# UNIVERSITY OF SOUTH ALABAMA
# BOARD OF TRUSTEES
## FREDERICK P. WHIDDON ADMINISTRATION BUILDING
## SUITE 130, BOARD ROOM
## DECEMBER 1, 2016
## 1:30 P.M.

* *Agenda or Materials Addition/Revision*

***DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE*** Jim Yance, Chair

Roll Call
* Approve: Revised Agenda
Approve: Minutes
* 5 Reports: Gerber/Taylor * Commonfund * Douglas C. Lane * J.P. Morgan * Endowment and Investment Performance
6 Recommendation to Approve: Evaluation of USA's Endowment and Non-Endowment Investment Policies
7 Report: Development and Alumni Relations
* 7.A Recommendation to Approve: Naming of the USA Mitchell Cancer Institute Kilborn Clinic
8 Recommendation to Approve: Commendation of Kim and Julian MacQueen
9 Recommendation to Approve: Commendation of Dr. Joseph F. Busta, Jr.

***AUDIT COMMITTEE*** John Peek, Chair

Roll Call
Approve: Minutes
10 Report: KPMG Audit Reports, Year Ended September 30, 2016
KPMG Presentation to the Audit Committee
Basic Financial Statements and Supplementary Information
Communication to the Audit Committee (SAS #114 Letter)
Bond Compliance Letter
Agreed-Upon Procedures Reports - Series 1999; 2006; 2008; 2010; 2012-A and 2012-B; 2013-A, 2013-B and 2013-C; 2014-A; 2015 Bonds; and 2016 Bonds
Basic Financial Statements, USA Research and Technology Corporation

***ACADEMIC AND STUDENT AFFAIRS COMMITTEE*** Bettye Maye, Chair

Roll Call
Approve: Minutes
11 Recommendation to Approve: Sabbatical Awards
12 Recommendation to Approve: Professors Emeritus
13 Recommendation to Approve: Deans Emeritus
14 Recommendation to Approve: Commendation of Dr. Richard L. Hayes
15 Report: Academic Affairs
16 Report: Annual Review of Research Activity
17 Report: Student Affairs
18 Report: Campus Safety

***HEALTH AFFAIRS COMMITTEE*** Steve Furr, Chair

Roll Call
Approve: Minutes
19 Recommendation to Approve: USA Hospitals Medical Staff Credentials for August, September and October 2016
20 Recommendation to Approve: USA Hospitals Medical Staff Bylaws and Rules and Regulations, Meeting of October 19
21 Recommendation to Approve: Commendation of Dr. Samuel J. Strada
22 Report: USA Health and College of Medicine

***BUDGET AND FINANCE COMMITTEE*** Tom Corcoran, Chair

Roll Call
* Approve: Revised Agenda
Approve: Minutes
23 Report: University of South Alabama 2016 Financial Report
24 Recommendation to Approve: Award of General Contractor for Residential Building
* 24.A Recommendation to Approve: Construction of a Covered Practice Facility
* 25 Recommendation to Approve: Secured Equipment Financing Agreement for a Linear Accelerator
* 26 Recommendation to Approve: Refunding of Series 2006 Bonds

~~***COMMITTEE OF THE WHOLE*** Ken Simon, Chair~~

~~Roll Call~~
~~* Approve: Revised Agenda~~
~~Approve: Minutes~~
~~* 27 Approve: Executive Session~~

## BOARD OF TRUSTEES
## DECEMBER 2, 2016
## 10:30 A.M.

Roll Call
* Approve: Revised Agenda
* 1 Approve: Minutes
2 Report: President's Report
3 Report: Faculty Senate President's Report
4 Report: Student Government Association President's Report

***CONSENT AGENDA***

6 Approve: Evaluation of USA's Endowment and Non-Endowment Investment Policies
11 Approve: Sabbatical Awards
12 Approve: Professors Emeritus
13 Approve: Deans Emeritus
19 Approve: USA Hospitals Medical Staff Credentials – August, September and October 2016
20 Approve: USA Hospitals Medical Staff Bylaws and Rules and Regulations, Meeting of October 19
* 25 Approve: Secured Equipment Financing Agreement for a Linear Accelerator

***DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE*** Jim Yance, Chair

***AUDIT COMMITTEE*** John Peek, Chair

***ACADEMIC AND STUDENT AFFAIRS COMMITTEE*** Bettye Maye, Chair

***HEALTH AFFAIRS COMMITTEE*** Steve Furr, Chair

***BUDGET AND FINANCE COMMITTEE*** Tom Corcoran, Chair

24 Approve: Award of General Contractor for Residential Building
* 24.A Approve: Construction of a Covered Practice Facility
* 26 Approve: Refunding of Series 2006 Bonds

***SPECIAL ACKNOWLEDGMENT***

* Report: Endowed Chair of the USA Center for Environmental Resiliency
* 7.A Approve: Naming of the USA Mitchell Cancer Institute Kilborn Clinic
8 Approve: Commendation of Kim and Julian MacQueen
9 Approve: Commendation of Dr. Joseph F. Busta, Jr.
14 Approve: Commendation of Dr. Richard L. Hayes
21 Approve: Commendation of Dr. Samuel J. Strada
~~* 27.A Approve: Commendation of The Honorable William S. Stimpson~~

