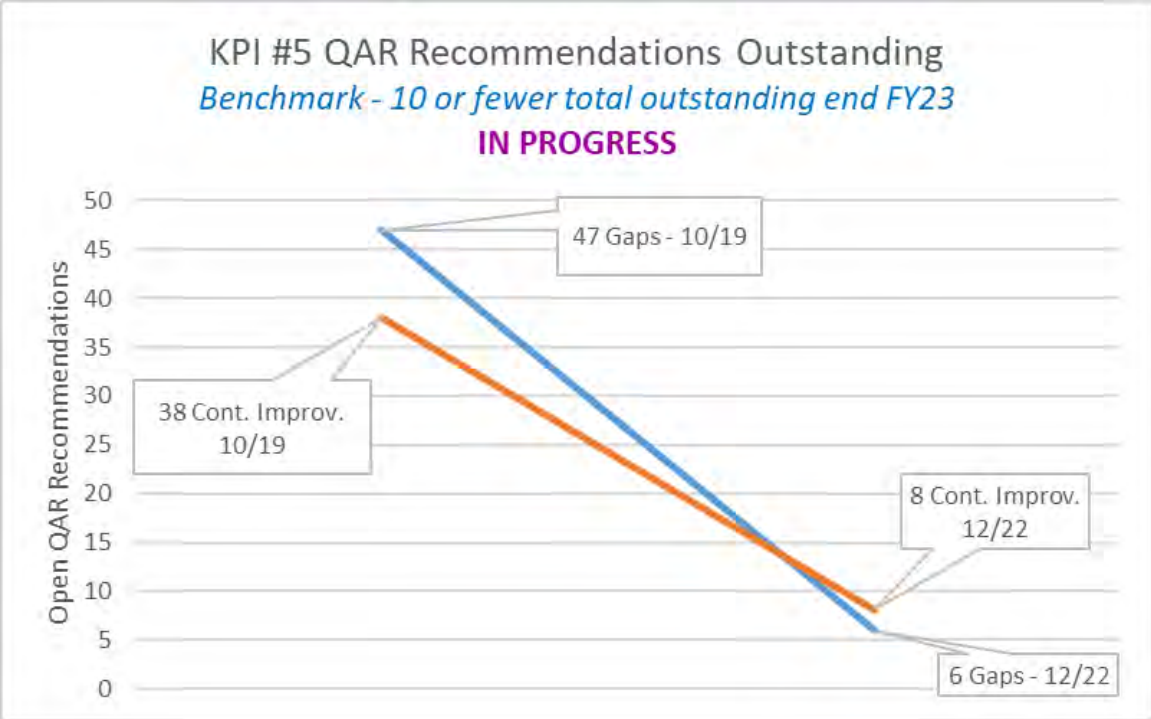
KPI #4 Audit Committee Communication

Benchmark - At least 10 communications per year

IN PROGRESS



KPI #5 – Implementation of 2019 Warren Averett Quality Assessment Review Recommendations



CONTINUOUS & POLICY COMPLIANCE REVIEWS

Beginning in FY23, OIA instituted two additional testing methods to augment the planned audits and required investigations. Review activity is reported in summary on this report, unless there is a need to escalate or report earlier. Statistics in the table are FY23 year-to-date.

- Continuous Review – Testing is typically data-driven and runs automatically “behind the scenes”. OIA works with operational management to ensure any exceptions are cleared in a timely manner.
- Policy Compliance Review – Testing is very limited in scope, and typically tests a specific policy aspect. Compliance or non-compliance is communicated to management via a single-page report.

Review Type	Test	Frequency	# Tested	# Exceptions	Notes
Continuous	Active Directory Deprovisioning	Daily	92	3	Exceptions cleared timely
Policy Compliance	Privacy Notice Display	Adhoc	1	0	All tests compliant

OUTSTANDING ISSUED RECOMMENDATIONS

OIA is required to determine if management has taken appropriate action regarding observations noted in audit reports. OIA created a recommendation tracking process in FY21. This process requests quarterly updates from management as to the implementation status of stated management action plans. The below table provides detail on recommendation activity during FY23Q1.

Description	Period	# of Recommendations
Outstanding Recommendations	Beginning FY23Q1	22
LESS: Management Implemented	During FY23Q1	(3)
LESS: IA Closed (due to follow-up/other)	During FY23Q1	0
LESS: Management Accepted Risk	During FY23Q1	0
ADD: Newly Issued OIA Recommendations	During FY23Q1	8
Outstanding Recommendations	End FY23Q1	27

For further information regarding this report, please contact:

Laura Anne Schratt, MBA, CIA, CRMA - Executive Director of Internal Audit & CFCO

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251-460-6147

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**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**



**DEVELOPMENT, ENDOWMENT
AND INVESTMENTS COMMITTEE**

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

Development, Endowment and Investments Committee

November 30, 2022

1:52 p.m.

A meeting of the Development, Endowment and Investments Committee of the University of South Alabama Board of Trustees was duly convened by Mr. Jim Yance, Chair, on Wednesday, November 30, 2022, at 1:52 p.m. in the Board Room of the Frederick P. Whiddon Administration Building. Meeting attendance was open to the public.

Members: Chandra Brown Stewart, Scott Charlton, Jimmy Shumock, Margie Tuckson, Mike Windom and Jim Yance were present.

Member Absent: Steve Stokes.

Other Trustees: Alexis Atkins, Tom Corcoran, Steve Furr, Ron Jenkins, Bill Lewis, Arlene Mitchell and Lenus Perkins.

Administration & Guests: Terry Albano, Delaware Arif (Faculty Senate), Owen Bailey, Jim Berscheidt, Joél Billingsley, Jo Bonner, Lynne Chronister, Kristin Dukes, Joel Erdmann, Julie Estis, Monica Ezell, Andi Kent, Matt Kinnear (Gerber/Taylor), Nick Lawkis, John Marymont, Mike Mitchell, Norman Pitman, Laura Schratt, Beth Shepard (Faculty Senate), Polly Stokley and Margaret Sullivan.

The meeting came to order, and the attendance roll was called, **Item 6**. Mr. Yance called for consideration of the minutes of a meeting held on September 22, 2022, **Item 7**. On motion by Dr. Charlton, seconded by Ms. Brown Stewart, the committee voted unanimously to adopt the minutes.

Mr. Yance called for a report on endowment and investment performance, **Item 8**. Mr. Albano and Mr. Norman Pitman, investment consultant for the University, detailed endowment investment results for the period October 1, 2021, to September 30, 2022, as well as individual manager performance and asset allocation. It was noted that the investment returns for the period and since inception of the endowment were -12.35 percent and 5.08 percent, respectively, with both outperforming the relative indices. Also noted was that USA's net invested capital as of September 30, 2022, totaled close to \$61.4 million; the endowment's market value was just over \$173.6 million; and investment earnings totaled close to \$112.3 million. Mr. Yance commended Mr. Albano and Mr. Pitman for their work in guiding the University's investments.

Mr. Albano welcomed Mr. Matt Kinnear of the management firm of Gerber/Taylor. Mr. Kinnear shared background on Gerber/Taylor and discussed the University's portfolio made up of hedge, private equity and international investments.

Mr. Yance called on Ms. Sullivan, who presented **Item 10**, a resolution expressing gratitude to Mrs. Mary Jo Hrabe, for making a transformational gift to the College of Education and Profes-

sional Studies (CEPS), thereby fulfilling an aspiration she shared with her late husband, Mr. Charles Fullington Hrabe, Jr., to endow a scholarship honoring his late sister, Ms. Patricia Ann Hrabe, a former alumna and lifelong educator. (To view resolutions, policies and other documents authorized, refer to the minutes of the Board of Trustees meeting held on December 1, 2022.) Ms. Sullivan pointed out that Mrs. Hrabe had made previous gifts to benefit CEPS scholarships. On motion by Mr. Yance, seconded by Judge Windom, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

With regard to **Item 11**, a report on the activities of the Division of Development and Alumni Relations, Ms. Sullivan reported that fiscal year 2022 was a record-breaking fundraising year with approximately \$40.3 million in new gifts and commitments secured through 6,805 gifts made by 4,373 donors, 1,133 of whom were new donors to the University. She added that the fiscal year also ended with the celebration of President Bonner's inauguration and festivities that included the Irving Silver Presidential Lectureship featuring best-selling author Capt. Mike Abrashoff. As to fundraising results thus far for fiscal year 2023, she advised that close to \$3.7 million in new gifts and commitments had been recorded through more than 600 gifts from 550 donors. She shared information on a number of development and alumni events held during the 2022 fall semester, such as Homecoming and *Alumni Reunion Weekend* held October 13-15 and the *A Night Honoring Healers* fundraiser held October 13.

Mr. Yance called for consideration of **Item 9**, a resolution acknowledging the Committee's annual evaluation of the University's endowment and non-endowment investment policies, an action required by the SACSCOC (Southern Association of College and Schools Commission on Colleges), as well as the recommendation that revision of the policies was not needed. On motion by Judge Windom, seconded by Mr. Shumock, 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 2:12 p.m.

Respectfully submitted:

James A. Yance, Chair

University of South Alabama Endowment Investment Performance Review/Analysis

Fiscal Year 2023

USA Endowment Fund Performance Fiscal Year to Date

October 1, 2022 to December 31, 2022

- USA Endowment Fund returned 5.09% versus its blended benchmark return of 6.33%. The USA Endowment Fund underperformed by -1.24% for the fiscal year.

USA Endowment Manager Performance Fiscal Year to Date

October 1, 2022 to December 31, 2022

Individual Manager versus Benchmark performance:

- Commonfund returned 4.43% versus its benchmark return of 4.72%.
- Charles Schwab returned 7.44% versus its benchmark return of 7.88%.
- Douglas Lane returned 9.14% versus its benchmark return of 7.57%.
- Gerber Taylor returned 3.49% versus its benchmark return of 2.47%.
- Gerber Taylor International returned 10.60% versus its benchmark return of 17.34%.
- Hancock Whitney returned 4.75% versus its benchmark return of 5.30%.
- JP Morgan returned 11.89% versus its benchmark return of 9.50%.
- USAFund (Student Investment Fund) returned 4.20% versus its benchmark return of 7.57%.

USA Endowment Annualized Fund Performance Since Inception

As of December 31, 2022

- USA Endowment Fund has an annualized return of approximately 5.27% since inception versus its blended benchmark return of approximately 4.21%. The USA Endowment Fund outperforms by 1.06% since inception.

USA Endowment Investment Earnings and Appreciation Since Inception

March 31, 2000 to December 31, 2022

- USA Endowment Fund Market Value at Inception (March 31, 2000): \$5.7 million.
- USA Endowment Fund Net Invested Capital as of December 31, 2022: \$63.8 million.
- USA Endowment Fund Market Value as of December 31, 2022: \$182.8 million.
- USA Endowment Fund Income and Appreciation since Inception: \$119 million.

RESOLUTION

COMMENDATION OF MR. MARK D. BRANTLEY AND MR. KENNETH R. BARTON

WHEREAS, the University of South Alabama (USA) pursues the vision of being a leading comprehensive public university internationally recognized for educational, research and health care excellence, as well as for its positive intellectual, cultural and economic impact on those it serves, and

WHEREAS, improving financial support for both current and future students remains a top priority for the University, and private support from alumni and friends plays a significant role in achieving this priority and enhances the quality of education at USA, and

WHEREAS, Mr. Mark D. Brantley enjoyed an active student life serving as a member of the Student Government Association, Jaguar Productions and Kappa Alpha Fraternity, and graduated from the University of South Alabama in 1987, earning a bachelor's degree in Management from the Mitchell College of Business, and

WHEREAS, Mr. Brantley and his late husband, Mr. Kenneth R. Barton, aspired to create two endowed scholarships to commemorate Mr. Brantley's time at USA and to honor his late mother, Mrs. Alma Golden, for her devoted career at the University that culminated with her service as administrative assistant to President Frederick P. Whiddon, and

WHEREAS, Mr. Brantley desires to fulfill his and Mr. Barton's shared vision through a transformational legacy gift to establish the *Mark D. Brantley Endowed Scholarship in Business* and the *Alma Denson Golden Endowed Scholarship*, which will benefit future generations of USA students,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama recognizes the extraordinary generosity of Mr. Mark D. Brantley and the late Mr. Kenneth R. Barton and joins the President, faculty, staff, alumni and students in extending deepest gratitude for their impactful gift to USA.



UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Development and Alumni Relations

DATE: February 3, 2023

TO: Jo Bonner
President

FROM: Margaret M. Sullivan *Margaret M. Sullivan*
Vice President for Development and Alumni Relations

SUBJECT: Commendation of Mr. Mark D. Brantley and Mr. Kenneth R. Barton

I recommend presentation of the attached resolution commending Mr. Mark D. Brantley and the late Mr. Kenneth R. Barton for their transformational legacy gift. Once realized, the gift will establish two endowed scholarships.

The Mark D. Brantley Scholarship will provide an annual award to a student majoring in the Mitchell College of Business. The Alma Denson Golden Endowed Scholarship honors Mark's late mother and will provide an annual award to an incoming freshman student. Further, Mrs. Alma Golden devoted her career to the University of South Alabama which culminated with her service as administrative assistant to President Frederick P. Whiddon.

With your support, this commendation by the Board of Trustees will be an appropriate way to honor Mr. Brantley and Mr. Barton for their support of USA.

Attachment: Proposed Resolution

C: Monica Ezell

Dr. Andrea (Andi) Kent

RESOLUTION**COMMENDATION OF DR. AND MRS. STEVEN H. STOKES
AND NAMING OF THE SCHOOL OF MARINE AND ENVIRONMENTAL SCIENCES**

WHEREAS, the University of South Alabama (USA) pursues the vision of being a leading comprehensive public university internationally recognized for educational, research and health care excellence, as well as for its positive intellectual, cultural and economic impact on those it serves, and

WHEREAS, USA's newly established School of Marine and Environmental Sciences will address pressing environmental concerns of coastal regions, train the next generation of marine and environmental scientists, conduct cutting-edge research and extend the impact of this training and research through service activities, and

WHEREAS, USA alumni Dr. Steven H. Stokes and Mrs. Angelia Stokes have invested in University of South Alabama initiatives, programs and students through their generous gifts to establish the *Angelia and Steven H. Stokes Center for Creative Writing*, the *Angelia and Steven H. Stokes Undergraduate Creative Writing Scholarship*, the *Angelia and Steven H. Stokes Undergraduate Scholarship in Marine Sciences*, the *Angelia and Steven H. Stokes Endowed Chair in Environmental Resiliency*, and Stokes Hall, as well as through their support of projects including Moulton Tower and Alumni Plaza, the Mitchell Cancer Institute and the Frederick P. Whiddon College of Medicine, and

WHEREAS, Dr. and Mrs. Stokes have served as visionary leaders, helping to advance the mission of the University and USA Health by co-chairing USA's successful Upward & Onward comprehensive campaign that resulted in raising over \$160 million for the Institution, as well as through Dr. Stokes' 30-year tenure as a member of USA's Board of Trustees, during which he also served as Chair *pro tempore* for a three-year term and was conferred the title *Chair pro tempore emeritus*, and, for these and other demonstrations of selfless commitment to his alma mater and the public, Dr. Stokes was recognized by the USA National Alumni Association with a Distinguished Alumni Award in 2008, and

WHEREAS, Dr. and Mrs. Stokes have been avid supporters of the marine sciences and environmental resilience research at the University of South Alabama and care passionately for the School of Marine and Environmental Sciences' mission to create education and research opportunities for studying our coastal and marine environments, and they desire to further their longstanding philanthropic support through a transformational gift to the School of Marine and Environmental Sciences,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama hereby gratefully recognizes the profound leadership and steadfast commitment of Dr. Steven H. Stokes and Mrs. Angelia Stokes and declares the School of Marine and Environmental Sciences will now and forever be known as the *Angelia and Steven Stokes School of Marine and Environmental Sciences*, and

BE IT FURTHER RESOLVED that the Board of Trustees, President, faculty, administrators, staff, alumni, and present and future students of the University of South Alabama extend deepest gratitude to Dr. and Mrs. Stokes for their impactful gift.



UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Development and Alumni Relations

DATE: February 3, 2023

TO: Jo Bonner
President

FROM: Margaret M. Sullivan *Margaret M. Sullivan*
Vice President for Development and Alumni Relations

SUBJECT: Commendation of Dr. Steven Stokes and Mrs. Angelia Stokes

I recommend presentation of the attached resolution commending Dr. Steven Stokes and Mrs. Angelia Stokes for their transformational gift supporting the School of Marine and Environmental Sciences. Further, the resolution provides for the naming of the School as the Angelia and Steven Stokes School of Marine and Environmental Sciences.

This gift enhances undergraduate and graduate assistantships, assists in the development of research and teaching facilities, seeds innovative research and outreach programs, and helps recruit and retain competitive faculty scholars.

With your support, this commendation and naming by the Board of Trustees will be an appropriate way to honor Dr. and Mrs. Stokes and their continued support of USA.

Attachment: Proposed Resolution

C: Monica Ezell

Dr. Andrea (Andi) Kent

Jo Bonner

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**



**HEALTH AFFAIRS
COMMITTEE**

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

Health Affairs Committee

**November 30, 2022
2:12 p.m.**

A meeting of the Health Affairs Committee of the University of South Alabama Board of Trustees was duly convened by Mr. Jimmy Shumock, Chair, on Wednesday, November 30, 2022, at 2:12 p.m. in the Board Room of the Frederick P. Whiddon Administration Building. Meeting attendance was open to the public.

Members: Chandra Brown Stewart, Scott Charlton, Tom Corcoran, Steve Furr, Jimmy Shumock and Jim Yance were present.

Member Absent: Steve Stokes.

Other Trustees: Alexis Atkins, Ron Jenkins, Bill Lewis, Arlene Mitchell, Lenus Perkins, Margie Tuckson and Mike Windom.

Administration & Guests: Delaware Arif (Faculty Senate), Owen Bailey, Jim Berscheidt, Joél Billingsley, Jo Bonner, Lynne Chronister, Kristin Dukes, Joel Erdmann, Julie Estis, Monica Ezell, Kerry Flowers, Veronica Hudson, Andi Kent, Nick Lawkis, John Marymont, Mike Mitchell, Andrea Rosler, Laura Schratt, Beth Shepard (Faculty Senate), Polly Stokley and Margaret Sullivan.

The meeting came to order, and the attendance roll was called, **Item 12**. Mr. Shumock called for consideration of the minutes of a meeting held on September 22, 2022, **Item 13**. On motion by Mr. Yance, seconded by Mr. Corcoran, the Committee voted unanimously to adopt the minutes.

Mr. Shumock called on Mr. Bailey to present **Item 14**, a resolution authorizing the USA Health Hospitals medical staff appointments and reappointments for August, September and October 2022. (To view resolutions, policies and other documents authorized, refer to the minutes of the Board of Trustees meeting held on December 1, 2022.) Mr. Bailey stated that the medical staff credentials had been reviewed and approved by the appropriate committees. On motion by Dr. Furr, seconded by Mr. Yance, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Mr. Shumock asked Mr. Bailey to address **Item 15**, a resolution authorizing revisions to the USA Health Hospitals Medical Staff Bylaws and to applicable documents. Mr. Bailey stated the revisions proposed had been approved by the pertinent committees and were mostly routine housekeeping in nature. On motion by Mr. Corcoran, seconded by Ms. Tuckson, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Mr. Shumock called for a report on the activities of USA Health and the Whiddon College of Medicine, **Item 16**. Dr. Marymont introduced Mr. Bailey, who advised of the implementation of a

Workforce Development Program (WDP) at USA Health designed to provide technical training and opportunities for employment to individuals seeking a career in healthcare. Mr. Bailey advised of programs offered to prepare candidates for the positions of surgical technician, pharmacy technician, medical assistant, patient care assistant and phlebotomist. For their roles in bringing this initiative to fruition, he recognized Ms. Andrea Rosler, USA Health Chief Human Resources Officer, and, from Human Resources at USA Health Children's & Women's Hospital (CWH) Dr. Veronica Hudson, WDP Manager, and Mr. Kerry Flowers, Director of Organization Development. Also noted was that the inaugural class for the surgical scrubs training track, dubbed *The Great Eight*, recently graduated and accepted positions at University Hospital and CWH, and that avenues for federal and state funding would be pursued.

Mr. Bailey introduced Dr. Chang, USA Health Chief Medical Officer, who provided an overview on USA Health's comprehensive patient safety program titled *Safety Starts with Me*. Dr. Chang cited studies on patient safety that pointed to the need for a program aimed at preventing human error in patient care. He explained how a 36-month, four-phase implementation plan was derived, noting that phase three was currently underway, and stressed the importance of setting expectations for a fair and just culture. He also shared that the spinoff programs *Great Catch* and *Safety MVP* later developed as a way of recognizing and rewarding personnel for their efforts to keep patients safe.

There being no further business, the meeting was adjourned at 2:39 p.m.

Respectfully submitted:

James H. Shumock, Chair



UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

USA Health

DATE: February 2, 2023

TO: Jo Bonner
President

FROM: Owen Bailey, Chief Executive Officer

A handwritten signature in blue ink, appearing to read 'Owen Bailey', is placed over the 'FROM' line.

SUBJECT: Board Meeting Documents

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

Resolution – USA Health Hospitals Medical Staff Appointments and Reappointments for November and December, 2022 and January 2023

- USA Health Hospitals Medical Staff Appointments and Reappointments Board of Trustees Report

OB/kh

Attachments

A handwritten signature in black ink, appearing to read 'Jo Bonner', is placed over the 'Attachments' line.