***OTHER***

* 27 Approve: Executive Session

# UNIVERSITY OF SOUTH ALABAMA
# BOARD OF TRUSTEES

**THURSDAY, DECEMBER 1, 2016:**

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

**FRIDAY, DECEMBER 2, 2016:**

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

UNIVERSITY OF SOUTH ALABAMA

# BOARD OF TRUSTEES

## STANDING COMMITTEES
## 2016-2019

### EXECUTIVE COMMITTEE:

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

### ACADEMIC AND STUDENT AFFAIRS COMMITTEE:

Bettye R. Maye, **Chair**
Scott A. Charlton, **Vice Chair**
Steven P. Furr
Bryant Mixon
John M. Peek
Michael P. Windom

### AUDIT COMMITTEE:

John M. Peek, **Chair**
James H. Shumock, **Vice Chair**
Scott A. Charlton
Robert D. Jenkins III
Bryant Mixon

### BUDGET AND FINANCE COMMITTEE:

E. Thomas Corcoran, **Chair**
James A. Yance, **Vice Chair**
Arlene Mitchell
Bryant Mixon
Steven H. Stokes

### DEVELOPMENT, ENDOWMENT & INVESTMENTS CTE.:

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

### EVALUATION AND COMPENSATION COMMITTEE:

James H. Shumock, **Chair**
Michael P. Windom, **Vice Chair**
E. Thomas Corcoran
Steven P. Furr
Arlene Mitchell
John M. Peek

### HEALTH AFFAIRS COMMITTEE:

Steven P. Furr, **Chair**
Steven H. Stokes, **Vice Chair**
Chandra Brown Stewart
Scott A. Charlton
Bettye R. Maye
Arlene Mitchell
Tony G. Waldrop, *ex officio*
John V. Marymont, *ex officio*
William O. Richards, *ex officio*

### LONG-RANGE PLANNING COMMITTEE:

Michael P. Windom, **Chair**
Chandra Brown Stewart, **Vice Chair**
Robert D. Jenkins III
Bettye R. Maye
James H. Shumock

# UNIVERSITY OF SOUTH ALABAMA
# BOARD OF TRUSTEES

# AGENDA

# MINUTES

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

**FREDERICK P. WHIDDON ADMINISTRATION BUILDING**
**SUITE 130, BOARD ROOM**

**DECEMBER 1, 2016**
**1:30 P.M.**

* *Agenda or Materials Addition/Revision*

***DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE*** Jim Yance, Chair

Roll Call
* Approve: Revised Agenda
Approve: Minutes
* **5** Reports: Gerber/Taylor * Commonfund * Douglas C. Lane * J.P. Morgan * Endowment and Investment Performance
**6** Recommendation to Approve: Evaluation of USA's Endowment and Non-Endowment Investment Policies
**7** Report: Development and Alumni Relations
* **7.A** Recommendation to Approve: Naming of the USA Mitchell Cancer Institute Kilborn Clinic
**8** Recommendation to Approve: Commendation of Kim and Julian MacQueen
**9** Recommendation to Approve: Commendation of Dr. Joseph F. Busta, Jr.

***AUDIT COMMITTEE*** John Peek, Chair

Roll Call
Approve: Minutes
**10** Report: KPMG Audit Reports, Year Ended September 30, 2016
KPMG Presentation to the Audit Committee
Basic Financial Statements and Supplementary Information
Communication to the Audit Committee (SAS #114 Letter)
Bond Compliance Letter
Agreed-Upon Procedures Reports - Series 1999; 2006; 2008; 2010; 2012-A and 2012-B; 2013-A, 2013-B and 2013-C; 2014-A; 2015 Bonds; and 2016 Bonds
Basic Financial Statements, USA Research and Technology Corporation

***ACADEMIC AND STUDENT AFFAIRS COMMITTEE*** Bettye Maye, Chair

Roll Call
Approve: Minutes
**11** Recommendation to Approve: Sabbatical Awards
**12** Recommendation to Approve: Professors Emeritus
**13** Recommendation to Approve: Deans Emeritus
**14** Recommendation to Approve: Commendation of Dr. Richard L. Hayes
**15** Report: Academic Affairs
**16** Report: Annual Review of Research Activity
**17** Report: Student Affairs
**18** Report: Campus Safety

***HEALTH AFFAIRS COMMITTEE*** Steve Furr, Chair

Roll Call
Approve: Minutes
**19** Recommendation to Approve: USA Hospitals Medical Staff Credentials for August, September and October 2016
**20** Recommendation to Approve: USA Hospitals Medical Staff Bylaws and Rules and Regulations, Meeting of October 19
**21** Recommendation to Approve: Commendation of Dr. Samuel J. Strada
**22** Report: USA Health and College of Medicine

***BUDGET AND FINANCE COMMITTEE*** Tom Corcoran, Chair

Roll Call
* Approve: Revised Agenda
Approve: Minutes
**23** Report: University of South Alabama 2016 Financial Report
**24** Recommendation to Approve: Award of General Contractor for Residential Building
* **24.A** Recommendation to Approve: Construction of a Covered Practice Facility
* **25** Recommendation to Approve: Secured Equipment Financing Agreement for a Linear Accelerator
* **26** Recommendation to Approve: Refunding of Series 2006 Bonds

~~***COMMITTEE OF THE WHOLE*** Ken Simon, Chair~~

~~Roll Call~~
~~* Approve: Revised Agenda~~
~~Approve: Minutes~~
~~* **27** Approve: Executive Session~~