RESOLUTION

USA HEALTH HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS FOR NOVEMBER AND DECEMBER 2022 AND JANUARY 2023

WHEREAS, the Medical Staff appointments and reappointments for November and December 2022 and January 2023 for the USA Health Hospitals are recommended for Board approval by the Medical Executive Committees and the USA Health Credentialing Board,

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

**USA BOARD OF TRUSTEES REPORT
USA HEALTH HOSPITALS MEDICAL STAFF
APPOINTMENTS APPROVED IN NOVEMBER 2022, DECEMBER 2022, AND JANUARY 2023**

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

NAME	USA Health Children's & Women's Hospital			USA Health University Hospital			USA Health Ambulatory Care		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
New Appointments:									
Adkison, Lilly D., CRNP	New Appt.	APP USA	OBGYN	N/A	N/A	N/A	New Appt.	APP USA	OBGYN
Alshehri, Wael A., MD	New Appt.	Consulting	Radiology	New Appt.	Consulting	Radiology	N/A	N/A	N/A
Baldwin, Vicki L., MD	New Appt.	Community Staff	Internal Medicine	New Appt.	Community Staff	Internal Medicine	N/A	N/A	N/A
Bercier, Baret T., MD	New Appt.	Active USA	Internal Medicine	New Appt.	Active USA	Internal Medicine	New Appt.	Active USA	Internal Medicine
Bouska, Gregory W., MD	New Appt.	Active USA	Anesthesiology	New Appt.	Active USA	Anesthesiology	N/A	N/A	N/A
Buchanan, Lucas B., DO	N/A	N/A	N/A	New Appt.	Active HCA/JAG	Internal Medicine	New Appt.	Active HCA/JAG	Internal Medicine
Caggiano, Dylan E., DO	N/A	N/A	N/A	New Appt.	Active HCA/JAG	Family Medicine	New Appt.	Active HCA/JAG	Family Medicine
Ceballos, Darrel A., DO	New Appt.	Active USA	Radiology	New Appt.	Active USA	Radiology	New Appt.	Active USA	Radiology
Chen, Carwei S., PCT	New Appt.	APP	Internal Medicine	New Appt.	APP	Internal Medicine	N/A	N/A	N/A
Chen, Mike K., MD	New Appt.	Contract/Locums	Surgery	N/A	N/A	N/A	N/A	N/A	N/A
Clark, Savannah E., PA	N/A	N/A	N/A	New Appt.	APP USA	Surgery	New Appt.	APP USA	Surgery
Clukies, Matthew, DO	New Appt.	Active HCA/JAG	Internal Medicine	New Appt.	Active HCA/JAG	Internal Medicine	New Appt.	Active HCA/JAG	Internal Medicine
Cochran, Melissa R., CRNP	New Appt.	APP USA	OBGYN	N/A	N/A	N/A	New Appt.	APP USA	OBGYN
Day, Kelley, CRNP	New Appt.	APP USA	Surgery	New Appt.	APP USA	Surgery	New Appt.	APP USA	Surgery
Dodson, Lindsey K., CRNA	New Appt.	APP USA	Anesthesiology	New Appt.	APP USA	Anesthesiology	N/A	N/A	N/A
Edwards, Robert Lee, MD	New Appt.	Consulting	Radiology	New Appt.	Consulting	Radiology	N/A	N/A	N/A
Ferguson, Darrell J., MD	N/A	N/A	N/A	New Appt.	Contract/Locums	Anesthesiology	N/A	N/A	N/A
Freeman, Hope F., PA	N/A	N/A	N/A	New Appt.	APP HCA/JAG	Internal Medicine	New Appt.	APP HCA/JAG	Internal Medicine
Glidewell, Ryan J., MD	New Appt.	Active	Radiology	New Appt.	Active	Radiology	N/A	N/A	N/A
Goslowski, Melissa M., MD	New Appt.	Active USA	OBGYN	New Appt.	Active USA	OBGYN	New Appt.	Active USA	OBGYN
Gwaltney, Robin M., MD	New Appt.	Consulting	Radiology	New Appt.	Consulting	Radiology	N/A	N/A	N/A
Harris, Jewel A., MD	N/A	N/A	N/A	New Appt.	Active HCA/JAG	Family Medicine	New Appt.	Active HCA/JAG	Family Medicine
Huckabee, Rife E., MD	New Appt.	Contract/Locums	Radiology	New Appt.	Contract/Locums	Radiology	N/A	N/A	N/A
Jernigan, Barbara A., CRNP	New Appt.	APP USA	Pediatrics	N/A	N/A	N/A	New Appt.	APP USA	Pediatrics
Johannesmann, Daniel B., CRNA	New Appt.	APP USA	Anesthesiology	New Appt.	APP USA	Anesthesiology	N/A	N/A	N/A
Johnson, Mikayla L., PA	New Appt.	APP USA	Pediatrics	N/A	N/A	N/A	New Appt.	APP USA	Pediatrics
King, Cassandra D., CRNA	New Appt.	APP USA	Anesthesiology	New Appt.	APP USA	Anesthesiology	N/A	N/A	N/A
Krause, Michelle Ann, CRNP	N/A	N/A	N/A	New Appt.	APP HCA/JAG	Internal Medicine	New Appt.	APP HCA/JAG	Internal Medicine
Lambie, Natalie D., DO	N/A	N/A	N/A	New Appt.	Contract/Locums	Emergency Medicine	N/A	N/A	N/A
Martin, Colin A., MD	New Appt.	Contract/Locums	Surgery	N/A	N/A	N/A	N/A	N/A	N/A
Meador, Rachael D., CRNP	New Appt.	APP USA	OBGYN	N/A	N/A	N/A	New Appt.	APP USA	OBGYN
Quitson, Irish P., RN	New Appt.	APP	Internal Medicine	New Appt.	APP	Internal Medicine	N/A	N/A	N/A
Rivers, Deidre A., CRNP	New Appt.	APP USA	Pediatrics	N/A	N/A	N/A	New Appt.	APP USA	Pediatrics
Rodriguez, Jose Ruben, MD	New Appt.	Contract/Locums	Surgery	New Appt.	Contract/Locums	Surgery	New Appt.	Contract/Locums	Surgery
Rowland, Darren L., CRNA	New Appt.	APP Contract/Locums	Anesthesiology	New Appt.	APP Contract/Locums	Anesthesiology	N/A	N/A	N/A
Russell, Robert T., MD	New Appt.	Contract/Locums	Surgery	N/A	N/A	N/A	N/A	N/A	N/A
Salamone, Andrew J., MD	New Appt.	Active	Radiology	New Appt.	Active	Radiology	N/A	N/A	N/A
Schneider, Paul D., MD	New Appt.	Active USA	Ped. Emerg. Med.	N/A	N/A	N/A	N/A	N/A	N/A
Spencer, Chad M., MD	New Appt.	Active HCA/JAG	Internal Medicine	New Appt.	Active HCA/JAG	Internal Medicine	New Appt.	Active HCA/JAG	Internal Medicine
Sprague, Billye R., CRNP	New Appt.	APP USA	Pediatrics	N/A	N/A	N/A	New Appt.	APP USA	Pediatrics
Taylor, Tawanda S., CRNP	New Appt.	APP Non-Privileged	Internal Medicine	New Appt.	APP Non-Privileged	Internal Medicine	N/A	N/A	N/A
Travis, Samantha W., RN	N/A	N/A	N/A	New Appt.	APP Non-Privileged	Internal Medicine	N/A	N/A	N/A
Warner, Frederick T., MD	N/A	N/A	N/A	New Appt.	Contract/Locums	Emergency Medicine	N/A	N/A	N/A

**USA BOARD OF TRUSTEES REPORT
USA HEALTH HOSPITALS MEDICAL STAFF
APPOINTMENTS APPROVED IN NOVEMBER 2022, DECEMBER 2022, AND JANUARY 2023**

NAME	USA Health Children's & Women's Hospital			USA Health University Hospital			USA Health Ambulatory Care		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
New Appointments: (Continued)									
Weatherly, Emma C., CRNA	New Appt.	APP Contract/Locums	Anesthesiology	New Appt.	APP Contract/Locums	Anesthesiology	N/A	N/A	N/A
Weng, Fang Q., MD	New Appt.	Active HCA/JAG	OBGYN	New Appt.	Active HCA/JAG	OBGYN	New Appt.	Active HCA	OBGYN
West, Shatterra, PA	New Appt.	APP USA	OBGYN	N/A	N/A	N/A	N/A	N/A	N/A
White, Lori, MD	New Appt.	Active USA	Internal Medicine	New Appt.	Active USA	Internal Medicine	New Appt.	Active USA	Internal Medicine
Wilson, William C., MD	New Appt.	Consulting	Psychiatry	New Appt.	Consulting	Psychiatry	N/A	N/A	N/A
Windham, Perrin F., MD	New Appt.	Active USA	Pediatrics	New Appt.	Active USA	Pediatrics	New Appt.	Active USA	Pediatrics
Reappointments:									
Adams, II, Curtis L., MD	Reappt.	Active	Radiology	Reappt.	Active	Radiology	N/A	N/A	N/A
Alford, Chad M., MD	N/A	N/A	N/A	Reappt.	Active	Internal Medicine	N/A	N/A	N/A
Anderson, Stephanie J., MD	Reappt.	Active USA	Pediatrics	N/A	N/A	N/A	Reappt.	Active USA	Pediatrics
Bartel, Tracy E., CRNP	Reappt.	APP USA	Neurosurgery	Reappt.	APP USA	Neurosurgery	Reappt.	APP USA	Neurosurgery
Batten, Kenneth D., MD	Reappt.	Consulting	Radiology	Reappt.	Active	Radiology	N/A	N/A	N/A
Baugh, Victoria L., CRNP	N/A	N/A	N/A	Reappt.	APP USA	Surgery	Reappt.	APP USA	Surgery
Bedwell, Noel W., MD	Reappt.	Consulting	Internal Medicine	Reappt.	Active	Internal Medicine	N/A	N/A	N/A
Bixler, Quin A., MD	Reappt.	Courtesy	OBGYN	N/A	N/A	N/A	N/A	N/A	N/A
Bodie, Belin F., MD	Reappt.	Comm. Staff HCA	Internal Medicine	Reappt.	Comm. Staff HCA	Internal Medicine	N/A	N/A	N/A
Bodie, Frankie L., MD	Reappt.	Active USA	OBGYN	Reappt.	Courtesy USA	OBGYN	Reappt.	Act./Court. USA	OBGYN
Bolkhovets, Dmitry, MD	Reappt.	Consulting	Radiology	Reappt.	Consulting	Radiology	N/A	N/A	N/A
Brown, Christopher S., MD	Reappt.	Consulting	Internal Medicine	Reappt.	Active	Internal Medicine	N/A	N/A	N/A
Brown, Rhett H., CRNP	N/A	N/A	N/A	Reappt.	APP HCA/JAG	Internal Medicine	Reappt.	APP HCA/JAG	Internal Medicine
Browning, Savannah I., MD	Reappt.	Community Staff	Pediatrics	N/A	N/A	N/A	N/A	N/A	N/A
Burckhardt, Barbara A., MD	N/A	N/A	N/A	Reappt.	Academic	Internal Medicine	N/A	N/A	N/A
Calderon, Eduardo G., MD	Reappt.	Courtesy USA	Internal Medicine	Reappt.	Active USA	Internal Medicine	Reappt.	Court./Active USA	Internal Medicine
Campbell, III, Jonathan C., MD	Reappt.	Community Staff HCA	Family Medicine	Reappt.	Community Staff HCA	Family Medicine	N/A	N/A	N/A
Cohen-Colson, Mary E., MD	Reappt.	Consulting	Psychiatry	Reappt.	Consulting	Psychiatry	N/A	N/A	N/A
Coleman, Jr., Clarence C., MD	Reappt.	Consulting	Radiology	Reappt.	Consulting	Radiology	N/A	N/A	N/A
Coronado, Yun A., MD	Reappt.	Active USA	Internal Medicine	Reappt.	Active USA	Internal Medicine	Reappt.	Active USA	Internal Medicine
Courtney, James V., MD	Reappt.	Active USA	Radiology	Reappt.	Active USA	Radiology	Reappt.	Active USA	Radiology
Crocker, Percy V., MD	Reappt.	Active USA	Surgery	Reappt.	Active USA	Surgery	Reappt.	Active USA	Surgery
Currier, Joseph M., CCCA, PhD	Reappt.	APP USA	Psychiatry	Reappt.	APP USA	Psychiatry	Reappt.	APP USA	Psychiatry
Curtiss, Rebecca V., MD	Reappt.	Comm. Staff HCA	Internal Medicine	Reappt.	Comm. Staff HCA	Internal Medicine	N/A	N/A	N/A
Daniels, Larkin J., MD	Reappt.	Consulting	Surgery	Reappt.	Consulting	Surgery	N/A	N/A	N/A
Delgado, Myrtle A., MD	Reappt.	Active USA	Pediatrics	N/A	N/A	N/A	Reappt.	Active USA	Pediatrics
Delmas, John F., MD	Reappt.	Comm. Staff HCA	Internal Medicine	Reappt.	Comm. Staff HCA	Internal Medicine	N/A	N/A	N/A
Divittorio, Gino, MD	Reappt.	Consulting HCA	Internal Medicine	Reappt.	Courtesy HCA	Internal Medicine	Reappt.	Const./Court. HCA	Internal Medicine
Dobbs, Tonya R., MD	Reappt.	Community Staff	Pediatrics	Reappt.	Community Staff	Pediatrics	N/A	N/A	N/A
Douglas, Allison B., MD	Reappt.	Consulting HCA	Internal Medicine	Reappt.	Active HCA	Internal Medicine	Reappt.	Const./Active HCA	Internal Medicine
Estis, Julie M., CCC-SLP, PhD	Reappt.	APP USA	Surgery	Reappt.	APP USA	Surgery	Reappt.	APP USA	Surgery
Evans, Gregory, MD	Reappt.	Community Staff	Internal Medicine	Reappt.	Community Staff	Internal Medicine	N/A	N/A	N/A
Eves, Matthew M., MD	N/A	N/A	N/A	Reappt.	Consulting	Internal Medicine	N/A	N/A	N/A
Franklin, Alan J., MD	Reappt.	Consulting	Surgery	Reappt.	Consulting	Surgery	N/A	N/A	N/A
Frost, James R., MD	Reappt.	Consulting	Radiology	Reappt.	Active	Radiology	N/A	N/A	N/A
Gallaspy, III, Glenn T., MD	Reappt.	Courtesy	OBGYN	N/A	N/A	N/A	N/A	N/A	N/A

**USA BOARD OF TRUSTEES REPORT
USA HEALTH HOSPITALS MEDICAL STAFF
APPOINTMENTS APPROVED IN NOVEMBER 2022, DECEMBER 2022, AND JANUARY 2023**

NAME	USA Health Children's & Women's Hospital			USA Health University Hospital			USA Health Ambulatory Care		
Reappointments: (Continued)									
Gamble, Charlotte A., CRNP	Reappt.	APP Non-Privileged	Family Medicine	Reappt.	APP Non-Privileged	Family Medicine	N/A	N/A	N/A
Gardner, Debra E., MD	Reappt.	Community Staff	Pediatrics	N/A	N/A	N/A	N/A	N/A	N/A
Gates, Jill R., CRNP	Reappt.	APP USA	Surgery	Reappt.	APP USA	Surgery	Reappt.	APP USA	Surgery
Gavrilita, Cristina E., MD	Reappt.	Active USA	Pediatrics	Reappt.	Consulting USA	Pediatrics	Reappt.	Act./Const. USA	Pediatrics
Gerjoi, Marcelo N., PA	Reappt.	APP USA	Neurosurgery	Reappt.	APP USA	Neurosurgery	Reappt.	APP USA	Neurosurgery
Graf, Jr., Curtis M., MD	Reappt.	Consulting	Surgery	N/A	N/A	N/A	N/A	N/A	N/A
Griffis, Chrystal M., MD	Reappt.	Consulting HCA	Internal Medicine	Reappt.	Active HCA	Internal Medicine	Reappt.	Const./Active HCA	Internal Medicine
Grimm, Jr., Leander M., MD	Reappt.	Active USA	Surgery	Reappt.	Active USA	Surgery	Reappt.	Active USA	Surgery
Gujjula, Rajesh, MD	N/A	N/A	N/A	Reappt.	Community Staff	Family Medicine	N/A	N/A	N/A
Hardy, Warren D., MD	Reappt.	Consulting	Internal Medicine	Reappt.	Active	Internal Medicine	N/A	N/A	N/A
Harrell, James B., MD	Reappt.	Community Staff	Pediatrics	N/A	N/A	N/A	N/A	N/A	N/A
Hassell, David R., MD	Reappt.	Active	Radiology	Reappt.	Active	Radiology	N/A	N/A	N/A
Helmer, II, Robert S., PharmD	N/A	N/A	N/A	Reappt.	APP	Internal Medicine	Reappt.	APP USA	Internal Medicine
Heslin, Martin J., MD	Reappt.	Active USA	Surgery	Reappt.	Active USA	Surgery	Reappt.	Active USA	Surgery
Holliday, Nicolette P., MD	Reappt.	Active USA	OBGYN	Reappt.	Courtesy USA	OBGYN	Reappt.	Active/Court. USA	OBGYN
Howard, IV, Clinton W., MD	Reappt.	Consulting	Orthopaedics	Reappt.	Courtesy	Orthopaedics	N/A	N/A	N/A
Hudson, Kendra D., CCLS	Reappt.	APP USA	Surgery	Reappt.	APP USA	Surgery	Reappt.	APP USA	Surgery
Israel, Robert W., MD	Reappt.	Consulting HCA	Internal Medicine	Reappt.	Courtesy HCA	Internal Medicine	Reappt.	Const./Court. HCA	Internal Medicine
Jones, Jessica L., MD	Reappt.	Active	OBGYN	N/A	N/A	N/A	N/A	N/A	N/A
Jones, Kelly M., DMD	Reappt.	APP	Surgery	Reappt.	APP	Surgery	N/A	N/A	N/A
Keel, Christopher E., DO	Reappt.	Consulting USA	Surgery	Reappt.	Active USA	Surgery	Reappt.	Const./Active USA	Surgery
Keith, Kimberly R., MD	Reappt.	Consulting HCA	Internal Medicine	Reappt.	Active HCA	Internal Medicine	Reappt.	Cons./Active HCA	Internal Medicine
Kellam, Michael E., DMD	Reappt.	Consulting	Surgery	Reappt.	Consulting	Surgery	N/A	N/A	N/A
Knowles, Kurt J., MD	Reappt.	Active USA	Pathology	Reappt.	Active USA	Pathology	Reappt.	Active USA	Pathology
Krueger, Margaret S., DO	Reappt.	Active	OBGYN	N/A	N/A	N/A	N/A	N/A	N/A
Kyriazis, Dimitris K., MD	Reappt.	Consulting	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
Lambert, Marla M., MD	Reappt.	Comm. Staff HCA	Internal Medicine	N/A	N/A	N/A	Reappt.	Comm. Staff HCA	Internal Medicine
Lambrecht, Lauren E., MD	Reappt.	Courtesy	OBGYN	N/A	N/A	N/A	N/A	N/A	N/A
Lenz, Cara B., MD	Reappt.	Active HCA	OBGYN	N/A	N/A	N/A	Reappt.	Active HCA	OBGYN
Luterman, Arnold, MD	Reappt.	Academic	Surgery	Reappt.	Academic	Surgery	N/A	N/A	N/A
Macfarlane, Patricia O., MD	Reappt.	Consulting	Radiology	Reappt.	Consulting	Radiology	N/A	N/A	N/A
Maltese, Carl, MD	Reappt.	Courtesy	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
Martindale, Sr., George H., MD	Reappt.	Consulting	Radiology	Reappt.	Active	Radiology	N/A	N/A	N/A
May, Carmen G., CRNP	Reappt.	APP HCA/JAG	Internal Medicine	Reappt.	APP HCA/JAG	Internal Medicine	Reappt.	APP HCA/JAG	Internal Medicine
McGowin, Alinda G., MD	N/A	N/A	N/A	Reappt.	Consulting	Surgery	N/A	N/A	N/A
McQuiston, Jr., Samuel A., MD	Reappt.	Active USA	Radiology	Reappt.	Active USA	Radiology	Reappt.	Active USA	Radiology
Mose, Belinda M., CRNP	Reappt.	APP USA	Pediatrics	N/A	N/A	N/A	Reappt.	APP USA	Pediatrics
Myers, Thomas C., MD	Reappt.	Consulting HCA	Internal Medicine	Reappt.	Active HCA	Internal Medicine	Reappt.	Const./Active HCA	Internal Medicine
Nair, Athira U., MD	Reappt.	Active USA	Pediatrics	Reappt.	Courtesy USA	Pediatrics	Reappt.	Act./Court. USA	Pediatrics
Nall, Molly A., PA	Reappt.	APP	Surgery	Reappt.	APP	Surgery	N/A	N/A	N/A
Newburn, Constance L., RN	Reappt.	APP	OBGYN	Reappt.	APP	OBGYN	N/A	N/A	N/A
Ozment, Elmo D., MD	Reappt.	Community Staff	Family Medicine	Reappt.	Community Staff	Family Medicine	N/A	N/A	N/A
Patton, Sarah E., CRNP	Reappt.	APP USA	Pediatrics	N/A	N/A	N/A	Reappt.	APP USA	Pediatrics
Pennington, Michael A., MD	Reappt.	Consulting	Radiology	Reappt.	Active	Radiology	N/A	N/A	N/A