**BOARD OF TRUSTEES**

**DECEMBER 2, 2016**
**10:30 A.M.**

Roll Call
* Approve: Revised Agenda
* **1** Approve: Minutes
**2** Report: President's Report
**3** Report: Faculty Senate President's Report
**4** Report: Student Government Association President's Report

***CONSENT AGENDA***

**6** Approve: Evaluation of USA's Endowment and Non-Endowment Investment Policies
**11** Approve: Sabbatical Awards
**12** Approve: Professors Emeritus
**13** Approve: Deans Emeritus
**19** Approve: USA Hospitals Medical Staff Credentials – August, September and October 2016
**20** Approve: USA Hospitals Medical Staff Bylaws and Rules and Regulations, Meeting of October 19
* **25** Approve: Secured Equipment Financing Agreement for a Linear Accelerator

***DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE*** Jim Yance, Chair

***AUDIT COMMITTEE*** John Peek, Chair

***ACADEMIC AND STUDENT AFFAIRS COMMITTEE*** Bettye Maye, Chair

***HEALTH AFFAIRS COMMITTEE*** Steve Furr, Chair

***BUDGET AND FINANCE COMMITTEE*** Tom Corcoran, Chair

**24** Approve: Award of General Contractor for Residential Building
* **24.A** Approve: Construction of a Covered Practice Facility
* **26** Approve: Refunding of Series 2006 Bonds

***SPECIAL ACKNOWLEDGMENT***

* Report: Endowed Chair of the USA Center for Environmental Resiliency
* **7.A** Approve: Naming of the USA Mitchell Cancer Institute Kilborn Clinic
**8** Approve: Commendation of Kim and Julian MacQueen
**9** Approve: Commendation of Dr. Joseph F. Busta, Jr.
**14** Approve: Commendation of Dr. Richard L. Hayes
**21** Approve: Commendation of Dr. Samuel J. Strada
* ~~**27.A** Approve: Commendation of The Honorable William S. Stimpson~~

***OTHER***

* **27** Approve: Executive Session

UNIVERSITY OF SOUTH ALABAMA

# MEMORANDUM

Office/Department/College

**Date:**
November 22, 2016

**To:**
USA Board of Trustees

**From:**
Arlene Mitchell Arlene Mitchell
Secretary, Board of Trustees

**Subject:**
Meeting Minutes

Included herein are the unapproved minutes of the Board of Trustees and standing committee meetings held on September 8 and 9, 2016. Please review these documents for amendment or approval at the December 1 and 2 meetings of the Board of Trustees.

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

**September 9, 2016**
**10:30 a.m.**

A meeting of the University of South Alabama Board of Trustees was duly convened by Judge Ken Simon, Chair *pro tempore*, on Friday, September 9, 2016, at 10:31 a.m. in the Board Room of the Frederick P. Whiddon Administration Building.

| | |
|---|---|
| Members Present: | Scott Charlton, Tom Corcoran, Steve Furr, Ron Jenkins, Bettye Maye, Arlene Mitchell, Bryant Mixon, John Peek, Jimmy Shumock, Ken Simon, Sandy Stimpson, Steve Stokes and Mike Windom. |
| Members Absent: | Robert Bentley, Chandra Brown Stewart and Jim Yance. |
| Administration and Others: | Owen Bailey, Joe Busta, Nicole Carr, Richard Carter, Josh Crownover (SGA), Joel Erdmann, Monica Ezell, Mike Finan, Sam Fisher (Faculty Senate), Happy Fulford, Stan Hammack, Krista Harrell, Mike Haskins, Joan Holland, Dave Johnson, Andi Kent, Don Langham, Amelito Manganti, Christian Manganti, Divina Manganti, John Marymont, Mike Mitchell, John Smith, Carl Thomas (AASA), Jean Tucker, Margaret Sullivan, Tony Waldrop, Scott Weldon, Doug Whitmore (NAA) and Shirley Zhang. |

The meeting came to order and the attendance roll was called. Chairman Simon called for consideration of **ITEM 1**, the minutes of the Board of Trustees meeting held on June 3, 2016. On motion by Ms. Mitchell, seconded by Mr. Shumock, the minutes were approved unanimously.

As to **ITEM 2**, a report on the USA Board of Trustees Scholar, Chairman Simon asked Mr. Christian Manganti, 2016-2017 scholar, and Ms. Shirley Zhang, 2015-2016 scholar, to join him and President Waldrop. Chairman Simon provided background on the academic achievements and pursuits of both students. He presented Mr. Manganti with a plaque commemorating his selection. Mr. Manganti credited his accomplishments to the support of his parents, Mr. Amelito Manganti and Mrs. Divina Manganti, who were in attendance as well. Both students shared brief remarks about their classes and answered questions.

Chairman Simon called for adoption of the revised agenda. On motion by Mr. Corcoran, seconded by Mr. Shumock, the revised agenda was adopted unanimously.

Chairman Simon called for consideration of **ITEM 3** as follows. On motion by Mr. Windom, seconded by Mr. Corcoran, the resolution was approved unanimously:

**RESOLUTION**
**EXECUTIVE COMMITTEE OF THE BOARD OF TRUSTEES**

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

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

Hon. Kenneth O. Simon
Mr. James H. Shumock
Ms. Arlene Mitchell
Mr. E. Thomas Corcoran
Dr. Steven P. Furr
Mr. John M. Peek
Mr. James A. Yance

Chairman Simon called for presentation of **ITEM 4**, the President's Report. President Waldrop recognized Trustee *emeritus* Mr. Don Langham, NAA President Mr. Doug Whitmore and African-American Student Association President Mr. Carl Thomas.