**USA BOARD OF TRUSTEES REPORT
USA HEALTH HOSPITALS MEDICAL STAFF
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NAME	USA Health Children's & Women's Hospital			USA Health University Hospital			USA Health Ambulatory Care		
Reappointments: (Continued)									
Polite, Nathan M., DO	N/A	N/A	N/A	Reappt.	Active USA	Surgery	Reappt.	Active USA	Surgery
Quick, Felicia M., CRNP	Reappt.	APP USA	Ped. Emerg. Med.	Reappt.	APP USA	Emerg. Medicine	N/A	N/A	N/A
Rippey, Peter C., MD	Reappt.	Active USA	Family Medicine	Reappt.	Active USA	Family Medicine	Reappt.	Active USA	Family Medicine
Rocconi, Rodney P., MD	Reappt.	Active USA	Gynecology	Reappt.	Active USA	Gynecology	Reappt.	Active USA	Gynecology
Saucier, Erin S., MD	Reappt.	Active HCA	OBGYN	N/A	N/A	N/A	Reappt.	Active HCA	OBGYN
Scott, William D., CRNA	Reappt.	APP USA	Anesthesiology	Reappt.	APP USA	Anesthesiology	N/A	N/A	N/A
Seaman, Rachel T., MD	Reappt.	Active USA	Internal Medicine	Reappt.	Active USA	Internal Medicine	Reappt.	Active USA	Internal Medicine
Sharbel, Leslie M., CRNP	Reappt.	APP USA	Neurosurgery	Reappt.	APP USA	Neurosurgery	Reappt.	APP USA	Neurosurgery
Shepler, Lisa A., MD	Reappt.	Courtesy HCA	Internal Medicine	Reappt.	Courtesy HCA	Internal Medicine	Reappt.	Courtesy HCA	Internal Medicine
Shouse, Courtney C., CRNA	Reappt.	APP USA	Anesthesiology	Reappt.	APP USA	Anesthesiology	N/A	N/A	N/A
Skinner, Leslie K., MD	Reappt.	Community Staff	Pediatrics	N/A	N/A	N/A	N/A	N/A	N/A
Smithgall, Sean E., PharmD	Reappt.	APP	Family Medicine	Reappt.	APP	Family Medicine	N/A	N/A	N/A
Sternberg, Michael L., MD	N/A	N/A	N/A	Reappt.	Active USA	Emergency Medicine	N/A	N/A	N/A
Stewart, Regina A., CRNP	Reappt.	APP USA	Surgery	Reappt.	APP USA	Surgery	Reappt.	APP USA	Surgery
Terry, Jr., William J., MD	Reappt.	Active USA	Surgery	Reappt.	Active USA	Surgery	Reappt.	Active USA	Surgery
Thompson, Marina L., MD	Reappt.	Community Staff	Pediatrics	N/A	N/A	N/A	N/A	N/A	N/A
Tisdale, Timothy S., PA	N/A	N/A	N/A	Reappt.	APP HCA/JAG	Internal Medicine	Reappt.	APP HCA/JAG	Internal Medicine
Tyler, Shannon K., MD	Reappt.	Consulting USA	Internal Medicine	Reappt.	Courtesy USA	Internal Medicine	Reappt.	Cons./Court. USA	Internal Medicine
Val-Gallas, John M., MD	Reappt.	Courtesy	OBGYN	N/A	N/A	N/A	N/A	N/A	N/A
Van Kirk, Christian S., MD	Reappt.	Consulting	Radiology	Reappt.	Consulting	Radiology	N/A	N/A	N/A
Walker, James L., MD	Reappt.	Consulting HCA	Internal Medicine	Reappt.	Courtesy HCA	Internal Medicine	Reappt.	Const./Court. HCA	Internal Medicine
Walker, Kathy E., CRNP	Reappt.	APP HCA	Internal Medicine	Reappt.	APP HCA	Internal Medicine	Reappt.	APP HCA	Internal Medicine
Walks, Debra M., MD	Reappt.	Community Staff	Pediatrics	Reappt.	Community Staff	Pediatrics	N/A	N/A	N/A
Weaver, Katrina L., MD	Reappt.	Active USA	Surgery	Reappt.	Courtesy USA	Surgery	Reappt.	Active/Court. USA	Surgery
Wei, Eric X., MD	Reappt.	Active USA	Pathology	Reappt.	Active USA	Pathology	Reappt.	Active USA	Pathology
Wells, Mary S., MD	Reappt.	Community Staff	Pediatrics	N/A	N/A	N/A	N/A	N/A	N/A
Wells, Rose A., CRNP	Reappt.	APP USA	Internal Medicine	Reappt.	APP USA	Internal Medicine	Reappt.	APP USA	Internal Medicine
West, Jr., James D., MD	Reappt.	Courtesy	OBGYN	N/A	N/A	N/A	N/A	N/A	N/A
Wiley, LaKendra C., PA	Reappt.	APP USA	Neurosurgery	Reappt.	APP USA	Neurosurgery	Reappt.	APP USA	Neurosurgery
Wolf, Laura J., CRNP	Reappt.	APP Non-Privileged	Pediatrics	N/A	N/A	N/A	N/A	N/A	N/A
Wood, Brian K., DO	Reappt.	Active USA	Radiology	Reappt.	Active USA	Radiology	Reappt.	Active USA	Radiology
Wood, Nancy O., MD	Reappt.	Community Staff	Pediatrics	N/A	N/A	N/A	N/A	N/A	N/A
Xing, Yanming, MD	Reappt.	Consulting HCA	Internal Medicine	Reappt.	Courtesy HCA	Internal Medicine	Reappt.	Const./Court. HCA	Internal Medicine
Zhang, Jeanie C., MD	Reappt.	Consulting	Radiology	Reappt.	Consulting	Radiology	N/A	N/A	N/A
NAME	USA Health Children's & Women's Hospital			USA Health University Hospital			USA Health Ambulatory Care		
Change Requests:	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Bartel, Tracy E., CRNP	Add/Del. Priv.	APP - USA	Neurosurgery	Add/Del. Priv.	APP - USA	Neurosurgery	Add/Del. Priv.	APP - USA	Neurosurgery
Baugh, Victoria L., CRNP	N/A	N/A	N/A	Added Priv.	APP USA	Surgery	Added Priv.	APP USA	Surgery
Bayer, Danielle E., MD	N/A	N/A	N/A	Added Priv.	Active	Internal Medicine	N/A	N/A	N/A
Bunner, Dianne L., CRNP	Chg. Coll. Phy.	APP USA	Pediatrics	N/A	N/A	N/A	Chg. Coll. Phy.	APP USA	Pediatrics
Crenshaw, Danielle M., CRNP	Add. Coll./Priv.	APP USA	Peds/Peds Emerg. Med.	N/A	N/A	N/A	Add. Coll./Priv.	APP USA	Pediatrics
Crocker, Percy V., MD	Add./Del. Priv.	Active USA	Surgery	Add./Del. Priv.	Active USA	Surgery	Add./Del. Priv.	Active USA	Surgery
Czarkowska, Hanna T., MD	Added Priv.	Active USA	Neurology	N/A	N/A	N/A	Added Priv.	Active USA	Neurology
Dabezies, Constance, MD	Added Priv.	Active USA	OBGYN	Added Priv.	Active USA	OBGYN	Added Priv.	Active USA	OBGYN

**USA BOARD OF TRUSTEES REPORT
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NAME	USA Health Children's & Women's Hospital			USA Health University Hospital			USA Health Ambulatory Care		
Change Requests: (Continued)	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
DeAndrade, Kevin, MD	N/A	N/A	N/A	Added Priv.	Active	Internal Medicine	N/A	N/A	N/A
Ehlers, Scott D., CRNP	Chg. Coll. Phy.	APP USA	Pediatrics	N/A	N/A	N/A	Chg. Coll. Phy.	APP USA	Pediatrics
Gerjoi, Marcelo N., PA	Add. Priv.	APP USA	Neurosurgery	Add. Priv.	APP USA	Neurosurgery	Add. Priv.	APP USA	Neurosurgery
Goslowski, Melissa M., MD	Add. Priv.	Active USA	OBGYN	N/A	N/A	N/A	Add. Priv.	Active USA	OBGYN
Heslin, Martin J., MD	Add./Del. Priv.	Active USA	Surgery	Add./Del. Priv.	Active USA	Surgery	Add./Del. Priv.	Active USA	Surgery
Maltese, Carl, MD	Added Priv.	Courtesy	Surgery	Added Priv.	Active	Surgery	N/A	N/A	N/A
Marri, Preethi R., MD	Added Priv.	Active USA	Pediatrics	N/A	Consulting USA	Pediatrics	Added Priv.	Active USA	Pediatrics
Morrison, Katie, PA	Priv./Coll. Phy.	APP USA	Orthopaedics	Priv./Coll. Phy.	APP USA	Orthopaedics	Priv./Coll. Phy.	APP USA	Orthopaedics
Mullens, Jess H., MD	Added Priv.	Active USA	Orthopaedics	Added Priv.	Active USA	Orthopaedics	Added Priv.	Active USA	Orthopaedics
Nall, Molly A., PA	Added Priv.	APP	Surgery	Added Priv.	APP USA	Surgery	N/A	N/A	N/A
Sharbel, Leslie M., CRNP	Added Priv.	APP USA	Neurosurgery	Added Priv.	APP USA	Neurosurgery	Added Priv.	APP USA	Neurosurgery
Simpson, Nathan, PA	N/A	N/A	N/A	Added Priv.	APP USA	Emergency Medicine	N/A	N/A	N/A
Thomas, Melanie, CRNP	Deleted Privs.	APP USA	Orthopaedics	Added Privs.	APP USA	Orthopaedics	Del/Add Priv	APP USA	Orthopaedics
White, Parker A., MD	Added Priv.	Active USA	Orthopaedics	Added Priv.	Active USA	Orthopaedics	Added Priv.	Active USA	Orthopaedics
NAME	USA Health Children's & Women's Hospital			USA Health University Hospital			USA Health Ambulatory Care		
Resigned/Retired:	Reason	Date	Dept.	Reason	Date	Dept.	Reason	Date	Dept.
Aschkenasi, Carl J., MD	Resigned	12/27/22	Radiology	Resigned	12/27/22	Radiology	N/A	N/A	N/A
Baxter, Katelyn A., CRNA	Resigned	12/2/2022	Anesthesiology	Resigned	12/2/2022	Anesthesiology	N/A	N/A	N/A
Benfield, Mary P., CRNP	Resigned	11/4/2022	Emergency Medicine	Resigned	11/4/2022	Emergency Medicine	N/A	N/A	N/A
Brewer, Jeffrey L., MD	Resigned	11/28/22	Orthopaedics	Resigned	11/28/22	Orthopaedics	Resigned	11/28/22	Orthopaedics
Brock, Benjamin D., PA	N/A	N/A	N/A	Resigned	10/21/2022	Internal Medicine	Resigned	10/21/2022	Internal Medicine
Bryant, Ethan J., RN	Resigned	10/18/2022	OGBYN	Resigned	10/18/2022	OGBYN	N/A	N/A	N/A
Byrd, Laurey A., RN	Resigned	10/27/2022	OGBYN	Resigned	10/27/2022	OGBYN	N/A	N/A	N/A
Campbell, Anna H., CRNP	Resigned	12/05/22	Ped. Emerg. Med.	Resigned	12/05/22	Emergency Medicine	N/A	N/A	N/A
Cavazos, Cristina M., MD	Resigned	12/30/22	Radiology	Resigned	12/30/22	Radiology	N/A	N/A	N/A
Choquette, Christopher H., CRNP	Resigned	11/9/2022	Orthopaedics	Resigned	11/9/2022	Orthopaedics	N/A	N/A	N/A
Cohen, Michael V., MD	Resigned	12/23/22	Internal Medicine	Resigned	12/23/22	Internal Medicine	Resigned	12/23/22	Internal Medicine
Cox, Chad S., MD	Resigned	11/8/2022	Radiology	Resigned	11/8/2022	Radiology	N/A	N/A	N/A
Crook, Errol D., MD	Resigned	10/14/2022	Internal Medicine	Resigned	10/14/2022	Internal Medicine	Resigned	10/14/2022	Internal Medicine
Delgado, Myrtle A., MD	Resigned	12/30/22	Pediatrics	N/A	N/A	N/A	Resigned	12/30/22	Pediatrics
Detjens, Kathryn M., CNM	Resigned	12/27/22	OBGYN	N/A	N/A	N/A	Resigned	12/27/22	OBGYN
Edwards, Katie R., CRNP	Resigned	12/27/22	Pediatrics	N/A	N/A	N/A	Resigned	12/27/22	Pediatrics
Eisenbeis, Elizabeth B., PA	Resigned	10/21/2022	Internal Medicine	Resigned	10/21/2022	Internal Medicine	Resigned	10/21/2022	Internal Medicine
Ellis, Blesilda Q., MD	N/A	N/A	N/A	Retired	01/01/23	Internal Medicine	N/A	N/A	N/A
Farrar, Julie E., PharmD	N/A	N/A	N/A	Resigned	9/26/2022	Surgery	Resigned	9/26/2022	Surgery
Frizell, Carl A., PA	N/A	N/A	N/A	Resigned	12/27/22	Family Medicine	Resigned	12/27/22	Family Medicine
Garand, Kendrea L., CCCSLP	N/A	N/A	N/A	Resigned	12/31/22	Surgery	Resigned	12/31/22	Surgery
Gavin, Brenda F., CRNP	N/A	N/A	N/A	Resigned	11/8/2022	Internal Medicine	Resigned	11/8/2022	Internal Medicine
Granberry, Michael L., MD	Resigned	10/31/2022	Orthopaedics	Resigned	10/31/2022	Orthopaedics	N/A	N/A	N/A
Grette, Katherine V., MD	Resigned	10/7/2022	OGBYN	Resigned	10/7/2022	OGBYN	Resigned	10/7/2022	OGBYN
Griffiths, Kelli A., PA	N/A	N/A	N/A	Resigned	12/27/22	Anesthesiology	Resigned	12/27/22	Anesthesiology
Gulledge, Crystin N., PA	Resigned	10/26/2022	Internal Medicine	Resigned	10/26/2022	Internal Medicine	Resigned	10/26/2022	Internal Medicine
Hanlon, Melissa L., CRNP	Resigned	12/13/22	Ped. Emerg. Med.	N/A	N/A	N/A	N/A	N/A	N/A
Haynes, Jr., Johnson, MD	Deceased	12/2/2022	Internal Medicine	Deceased	12/2/2022	Internal Medicine	Deceased	12/2/2022	Internal Medicine
Higgins, Tina G., CRNP	Resigned	10/26/2022	OGBYN	N/A	N/A	N/A	Resigned	10/26/2022	OGBYN
Huggins, Tiffany F., RN	Resigned	11/22/2022	Pediatrics	N/A	N/A	N/A	Resigned	11/22/2022	Pediatrics
Jones, Susan V., CRNA	Resigned	11/2/2022	Anesthesiology	Resigned	11/2/2022	Anesthesiology	N/A	N/A	N/A
Matthews, Jr., Arthur M., MD	Resigned	10/7/2022	Surgery	Resigned	10/7/2022	Surgery	Resigned	10/7/2022	Surgery

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USA HEALTH HOSPITALS MEDICAL STAFF
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NAME Resigned/Retired: (Continued)	USA Health Children's & Women's Hospital			USA Health University Hospital			USA Health Ambulatory Care		
	Reason	Date	Dept.	Reason	Date	Dept.	Reason	Date	Dept.
McGhee, Althea C., CRNA	Resigned	12/2/2022	Anesthesiology	Resigned	12/2/2022	Anesthesiology	N/A	N/A	N/A
McIntyre, Matthew G., MD	Resigned	10/7/2022	Surgery	Resigned	10/7/2022	Surgery	Resigned	10/7/2022	Surgery
Mosley, Cornetta L., CCCA	Resigned	11/10/2022	Surgery	Resigned	11/10/2022	Surgery	Resigned	11/10/2022	Surgery
Parrish, Dan W., MD	Resigned	01/03/22	Surgery	N/A	N/A	N/A	N/A	N/A	N/A
Patronas, Carl B., RN	Resigned	11/21/2022	Surgery	Resigned	11/21/2022	Surgery	Resigned	11/21/2022	Surgery
Payne, Keegan M., MD	Resigned	12/20/22	Anesthesiology	Resigned	12/20/22	Anesthesiology	N/A	N/A	N/A
Perry, Candace L., MD	Resigned	10/18/2022	Psychiatry	Resigned	10/18/2022	Psychiatry	N/A	N/A	N/A
Rodrigo, Joseph A., DO	N/A	N/A	N/A	Resigned	10/5/2022	Anesthesiology	N/A	N/A	N/A
Russell, Renee W., RN	Resigned	12/12/22	OBGYN	Resigned	12/12/22	OBGYN	Resigned	12/12/22	OBGYN
Sevilla Saez-Benito, Miriam M., MD	Resigned	10/18/2022	Psychiatry	Resigned	10/18/2022	Psychiatry	N/A	N/A	N/A
Shah, Saroj M., MD	Resigned	12/20/22	Anesthesiology	Resigned	12/20/22	Anesthesiology	N/A	N/A	N/A
Shaw, David M., MD	N/A	N/A	N/A	Resigned	11/7/2022	Internal Medicine	N/A	N/A	N/A
Stamper, Meredith K., CRNA	Resigned	12/20/22	Anesthesiology	Resigned	12/20/22	Anesthesiology	N/A	N/A	N/A
Taliaferro, Jacquise L., CRNP	Resigned	11/21/2022	OBGYN	Resigned	11/21/2022	Internal Medicine	N/A	N/A	N/A
Tidwell, Jonathan D., MD	Resigned	12/20/22	Anesthesiology	Resigned	12/20/22	Anesthesiology	N/A	N/A	N/A
Turner, Hannah H., CRNP	Resigned	12/5/2022	Family Medicine	Resigned	12/5/2022	Family Medicine	Resigned	12/5/2022	Family Medicine
Watts, Victoria B., DA	Resigned	12/31/22	Surgery	Resigned	12/31/22	Surgery	N/A	N/A	N/A
Zelaya, Mario E., MD	Resigned	12/20/22	Anesthesiology	Resigned	12/20/22	Anesthesiology	N/A	N/A	N/A
Zicman, Gregory A., DMD	Resigned	11/14/2022	Surgery	N/A	N/A	N/A	N/A	N/A	N/A

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**



**ACADEMIC AND STUDENT AFFAIRS
COMMITTEE**

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

Academic and Student Affairs Committee

**November 30, 2022
2:39 p.m.**

A meeting of the Academic and Student Affairs Committee of the University of South Alabama Board of Trustees was duly convened by Judge Mike Windom, Chair, on Wednesday, November 30, 2022, at 2:39 p.m. in the Board Room of the Frederick P. Whiddon Administration Building. Meeting attendance was open to the public.

Members: Scott Charlton, Steve Furr, Ron Jenkins, Bill Lewis, Lenus Perkins, Margie Tuckson and Mike Windom were present.

Member Absent: Ron Graham.

Other Trustees: Alexis Atkins, Chandra Brown Stewart, Tom Corcoran, Arlene Mitchell, Jimmy Shumock and Jim Yance.

Administration & Guests: Delaware Arif (Faculty Senate), Owen Bailey, Jim Berscheidt, Joél Billingsley, Jo Bonner, Nicole Carr, Lynne Chronister, Kristin Dukes, Joel Erdmann, Julie Estis, Monica Ezell, Phil Fishel, Andi Kent, Nick Lawkis, John Marymont, Mike Mitchell, Laura Schratt, Polly Stokley and Margaret Sullivan.

The meeting came to order and the attendance roll was called, **Item 17**. Judge Windom called for consideration of the minutes for a meeting held on September 22, 2022, **Item 18**. On motion by Judge Lewis, seconded by Capt. Jenkins, the Committee voted unanimously to adopt the minutes.

Judge Windom asked Provost Kent to present **Item 19**, a resolution authorizing sabbatical awards for fall 2023 through spring 2024. (To view resolutions, policies and other documents authorized, refer to the minutes of the Board of Trustees meeting held on December 1, 2022.) Provost Kent advised that the sabbatical proposals had succeeded through formal review processes, each with details on how the faculty member would spend the time to advance scholarship. On motion by Judge Lewis, seconded by Dr. Charlton, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Judge Windom called on Provost Kent to discuss **Item 20**, a resolution granting emeritus status to retired faculty who served the Division of Academic Affairs and the Whiddon College of Medicine, and conveying the Board's appreciation for their service to the University. Drs. Kent and Marymont made brief comments in support of the candidates. On motion by Capt. Jenkins, seconded by Judge Lewis, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Judge Windom called on Dr. Marymont for the presentation of **Item 21**, a resolution awarding tenure to a Whiddon College of Medicine faculty member. Dr. Marymont stated that the candidate,

Academic and Student Affairs Committee
November 30, 2022
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whose application had processed through the chain of review and been approved, was an accomplished academician and deserving of tenure. On motion by Dr. Charlton, seconded by Capt. Jenkins, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

Judge Windom called on Provost Kent to present a report on the activities of the Division of Academic Affairs, **Item 22**. Provost Kent showed a plaque recently awarded from the Association of Public Land-Grant Universities recognizing South as among the top four institutions nationally to demonstrate improved degree completion rates. She stated this was a big honor and congratulated Dr. Nicole Carr, Associate Vice President for Student Academic Success, and the USA faculty for their work with the students that made a difference. She introduced Dr. Carr, who shared perspective on past and current efforts to boost student retention and graduation outcomes. Dr. Carr advised that a team from South recently visited Georgia State University, known for best practices in student success and retention, to learn about its programs. She thanked Ms. Tuckson for introducing the USA and Georgia State counterparts and discussed how take-aways from the experience led to conversations about systemic change and the development of a new model for advancing student success initiatives at South.

Judge Windom called on Dr. Mitchell for a report on the activities of the Division of Student Affairs, **Item 23**. Dr. Mitchell introduced Mr. Phil Fishel, Interim Chief of Police, who discussed the University's 2022 Annual Security and Fire Safety Report, a requirement under federal law, that disclosed data from the 2021 calendar year. He shared perspective on the campus offenses reported as reflected in charts that compared results by year for the period 2019 through 2021 and thus far for 2022. Chief Fishel centered his remarks on the categories that showed marked differences.

Judge Windom called on Dr. Billingsley for a report on the activities of the Division of Diversity and Community Engagement, **Item 24**. Dr. Billingsley shared information on three projects facilitated through the Office of Diversity, Equity and Inclusion (DEI) and/or the Office of Community Engagement in partnership with others across campus. A mixer and panel discussion took place on November 8 in observance of *National First-Generation College Celebration Day*. The *Cultural Awareness Collaborative* was formed to promote inclusivity in observance of cultural events. The *DEI Special Interest Group Asset Map* provides a network of faculty whose research involved DEI themes for advancing research, community engagement and grant collaborations.

Judge Windom called on Ms. Chronister to present **Item 25**, a report on the activities of the Division of Research and Economic Development. Ms. Chronister delivered the annual report on sponsored activity for fiscal year 2022, characterizing 2022 as a record fiscal year even when HEERF (Higher Education Emergency Relief Fund) and CARES (Coronavirus Aid, Relief and Economic Security) Act funds were discounted. She stated extramural funding totaled close to \$118 million, noting that, despite a decrease in proposals funded, award totals rose. She discussed

Academic and Student Affairs Committee
November 30, 2022
Page 3

a series of charts showing comparative data, which included award totals by year, funding source and funding purpose, as well as results among the academic and administrative units, and addressed questions and comments from Trustees.

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

Respectfully submitted:

Michael P. Windom, Chair

RESOLUTION

**HONORARY DOCTORATE DEGREE FOR
LONNIE GEORGE JOHNSON**

WHEREAS, the University of South Alabama seeks to honor exceptional individuals who have devoted a substantial part of their lives to the service of others and who have distinguished themselves throughout their professional careers, and

WHEREAS, Lonnie George Johnson is a native of Alabama and grew up attending schools in Mobile county, and

WHEREAS, Lonnie Johnson was awarded the Air Force Achievement Medal and the Air Force Commendation Medal and has received several awards from NASA for his work in spacecraft system design at the Jet Propulsion Laboratory, and

WHEREAS, in 2008, Lonnie Johnson was awarded the Breakthrough Award from the magazine Popular Mechanics for his work related to the Johnson Thermo-Electrochemical Converter System, and

WHEREAS, in 2011, Lonnie Johnson was inducted into the State of Alabama Engineering Hall of Fame, and

WHEREAS, Lonnie Johnson holds more than 100 U.S. patents, most of which are for his *Super Soaker* which was inducted into the National Toy Hall of Fame in 2011, and

WHEREAS, in 2022, Lonnie Johnson was inducted into the National Inventors Hall of Fame,

THEREFORE, BE IT RESOLVED, for his dedication and for his many contributions to the State of Alabama, the Board of Trustees of the University of South Alabama is proud to bestow upon Lonnie George Johnson the degree of Doctor of Humane Letters (L.H.D.), honoris causa.



UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Office of the Executive Vice President and Provost

DATE: February 17, 2023
TO: Jo Bonner, President
FROM: Andi M. Kent, Ph.D., Executive Vice President and Provost
SUBJECT: Honorary Doctorate Committee – Lonnie G. Johnson

On behalf of the Honorary Doctorate Committee, I recommend support of the nomination of Lonnie G. Johnson to receive an Honorary Doctorate from the University of South Alabama. The committee reviewed the criteria stated in the Faculty Handbook and unanimously agrees that Mr. Johnson meets all of the following:

- Has achieved distinction in his/her profession;
- Has made an outstanding contribution or rendered an outstanding service to the University of South Alabama;
- Has made a significant public or scholarly contribution, or
- Has achieved personal status that will enhance the reputation of the University of South Alabama.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink that reads "A Kent".

Andi M. Kent, Ph.D.

AMK:rmh

A handwritten signature in black ink that reads "Jo Bonner".

RESOLUTION

**HOUSING AND DINING RATES
SUMMER 2023**

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

WHEREAS, the number of students living on campus during summer 2022 term increased, and

WHEREAS, dining services has continued to experience ongoing increases in both operational and food costs, and

WHEREAS, student housing proposes to reduce additional select summer room rates in order to attract additional students to live on campus during the summer school term,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama hereby authorizes the housing and dining rate changes as set forth for the summer 2023 term.



UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Vice President for Student Affairs/Dean of Students

DATE: February 17, 2023

TO: President Jo Bonner

FROM: Dr. Michael Mitchell,
Vice President for Student Affairs and Dean of Students

A handwritten signature in black ink, appearing to read 'Michael Mitchell'.

SUBJECT: Proposed Room and Board Rate Change for Summer 2023

Attached is a proposal from Dr. Chris Cleveland with recommendations for modifications for housing and dining fees for the summer 2023 semester. Summer school Room and Board rates were last modified in 2020. She has requested a decrease in select summer room rates in an effort to attract summer school students to live on campus. In addition, she has requested a slight increase in summer meal plan rates to counterbalance or equalize the increased food costs and operating expenses. I support this increase and recommend it for submission to the Board of Trustees for approval.

A handwritten signature in black ink, appearing to read 'Jo Bonner'.



UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Auxiliary Services

DATE: February 1, 2023

TO: Dr. Mike Mitchell

FROM: Dr. Chris Cleveland

A handwritten signature in blue ink that reads "Chris Cleveland". The signature is written in a cursive style and is positioned to the right of the printed name "Dr. Chris Cleveland".

SUBJECT: Proposed Housing & Dining Rate Changes for Summer 2023

Housing has consistently maintained summer school occupancy of more than 100 residents with the exception of summer 2020 when our facilities were closed due to the COVID-19 pandemic.

Summer school board rates were last modified for the first time in eleven years in summer 2022. A modification to the recommended rate structure for summer room and board rates for 2023 is attached.

There has been a significant increase in both labor and food cost over the past two years as a direct result of the COVID-19 pandemic. Another slight increase in summer school meal plans is requested in order to assist in offsetting the increased food cost and operating expenses. Further justification for this request is supported by the U.S. Bureau of Labor Statistics CPI summary report ending December 2022. Average food cost have continued to increase and additional 10.4% since June 2022.

In an effort to retain and attract additional summer school students to live on campus, Housing is recommending a change in room rates for Delta 6 and Epsilon room types offered in summer 2023.

The recommended changes in room and board rates is attached for your review.



UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Housing

DATE: January 31, 2023

TO: Chris Cleveland, Ed.D.

FROM: Jeremy Sheffield, Ed.D.

A handwritten signature in black ink that reads "Jeremy Sheffield". The signature is written in a cursive style and is positioned to the right of the "FROM:" field.

SUBJECT: Housing – Summer Housing Rates

At the March 11, 2022, USA Board of Trustees meeting the Board of Trustees agreed to modify summer housing rates for Delta 3 residence hall only beginning in Summer 2022. For Summer 2023, USA Housing intends to offer students housing in Epsilon and Delta 6 residence halls.

To incentivize and increase the number of students living on campus during the summer semester, I recommend modifying the current summer housing rates for these specific residence halls to the proposed rates on the following page for Summer 2023 and beyond. If this meets with your approval, please let me know. If approved, this rate change will begin for the Summer 2023 semester and will not be subject to Academic Year housing rate increases.

Full Summer Semester Rate Proposal

Room Type	Current Summer Rate	Proposed Summer 2023 Rate	Difference
Room for 2 w/kitchenette (Delta 6)	\$ 1,800.00	\$ 1,800.00	\$ 0.00
PVT Room w/kitchenette (Delta 6)	\$ 2,250.00	\$ 2,000.00	\$ (250.00)
LG PVT w/kitchenette (Delta 6)	\$ 2,400.00	\$ 2,200.00	\$ (200.00)
Room for 2 (Epsilon)	\$ 1,610.00	\$ 1,600.00	\$ (10.00)
LG PVT Room (Epsilon)	\$ 2,400.00	\$ 2,000.00	\$ (400.00)

Summer 2023 Proposed Revisions to Room & Board Rates

ROOM TYPE	2022 Current Rate	2023 Proposed Rate	Difference
PVT Room for 2 with kitchenette (Delta 6)	\$2,250	\$2,000	(\$250)
LG PVT Room for 2 with kitchenette (Delta 6)	\$2,400	\$2,200	(\$200)
Room for 2 (Epsilon)	\$1,610	\$1,600	(\$10)
LG PVT Room (Epsilon)	\$2,400	\$2,000	(\$400)

MEAL PLAN TYPE	2022 Current Rate	2023 Proposed Rate	Difference
USA 7 with \$50 Bonus Bucks	\$500	\$550	\$50
Jag 15 with \$140 Bonus Bucks	\$915	\$985	\$70
All Access Jag Pass with \$210 Bonus Bucks	\$1,100	\$1,180	\$80

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**



**BUDGET AND FINANCE
COMMITTEE**

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

Budget and Finance Committee

November 30, 2022

3:26 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 Wednesday, November 30, 2022, at 3:26 p.m. in the Board Room of the Frederick P. Whiddon Administration Building. Meeting attendance was open to the public.

Members: Alexis Atkins, Chandra Brown Stewart, Tom Corcoran, Lenus Perkins and Jimmy Shumock were present.

Members Absent: Ron Graham and Steve Stokes

Other Trustees: Scott Charlton, Steve Fur, Ron Jenkins, Bill Lewis, Arlene Mitchell, Margie Tuckson, Mike Windom and Jim Yance.

Administration & Guests: Delaware Arif (Faculty Sentae), Owen Bailey, Jim Berscheidt, Joél Billingsley, Jo Bonner, Lynne Chronister, Kristin Dukes, Joel Erdmann, Julie Estis, Monica Ezell, Buck Kelley, Andi Kent, Nick Lawkis, John Marymont, Mike Mitchell, Kristen Roberts, Laura Schratt, Polly Stokley and Margaret Sullivan.

The meeting came to order, and the attendance roll was called, **Item 26**. Mr. Corcoran called for consideration of the minutes of a meeting held on September 22, 2022, **Item 27**. On motion by Ms. Atkins, seconded by Mr. Shumock, the Committee voted unanimously to adopt the minutes.

Mr. Corcoran called on Ms. Stokley to discuss the University's 2022 Financial Report, **Item 28**. Ms. Stokley told the Committee that the financial report would be finalized and released in a matter of days and printed copies would be provided to Trustees. She introduced Ms. Kristen Roberts, Assistant Vice President for Finance and Administration, to discuss budget highlights as of the end of the 2022 fiscal year. Ms. Roberts advised that University operations maintained a strong performance despite the impact of a volatile investment market over 2022. She reported that the University's net position increased by approximately \$26 million and totaled close to \$361 million to end the year.

Ms. Stokley called on Mr. Buck Kelley, Assistant Vice President for Facilities and Construction, to provide an update on facilities, **Item 29**. As photos and artistic renderings were shown, Mr. Kelley discussed specifics pertaining to the nearly completed Pediatric Emergency Department at USA Health Children's & Women's Hospital, the USA Health Physicians Office Building located at the USA Health complex on Hillcrest Road, and the Frederick P. Whiddon College of Medicine Building that would be constructed near the Alpha Hall complex on the main campus. For each facility, he shared perspective on square footage, space utilization and anticipated bid and completion dates, and answered questions.

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

Respectfully submitted:

E. Thomas Corcoran, Chair

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

Basic Financial Statements

Three Months Ended December 31, 2022

Unaudited

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Quarterly Financial Statements
Three Months Ended December 31, 2022

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UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis

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 December 31, 2022 and 2021, and for the three months then ended. This discussion has been prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

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

Financial Highlights

At December 30, 2022 and 2021, the University had total assets and deferred outflows of \$1,894,125,000 and \$1,897,934,000, respectively; total liabilities and deferred inflows of \$1,486,636,000 and \$1,513,118,000, respectively; and net position of \$407,489,000 and \$348,816,000, respectively.

The University has experienced a significant growth in its health care operations over the past several years incurring increases in net patient service revenues of \$25,019,000 or 15%, between 2021 and 2022. Due to significant market declines, there was a notable decrease in cash and investment balances between 2021 and 2022, decreasing by \$72,469,000, or 11% to \$607,218,000 at December 31, 2022.

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 December 31, 2022. Net position is displayed in three parts: net investment in capital assets, restricted and unrestricted. Restricted net position may be either expendable or nonexpendable and is the net position that is restricted by law or external donors. Unrestricted net position is generally designated by management for specific purposes, and is available for use by the University to meet current expenses for any purpose. The statements of net position, along with all of the University's basic financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis

The condensed schedules of net position at December 31, 2022 and 2021 follow (in thousands):

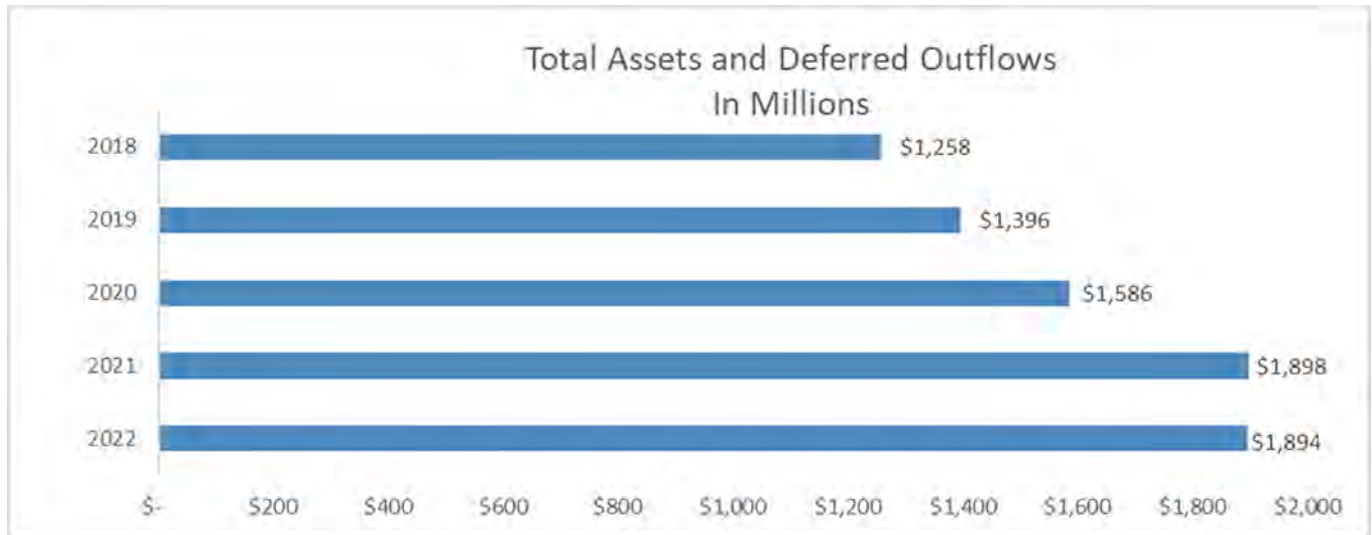
Condensed Schedules of Net Position

	<u>2022</u>	<u>2021</u>
Assets:		
Current	\$ 363,871	394,076
Capital assets, net	835,606	841,233
Other noncurrent	<u>469,450</u>	<u>474,459</u>
Total assets	1,668,927	1,709,768
Deferred outflows	<u>225,198</u>	<u>188,166</u>
Total assets and deferred outflows	<u>1,894,125</u>	<u>1,897,934</u>
Liabilities:		
Current	211,633	240,898
Noncurrent	<u>973,194</u>	<u>1,137,732</u>
Total liabilities	1,184,827	1,378,630
Deferred inflows	<u>301,809</u>	<u>134,488</u>
Total liabilities and deferred inflows	<u>1,486,636</u>	<u>1,513,118</u>
Net position:		
Net investment in capital assets	370,336	432,992
Restricted, nonexpendable	75,015	70,183
Restricted, expendable	92,566	99,660
Unrestricted deficit	<u>(130,428)</u>	<u>(218,019)</u>
Total net position	<u>\$ 407,489</u>	<u>384,816</u>

Assets included in the statement of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments and net patient receivables. Of these amounts, cash and cash equivalents, investments and net patient receivables comprise approximately 50%, 10 and 14%, respectively, of current assets at December 31, 2022. Noncurrent assets consist primarily of restricted cash and cash equivalents, restricted investments and capital assets. The decrease in total assets and deferred outflows is attributed to a decline in investment value and restricted cash and cash equivalents.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis

Total assets and deferred outflows of the University as of December 31 is as follows:



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

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

Restricted nonexpendable net position consists primarily of the University's permanent endowment funds. In accordance with the policies of the University, the earnings from these funds may be expended, but the corpus may not be expended and must remain intact with the University in perpetuity.

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

Unrestricted deficit of net position represents amounts not invested in capital assets or not subject to externally imposed stipulations. Even though these funds are not legally restricted, the majority of the University's unrestricted net position has been internally designated for various projects, all supporting the mission of the University. Unrestricted net position includes funds for various academic and research programs, auxiliary operations (including student housing and dining services), student programs, capital projects and general operations. Also included in unrestricted net position at December 31, 2022 is the impact of the net pension liability recorded pursuant to the requirements of GASB Statement No. 68 and the impact of the net OPEB liability recorded pursuant to the requirements of GASB Statement No. 75.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis

Net position of the University as of December 31 is as follows:



All categories of restricted net position collectively decreased by approximately \$2,262,000 between December 31, 2022 and 2021, primarily due to market declines on investments. Unrestricted net position increased from \$(218,019,000) to \$(130,428,000) between December 31, 2022 and 2021. A summary of unrestricted net position (deficit) at December 31, 2022 is summarized as follows (in thousands):

Unrestricted (deficit) net position related to net pension liability	\$ (237,578)
Unrestricted (deficit) net position related to net OPEB liability	(205,378)
Unrestricted net position related to other activity	<u>312,528</u>
Unrestricted net position (deficit)	<u>\$ (130,428)</u>

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total University net position are based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of this statement is to present the 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.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis

Nonoperating revenues have the characteristics of nonexchange transactions because generally no goods or services are provided. Such transactions include investment income, state appropriations, gifts and other contributions. State appropriations are required by GASB to be classified as nonoperating revenues. Nonoperating expenses are those expenses required in the operation and administration of the University, but not directly incurred to acquire or produce the goods and services provided in return for operating revenues. Such nonoperating expenses include interest on the University's indebtedness, losses related to the disposition of capital assets, transfers to affiliates to fund operations and transfers to intergovernmental agencies related to medical expenditures.

The condensed schedules of revenues, expenses, and changes in net position for the three months ended December 31, 2022 and 2021 follow (in thousands):

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

	2022	2021
Operating revenues:		
Tuition and fees, net	\$ 49,420	51,117
Patient service revenues, net	192,574	167,555
Federal, state and private grants and contracts	11,379	9,030
Other	18,119	4,994
	271,492	232,696
Operating expenses:		
Salaries and benefits	167,113	143,113
Supplies and other services	105,822	93,448
Other	22,110	18,083
	295,045	254,644
Operating loss	(23,553)	(21,948)
Nonoperating revenues and expenses:		
State appropriations	35,178	32,274
Net investment income	22,337	8,699
Other, net	(3,759)	5,873
Net nonoperating revenues	53,756	46,846
Income before capital contributions and grants and additions to endowment	30,203	24,898

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis

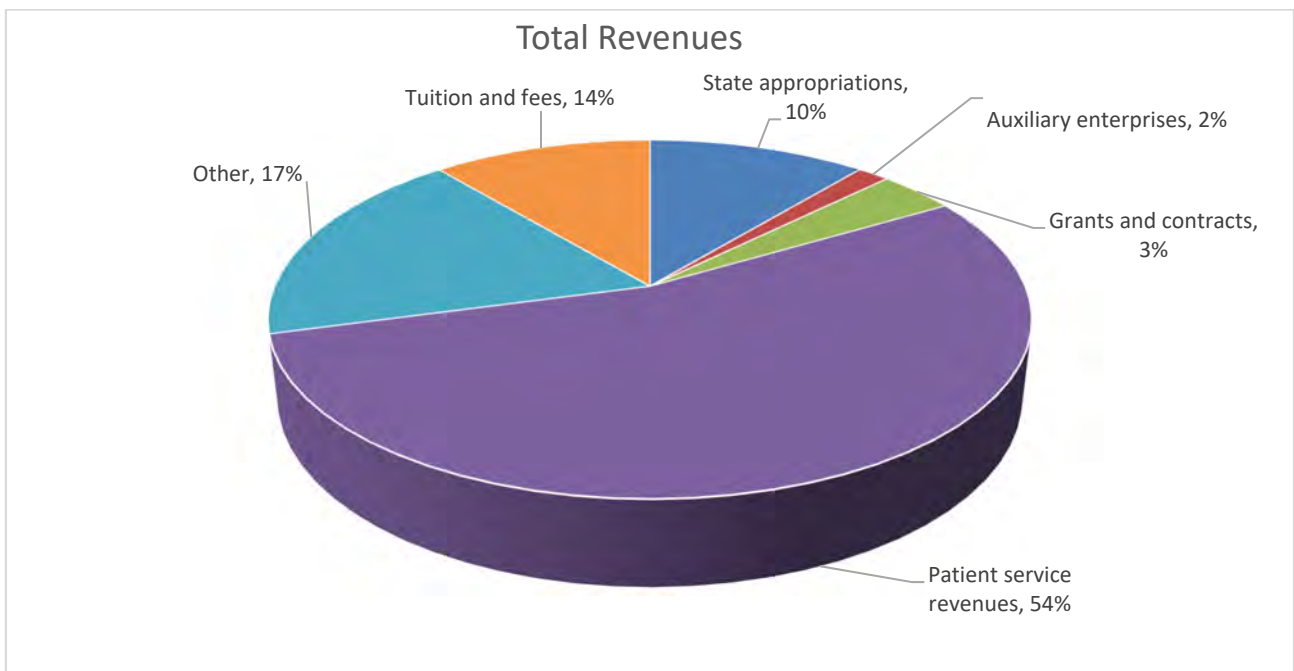
Condensed Schedules of Revenues, Expenses, and Changes in Net Position
(continued)

	<u>2022</u>	<u>2021</u>
Capital contributions and grants and additions to endowment	\$ 16,100	17,231
Increase in net position	46,302	42,130
Beginning net position	361,188	342,686
Ending net position	<u>\$ 407,490</u>	<u>384,816</u>

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis

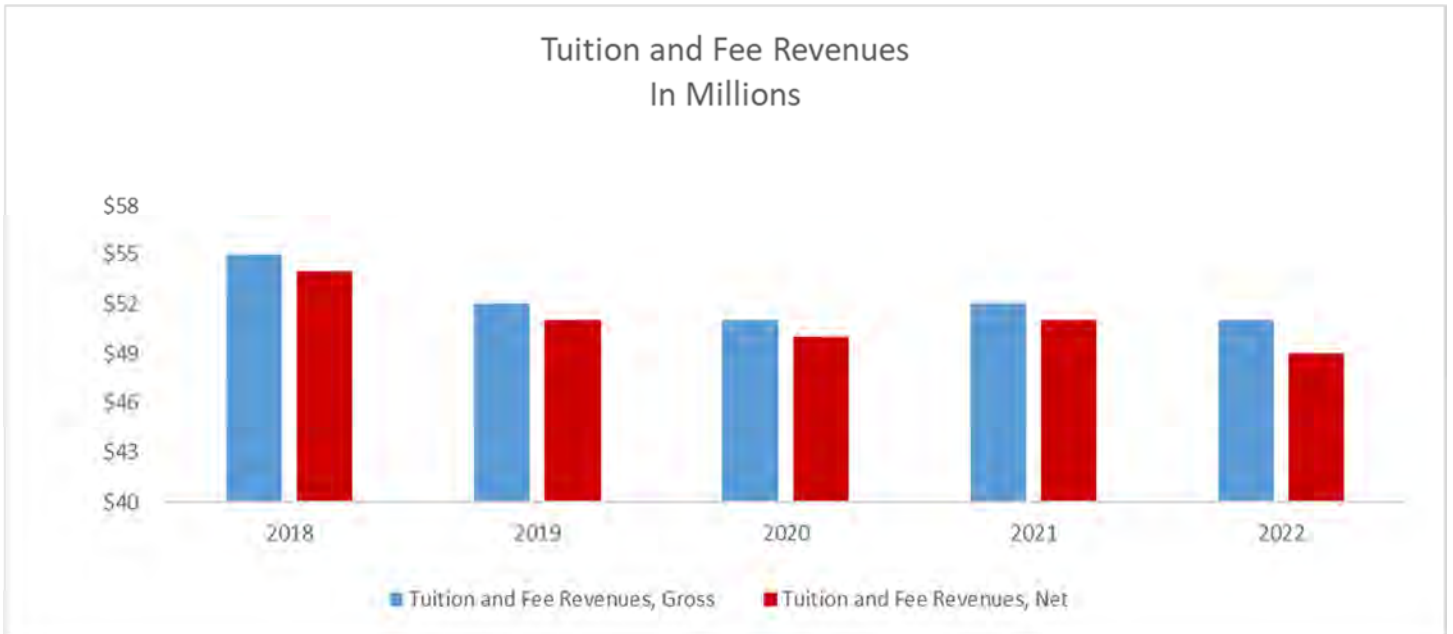
Approximately 54% of total revenues of the University were net patient service revenues for the three months ended December 31, 2022. Excluding patient service revenues, tuition and fees charged to students and state appropriations represent the largest component of total University revenues, approximately 14% and 10% of total revenues for the three months ended December 31, 2022, respectively. For the three months ended December 31, 2022, grants and contracts (federal, state and private) represented approximately 3% of total revenues.