President Waldrop addressed enrollment highlights and records, noting a remarkable year for the University in terms of growth despite strengthened admissions standards. As photos were shown, President Waldrop and Dr. Mitchell gave information about Week of Welcome (WOW) festivities, such as Convocation, Move In Day, and Get on Board Day. Dr. Mitchell recognized the efforts of WOW Committee Co-Chairs Drs. Nicole Carr, Associate Vice President for Student Success, and Krista Harrell, Associate Dean of Students and Title IX Coordinator.

President Waldrop called on Dr. Erdmann, who talked about the overwhelming response from the community to USA Athletics' drive to help flood victims in Louisiana. He announced donations filling five trucks were delivered to Hammond, Louisiana. He said the effort was a positive exercise for the student-athletes and Athletics staff. He discussed the wins by South Alabama's football team against Mississippi State University and by USA's soccer team against number-one-ranked Florida State University, and added the starting performance of the volleyball team was the best since 1980. He reported on the recent signing of USA graduate and former Jag pitcher/outfielder Mr. Jordan Patterson by the Colorado Rockies and added Mr. Patterson was the University's 24$^{th}$ major league baseball recruit.

President Waldrop discussed the University's involvement in a partnership with the Community Foundation of South Alabama and the Newman's Own Foundation to develop and present a series of events on and off campus that will focus on civil rights. He said the *Empowering Change* program would be held in the fall of 2017 and added the *Common Read/Common World* book that is recommended annually to USA freshmen during WOW activities would be featured in the series.

President Waldrop called for a report from Mr. Fulford. Mr. Fulford gave an update on the special legislative session, the failure of lottery legislation, and the passage of legislation allocating BP settlement money to Medicaid. He discussed implications of not addressing long-term Medicaid funding, such as possible attempts to draw against Special Education Trust Fund reserves. He talked about discussions underway among higher education leaders to develop strategies for protecting education funding and promoting awareness on the importance of education in Alabama, and he answered questions relating to the BP settlement money.

President Waldrop reported that the University of South Alabama had partnered with the City of Mobile to improve the streets and intersections bordering the campus with landscaping and irrigation. He thanked Mayor Stimpson and credited Mobile City Council President Gina Gregory for their support of the beautification project.

President Waldrop mentioned that Dr. Busta would soon retire and noted he would be honored for his service at a future Board meeting. He advised that a search firm had been engaged to help the University's search committee, chaired by Provost Johnson, to fill the position of Vice President for Development and Alumni Relations. He said Ms. Margaret Sullivan, Associate Director of Cancer Control and Prevention at the Mitchell Cancer Institute, had agreed to serve as Interim Vice President, and he discussed highlights of Ms. Sullivan's career at USA. Ms. Sullivan stated she was honored for the opportunity to build upon the successes Dr. Busta had achieved.

President Waldrop called for comments by Provost Johnson. Provost Johnson introduced USA's new Dean of the School of Continuing Education and Special Programs, Dr. Richard Carter. Provost Johnson shared details on Dr. Carter's professional background, including his most recent position as Executive Director of the School of Distance Learning, International Studies, and Outreach at Western Illinois University.

Chairman Simon called upon Dr. Fisher for presentation of **ITEM 5**, a report by the President of the Faculty Senate. Dr. Fisher commended the University leadership for recommending a raise for the faculty. He encouraged the Administration to regularly evaluate the need for additional faculty in order to keep up with enrollment growth and elevations in student quality. He said, overall, the morale of the faculty is good and South Alabama is moving in the right direction. He emphasized the importance of shared governance, and described the faculty's relationship with the Administration and the Board of Trustees as positive.

Chairman Simon called upon Mr. Crownover for presentation of **ITEM 6**, a report by the President of the Student Government Association (SGA). Mr. Crownover discussed meetings with counterparts at other institutions over the summer term and reiterated appreciation for the relationship shared by the students, the Administration and the Board of Trustees. He gave information on the First Year Council, the freshman branch of the SGA. He discussed the SGA's commitment to expanding partnerships with the community. He talked about the impressive and enthusiastic freshman class he addressed during Convocation. He detailed a number of initiatives on campus the SGA would co-sponsor, including expanded access to sustainability resources, especially in the residence halls; promotion of USA's cricket club to attract national competition; promotion of Ticket Forgiveness Day; development of a campus-wide engagement hour to help students get involved; and Pizza with the President.

Chairman Simon addressed consent agenda **ITEMS 7, 16** and **17** as follows, respectively, as well as the Committee charges, noting all were unanimously recommended for Board approval by the respective committees that met on September 8 (for copies of policies and other authorized documents, refer to **APPENDIX A**). On motion by Ms. Maye, seconded by Mr. Shumock, the items were approved unanimously:

**RESOLUTION**
**USA HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS**
**FOR MAY, JUNE AND JULY 2016**

**WHEREAS,** the Medical Staff appointments and reappointments for May, June and July 2016 for the University of South Alabama Hospitals are recommended for Board approval by the Medical Executive Committees and the Executive Committee of the University of South Alabama Hospitals,

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

**RESOLUTION**
**DIRECTOR OF THE JAGUAR ATHLETIC FUND, INC.**

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

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

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

**WHEREAS,** the Nominating Committee of the Board of Directors and the Board of Directors of USAJAF have nominated Mr. Brian Munger for a three-year term pending the approval of the Board of Trustees of the University,

**THEREFORE, BE IT RESOLVED,** that the Board of Trustees of the University of South Alabama does hereby approve Mr. Brian Munger as a member of the Board of Directors of the USAJAF with a three-year term beginning September 2016 and ending September 2019.