A summary of University revenues for the three months ended December 31, 2022 is presented as follows:



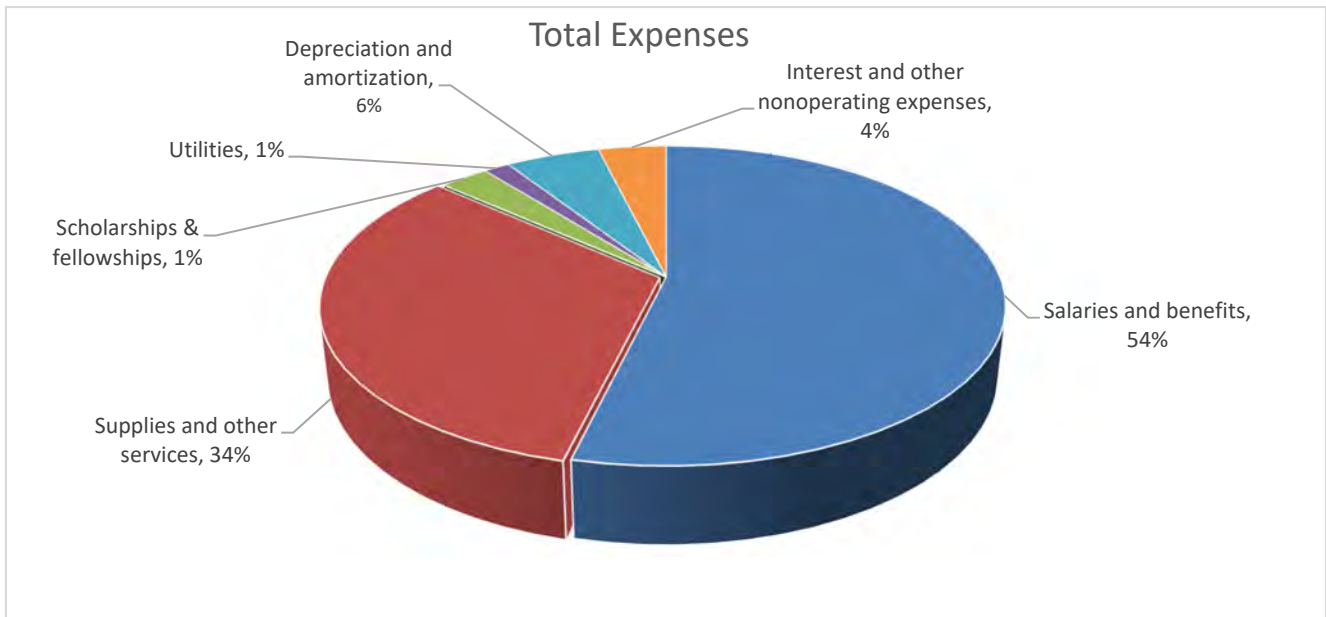
UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis

Tuition revenues have generally remained steady in recent years. A decline in enrollment coupled with increases in tuition rates have caused tuition revenues to remain relatively flat. Tuition and fees, gross and net of scholarship allowances, for the past five fiscal years are as follows:



UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis

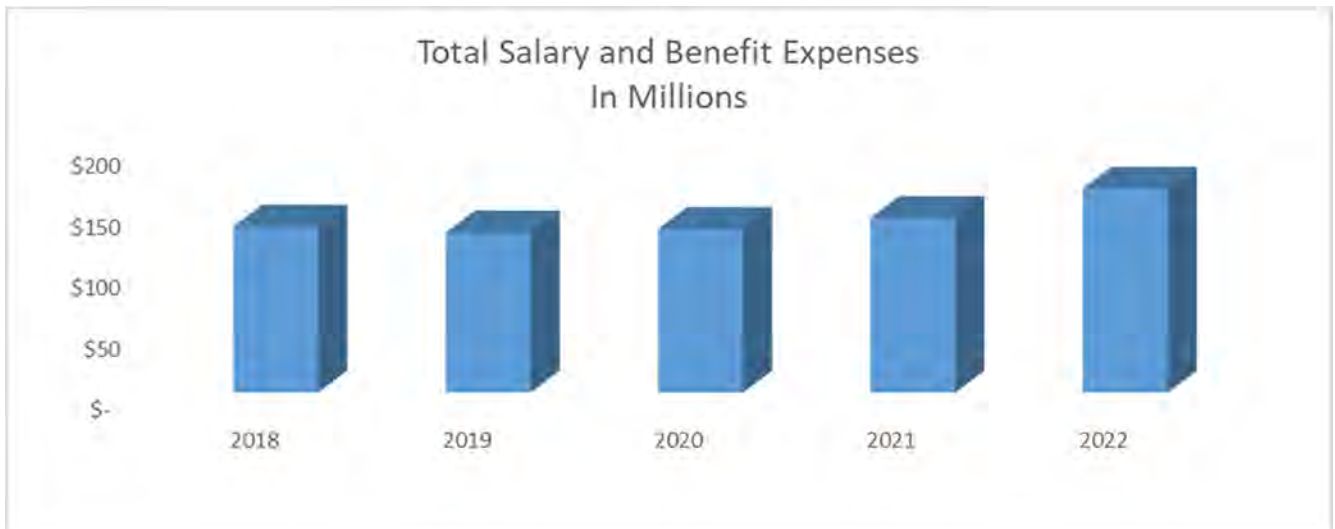
University expenses are presented using their natural expense classifications. A summary of University expenses for the three months ended December 31, 2022 is presented as follows:



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

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis

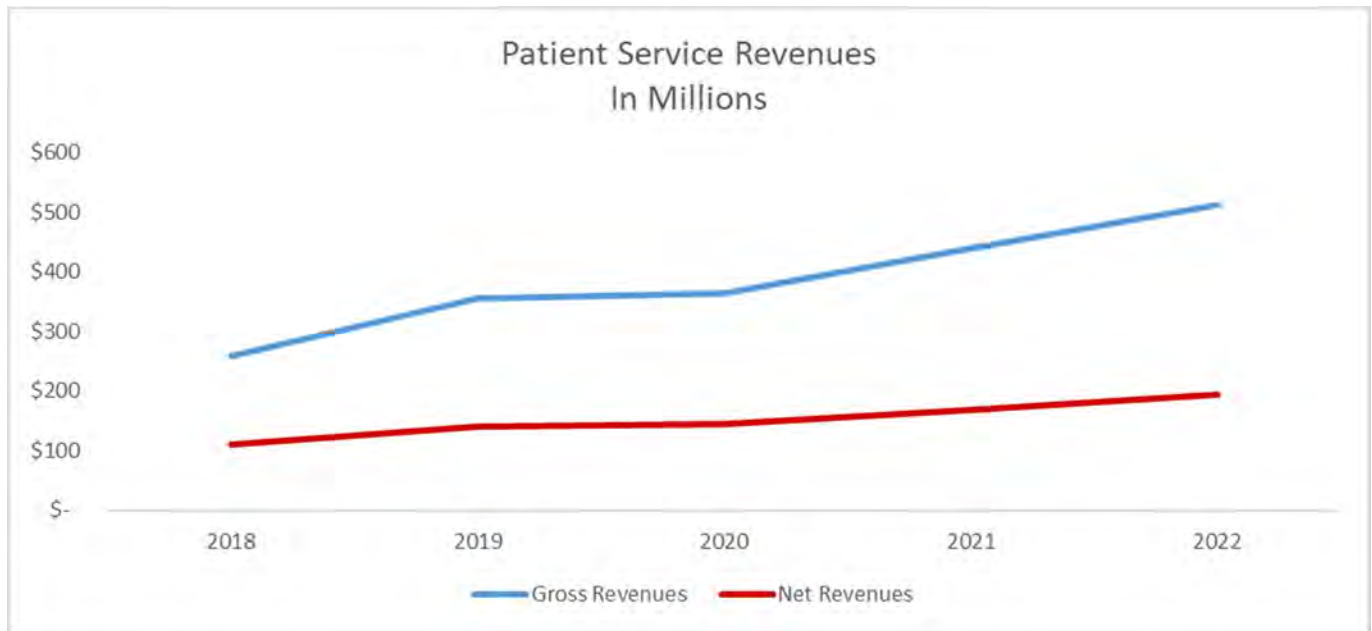
For the three months ended December 31, 2022, approximately 54% of the University's total expenses were salaries and benefits.



For the three months ended December 31, 2022, the University reported an operating loss of approximately \$23,553,000. The operating loss is offset partially by state appropriations, which, as mentioned earlier, are reported as nonoperating revenues. After considering all nonoperating revenues and expenses, including capital contributions and grants and additions to the endowment, the total change in net position was approximately \$46,302,000 for the three months ended December 31, 2022.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis

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



Statement of Cash Flows

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

Capital Assets and Debt Administration

Total capital asset additions for the University were approximately \$9,360,000 for the three months ended December 31, 2022. Significant construction projects that remain in progress at December 31, 2022 include the 3D Printing Lab, Science Laboratory Building renovation, Ravine Bridge replacement, new Central Energy Plant, and new College of Medicine Building along with major continued upgrades on infrastructure on the University's main campus such as the North Drive Utilities project. December 31, 2022, the University had outstanding commitments of approximately \$34,280,000 for various capital projects. Additional information regarding the University's capital assets is included in note 5.

In March 2021, the University issued a new University Facilities Revenue Bond, Series 2021, with a face value of \$40,555,000. The proceeds, along with internal contributions from the University, are financing USA Health facilities and transportation infrastructure. In July 2021, the University refinanced the Series 2012-A Bond with the University Facilities Revenue Bond, Series 2021-B, with a face value of \$15,387,000. The terms for Bonds 2016-B, 2016-C and 2016-D were revised in September 2021 to address the removal of the LIBOR rate to be replaced by the ISDA-based replacement index after year ended September 30, 2021. The dates by which the Lender may cause all of the outstanding principal on such bonds to mature and become due and payable by the University were extended 5 years for each bond. On March 5, 2021, the Financial Conduct Authority (FCA) announced the final publication date for US LIBOR is June 30, 2023. Loans maturing after the end of LIBOR

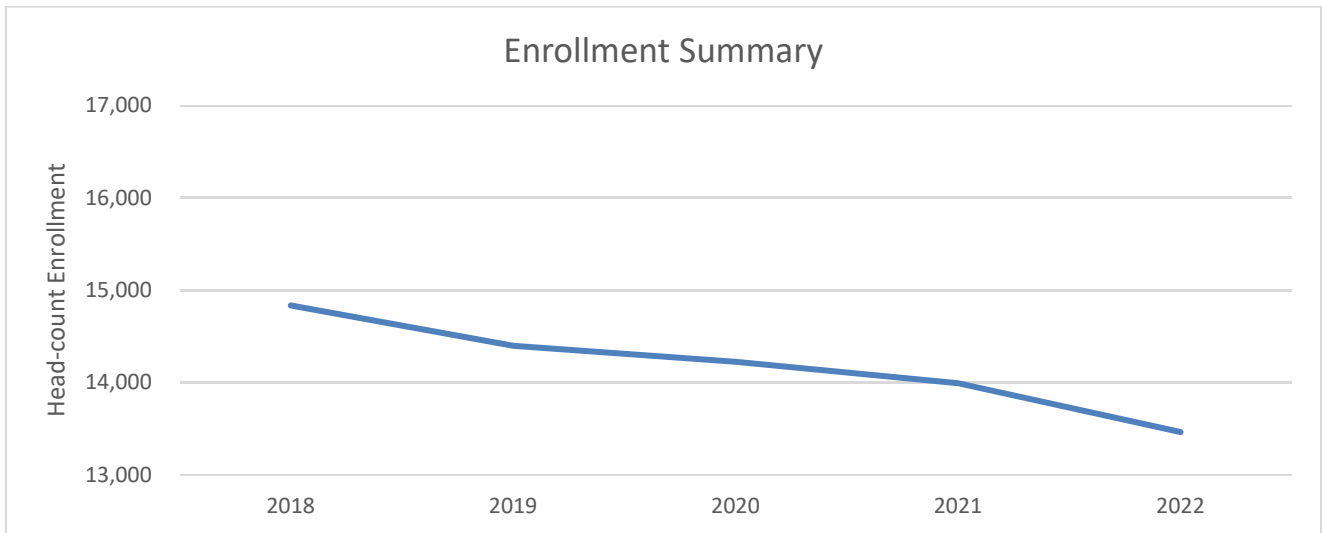
UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis

will be reviewed to determine if appropriate language, referred to as fallback language, is used to provide for the replacement of LIBOR with an alternative index. The Alternative Reference Rates Committee (ARRC) has recommended the Secured Overnight Financing Rate (SOFR) as an alternative to replace LIBOR.

The University's bond credit rating is A1 (Stable) as rated by Moody's Investors Service and A+ (Stable) as rated by Standard and Poor's Global Ratings. Neither rating changed during 2022 or 2021. Moody's Investors Service and Standard and Poor's Global Ratings affirmed their ratings in conjunction with their assessment of the 2021 Bond issuances. Additional information regarding the University's debt is included in note 7.

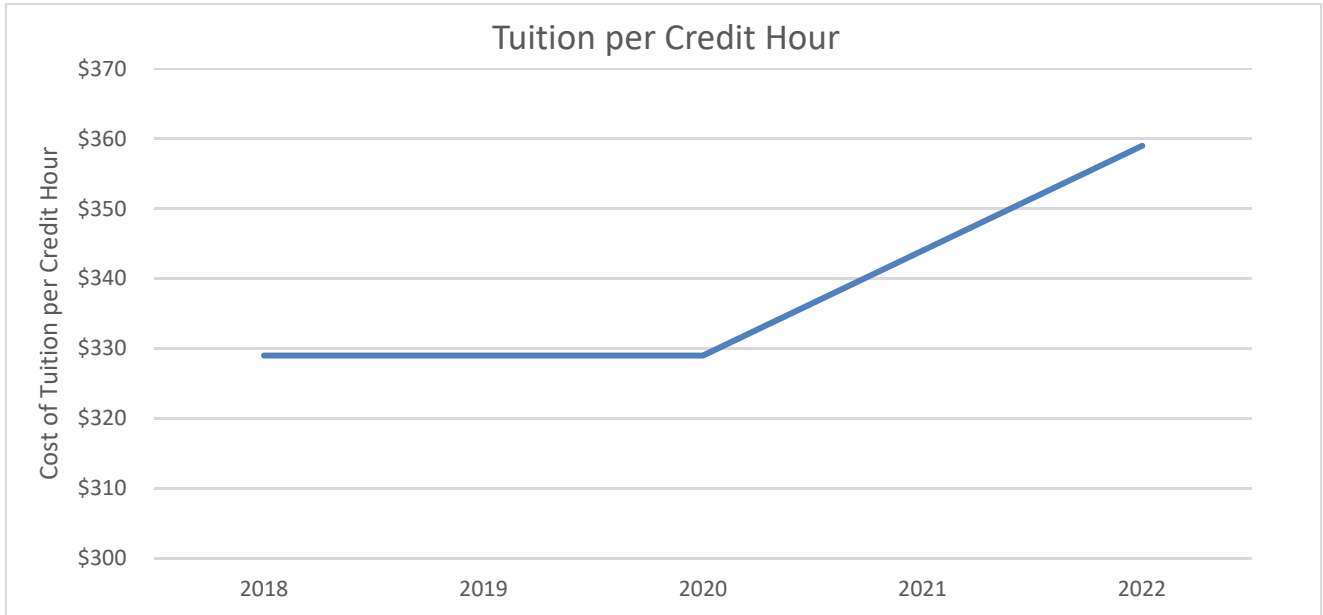
Economic Outlook

While, tuition and fee rates per credit hour have increased over the past ten years, there have been declines in enrollment since 2016. The University experienced a decline in enrollment of approximately 2% between Fall 2020 and Fall 2021 and an additional decline of 4% between Fall 2021 and Fall 2022, with declines primarily resulting from a decrease in international student enrollment and a decrease in the number of returning students. The enrollment trend for the University between 2018 and 2022 is as follows:



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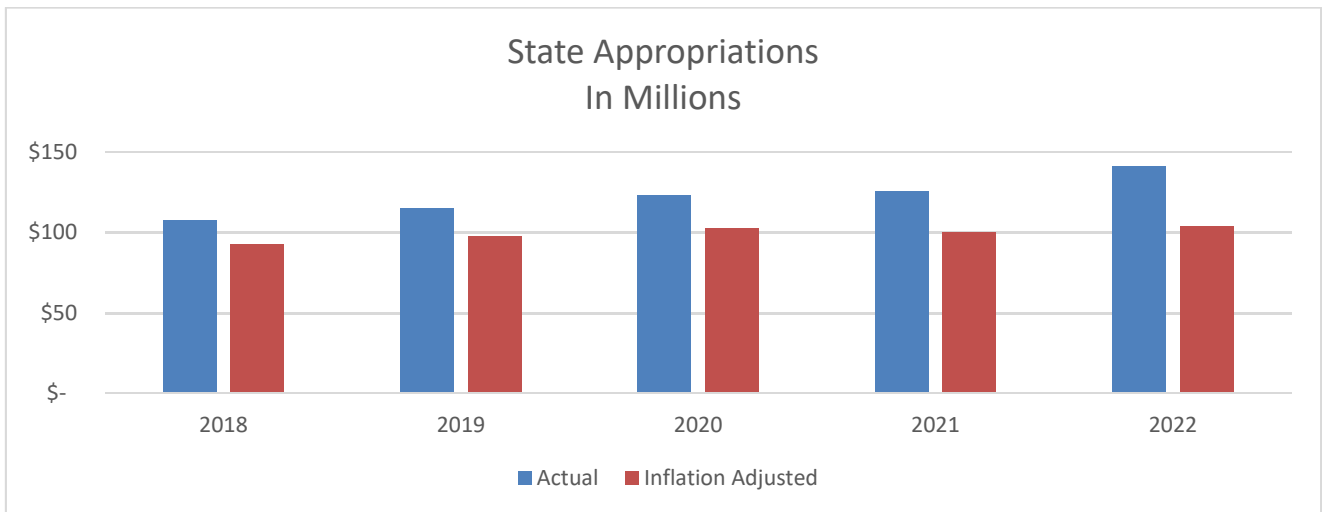
During the same period, in-state tuition per credit hour for in-person classes has increased by approximately 4%. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. Web tuition has decreased slightly during that period. The trend of in-state tuition per credit hour between 2018 and 2022 is as follows:



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A state appropriation in the amount of approximately \$129,098,000 and \$121,564,000 was authorized and received for the years ended September 30, 2022 and 2021, respectively. Additional appropriations of approximately \$4,111,000 and \$7,500,000 and \$4,017,000 and \$900,000 were received during fiscal years 2022 and 2021, respectively for advancement and technology, and certain academic and healthcare initiatives. A state appropriation in the amount of approximately \$140,714,000, representing an increase of approximately 9%, has been authorized for the year ending September 30, 2023. While no announcement has been made, the University is aware that reductions in the 2023 appropriation are possible.

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



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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.

During the second fiscal quarter of 2020, the United States was thrust into the midst of a pandemic health crisis related to the spread of COVID-19 (the "Crisis"). The University returned to normal operations for the Fall 2021 semester and USA Health operations have returned to a normal level with minimum impact on the finances of USA Health.

The University has taken all necessary steps to ensure that the University takes full advantage of the Coronavirus Aid, Relief and Economic Security Act of 2020 (the "CARES Act"). As of September 30, 2022, the University (including USA Health) had been awarded \$99,254,000 in CARES Act, and other funding from federal and state sources for COVID-19 relief. Of the total amount awarded \$4,203,000 has been recognized as nonoperating revenue in the statements of revenues, expenses and changes in net position for the quarter ended December 31, 2022.

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 2023 or beyond.

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 Polly Stokley; Vice President for Finance and Administration; University of South Alabama Administration Building Room 300; Mobile, Alabama 36688. These basic financial statements can be obtained from our website at <http://www.southalabama.edu/departments/financialaffairs/businessoffice/statements.html>.

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

Statement of Net Position

December 31, 2022

(In thousands)

Current assets:	
Cash and cash equivalents	\$ 183,040
Investments	37,423
Patient receivables (net of allowance for doubtful accounts of \$129,357)	49,355
Accounts receivable, other	74,400
Notes receivable, net	1,618
Prepaid expenses, inventories, and other	17,308
Financing lease receivable, current portion	<u>727</u>
Total current assets	<u>363,871</u>
Noncurrent assets:	
Restricted cash and cash equivalents	32,317
Restricted investments	270,739
Investments	83,699
Other noncurrent assets and accounts receivable	50,076
Right of use asset, net	31,124
Financing lease receivable, less current portion	1,496
Capital assets, net	<u>835,606</u>
Total noncurrent assets	<u>1,305,057</u>
Total assets	1,668,928
Deferred outflows	<u>225,197</u>
Total assets and deferred outflows	<u>1,894,125</u>
Current liabilities:	
Accounts payable and accrued liabilities	71,651
Unrecognized revenues	97,125
Deposits	3,728
Current portion of other long-term liabilities	4,937
Current portion financing lease obligations	8,969
Current portion of long-term debt	<u>25,223</u>
Total current liabilities	<u>211,633</u>
Noncurrent liabilities:	
Long-term debt, less current portion	429,022
Financing lease obligations, less current portion	23,119
Net pension liability	237,578
Net other postemployment benefits liability	205,378
Other long-term liabilities, less current portion	<u>78,097</u>
Total noncurrent liabilities	<u>973,194</u>
Total liabilities	1,184,827
Deferred inflows	<u>301,809</u>
Total liabilities and deferred inflows	<u>1,486,636</u>
Net position:	
Net investment in capital assets	370,336
Restricted, nonexpendable:	
Scholarships	41,754
Other	33,261
Restricted, expendable:	
Scholarships	30,859
Other	61,707
Unrestricted deficit	<u>(130,428)</u>
Total net position	<u>\$ 407,489</u>

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Three months ended December 31, 2022

(In thousands)

Operating revenues:	
Tuition and fees (net of scholarship allowances of \$1,988)	\$ 49,420
Patient service revenues (net of provision for bad debts of \$31,574)	192,574
Federal grants and contracts	5,542
State grants and contracts	2,346
Private grants and contracts	3,491
Auxiliary enterprises (net of scholarship allowances of \$60)	7,144
Other operating revenues	10,975
Total operating revenues	<u>271,492</u>
Operating expenses:	
Salaries and benefits	167,112
Supplies and other services	105,822
Scholarships and fellowships	758
Utilities	4,018
Depreciation and amortization	17,335
Total operating expenses	<u>295,045</u>
Operating loss	<u>(23,553)</u>
Nonoperating revenues (expenses):	
State appropriations	35,178
Net investment gains	22,337
Interest expense	(4,932)
Other nonoperating revenues	9,355
Other nonoperating expenses	(8,182)
Net nonoperating revenues	<u>53,756</u>
Income before capital contributions and grants and additions to endowment	30,203
Capital contributions and grants	11,260
Additions to endowment	4,839
Increase in net position	46,302
Net position:	
Beginning of year	361,188
End of year	<u>\$ 407,490</u>

See accompanying notes to basic financial statements.

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

Statement of Cash Flows

Three months ended December 31, 2022

(In thousands)

Cash flows from operating activities:	
Receipts related to tuition and fees	\$ 9,903
Receipts from and on behalf of patients and third-party payers	190,729
Receipts from grants and contracts	11,828
Receipts related to auxiliary enterprises	2,228
Payments to suppliers and vendors	(114,973)
Payments to employees and related benefits	(183,550)
Payments for scholarships and fellowships	(758)
Other operating receipts	21,989
Net cash used in operating activities	<u>(62,604)</u>
Cash flows from noncapital financing activities:	
State appropriations	35,198
Endowment gifts	4,839
Agency funds received	812
Agency funds disbursed	(673)
Student loan program disbursements	(34)
Student loan program receipts	67
Other nonoperating revenues	13,809
Other nonoperating expenses	(3,310)
Net cash provided by noncapital financing activities	<u>50,708</u>
Cash flows from capital and related financing activities:	
Capital contributions and grants	11,260
Purchases of capital assets	(14,770)
Proceeds from sales of capital assets	28
Principal payments on capital debt	(6,625)
Interest payments on capital debt	(8,996)
Net cash used in capital and related financing activities	<u>(19,103)</u>
Cash flows from investing activities:	
Interest and dividends on investments	2,596
Purchases of investments	(10,995)
Proceeds from sales of investments	6,154
Net cash provided by investing activities	<u>(2,245)</u>
Net decrease in cash and cash equivalents	(33,244)
Cash and cash equivalents (unrestricted and restricted):	
Beginning of year	<u>248,601</u>
End of year	<u>\$ 215,357</u>

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

Statement of Cash Flows

Three months ended December 31, 2022

(In thousands)

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (23,553)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	17,335
Changes in assets and liabilities, net:	
Student receivables	(51,606)
Net patient receivables	1,252
Grants and contracts receivables	298
Other receivables	2,685
Prepaid expenses, inventories, and other	(264)
Accounts payable and accrued liabilities	(24,447)
Unrecognized revenues	15,697
Net cash used in operating activities	<u>\$ (62,603)</u>
Noncash investing, noncapital financing, and capital and related financing transactions:	
Net decrease in fair value of investments recognized as a component of investment losses	\$ 17,815
Addition of financing lease obligations	2,193
Gifts of capital, investments and other assets	7,500
Increase in accounts payable related to capital assets	2,119

See accompanying notes to basic financial statements.

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

Consolidated Statement of Financial Position

September 30, 2022

(In thousands)

Assets		
Cash and cash equivalents		\$ 2,285
Investments:		
Equity securities		183,991
Timber and mineral properties		174,780
Real estate		9,026
Other		5,809
Other assets		<u>523</u>
Total assets		<u>\$ 376,414</u>
Liabilities and Net Assets		
Liabilities:		
Other liabilities		<u>649</u>
Total liabilities		<u>649</u>
Net assets:		
Without donor restrictions		60,875
With donor restrictions		<u>314,890</u>
Total net assets		<u>375,765</u>
Total liabilities and net assets		<u>\$ 376,414</u>

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

Consolidated Statement of Activities and Changes in Net Assets

Three months ended September 30, 2022

(In thousands)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains, losses and other support:			
Net realized and unrealized gains (losses) on investments	\$ (955)	(11,457)	(12,412)
Rents, royalties and timber sales	1,758	38	1,796
Interest and dividends	279	421	700
Gifts	—	2	2
Required match of donor contributions	(1)	1	—
Interfund interest	(133)	133	—
Other income	2	—	2
Net assets released from program restrictions	170	(170)	—
Total revenues, gains, losses and other support	<u>1,120</u>	<u>(11,032)</u>	<u>(9,912)</u>
Expenditures:			
Program services:			
Faculty support	—	—	—
Scholarships	140	—	140
Other academic programs	109	—	109
Total program service expenditures	249	—	249
Management and general	713	—	713
Other investment expense	251	—	251
Depletion and depreciation expense	1,708	—	1,708
Total expenditures	<u>2,921</u>	<u>—</u>	<u>2,921</u>
Change in net assets	(1,801)	(11,032)	(12,833)
Net assets – beginning of year	<u>62,676</u>	<u>325,922</u>	<u>388,598</u>
Net assets – end of year	<u>\$ 60,875</u>	<u>314,890</u>	<u>375,765</u>

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

Statement of Net Position

December 31, 2022

(In thousands)

Assets:

Current assets:

Unrestricted cash and cash equivalents	\$	2,081
Financing lease receivable, current portion		2,974
Prepaid expenses and other current assets		56
Accrued interest receivable		52
		5,163
Total current assets		5,163

Noncurrent assets:

Intangible assets, net		208
Capital assets, net		18,552
Financing lease receivable, less current portion		9,122
		27,882
Total noncurrent assets		27,882

Deferred outflows

		722
		33,767
Total assets and deferred outflows		33,767

Liabilities:

Current liabilities:

Deposits, other current liabilities, and accrued expenses		253
Unrecognized rent revenue		354
Notes payable, current portion		1,299
		1,906
Total current liabilities		1,906

Noncurrent liabilities:

Notes payable, less current portion		17,737
		17,737
Total noncurrent liabilities		17,737

Deferred inflows

		11,760
		31,403
Total liabilities and deferred inflows		31,403

Net position:

Net investment in capital assets		423
Unrestricted		1,941
		2,364
Total net position	\$	2,364

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

Statement of Revenues, Expenses, and Changes in Net Position

Three months ended December 31, 2022

(In thousands)

Operating revenues	\$ <u>1,125</u>
Operating expenses:	
Building management and operating expenses	265
Depreciation and amortization	320
Legal and administrative fees	121
Insurance	<u>21</u>
Total operating expenses	<u>727</u>
Operating income	<u>398</u>
Nonoperating revenues (expenses):	
Interest expense	(222)
Other	<u>116</u>
Net nonoperating expenses	<u>(106)</u>
Change in net position	<u>292</u>
Net position:	
Beginning of year	<u>2,072</u>
End of year	<u>\$ <u>2,364</u></u>

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

Statement of Net Position

December 31, 2022

(In thousands)

Assets:

Current assets:

Cash and cash equivalents	\$	2,269
Patient receivables (net of allowance for doubtful accounts of \$2,067)		2,844
Inventories		87
Financing lease receivable, current portion		316
Other current assets		1,595
		1,595
Total current assets		7,111

Noncurrent assets:

Capital assets		29,091
Right of use assets, net		15,303
Financing lease receivable, less current portion		2,994
Other noncurrent assets		15
		15
Total noncurrent assets		47,403

Total assets	\$	54,514
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Liabilities:

Current liabilities:

Accounts payable and accrued liabilities	\$	5,964
Accrued salaries and wages		1,726
Current portion of financing lease obligations		2,297
		2,297
Total current liabilities		9,987

Noncurrent liabilities:

Financing lease obligations, less current portion		24,478
		24,478
Total noncurrent liabilities		24,478

Deferred inflows

		3,281
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Total liabilities and deferred inflows	\$	37,746
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Net position:

Net investment in capital assets		2,077
Unrestricted		14,691
		14,691
Total net position	\$	16,768

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

Statement of Revenues, Expenses, and Changes in Net Position

Three months ended December 31, 2022

(In thousands)

Operating revenues:	
Patient service revenues (net of provision for bad debts of \$275)	\$ 11,845
Other operating revenues	1,800
Total operating revenues	<u>13,645</u>
Operating expenses:	
Salaries and benefits	12,696
Building and equipment expenses	1,427
Medical and surgical supplies	1,196
Other expenses	3,965
Depreciation and amortization	1,115
Total operating expenses	<u>20,399</u>
Operating loss	<u>(6,754)</u>
Nonoperating revenues:	
Investment income	34
Support from University of South Alabama	7,950
Interest expense	(270)
Total nonoperating revenues	<u>7,714</u>
Increase in net position	960
Net position at beginning of year	<u>15,806</u>
Net position at end of year	<u>\$ 16,766</u>

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Notes to Basic Financial Statements
December 31, 2022

(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 reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units*, consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization is included as a component unit. Accordingly, the basic financial statements include the accounts of the University, as the primary government, and the accounts of the entities discussed below as component units.

GASB Statement No. 61 amended GASB Statements No. 14 and No. 39, and provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. Such criteria include the appointment of a voting majority of the board of the organization, the ability to impose the will of the primary government on the organization and the financial benefits/burden between the primary government and the potential component unit. The statement also clarifies reporting and disclosure requirements for those organizations. Based on these criteria as of December 31, 2022, the University reports University of South Alabama Foundation (USA Foundation), USA Research and Technology Corporation (the Corporation) and University of South Alabama Health Care Authority (HCA) as discretely presented component units. Each of these entities issue separate audited financial statements, which can be obtained by contacting Polly Stokley, Vice President for Finance and Administration, University of South Alabama Administration Building 300, Mobile, Alabama 36688.

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF), Gulf Coast TotalCare (Gulf Coast), the University of South Alabama Foundation for Research and Commercialization (FRAC), Jaguar Athletic Fund (JAF), and the USA Presidential 1963 Fund. These entities are considered component units of the University under the provisions of GASB Statements No. 14, 39, 61 and 80. However, these entities are not presented in the accompanying financial statements as the University does not consider them significant enough to warrant inclusion in the University's reporting entity.

GASB requires the University, as the primary government, to include in its basic financial statements, as a blended component unit, organizations that, even though they are legally separate entities, meet certain requirements. Based on these requirements, the University reports the Professional Liability Trust Fund (PLTF), General Liability Trust Fund (GLTF), USA HealthCare Management, LLC (HCM),

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

Notes to Basic Financial Statements

December 31, 2022

Jaguar Realty, LLC, USA Health Physician Billing Services, LLC, USA Health Hospital Billing Services, LLC, USA Health Anesthesia Billing Services, LLC, USA Health MCI Business Services, LLC, USA Health Children's and Women's Provider Based Clinics, LLC and USA Health Reference Lab Billing Services, LLC as blended component units. All significant transactions between the University and its blended component units have been eliminated.

(b) Professional Liability and General Liability Trust Funds

The medical malpractice liability of the University is maintained and managed in its separate Professional Liability Trust Fund in which the University, HCM, SAMSF and HCA are the only participants. In accordance with the bylaws of the PLTF, the president of the University is responsible for appointing members of the PLTF policy committee. Additionally, the general liability of the University, HCM, SAMSF, the Corporation and HCA is maintained and managed in its General Liability Trust Fund for which the University is responsible. The PLTF and GLTF are separate legal entities, which are governed by the University Board of Trustees through the University president. As such, PLTF and GLTF are reported as blended component units (see note 18 for further discussion of, and disclosure for, these entities).

(c) USA HealthCare Management, LLC

In June 2010, the University's Board of Trustees approved the formation of USA HealthCare Management, LLC. HCM was organized for the purpose of managing and operating on behalf of, and as agent for, payroll activities related to the health care clinical enterprise of the University. The University is the sole member of HCM. HCM commenced operations in October 2010, and is reported as a blended component unit (see note 18 for further discussion of, and disclosure for, this entity).

(d) USA Health Billing Limited Liability Companies

Over the last few years, the University formed the USA Health Physician Billing Services, LLC, USA Health Hospital Billing Services, LLC, USA Health Anesthesia Billing Services, LLC, USA Health Reference Lab Billing Services, LLC, USA Health MCI Business Services, LLC and USA Health Children's and Women's Provider Based Clinics, LLC as limited liability companies, whereby the University is the sole member. These companies were created to assist with the complex patient and insurance billing of USA Health, a division of the University that includes two hospitals, a free standing emergency department, and a cancer treatment center.

(e) University of South Alabama Health Care Authority

In May 2017, the University's Board of Trustees approved the formation of University of South Alabama Health Care Authority (HCA). HCA is a public corporation created under and pursuant to the provisions of the State of Alabama University Authority Act of 2016. HCA employs physicians and staff of certain physician practice groups as determined appropriate by the University. HCA presents its financial statements in accordance with GASB.

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Notes to Basic Financial Statements

December 31, 2022

HCA is the sole member of the following companies: Mobile Heart USA, LLC, USA HCA OBGYN Services, LLC, USA HCA PBC, LLC, USA Health Industrial Medicine, LLC, USA Health Daphne Family Practice, LLC, USA Health IPA, LLC, and USA BS ASC Holdco, LLC.

In March 2022, HCA formed USA Health Mobile County ASC, LLC as a limited liability company, whereby HCA is the sole member. There was no financial activity for this entity during the year ended September 30, 2022.

In March 2022, HCA obtained an equity interest in USA Fairhope Physician Investors, LLC (FPI), a limited liability company that will develop and own real property to be used in the operation of the Baldwin County ambulatory surgery center. FPI is considered a component unit of HCA under the provisions of GASB Statements Nos. 14 and 61. However, HCA does not consider the operations of this entity to be significant enough to warrant inclusion of the discrete component unit financial statements within these financial statements. HCA's equity interest in FPI is presented within other noncurrent assets on the statement of net position.

Since inception, the HCA's operations have been partially funded by the University, with total support amounting to \$7,950,000 during the quarter ended December 31, 2022. This support is reported in nonoperating expenses on the University's statement of revenues, expenses, and changes in net position. Due to the significance of the relationship between the University and HCA, the HCA is considered a component unit of the University. The accompanying statement of net position and statement of revenues, expenses, and changes in net position for HCA as of and for the quarter ended December 31, 2022 are discretely presented.

(f) University of South Alabama Foundation

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 USA Foundation, USA Foundation is considered a component unit of the University. The Board of Directors of USA Foundation is not appointed or controlled by the University. The University receives distributions from USA Foundation primarily for scholarship, faculty and other support. Total distributions received or accrued by the University for the quarter ended December 31, 2022 were \$15,904,000 and are included primarily in other nonoperating revenues and capital contributions and grants in the University's statement of revenues, expenses, and changes in net position. USA Foundation presents its financial statements in accordance with standards issued by the Financial Accounting Standards Board (FASB). USA Foundation is reported in separate financial statements because of the difference in the financial reporting framework since USA Foundation follows FASB rather than GASB. USA Foundation has a June 30 fiscal year end, which differs from the University's September 30 fiscal year end. In accordance with GASB Statement No. 14 and GASB Statement No. 61, the University has included USA Foundation's statements for the quarter ended September 30, 2022 in the University's financial statements as of December 31, 2022. The accompanying consolidated statement of financial position and consolidated statement of activities and changes in net assets for USA Foundation as of and for the quarter ended September 30, 2022 are discretely presented.

UNIVERSITY OF SOUTH ALABAMA
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Notes to Basic Financial Statements
December 31, 2022

(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 statement of net position and statement of revenues, expenses, and changes in net position for the Corporation as of and for the quarter ended December 31, 2022 are discretely presented.

(h) Measurement Focus and Basis of Accounting

For financial reporting purposes, the University is considered a special purpose governmental agency engaged only in business type activities, as defined by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Accordingly, the University's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

(i) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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

(j) Cash and Cash Equivalents

Cash and cash equivalents are defined as petty cash, demand accounts, certificates of deposit, and any short-term investments that take on the character of cash. These investments have maturities of less than three months at the time of purchase and include repurchase agreements and money market accounts. Restricted cash and cash equivalents share the same definitions and maturities of unrestricted cash and cash equivalents but are designated by external parties for specified purposes such as collateral requirements, designated gifts, or bond proceeds.

(k) Investments and Investment Income

The University reports the fair value of investments using the three-level hierarchy established under GASB Statement No. 72, *Fair Value Measurement and Application*. The fair value of alternative investments (low-volatility multi-strategy funds of funds) and certain private equity partnerships do not

UNIVERSITY OF SOUTH ALABAMA
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have readily ascertainable market values and the University values these investments in accordance with valuations provided by the general partners or fund managers of the underlying partnerships or companies, typically based on net asset value (NAV) of the partnership or commingled vehicle. Because some of these investments are not readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the fair value that would have been used had a ready market for the investment existed. Investments received by gift are recorded at fair value at the date of receipt. Changes in the fair value of investments are reported in net investment losses.

(l) Derivatives

The University has adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 establishes a framework for accounting and financial reporting related to derivative instruments, requiring the fair value of derivatives to be recognized in the basic financial statements. At September 30, 2022, the University had two hedging derivative instruments in the form of interest rate swap, in effect. In accordance with hedge accounting, the changes in fair values of the interest rate swaps are reported as changes in deferred inflows and outflows and the fair values of the interest rate swaps are recognized in other long-term liabilities and deferred inflows and outflows on the statement of net position since the interest rate swaps were deemed effective.

(m) Deferred Outflows and Inflows of Resources

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

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

(n) Bond Premiums, Discounts, and Loss on Extinguishment Costs

Bond premiums, discounts, and loss on extinguishment costs associated with the issuance of certain bond series are capitalized and amortized over the life of the respective bond series on a straight-line basis.

(o) Accounts Receivable

Patient receivables primarily result from hospital and ambulatory patient service revenues. Accounts receivable – other includes amounts due from students, the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made

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pursuant to the University's grants and contracts. Accounts and patient receivables are recorded net of estimated uncollectible amounts.

(p) Inventories

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

(q) Capital Assets

Capital assets are recorded at cost, if purchased, or, if donated, at fair 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 statement of revenues, expenses, and changes in net position.

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

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

Certain buildings are componentized for depreciation purposes.

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 quarter ended December 31, 2022, no impairments were identified.

(r) Financing Leases

Financing leases as a lessee are included in financing lease right-of-use assets and financing lease obligations and the current portion thereof on the statement of net position.

Right of use assets represent the University's right to use an underlying asset for the lease term. Lease obligations represent the University's liability to make lease payments arising from the lease. Financing lease right of use assets and related obligations are recognized at the commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate. The commencement date is either when the University takes possession of the asset or, in the case of real estate leases, when the landlord makes the building available for use. The incremental borrowing rate is based on the information available at the commencement date in determining the present value of lease payments. The value of an option to extend or terminate a lease

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is reflected to the extent it is reasonably certain management will exercise that option. Amortization of right of use assets is recognized on a straight-line basis over the lease term or useful life of the asset, whichever is shorter. Interest expense is recognized as a component of the lease payment and recorded as such in the statement of revenues, expenses, and changes in net position.

Financing leases as a lessor are included in financing lease receivable and current portion thereof and deferred inflows of resources on the statement of net position.

Financing lease receivable represents the University's contractual right to receive cash in exchange for the right to use an asset for a specific amount of time. Deferred inflow of resources represents the University's contractual right to lease revenue in future reporting periods. Financing lease receivables and related deferred inflows of resources are recognized at the commencement date based on the present value of lease payments to be received over the lease term discounted using an appropriate incremental borrowing rate. The commencement date is either when the lessee takes possession of the asset or, in the case of real estate leases, when the landlord makes the building or office space available for use. The incremental borrowing rate is based on the information available at the commencement date. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain the lessee will exercise that option. Deferred inflow of resources are recognized on a straight-line basis over the lease term while interest revenue is recognized as a component of other nonoperating revenues on the statement of revenues, expenses, and changes in net position.

(s) Unrecognized Revenues

Student tuition, fees, and dormitory rentals are billed in advance and initially recorded as a component of unrecognized revenues in the statement of net position and then recognized in revenue over the applicable portion of each school term.

(t) Cost Sharing Multiple-Employer Pension Plan

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

(u) Postemployment Benefits Other Than Pensions (OPEB)

Employees of the University are covered by a cost sharing multiple-employer other post-employment benefit plan administered by the Alabama Retired Education Employees Health Care Trust (Trust). The Trust's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense,

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information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the Plan. In accordance with GASB, the Trust is considered a component unit of the State of Alabama and is included in the State's Annual Comprehensive Financial Report.

(v) 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.

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.

(w) Scholarship Allowances and Student Financial Aid

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

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(x) Donor Restricted Endowments

The University is subject to the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) of the Code of Alabama. This law allows the University, unless otherwise restricted by the donor, to spend net appreciation, realized and unrealized, of the endowment assets. The law also allows the University to appropriate for expenditure or accumulate to an endowment fund such amounts as the University determines to be prudent for the purposes for which the endowment fund was established. The University's endowment spending policy provides that 4.5% of the five-year invested net asset moving average value (inclusive of net realized and unrealized gains and losses), as measured at September 30, is available annually for spending. The University's policy is to retain the endowment net interest and dividend income and net realized and unrealized appreciation with the endowment after distributions allowed by the spending policy have been made. These amounts, unless otherwise directed by the donor, are included in restricted expendable net position.

(y) Classification of Revenues

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

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

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

(z) 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.

(aa) 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.

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(bb) 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.

(cc) Compensated Absences

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

(dd) Recently Adopted Accounting Pronouncements

In 2022, the University adopted the provisions of GASB Statement No. 91, *Conduit Debt Obligations*. The objective of this statement is to clarify the definition of conduit debt obligations, establish that conduit debt is not a liability of the issuer, establish standards for reporting additional commitments and voluntary commitments extended by issuer, and improve note disclosures. In addition, the University adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which requires subscription-based information technology arrangements (SBITA) be recorded as both an intangible asset and a corresponding subscription liability, provides capitalization criteria for outlays related to non-subscription payments, and requires note disclosures for SBITA. Additionally, the University adopted the provisions of GASB Statement No. 99, *Omnibus 2022*, related to public-private and public-public partnership arrangements (PPP) and SBITA. The objective of this statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements and accounting and financial reporting for financial guarantees. The impact to the University in 2022 related to these Statements has not yet been determined.

(2) Income Taxes

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

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

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(3) Cash and Cash Equivalents

Pursuant to the Security for Alabama Funds Enhancement Act, funds on deposit may be placed in an institution designated as a qualified public depository (QPD) by the State of Alabama. QPD institutions pledge securities to a statewide collateral pool administered by the State Treasurer's office. Such financial institutions contribute to this collateral pool in amounts proportionate to the total amount of public fund deposits at their respective institutions. The securities are held at the Federal Reserve Bank and are designated for the State of Alabama. Additional collateral was not required for University funds on deposit with QPD institutions. At September 30, 2022, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately \$16.8 billion. The University had cash and cash equivalents, including restricted cash and cash equivalents, in the pool of \$215,357,000 at December 31, 2022.

At December 31, 2022, restricted cash and cash equivalents consist of \$2,996,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, \$20,939,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture, \$7,734,000 related to restricted donations related to certain capital projects, \$647,000 related to endowment funds.

(4) Investments

(a) University of South Alabama

The investments of the University are invested pursuant to the University of South Alabama "Nonendowment Cash Pool Investment Policies," the "Endowment Fund Investment Policy," and the "Derivatives Policy" (collectively referred to as the University Investment Policies) as adopted by the Board of Trustees. The purpose of the nonendowment cash pool investment policy is to provide guidelines by which commingled funds not otherwise needed to meet daily operational cash flows can be invested to earn a maximum return, yet still maintain sufficient liquidity to meet fluctuations in the inflows and outflows of University operational funds. Further, endowment fund investment policies exist to provide earnings to fund specific projects of the endowment fund, while preserving principal. The University Investment Policies require that management apply the "prudent person" standard in the context of managing its investment portfolio.

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

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

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Investments and restricted investments of the University, by type, at fair value at December 31, 2022 (in thousands) are as follows:

U.S. Treasury securities	\$	13,153
U.S. federal agency notes		85,870
Commingled equity funds		103,291
Commingled fixed income funds		49,879
Marketable equity securities		54,656
Marketable debt securities		10,914
Private credit alternative fixed income investments		4,333
Private REIT alternative real estate investments		5,844
Private equity alternative investments		18,333
Real estate		8,479
Managed income alternative investments (low-volatility multi-strategy funds of funds)		37,109
	\$	<u>391,861</u>

At December 31, 2022, restricted investments consist of endowment funds, funds held in the PLTF and GLTF to pay insurance liability claims and funds related to collateral requirements of the interest rate swaps.

At December 31, 2022, \$28,579,000 of cumulative increase in fair value of investments of donor-restricted endowments was recognized and is included in restricted expendable net position in the accompanying statement of net position.

The University invests in several private equity and private credit funds. At December 31, 2022, the University had outstanding capital commitments to those funds of \$21,185,000.

(i) *Credit Risk and Concentration of Credit Risk*

Nonendowment Cash Pool Investment Policy

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

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

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Endowment Fund Investment Policy

The University Investment Policies limit investment in fixed income securities to securities with a minimum “BAA” rating, at the time of purchase, by both Moody’s and Standard and Poor’s. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor’s, and/or Moody’s. Investment in fixed income securities within the fixed income portfolio shall be restricted to only investment grade bonds rated “BAA” or higher. Any investment in below investment grade bonds shall be considered an equity or fixed income alternative investment.