**RESOLUTION**
**POLICY ON CAMPUS CLOSURE**

**WHEREAS,** hurricanes impact the Gulf Coast region and the University of South Alabama from time to time, with official hurricane season running from June 1 through November 30, and

**WHEREAS,** the University has put procedures in place to help keep students, staff and faculty safe in the event of a hurricane, and

**WHEREAS,** if a hurricane is anticipated to be severe enough to require the use of shelters, the University will officially suspend operations and evacuate its campus, at which time all events and classes will be canceled and only pre-designated essential personnel and certain University campus housing residents as discussed below will be allowed to remain on campus, and

**WHEREAS,** because weather authorities have the ability to project the strength and trajectory of hurricanes well in advance of landfall, the University has the information necessary to assess and act on the need for closing campus well before severe weather activity begins and far enough in advance of landfall for most of its students to travel home, and

**WHEREAS,** due to the distance some residential students who live on campus are required to travel to get home, those few residential students, estimated at fewer than 200 students (or approximately 10 percent of all residential students), will be allowed to remain on campus during the evacuation, and the University's department of Housing will identify and notify those campus residents regarding sheltering procedures pursuant to University policy, and

**WHEREAS**, as new residence halls are constructed, ICC/NSSA-compliant shelters will be included until the total shelter capacity is sufficient to meet the University's anticipated need with respect to students who will be allowed to remain on campus during a hurricane, and

**WHEREAS**, the University has identified certain shelters on its campus that will be utilized to house remaining residential students that meet or exceed the 2014 ICC/NSSA Standard for the Design and Construction of Storm Shelters, and

**WHEREAS,** until there are sufficient ICC/NSSA standard shelters available, the University will place all residential students remaining on campus in shelter locations designated as Best Available Refuge Areas (BARA) which will be opened depending on the severity of the storm and the number of residents impacted, and will be operated and staffed by the University to serve as shelters for up to 72 hours after the storm passes,

**NOW, THEREFORE, BE IT RESOLVED** that the University of South Alabama Board of Trustees adopts the policy that, when the University of South Alabama determines that it is necessary to close the campus and suspend classes and other campus activities and operations and that sheltering is required due to the impending hurricane, designated shelters as indicated above will be made available for the duration of the closure to those few campus residents who live too far away to travel home, as well as to the pre-designated essential personnel.

Chairman Simon called for a report from the Health Affairs Committee. Dr. Furr, Committee Chair, called on Mr. Bailey to review **ITEM 8** as follows. Noting discussion of the resolution by the Health Affairs Committee at a meeting on September 8, Mr. Bailey advised that the Affordable

Care Act requires non-profit hospitals to conduct a community health needs assessment triannually. He summarized the thorough process for data collection and the ways the document would be of value to the University, including use as a strategic planning tool to identify opportunities. On motion by Dr. Furr, seconded by Dr. Stokes, the resolution was approved unanimously:

**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 2016, and

**WHEREAS,** USA Health has developed implementation strategies based on the findings of the 2016 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 accepts 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.

Chairman Simon called for a report from the Audit Committee. Mr. Peek, Committee Chair, said, at a Committee meeting on September 8, KPMG representatives, Ms. Ashley Willson and Ms. Eileen McGinn, were in attendance to discuss expectations for the financial audit covering fiscal year 2015-2016. He said Mr. Ken Davis discussed the independent audits of the USA Foundation Consolidated Financial Statements and the Disproportionate Share Hospital Funds Combined Financial Statements for the fiscal year ended June 30, 2016.

Chairman Simon called for a report from the Evaluation and Compensation Committee. Mr. Shumock, Committee Chair, discussed the comprehensive interview process for collecting feedback on President Waldrop's performance for 2015-2016, which involved a wide array of USA, community and government constituencies. He stated the consensus was President Waldrop's performance met or exceeded expectations. As recommended unanimously by the Committee at a meeting on September 8, he made a motion acknowledging President Waldrop's eligibility for a compensation adjustment in accordance with the salary proposal for all University employees and recommending assignment of responsibilities for administering President Waldrop's compensation to the Board Chair, **ITEM 13**. Mr. Windom seconded. Chairman Simon shared remarks of appreciation for President Waldrop's leadership. President Waldrop credited the teamwork of colleagues and said he was delighted to serve at South Alabama. Chairman Simon called for a vote and the motion was approved unanimously.

Chairman Simon called for a report from the Development, Endowment and Investments Committee. On behalf of Committee Chair Jim Yance, Capt. Jenkins, Vice Chair, stated, at a meeting on September 8, endowment results were presented. He noted a return of 6.56 percent vs. the relative index of 7.77 percent, an underperformance of 1.21 percent. He said asset allocations were consistent with endowment policy guidelines. He reported the annualized performance from inception through July 31, 2016, was 4.89 percent vs. an index of 4.03 percent, an outperformance of 0.86 percent. Chairman Simon assured the University's investment team, led by Mr. Albano, was taking proactive steps to address manager underperformance.