Additionally, the University Investment Policies require that not more than 5% of the Endowment Fund assets of the University be allocated to an individual investment manager and no more than 25% of the Endowment Fund assets be allocated to a “Funds of Funds” or multi-manager fund. The University’s exposure to credit risk and concentration of credit risk at December 31, 2022 is as follows:

	Credit rating	Percentage of total investments
Federal National Mortgage Association	AAA	1.0 %
Federal Home Loan Mortgage Corporation	AAA	6.8
Federal Home Loan Banks	AAA	11.2
Federal Farm Credit Banks Funding Corporation	AAA	3.0
Common Fund Bond Fund	Various	4.7
PIMCO Pooled Bond Fund	AA+/A-	7.8
Blackrock Credit Strategies Income Fund	Various	0.2
US Treasury securities	AAA	3.4
Marketable debt securities	Various	2.8

(ii) *Interest Rate Risk*

At December 31, 2022, the maturity dates of the University’s fixed income investments are as follows (in thousands):

	Fair value	Years to maturity			
		Less than 1	1–5	6–10	More than 10
U.S. Treasury securities	\$ 13,153	1,857	4,514	6,782	—
U.S. federal agency notes	85,870	—	79,546	193	6,131
Marketable debt securities	10,914	4,151	3,543	3,220	—
Commingled fixed income funds	49,879	—	27,356	4,158	18,365
	\$ 159,816	6,008	114,959	14,353	24,496

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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) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, an organization will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The University's investments are held by third party institutions in the name of the University. The University's Investment Policies do not specifically address custodial credit risk.

(iv) 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.

(v) Fair Value Measurement

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

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

The level in the fair value hierarchy that determines the classification of an asset or liability depends on the lowest level input that is significant to the fair value measurement. Observable inputs are derived from quoted market prices for assets or liabilities traded on an active market where there is sufficient activity to determine a readily determinable market price. Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable inputs. The University's assets that have unobservable inputs consist of the investment in real estate, with fair value based on an independent third-party appraisal performed by qualified appraisers specializing in real estate investments, and of investments in private capital, with fair value determined by the investment managers and primarily utilizes management assumptions and best estimates after considering internal and external factors. Other assets included in the University's investment portfolio with unobservable inputs are the shares or units in

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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 statement of net position.

The following tables summarize the fair value measurements for all investment assets and liabilities carried at fair value at December 31, 2022 (in thousands):

Description	Asset fair value measurements at September 30, 2022			
	Level 1	Level 2	Level 3	Total
U.S. Treasury securities	\$ 13,153	—	—	13,153
U.S. federal agency notes	—	85,870	—	85,870
Commingled equity funds	100,848	2,443	—	103,291
Commingled fixed income funds	46,293	3,586	—	49,879
Marketable equity securities	54,656	—	—	54,656
Marketable debt securities	10,914	—	—	10,914
Private credit alternative fixed income	4,333	—	—	4,333
Private REIT alternative real estate investments	5,844	—	—	5,844
Private equity alternative investments	—	—	16,180	16,180
Real estate	—	—	8,479	8,479
Total investments at fair value	<u>\$ 236,041</u>	<u>91,899</u>	<u>24,659</u>	352,599
Investments measured at NAV:				
Private equity funds				2,153
Managed income alternative investments (low volatility multi-strategy funds of funds)				<u>37,109</u>
Total investments			<u>\$</u>	<u>391,861</u>

Description	Liability fair value measurements at December 31, 2022			
	Level 1	Level 2	Level 3	Total
Interest rate exchange agreements	\$ —	16,666	—	16,666

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A rollforward schedule for Level 3 financial instruments for the three months ended December 31, 2022 is as follows (in thousands):

Beginning balance	\$	16,378
Purchases		7,900
Net realized/unrealized gains (losses)		464
Sales		<u>(83)</u>
Ending balance	\$	<u><u>24,659</u></u>

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(5) Capital Assets

(a) University of South Alabama

A summary of the University's capital asset activity for the three months ended December 31, 2022 follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Adjustments</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets not being depreciated:						
Land and other	\$ 32,261	98	—	—	—	32,359
Construction-in-progress	68,240	(403)	—	—	—	67,837
	<u>100,501</u>	<u>(305)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>100,196</u>
Capital assets being depreciated:						
Land improvements	76,801	—	—	—	—	76,801
Buildings, fixed equipment, and infrastructure	1,013,480	8,119	—	843	(42)	1,022,400
Other equipment	235,963	1,546	—	—	(2,962)	234,547
Library materials	92,340	—	—	—	—	92,340
	<u>1,418,584</u>	<u>9,665</u>	<u>—</u>	<u>843</u>	<u>(3,004)</u>	<u>1,426,088</u>
Less accumulated depreciation for:						
Land improvements	(34,155)	(946)	—	—	—	(35,101)
Buildings, fixed equipment, and infrastructure	(397,002)	(7,723)	—	—	41	(404,684)
Other equipment	(176,004)	(4,935)	—	—	2,866	(178,073)
Library materials	(71,812)	(1,008)	—	—	—	(72,820)
	<u>(678,973)</u>	<u>(14,612)</u>	<u>—</u>	<u>—</u>	<u>2,907</u>	<u>(690,678)</u>
Capital assets being depreciated, net	<u>739,611</u>	<u>(4,947)</u>	<u>—</u>	<u>843</u>	<u>(97)</u>	<u>735,410</u>
Capital assets, net	<u>\$ 840,112</u>	<u>(5,252)</u>	<u>—</u>	<u>843</u>	<u>(97)</u>	<u>835,606</u>

Depreciation and amortization of capital assets for the three months ended December 31, 2022 was \$17,335,000 for the University.

At December 31, 2022, the University had commitments of approximately \$34,280,000 related to various construction projects.

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(6) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the year ended December 31, 2022 follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Less amounts due within one year</u>	<u>Noncurrent liabilities</u>
Long-term debt:						
Bonds payable	\$ 458,916	—	(5,106)	453,810	24,605	429,205
Notes payable from direct borrowings	618	—	(184)	434	618	(184)
Financing lease obligations	31,964	2,193	(2,068)	32,089	8,969	23,120
Total long-term debt	<u>491,498</u>	<u>2,193</u>	<u>(7,358)</u>	<u>486,333</u>	<u>34,192</u>	<u>452,141</u>
Other noncurrent liabilities:						
Net pension liability	237,578	—	—	237,578	—	237,578
Net OPEB liability	205,378	—	—	205,378	—	205,378
Other long-term liabilities	81,663	4,907	(3,536)	83,034	4,937	78,097
Total other noncurrent liabilities	<u>524,619</u>	<u>4,907</u>	<u>(3,536)</u>	<u>525,990</u>	<u>4,937</u>	<u>521,053</u>
Total noncurrent liabilities	<u>\$ 1,016,117</u>	<u>7,100</u>	<u>(10,894)</u>	<u>1,012,323</u>	<u>39,129</u>	<u>973,194</u>

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

In 2018, the University converted a line of credit into a term loan for a period of five years, with monthly payments of \$63,000 and interest accruing at the fixed rate of 3.85% per annum. The amount outstanding at September 30, 2022 is \$618,000, and is reported as long-term debt (and current portion thereof) in the statement of net position.

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(7) Bonds Payable

Bonds payable consisted of the following at December 31, 2022 (in thousands):

University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2.83% payable through August 2033	\$	19,776
University Facilities Revenue Capital Improvement Bonds, Series 2013-B, 2.83% payable through August 2033		4,943
University Facilities Revenue Capital Improvement Bonds, Series 2013-C, 2.78% payable through August 2028		4,499
University Facilities Revenue Refunding Bonds, Series 2014-A, variable rate payable at 68% of one month LIBOR plus .73%, (2.848% at September 30, 2022), payable through March 2024		16,505
University Facilities Revenue Capital Improvement Bonds, Series 2015, 2.47% payable through August 2030		3,000
University Facilities Revenue Refunding Bonds, Series 2016-A, 3.00% to 5.00% payable through November 2037		71,300
University Facilities Revenue Refunding Bonds, Series 2016-B, variable rate payable at 79% of one month LIBOR plus .72%, (3.203% at September 30, 2022), payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2026		20,000
University Facilities Revenue Refunding Bonds, Series 2016-C, variable rate payable at 79% of one month LIBOR plus .77%, (3.253% at September 30, 2022), payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2028		35,000
University Facilities Revenue Refunding Bonds, Series 2016-D, variable rate payable at 79% of one month LIBOR plus .83%, (3.313% at September 30, 2022), payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2031		45,000
University Facilities Revenue Bonds, Series 2017, 2.00% to 5.00%, payable through October 2037		30,880
University Facilities Revenue Bonds, Series 2019-A, 5.00%, payable through April 2049		47,750
University Facilities Revenue Bonds, Series 2019-B, 3.09% to 4.10%, payable through April 2033		15,930

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University Facilities Revenue Bonds, Series 2019-C, 1.87%, payable through April 1, 2030	14,528
University Facilities Revenue Bonds, Series 2020, 4%, payable through April 1, 2040	35,090
University Facilities Revenue Bonds, Series 2021, 4%, payable through April 1, 2041	39,380
University Facilities Revenue Bonds, Series 2021-B 1.398%, payable through August 1, 2032	14,128
	417,709
Plus unamortized premium	37,481
Less unamortized debt extinguishment costs	(1,380)
	\$ 453,810

Substantially all student tuition and fee and auxiliary revenues secure University bonds. Additionally, security for all bonds includes USA Health Children's and Women's Hospital revenues in an amount not exceeding \$10,000,000. The Series 2013-A, 2013-B and 2013-C Bonds began maturing in August 2014 and are redeemable beginning in June 2023. The Series 2014-A Bonds began maturing in March 2015 and are redeemable at any time. The Series 2015 Bonds began maturing in August 2015 and were redeemable beginning in June 2020. The Series 2016-A Bonds began maturing in November 2018 and are redeemable beginning in November 2026. The Series 2016-B, C and D Bonds will begin maturing in December 2024 and became redeemable as of December 2017. The Series 2017 Bonds began maturing in October 2017 and are redeemable beginning in October 2027. The Series 2019-A Bonds will begin maturing in April 2033. The Series 2019-B Bonds began maturing in April 2021. Both Series 2019-A and 2019-B are both redeemable beginning in April 2029. The Series 2019-C Bonds began maturing in April 2020 and are not subject to redemption at the option of the University. Series 2020 Bonds began maturing in April 2021 and are redeemable beginning April 2030. Series 2021 Bonds will begin maturing in April 2022 and are redeemable beginning April 2041. The Series 2021-B Bonds will begin maturing in August 2022 and are not subject to redemption.

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-A Bonds were used to partially defease the Series 2008 Bonds. The funds were deposited into escrow trust funds to provide for the subsequent repayment of the Series 2008 Bonds when they were called in December 2018. Neither the assets of the escrow trust account, nor the defeased indebtedness is included in the accompanying statement of net position. The loss on the defeasement of the Series 2008 Bonds of \$7,859,000 was recorded as a deferred outflow and is being amortized over the remaining life of the Series 2016-A Bonds. The balance of the related deferred outflow totaled \$5,401,000, at December 31, 2022. The principal outstanding on all defeased bonds is \$71,300,000 at December 31, 2022.

In December 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016-B, C & D, with a face value totaling \$100,000,000. The proceeds refunded the remaining

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outstanding Series 2006 Bonds. The gain on the refunding of the Series 2006 Bonds of \$4,539,000 was recorded as a deferred inflow and is being amortized over the remaining life of the Series 2016-B, C & D Bonds. The balance of the related net deferred inflow at December 31, 2022 totaled \$3,158,000.

In September 2021, the terms for Bonds 2016-B, 2016-C and 2016-D were revised to address the removal of the LIBOR rate to be replaced by the ISDA-based replacement index after the year ended September 30, 2021. The dates by which the Lender may cause all of the outstanding principal on such bonds to mature and become due and payable by the University were extended 5 years for each bond.

On March 5, 2021, the Financial Conduct Authority (FCA) announced the final publication date for US LIBOR is June 30, 2023. Loans maturing after the end of LIBOR will be reviewed to determine if appropriate language, referred to as fallback language, is used to provide for the replacement of LIBOR with an alternative index. The Alternative Reference Rates Committee (ARRC) has recommended the Secured Overnight Financing Rate (SOFR) as an alternative to replace LIBOR.

Approximately \$1,266,000 of proceeds from the issuance of the Series 2020 Bonds remained unspent at December 31, 2022 and are included in restricted cash and cash equivalents on the statement of net position. Approximately \$19,674,000 of proceeds from the issuance of the Series 2021 Bonds remained unspent at December 31, 2022 and are included in restricted cash and cash equivalents on the statement of net position. All bond funds are restricted for capital purposes as outlined in the bond indentures. The University is subject to arbitrage restrictions on its bonded indebtedness prescribed by the U.S. Internal Revenue Service. As such, amounts are accrued as needed in the University's basic financial statements for any expected arbitrage liabilities. At December 31, 2022, no amounts were due or recorded in the financial statements.

The University is subject to restrictive covenants related to its bonds payable.

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Debt Service on Long-Term Obligations

Total debt service (which includes bonds and notes payable) by year is as follows at December 31, 2022 (in thousands):

	Debt service on notes and bonds				
	Bonds		Notes payable from direct borrowing		
	Principal	Interest	Principal	Interest	Total
2023	\$ 17,729	5,486	434	6	23,655
2024	23,292	13,550	—	—	36,842
2025	21,289	12,962	—	—	34,251
2026	22,190	12,343	—	—	34,533
2027	23,095	11,701	—	—	34,796
2028–2032	121,199	47,206	—	—	168,405
2033–2037	125,410	26,508	—	—	151,918
2038–2042	41,380	9,885	—	—	51,265
2043–2047	15,950	3,928	—	—	19,878
2048–2052	6,175	468	—	—	6,643
Subtotal	417,709	\$ 144,037	434	6	562,186
Plus (less):					
Unamortized bond premium	37,481		—		
Unamortized debt extinguishment costs	(1,379)		—		
Total	\$ 453,811		434		

(8) Financing Leases

(a) University of South Alabama

Lessee Activities

The University determines whether an arrangement is a lease at inception by evaluating whether the contract conveys the right to use an identified asset and whether the University obtains substantially all of the economic benefits from and has the right to control the asset. Any lease identified as a financing lease is recorded as a right of use asset and financing lease obligation. Financing lease right of use assets and related obligations are recognized at the commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate. Amortization of right of use assets is recognized on a straight-line basis over the lease term or useful life of the asset, whichever is shorter. Interest expense is recognized as a component of the lease payment and recorded as such in the statement of revenues, expenses, and changes in net position. The difference in methodology between the amortization of the right of use asset and the reduction in liability balance related to principal payments will result in a difference between the net right of use asset and related financing lease obligation.

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A summary of the University's financing lease right of use assets activity for the quarter ended December 31, 2022 follows (in thousands):

	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>
Right of use assets:				
Automobile	\$ 15	-	-	15
Buildings	7,958	-	(58)	7,900
Equipment	27,879	424	(257)	28,046
Office space	4,382	1,538	-	5,920
	<u>40,234</u>	<u>1,962</u>	<u>(315)</u>	<u>41,881</u>
Less accumulated amortization for right of use:				
Automobile	(6)	(1)	-	(7)
Buildings	(1,248)	(338)	58	(1,528)
Equipment	(6,207)	(1,986)	257	(7,936)
Office space	(899)	(387)	-	(1,286)
	<u>(8,360)</u>	<u>(2,712)</u>	<u>315</u>	<u>(10,757)</u>
Right of use assets, net:	\$ <u>31,874</u>	<u>(750)</u>	<u>-</u>	<u>31,124</u>

The University leases various automobiles, buildings, equipment and office space under financing leases expiring at various dates through 2042. Aggregate future minimum lease payments under noncancelable finance leases as of December 31, 2022, by year, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 7,596	1,098	8,694
2024	7,844	1,093	8,937
2025	4,444	759	5,203
2026	2,793	576	3,369
2027	2,375	434	2,809
2028 - 2032	6,305	826	7,131
2033 - 2037	726	79	805
2038 - 2042	5	-	5
Financing lease obligations	\$ <u>32,088</u>	<u>4,865</u>	<u>36,953</u>

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These amounts are included in financing lease obligations and the current portion thereof in the accompanying statement of net position.

The University has no commitments under financing leases for which the lease term has not commenced as of December 31, 2022.

The University leases space under financing leases from the Corporation and HCA.

Lessor Activities

The University leases land, buildings, and suites to various lessees under financing leases expiring at various dates through 2042. For the year ended December 31, 2022, the University recognized a total of \$212,000 of inflows of resources from leases, of which \$189,000 was recognized as lease revenue and \$23,000 was recognized as a component of interest income in the statement of revenues, expenses, and changes in net position.

(9) Derivative Transactions – Interest Rate Swaps

The University is a party to two derivatives with Wells Fargo Bank, the counterparty. The income associated with the derivatives is a component of investment income and the corresponding expense is a component of interest expense. The terms of the derivatives require the University to post collateral when certain criteria are met. Such amounts as of December 31, 2022 totaled \$20,956,000.

The 2014 swap will terminate in March 2024, when the Series 2014-A Bonds mature. The notional amount of the swap will at all times match the outstanding principal amount of the related 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 73 basis points.

The 2016 swap will terminate in December 2036, when the Series 2016-B, C & D Bonds mature. The notional amount of the swap will at all times match the outstanding principal amount of the related 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 25 basis points. Conversely, the Series 2016-B, C & D Bonds bear interest at a variable rate of 79% of the benchmark plus 72, 77 and 83 basis points, respectively.

Fair value: The 2014 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 swap as other long-term liabilities in the amount of \$379,000 in the statement of net position at December 31, 2022. The change in the fair value of the swap of \$85,000, during the quarter ended December 30, 2022, is reported as a deferred inflow and contra liability (other long-term liabilities) in the statement of net position since the interest rate swap is a hedging derivative instrument. Net deferred inflows of resources for the 2014 interest rate swap totaled \$763,000 at December 31, 2022.

The 2016 swap had a negative fair value of approximately \$48,530,000 at its inception. This amount, net of any amortization and adjustments to fair value, is reported as a borrowing arising from the 2016 swap as

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other long-term liabilities in the amount of \$16,287,000 in the statement of net position at December 31, 2022. The change in the fair value of the swap of \$1,489,000 during the year ended December 31, 2022, is reported as a deferred outflow and contra asset (other noncurrent assets) in the statement of net position at December 31, 2022 since the interest rate swap is a hedging derivative instrument. Net deferred inflows and outflows of resources for the 2016 swap totaled \$17,065,000 at December 31, 2022.

The fair values of the interest rate swaps are 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 related 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 related bonds.

Credit risk: As of December 31, 2022, the University was not exposed to credit risk on the interest rate swaps because they had a negative fair value. However, if interest rates change and the fair value of the derivatives become positive, the University would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa2 by Moody's Investor Services and A+ by Standard & Poor's Ratings Services as of December 31, 2022.

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 December 31, 2022 and calculating interest for subsequent years using forward rates of one-month LIBOR, debt service requirements for the 2014 swap payments, by year, are as follows (in thousands):

	Variable rate note		Interest rate swap, net	Total
	Principal	Interest		
2023	\$ 8,050	247	414	8,711
2024	8,455	123	108	8,686
Total	\$ 16,505	370	522	17,397

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

		<u>Variable rate note</u>		<u>Interest rate</u>	<u>Total</u>
		<u>Principal</u>	<u>Interest</u>	<u>swap, net</u>	
2023	\$	—	2,309	597	2,906
2024		—	2,849	2,691	5,540
2025		5,600	2,440	2,937	10,977
2026–2030		32,610	9,389	12,380	54,379
2031–2035		41,880	4,916	6,575	53,371
2036–2039		19,910	382	708	21,000
Total	\$	<u>100,000</u>	<u>22,285</u>	<u>25,888</u>	<u>148,173</u>

(10) Patient Service Revenues

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

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

Medicare – Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Additionally, USA Health is reimbursed for both direct and indirect medical education costs (as defined), principally based on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. USA Health is generally paid for certain retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by USA Health and audits by the Medicare fiscal intermediary.

USA Health University Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2015.

USA Health Children's & Women's Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2020.

Revenues from the Medicare program accounted for approximately 13% of USA Health's patient service revenues for the year ended September 30, 2022.

Blue Cross Blue Shield – Inpatient services rendered to Blue Cross subscribers are paid at a contractually determined per diem rate based upon Medicare Severity Diagnosis Related Groups. Outpatient services are reimbursed under a contractually determined reimbursement methodology based on Blue Cross Enhanced Ambulatory Patient Groups.

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Revenues from the Blue Cross program accounted for approximately 27% of USA Health's patient service revenues for the year ended September 30, 2022.

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

USA Health qualifies as a Medicaid essential provider and, therefore, also receives supplemental payments based on formulas established by the Alabama Medicaid Agency. There can be no certainty 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 23% of USA Health's patient service revenues for the year ended September 30, 2022.

Other – USA Health has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments to USA Health under these agreements include discounts from established charges and prospectively determined daily and case rates.

The composition of patient service revenues for the three months ended December 31, 2022 follows (in thousands):

Gross patient service revenues	\$	512,054
Less:		
Provision for contractual and other adjustments		(287,906)
Provision for bad debts		(31,574)
		192,574
	\$	192,574

(11) Defined Benefit Cost Sharing Pension Plan

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

(a) Plan Description

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

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(b) Benefits Provided

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

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

(c) Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered Tier 1 members of the TRS are required by statute to contribute 7.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6.2% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rates were 12.43% of annual pay for Tier 1 members and 11.32% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were \$22,005,000 for the year ended September 30, 2022.

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

At September 30, 2022, the University reported a liability of \$237,578,000 for its proportionate share of the collective net pension liability. At September 30, 2022, the collective net pension liability was measured as of September 30, 2021 and the total pension liability used to calculate the net pension

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liability was determined by an actuarial valuation as of September 30, 2020. The University's proportion of the collective net pension liability is based on the employer's shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At the measurement date of September 30, 2021, the University's proportion of contributions to the pension plan was 2.521971%, which was a decrease of 0.029359% from its proportion measured as of September 30, 2020 of 2.551330%.

For the year ended September 30, 2022, the University recognized pension expense of approximately \$5,810,000, which is included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

At September 30, 2022, 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	\$ —	56,080
Changes of assumptions	24,938	—
Differences between expected and actual experience	11,000	13,842
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	21,733
Employer contributions subsequent to measurement date	22,005	—
	\$ 57,943	91,655

At September 30, 2022, approximately \$22,005,000 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2023. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ending September 30:	
2023	\$ (14,587)
2024	(10,976)
2025	(13,258)
2026	(16,896)
	\$ (55,717)

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(e) Actuarial Assumptions

The total pension liability as of September 30, 2022 was determined by an actuarial valuation as of September 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Investment rate of return*	7.45 %
Projected salary increases	3.25-5.00 %

* Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2020 valuation were based on the results of an actuarial experience study for the period October 1, 2015 through September 30, 2020. Mortality rates for TRS were based on the Pub-2010 Teacher Below Median tables adjusted for males (108% ages < 63, 96% ages > 67; phasing down 63-67) and for females (112% ages < 69, 98% > age 74, phasing down 69-74), projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2019.

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	15.0 %	2.8 %
U.S. large stocks	32.0	8.0
U.S. mid stocks	9.0	10.0
U.S. small stocks	4.0	11.0
International developed market stocks	12.0	9.5
International emerging market stocks	3.0	11.0
Alternatives	10.0	9.0
Real estate	10.0	6.5
Cash equivalents	5.0	2.5
	<u>100.0 %</u>	

* Includes assumed rate of inflation of 2%

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(f) Discount Rate

The discount rate used to measure the total pension liability as of September 30, 2022 was 7.45%. 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 7.45%, 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 (6.45%) or 1-percentage point higher (8.45%) than the current rate (in thousands):

	September 30, 2022		
	1% Decrease (6.45)%	Current rate (7.45)%	1% Increase (8.45)%
University's proportionate share of collective net pension liability	\$ 349,692	237,578	143,149

(h) Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Annual Comprehensive Financial Report for the fiscal year ended September 30, 2021 as well as prior year reports. The supporting actuarial information is included in the GASB Statement No. 68 Report for the TRS prepared as of September 30, 2021. The auditors' report dated January 19, 2022 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, 2021 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

(12) Other Employee Benefits

(a) Other Pension Plans

Certain employees of the University also participate in a defined contribution pension plan. The defined contribution pension plan covers certain academic and administrative employees, and participation by eligible employees is optional. The plan is administered by the University and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) and Variable Annuity Life Insurance

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Company (VALIC). Under this plan, contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University contributed \$400,000 in 2022, representing 177 employees for 2022 participating in this Plan.

All employees of HCM working at least half time are eligible to participate in a defined contribution pension plan. The plan is administered by HCM and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, TIAA-CREF and VALIC. Under this plan, contributions by eligible employees are matched equally by HCM up to a maximum of 5% of current annual pay. HCM contributed \$7,459,000 in 2022, representing 2,294 employees, 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.

Effective April 1, 2022, HCM adopted a deferred compensation retirement plan. All non-student employees are eligible to defer receipt of a portion of their salary until a later date. The plan is administered by HCM and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, TIAA-CREF. Under this plan, contributions by eligible employees are not matched by HCM. Through September 30, 2022, 69 employees are participating in this plan. All eligible employees are fully vested in their accounts under this plan immediately upon contributing.

(b) *Compensated Absences*

Regular University employees accumulate vacation and sick leave and hospital and clinical employees accumulate paid time off. These are subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon separation of employment, employees who were hired before January 1, 2012 are paid all unused accrued vacation at their regular rate of pay up to a maximum of two times their annual accumulation rate. Employees hired after January 1, 2012 are not eligible for payment of unused accrued vacation or PTO hours upon separation of employment. The accompanying statement of net position include accruals for vacation pay and paid time off of approximately \$12,085,000 at September 30, 2022. The accrual is included in other long-term liabilities (and current portion thereof) in the accompanying financial statements. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

(13) Other Postemployment Benefit Plans

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

(a) *Plan Description*

The Alabama Retiree Health Care Funding Act of 2007 authorized and directed the Public Education Employees Health Insurance Board (Board) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in PEEHIP. Active and retiree health insurance benefits are paid through the PEEHIP. The PEEHIP was established in 1983 pursuant to the provisions of the Code of Alabama 1975, Title 16, Chapter 25A to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions and to fund benefits related to the plan.

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The responsibility for the general administration and operation of the PEEHIP is vested in its Board, which consists of 15 trustees. Title 16-Chapter 25 of the code of Alabama grants the authority to establish and amend the benefit terms to the PEEHIP Board. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, requires the reporting of the net OPEB liability and the OPEB expense in the financial statements as well as enhanced financial statements note disclosures.

(b) Benefits Provided

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

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

(c) Contributions

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

Total employer contributions to the OPEB plan from the University were \$5,859,000 for the year ended September 30, 2022.

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

At September 30, 2022, the University reported a liability of \$205,378,000 for its proportionate share of the net OPEB liability. At September 30, 2022, the net OPEB liability was measured as of September 30, 2021 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At the measurement date of September 30, 2021, the University's proportion of contributions to the OPEB plan was 3.974950%, which was a decrease of 0.041260% from its proportion measured as of September 30, 2020 of 4.016210%.

For the year ended September 30, 2022, the University recognized OPEB expense of approximately \$1,286,000, which is included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

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At September 30, 2022, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on OPEB plan investments	\$ —	6,406
Differences between expected and actual experience	4,859	71,452
Changes of assumptions	73,143	79,606
Changes in proportion and differences between employer contributions and proportionate share of contributions	77,991	29,515
Employer contributions subsequent to the measurement date	5,859	—
	\$ 161,852	186,979

At September 30, 2022, approximately \$5,859,000 reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2023.

Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB income (expense) as follows (in thousands):

Year ending September 30:	
2023	\$ (15,970)
2024	(16,131)
2025	(15,794)
2026	14,704
2027	8,516
Thereafter	(6,310)
	\$ (30,986)

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(e) Actuarial Assumptions

The total OPEB liability as of September 30, 2022 was determined by an actuarial valuation performed as of September 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Projected salary increases*	3.25-5.00 %
Long-term investment rate of return**	7.00 %
Municipal bond index rate at the measurement date	2.29 %
Projected year for fiduciary net position to be depleted	2051
Single equivalent interest rate at the measurement date	3.97 %
Healthcare cost trend rate	
Pre-medicare eligible	6.50 %
Medicare eligible	***
Ultimate trend rate	
Pre-medicare eligible	4.50 %
Medicare eligible	4.50 %
Year of ultimate trend rate	
Pre-medicare eligible	2028
Medicare eligible	2025

* Includes 2.75% wage inflation

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

*** Initial medicare claims are set based on scheduled increases through plan year 2021

Mortality rates were based on the Pub-2010 Teacher Below Median tables adjusted for males (108% ages < 63, 96% ages > 67; phasing down 63-67) and for females (112% ages < 69, 98% > age 74, phasing down 69-74), projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2019.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2020, submitted to and adopted by the TRS on September 13, 2021. The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) of the total OPEB liability were based on the September 30, 2020 valuation.

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

	Target allocation	Long-term expected real rate of return*
Fixed income	30 %	4.40 %
U.S. large stocks	38	8.00
U.S. mid stocks	8	10.00
U.S. small stocks	4	11.00
International developed market stocks	15	9.50
Cash	5	1.50
	100 %	

* Geometric mean, includes 2.5% inflation

(f) Discount Rate

The discount rate used to measure the total OPEB liability at September 30, 2021 was 3.97%. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating employers must contribute for each active employee. 12.990% of the employer contributions were used to assist in funding retiree benefit payments in 2021. It is assumed that the 12.990% will increase at the same rate as expected benefit payments for the closed group until reaching an employer rate of 20.000%, at which point this amount will increase by \$800 with inflation at 2.5% starting in 2024. The long-term expected rate of return on OPEB plan investments will be determined based on the allocation by the asset class and by the mean and variance of real returns. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Therefore, the projected future benefit payments for all current plan members were projected through 2119. The long-term rate of return is used until the assets are expected to be depleted in 2051, after which the municipal bond rate is used.

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

The following table presents the University's proportionate share of the net OPEB liability calculated using the health care cost trend rate of 4.50%, as well as what the net OPEB liability would be if

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calculated using 1-percentage point lower 3.50% or 1-percentage point higher 5.50% than the current rate (in thousands):

	September 30, 2022		
	1% Decrease (3.50)%	Current rate (4.50)%	1% Increase (5.50)%
University's proportionate share of collective net OPEB liability	\$ 161,155	205,378	262,356

The following table presents the University's proportionate share of the net OPEB liability calculated using the discount rate of 3.97%, as well as what the net OPEB liability would be if calculated using 1-percentage point lower 2.97% or 1-percentage point higher 4.97% than the current rate (in thousands):

	September 30, 2022		
	1% Decrease (2.97)%	Current rate (3.97)%	1% Increase (4.97)%
University's proportionate share of collective net OPEB liability	\$ 252,624	205,378	167,482

(h) OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the Alabama Retired Education Employees' Health Care Trust's financial statements for the fiscal year ended September 30, 2021. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2021. Additional financial and actuarial information is available at www.rsa-al.gov.

(14) Risk Management

The University, HCM, SAMSF and HCA participate in the PLTF and the University, HCM, SAMSF, the Corporation and HCA participate in the GLTF. An independent trustee administers both funds. These trust funds are revocable and use contributions by the University and HCA, together with earnings thereon, to pay liabilities arising from the performance of its employees, trustees and other individuals acting on behalf of the University. Any risk related to the payment of claims is the responsibility of the PLTF and GLTF. If the trust funds are ever terminated, appropriate provision for payment of related claims will be made and any remaining balance may be distributed to the participating entities in proportion to contributions made.

As discussed in note 1, the PLTF and GLTF are blended component units of the University, and as such are included in the financial statements of the University for the year ended September 30, 2022. 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

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and the future costs of handling claims. These liabilities are generally based on actuarial valuations and are reported at their present value.

The University, HCM and HCA each participate in a separate self-insured health plan administered by unaffiliated entities. Administrative fees paid by the University for such services were approximately \$2,613,000 in 2022. 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 quarter ended December 31, 2022 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

Balance, beginning of year	\$	50,015
Liabilities incurred and other additions		23,145
Claims, administrative fees paid and other reductions		<u>(19,303)</u>
Balance, end of year	\$	<u>53,857</u>

These amounts are included in other long-term liabilities in accounts payable and accrued liabilities in the accompanying statement of net position.

(15) Other Related Parties and Related-Party Transactions

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. At September 30, 2022, SAMSF had total assets of \$10,652,000, net assets of \$10,627,000, and total revenues of \$1,509,000 for the year then ended.

(16) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2022, the University had been awarded approximately \$82,936,000 in grants and contracts for which resources had not been received and for which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements, as the eligibility requirements of the awards have not been met. Advances are included in unrecognized revenues, and include amounts received from grant and contract sponsors which have not been expended under the terms of the agreements and, therefore, have not yet been included in revenues in the accompanying basic financial statements. Federal awards are subject to audit by federal agencies. The University's management believes any potential adjustment from such audits will not be material.

(b) 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

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matters will not have a material effect on the financial position or the statement of revenues, expenses, and changes in net position of the University.

(c) Rent Supplement Agreements

The University has entered into two irrevocable rent supplement agreements with the Corporation and a financial institution. The agreements require that, in the event the Corporation fails to maintain a debt service coverage ratio of one to one with respect to all of its outstanding indebtedness, the University will pay to the Corporation any and all rent amounts necessary to cause the Corporation's net operating income to be equal to the Corporation's annual debt service obligations (see note 6). As of September 30, 2022, no amounts were payable pursuant to these agreements.

(d) USA Research and Technology Corporation Leases

The University has commitments under financing leases with the Corporation. Space under lease to the University was 78,123 square feet at September 30, 2022. See note 8 for additional details.

(17) Blended Component Units

As more fully described in note 1, HCM, PLTF and GLTF are reported as blended component units. Required combining financial information of the aggregate blended component units as of and for the year ended December 31, 2022 as follows (in thousands):

Current assets	\$	21,509
Noncurrent assets		55,687
Total assets		77,196
Current liabilities		23,272
Noncurrent liabilities		49,465
Total liabilities		72,737
Net position	\$	4,459
Operating revenues	\$	98,406
Operating expenses		(101,417)
Operating income		(3,011)
Nonoperating revenues		—
Nonoperating expenses		2,943
Change in net position	\$	(68)

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(18) Recently Issued Accounting Pronouncements

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of the statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements and accounting and financial reporting for financial guarantees. The statement extends the use of LIBOR for accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement Nos. 53 and 63 effective upon issuance. The requirements related to PPPs and SBITAs are effective for fiscal years beginning after June 15, 2022 and the requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*. The statement, effective for periods beginning after June 15, 2023, requires changes in accounting principles and error corrections be reported retroactively by restating prior periods, changes to or within the financial reporting entity to be reported by adjusting beginning balances of the current period and changes in accounting estimates be reported prospectively by recognizing the change in the current period.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, which is effective for fiscal years beginning after December 15, 2023. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.

The effect of the implementation of GASB Statement Nos. 99, 100 and 101 on the University has not yet been determined.

(19) COVID-19 Pandemic

COVID-19, a respiratory disease caused by a novel strain of the coronavirus, has spread around the world, including the State of Alabama. The Centers for Disease Control confirmed the spread of the disease to the United States in February 2020 and the World Health Organization declared the COVID-19 outbreak a pandemic in March 2020.

The Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020 and is designed to provide economic relief to Higher Education Institutions and other entities for a number of situations including the provision of direct financial support for students in need, reimbursement for the costs incurred as a result of moving instruction online, to provide relief funds for healthcare providers for purposes of covering costs incurred and lost revenues due to the pandemic. Through September 30, 2022, the University (including USA Health) has been awarded \$99,254,000 in CARES Act, and other funding from federal and state sources for COVID-19 relief. Of this amount \$0 was awarded during the quarter ended December 31, 2022. Of the total amounts awarded \$4,203,000 has been recognized as nonoperating revenue in the statement of revenues, expenses, and changes in net position for the quarter ended December 31, 2022.

RESOLUTION

**DIRECTORS OF THE UNIVERSITY OF SOUTH ALABAMA
RESEARCH AND TECHNOLOGY CORPORATION**

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

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

WHEREAS, the Board of Directors of the Corporation has elected and hereby nominates both Ms. Kellie Hope and Mr. Matt White to serve as directors for four (4) year terms beginning April 1, 2023, and expiring March 31, 2027,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama hereby authorizes the aforementioned individuals to serve as directors of the University of South Alabama Research and Technology Corporation as set forth.



UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Office of the Vice President for Research and Economic Development

DATE: February 17, 2023

TO: Jo Bonner, President

A handwritten signature in black ink that reads "Lynne Chronister".

FROM: Lynne Chronister, Vice President, Research and Economic Development

SUBJECT: Agenda Item for the University of South Alabama Board of Trustees Meeting on March 3, 2023

I recommend the attached resolution be presented to the USA Board of Trustees at the March 3, 2023 meeting. The USA Research and Technology Corporation ("Corporation"), has elected and hereby nominated Ms. Kellie Hope and Mr. Matt White to serve as directors for four (4) year terms beginning April 1, 2023 and expiring March 31, 2027.

LC/asw

Attachment

A handwritten signature in black ink that reads "Jo Bonner".

RESOLUTION

**DIRECTOR OF THE UNIVERSITY OF SOUTH ALABAMA
FOUNDATION FOR RESEARCH AND COMMERCIALIZATION**

WHEREAS, pursuant to the bylaws of the University of South Alabama Foundation for Research and Commercialization (“USAFRC”), which were approved by the Board of Trustees of the University of South Alabama (“Board”) on June 7, 2013, the Board shall elect USAFRC directors who are not officers, employees, or trustees of the University, and

WHEREAS, Mr. William Sisson previously served as a director, but relocated, resigned his board membership and his term then expired, and

WHEREAS, Ms. Karen Hong has been nominated and has agreed to serve as a USAFRC director, to align with the staggered membership of a four-year term expiring on November 29, 2026,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama hereby authorizes the aforementioned individual to serve as a member of the USAFRC Board of Directors as set forth herein.



UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

Office of the Vice President for Research and Economic Development

DATE: February 17, 2023

TO: Jo Bonner, President

A handwritten signature in black ink that reads "Lynne Chronister".

FROM: Lynne Chronister, Vice President, Research and Economic Development

SUBJECT: Nomination and Approval of Director for USA Foundation for Research & Commercialization Board (USAFRC)

The USAFRC Board is comprised of four (4) USA representatives, who serve by virtue of their USA positions, and 5 “outside” directors. We now have a vacancy in one of the “outside” director slots. This occurred when William Sisson, former President of the Mobile Area Chamber of Commerce, retired from the Chamber and relocated to Atlanta.

The USAFRC Chairperson, Ms. Arlene Mitchell, nominated Ms. Karen Hong, Global CEO and President of Continental Aerospace Technologies. Ms. Hong was named to this position in 2022 after serving as acting CEO and previously serving as CFO. USA leadership met with Ms. Hong recently and asked if she would be interested in serving in this position, subject to all necessary approvals.

The USAFRC Board has unanimously voted in favor of Ms. Hong appointment and requests approval of her appointment by the USA Board of Trustees. If approved, she would assume the director slot vacated by Mr. Sisson and serve a four year term to expire in 2026.

LC/asw

Attachment

A handwritten signature in black ink that reads "Jo Bonner".

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**



**LONG-RANGE PLANNING
COMMITTEE**

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

Long-Range Planning Committee

**November 30, 2022
3:32 p.m.**

A meeting of the Long-Range Planning Committee of the University of South Alabama Board of Trustees was duly convened by Ms. Chandra Brown Stewart, Chair, on Wednesday, November 30, 2022, at 3:32 p.m. in the Board Room of the Frederick P. Whiddon Administration Building. Meeting attendance was open to the public.

Members: Chandra Brown Stewart, Ron Jenkins, Bill Lewis, Lenus Perkins, Mike Windom and Jim Yance were present.

Member Absent: Steve Stokes.

Other Trustees: Alexis Atkins, Scott Charlton, Tom Corcoran, Steve Furr, Arlene Mitchell, Jimmy Shumock and Margie Tuckson.

Administration & Guests: Delaware Arif (Faculty Senate), Owen Bailey, Jim Berscheidt, Joél Billingsley, Jo Bonner, Lynne Chronister, Angela Coleman, Kristin Dukes, Joel Erdmann, Julie Estis, Monica Ezell, Andi Kent, Nick Lawkis, John Marymont, Mike Mitchell, Laura Schratt, Polly Stokley and Margaret Sullivan.

The meeting came to order, and the attendance roll was called, **Item 30**. Ms. Brown Stewart called for consideration of the minutes of a meeting held on September 22, 2022, **Item 31**. On motion by Mr. Yance, seconded by Judge Windom, the Committee voted unanimously to adopt the minutes.

Ms. Brown Stewart called on Dr. Angela Coleman, Associate Vice President for Institutional Effectiveness, to present **Item 32**, a report on the process for reaffirmation of accreditation by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC). Dr. Coleman advised that, in response to the University's formal report submitted to SACSCOC in September 2022, an evaluation report from the SACSCOC off-site committee had been received in November. She discussed that the next steps included submission of the University's focused report and quality enhancement plan proposal to SACSCOC in January 2023, to be followed by the on-site review team visit to the main campus and other instructional locations over March 20-24, 2023.

Concerning **Item 33**, a report on the University's Strategic Plan and Scorecard, Dr. Coleman stated that President Bonner had appointed an Institutional Planning and Assessment Committee (IPAC) charged with revision of the University's Strategic Plan and Campus Master Plan, recommendation of a new Scorecard and maintaining communications. She said the work of IPAC subcommittees would center on the strategic priority areas of student access and success, research, graduate education, healthcare, community engagement and campus master planning. Looking ahead, she advised that the Board of Trustees could expect to view drafts of the Strategic Plan and Master Plan in March 2023 and, in June 2023, would consider adoption of both plans, as well as receive a Scorecard report.

There being no further business, the meeting was adjourned at 3:37 p.m.

Respectfully submitted:

Chandra Brown Stewart, Chair

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**



COMMITTEE OF THE WHOLE

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

Committee of the Whole

**November 30, 2022
3:37 p.m.**

A meeting of the Committee of the Whole of the University of South Alabama Board of Trustees was duly convened by Ms. Arlene Mitchell, Chair *pro tempore*, on Wednesday, November 30, 2022, at 3:37 p.m. in the Board Room of the Frederick P. Whiddon Administration Building. Meeting attendance was open to the public.

Members: Alexis Atkins, Chandra Brown Stewart, Scott Charlton, Tom Corcoran, Steve Furr, Ron Jenkins, Arlene Mitchell, Bill Lewis, Lenus Perkins, Jimmy Shumock, Margie Tuckson, Mike Windom and Jim Yance were present.

Members Absent: Ron Graham, Kay Ivey and Steve Stokes.

Administration & Guests: Delaware Arif (Faculty Senate), Owen Bailey, Jim Berscheidt, Jo Bonner, Joél Billingsley, Lynne Chronister, Kristin Dukes, Joel Erdmann, Julie Estis, Monica Ezell, Andi Kent, Nick Lawkis, Aaron Long, John Marymont, Mike Mitchell, Laura Schrott, Beth Shepard (Faculty Senate), Polly Stokley and Margaret Sullivan.

The meeting came to order and the attendance roll was called, **Item 34**. Chair Mitchell called for consideration of the minutes of a Committee of the Whole meeting held on September 22, 2022, **Item 35**. On motion by Ms. Tuckson, seconded by Ms. Atkins, the Committee voted unanimously to adopt the minutes.

Chair Mitchell called on President Bonner, who presented **Item 36**, a resolution paying tribute to and acknowledging the legacy of the late Mrs. June Ledyard Whiddon and expressing condolences to the children of founding University President Dr. Frederick P. Whiddon and South's first First Lady Mrs. June Whiddon. (To view copies of resolutions, policies and other documents authorized, refer to the minutes of the Board of Trustees meeting held on December 1, 2022.) On motion by Mr. Yance, seconded by Mr. Shumock, the Committee voted unanimously to recommend approval of the resolution by the Board of Trustees.

President Bonner recognized Mr. Aaron Long, Assistant Manager of Information Technology Administrative Support, for his leadership on the project for upgrading the audio/visual system in the Board Room.

In accordance with the provisions of the Alabama Open Meetings Act, Chair Mitchell made a motion to convene an executive session for an anticipated duration of 30 minutes for the purpose of discussing pending or threatened litigation, as well as preliminary negotiations involving a matter of trade or commerce, **Item 37**. She stated that Ms. Dukes had submitted the required written declaration for the minutes and that adjournment of the meeting would be effected

with the conclusion of the executive session. Ms. Atkins seconded and, at 3:44 p.m., the Board voted unanimously to convene an executive session, as recorded below:

AYES:

- Ms. Atkins
- Ms. Brown Stewart
- Dr. Charlton
- Mr. Corcoran
- Dr. Furr
- Capt. Jenkins
- Chair Mitchell
- Judge Lewis
- Mr. Perkins
- Mr. Shumock
- Ms. Tuckson
- Judge Windom
- Mr. Yance

There being no further business, the meeting was adjourned at 4:22 p.m.

Respectfully Submitted:

Arlene Mitchell, Chair *pro tempore*

APPENDIX A

Executive Session

University of South Alabama Board of Trustees Committee of the Whole meeting on November 30, 2022.

The purpose of the executive session for the above-referenced meeting is to discuss pending or threatened litigation, as well as preliminary negotiations involving a matter of trade or commerce.

This declaration is submitted pursuant to the requirements of the Alabama Open Meetings Act by Kristin Daniels Dukes, ASB number 6408o61k.

Kristin Daniels Dukes