Capt. Jenkins advised that Dr. Stokes, *Upward & Onward* Campaign Co-Chair, reported on campaign results as of August 31, 2016, noting $93 million raised toward the goal of $150 million, 22,277 donors, and 29,208 gifts. He said the Regional Campaign Representative Committee met on August 19 to discuss a schedule of campaign receptions in 2017 and stated the next meeting of the Campaign Leadership Team would take place September 30, 2016. He read the names of the new officers and board members of the USA National Alumni Association (NAA), as was presented by Dr. Busta to the Committee. Mr. Peek stressed the importance of NAA membership.

Chairman Simon called for a report from the Academic and Student Affairs Committee. Ms. Maye, Committee Chair, said, at a meeting on September 8, the Committee heard a report from Dr. Smith on housing occupancy and plans to recommend construction of a new residence hall at the December meeting. She said Dr. Mitchell discussed a scholarship and mentoring partnership with the 100 Black Men of Greater Mobile. She stated Provost Johnson announced the promotion of Dr. Nicole Carr to the position of Associate Vice President for Student Success; introduced USA's new Director of the Innovation in Learning Center and USA Online, Dr. Raj Chaudhury; and discussed the University's philosophy and strategies relating to undergraduate admissions. She said Ms. Chronister introduced the Director of the Office of Undergraduate Research, Dr. Jack Shelley-Tremblay, as well as research student, Mr. Kevin Ingles, for a presentation to the Committee.

Ms. Maye called on Provost Johnson, who introduced College of Education Dean, Dr. Andi Kent, to talk about a new community outreach program that will provide enhanced opportunities for faculty and students, **ITEM 19**. Dr. Kent gave an overview of USA's new Literacy Center, a partnership with the Mobile County Public School System (MCPSS), which offers support to P-12 children and their families to improve reading achievement and through which the College and University can meet teaching research and service goals. She cited a Department of Education statistic that 60 percent of Alabama's children do not meet grade-level reading requirements. She introduced and gave background on the Center's new Director Ms. Joan Holland, a retired MCPSS educator; distributed a booklet demonstrating the mission of the Center; and answered questions from Trustees about avenues for promoting the Literacy Center. Brief discussion took place about the *Pathway USA* program. Chairman Simon inquired about the possibility of touring the Literacy Center.

Chairman Simon called for a report from the Budget and Finance Committee. Mr. Corcoran, Committee Chair, said, at a committee meeting on September 8, Mr. Weldon presented the quarterly financial statements for the nine months ended June 30, 2016, and noted the financial documents did not include anything unusual or unexpected. He said Mr. Weldon presented the results of the refunding of the University's Series 2008 bonds, as was authorized by the Board of Trustees in June, through which a net present value savings of just over $15 million, or 16 percent, was achieved and the University's bond ratings were reaffirmed by Moody's and Standard and Poor's.

Mr. Corcoran stated, at the Committee meeting on September 8, the Committee voted unanimously to recommend approval of **ITEM 22** as follows, which authorizes the Administration to issue a request for proposals for refunding of the University's Series 2006 bonds, thereby eliminating the related existing swaption. He stated the new bonds are anticipated to be private placement bonds and said the Administration would present a recommendation for the Board's consideration at the December meetings. On motion by Mr. Corcoran, seconded by Mr. Shumock, the resolution was approved unanimously:

**RESOLUTION**
**EXPLORE FEASIBILITY OF SELLING REFUNDING BONDS THROUGH A COMPETITIVE PROCESS**

**WHEREAS**, pursuant to that certain University Facilities Revenue Trust Indenture between the University of South Alabama (the "University") and The Bank of New York Mellon Trust Company, N.A., as successor trustee thereunder (the "Trustee"), as heretofore supplemented and amended (the "Indenture"), the University has heretofore issued its $100,000,000 University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, dated December 1, 2006 (the "Series 2006 Bonds"), all of which are presently outstanding, and

**WHEREAS**, the Series 2006 Bonds bear interest at fixed rates and may be redeemed and prepaid by the University anytime on or after December 1, 2016, and

**WHEREAS**, on January 2, 2008, the University entered a transaction (the "Swaption Transaction") with Wells Fargo Bank National Association (formerly known as "Wachovia Bank, National Association") ("Wells Fargo"), and

**WHEREAS**, as contemplated by the Swaption Transaction, it will be necessary for the University to refinance the 2006 Bonds with one or more series of limited obligation variable rate bonds of the University containing the same current outstanding principal amortization schedule as the Series 2006 Bonds (collectively, the "Refunding Bonds"), and

**WHEREAS**, it is necessary, desirable, and in the best interest of the University that the University explore the feasibility of selling the Refunding Bonds to one or more financial institutions through a competitive process, and, further, that the University call for redemption and payment on December 9, 2016, the Series 2006 Bonds,

**NOW, THEREFORE, BE IT RESOLVED**, the President of the University and the Vice President for Finance and Administration are hereby authorized and directed to explore the feasibility of selling the Refunding Bonds to one or more financial institutions through a competitive process; provided, that the Refunding Bonds shall be subject to approval and authorization by the Board of Trustees, and

**BE IT FURTHER RESOLVED** that the University does hereby elect to redeem and pay, and does hereby call for redemption and payment, on December 9, 2016 (the "Redemption Date"), the Series 2006 Bonds, the redemption of the Series 2006 Bonds to be effected at and for a redemption price equal to 100% of the principal amount thereof plus accrued interest to the Redemption Date, and

**FURTHER RESOLVED,** the Trustee is hereby authorized and directed to cause written notice of the redemption and payment of the Series 2006 Bonds to be given in the manner and at the times and to the persons required pursuant to the Indenture, and to take all such other actions as shall be necessary or desirable in order to cause the Series 2006 Bonds to be redeemed and paid on the Redemption Date, provided such redemption notice shall be conditioned upon the closing of the Refunding Bonds and the availability of funds sufficient to pay the redemption price of the Series 2006 Bonds by the Redemption Date and, further, subject to revocation by the Trustee if such conditions have not occurred by the Redemption Date, and

**FINALLY, BE IT RESOLVED** that the President of the University and the Vice President for Finance and Administration are hereby authorized and directed to take or cause to be taken, in the name and on behalf of the University, all of the actions that may be necessary or desirable to effect the redemption and payment of the Series 2006 Bonds on the Redemption Date as aforesaid including, without limitation, to direct the Trustee on the proper disposition of all funds on deposit in the funds and accounts established pursuant to the Indenture and referable to the Series 2006 Bonds. The President of the University and the Vice President for Finance and Administration are further authorized and directed to execute and deliver such notices, directions, consents, agreements, certificates, instruments or other documents as shall be necessary or desirable to effectuate the transactions contemplated by this resolution.

Mr. Corcoran stated Mr. Weldon presented **ITEMS 23** at the September 8 Committee meeting, which was unanimously recommended for Board approval. He noted the proposed budget was balanced and included a state appropriation increase of 2.2 percent; a tuition increase of three percent as approved in June; and a proposed salary increase of two percent. He made a motion to approve the 2016-2017 budget as presented and Mr. Windom seconded. The resolution was approved unanimously:

**RESOLUTION**
**UNIVERSITY TOTAL BUDGET FOR 2016-2017**

**BE IT RESOLVED**, the University of South Alabama Board of Trustees approves the 2016-2017 University of South Alabama Budget, and

**BE IT FURTHER RESOLVED**, the University of South Alabama Board of Trustees approves the 2016-2017 Budget as a continuation budget for 2017-2018 in order to be in compliance with bond trust indenture requirements if the budget process cannot be completed prior to beginning the 2017-2018 fiscal year.

Mr. Corcoran introduced **ITEM 23.A** as follows, noting copies of the resolution distributed to Trustees. He said the salary recommendation calls for a two percent, across-the-board increase for eligible staff and a two percent merit increase for eligible faculty and administrative employees. He made a motion to approve the resolution and Mr. Shumock seconded. Recalling the difficult task of communicating to employees some years prior that a raise or salary supplement could not be granted, Mr. Peek asked for the privilege to be on record as making the motion. The resolution was approved unanimously:

**RESOLUTION**
**SALARY INCREASE**

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

**WHEREAS,** the proposed 2016-2017 fiscal year budget is a balanced budget that includes a proposed two-percent continuing salary increase that is possible because of ongoing diligent management of finances, enrollment growth, improved patient-care revenues and a modest tuition increase, and

**WHEREAS,** this would be a two-percent, across-the-board increase for eligible current salaried and hourly staff employees and a two-percent merit increase for all eligible faculty and administrative employees hired prior to June 1, 2016, and

**WHEREAS**, this salary increase would be effective October 1, 2016, for monthly paid employees, and October 2, 2016, for bi-weekly paid employees, and subject to the standard University personnel guidelines and procedures and other adjustments as approved by the President, and

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

**THEREFORE, BE IT RESOLVED,** the Board of Trustees of the University of South Alabama hereby approves a two-percent, across-the-board increase as described herein, for all eligible current salaried and hourly staff employees and a two-percent merit increase for all eligible faculty and administrative employees hired prior to June 1, 2016.

Chairman Simon asked Mr. Hammack to join him and President Waldrop for the presentation of **ITEM 25** as follows. Chairman Simon read and moved for the approval of the resolution. Dr. Marymont stepped forward to add that Mr. Hammack, through his vast Medicaid expertise, had been a strong voice for the state's elderly, children, disabled and working poor. He presented Mr. Hammack with a proclamation expressing the Governor's appreciation for the positive impact made by Mr. Hammack on the lives of Alabama citizens. Upon acceptance of the framed Board resolution by Mr. Hammack, Ms. Mitchell seconded and the resolution was approved unanimously. Mr. Hammack conveyed heartfelt words about his tenure at South Alabama, calling it a gift. He acknowledged the individuals in the room with whom he had worked closely for many years. He said his roles over the years had availed opportunities to connect with a variety of groups and he pledged to visit his University friends periodically:

**RESOLUTION**
**COMMENDATION OF MR. STANLEY K. HAMMACK**

**WHEREAS,** the University of South Alabama seeks to honor exceptional individuals who have provided outstanding leadership and service to the University and have distinguished themselves throughout their professional careers, and

**WHEREAS,** Mr. Stanley K. Hammack has served the University for 41 years in a variety of leadership positions, masterfully managed the numerous challenges found in academic medicine and demonstrated his ability to capitalize on opportunities, and

**WHEREAS,** Mr. Hammack began his career at the University as a pharmacist at the USA Medical Center in 1975, later becoming Director of Materials Management and Assistant Administrator, and attended night classes to earn his master's degree in public administration from the University, and throughout his career has been a champion for medical education in USA's College of Medicine and numerous USA graduate medical education programs, and

**WHEREAS,** after the University's purchase of Doctors and Knollwood Park hospitals in 1990, Mr. Hammack served as Hospital Administrator of USA's Knollwood Park Hospital during which time he developed a long-term acute care hospital – the first of its kind in Alabama – for a unique, previously underserved patient population, and

**WHEREAS,** Mr. Hammack later became Hospital Administrator at USA Children's & Women's Hospital, overseeing the relocation of inpatient services for newborns, children and women from the USA Medical Center, and helping create a Medicaid maternity program, the Center for Child Development and Geri Moulton Children's Park, and

**WHEREAS,** in his most recent positions as Associate Vice President/CEO for the USA Hospitals and then as Vice President for USA Health Systems, Mr. Hammack has played a key leadership role in shaping health care policy throughout Alabama, and

**WHEREAS,** Mr. Hammack has been recognized regionally and nationally for his significant contributions in managing state funding issues and improving access for patients through his work with Alabama's Medicaid Waiver Program and Alabama's Children's Health Insurance Program, as well as for his service on local, regional and national boards, including those for America's Essential Hospitals, Blue Cross/Blue Shield of Alabama and the Business Council of Alabama, and, further, for his service on the Medicaid Advisory Commission, as chair of the Medicaid Steering Committee and for numerous leadership roles for both the Alabama and American Hospital Associations, including the American Hospital Association's influential Regional Policy Board, and

**WHEREAS,** he was honored by the American Hospital Association as Alabama's recipient of the AHA's Grassroots Champion Award, given in conjunction with the Alabama Hospital Association, and in 2009, he was awarded the Gold Medal of Excellence by the Alabama Hospital Association, and

**WHEREAS,** Mr. Hammack has provided leadership in the development of regional care organizations across the state to support better health outcomes and create a more efficient delivery system, and he led the effort to organize the University's lead role in the Gulf Coast Regional Care Organization to provide care for patients in southwest Alabama, and

**WHEREAS,** Mr. Hammack, with his affinity for motorcycles and travel, will soon be literally riding off into the sunset,

**THEREFORE, BE IT RESOLVED,** that the University of South Alabama Board of Trustees expresses its deep appreciation to Mr. Stanley K. Hammack for his many contributions to the University of South Alabama and wishing him and his wife, Brenda, the best upon his retirement.

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

Attest to: Respectfully submitted:

Arlene Mitchell, Secretary

Kenneth O. Simon, Chair *pro tempore*

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

**COMMITTEE OF THE WHOLE**

**September 8, 2016**
**4:03 p.m.**

A meeting of the Committee of the Whole of the University of South Alabama Board of Trustees was duly convened by Judge Kenneth O. Simon, Chair *pro tempore*, on Thursday, September 8, 2016, at 4:03 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

| | |
|---|---|
| Members Present: | Scott Charlton, Tom Corcoran, Steve Furr, Ron Jenkins, Bettye Maye, Bryant Mixon, John Peek, Jimmy Shumock, Ken Simon, Sandy Stimpson, Steve Stokes and Mike Windom. |
| Members Absent: | Robert Bentley, Chandra Brown Stewart, Arlene Mitchell and Jim Yance. |
| Administration and Others: | Joe Busta, Lynne Chronister, Josh Crownover (SGA), Joel Erdmann, Monica Ezell, Mike Finan, Sam Fisher (Faculty Senate), Happy Fulford, Mike Haskins, David Johnson, John Marymont, Mike Mitchell, John Smith, Jean Tucker, Tony Waldrop, Scott Weldon, and Kevin West and Kelly Woodford (Faculty Senate). |

The meeting came to order and the attendance roll was called. Chairman Simon called for adoption of the revised agenda. On motion by Ms. Maye, seconded by Mr. Shumock, the revised agenda was adopted unanimously. Chairman Simon called for consideration of the minutes of the meeting held on June 2, 2016. On motion by Dr. Stokes, seconded by Mr. Corcoran, the minutes were adopted unanimously.

Chairman Simon called for consideration of the Executive Committee Charge. On motion by Mr. Shumock, seconded by Mr. Corcoran, the Committee voted unanimously to recommend approval of the Executive Committee Charge by the Board of Trustees. Chairman Simon called for consideration of the Long-Range Planning Committee Charge. On motion by Ms. Maye, seconded by Mr. Windom, the Committee voted unanimously to recommend approval of the Long-Range Planning Committee Charge by the Board of Trustees.

Chairman Simon made a motion to convene an executive session for the purposes of discussing good name and character, and pending or imminent litigation with Ms. Tucker, Senior University Attorney, **ITEM 24**. He stated Ms. Tucker had submitted the required written declaration for the minutes. Mr. Peek seconded the motion and, as noted below, the Committee voted unanimously at 4:05 p.m. to convene an executive session:

AYES:
Dr. Charlton

AYES continued:
Mr. Cocoran
Dr. Furr
Capt. Jenkins
Ms. Maye
Sheriff Mixon
Mr. Peek
Mr. Shumock
Judge Simon
Mayor Stimpson
Dr. Stokes
Mr. Windom

Chairman Simon projected the executive session would be approximately 15 minutes in duration and the Committee meeting could reconvene in an open session at approximately 4:20 p.m.

Following the executive session and there being no further business, the meeting was adjourned at 4:28 p.m.

Respectfully submitted:

Kenneth O. Simon, Chair *pro tempore*

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

**EVALUATION AND COMPENSATION COMMITTEE**

**September 8, 2016**
**2:38 p.m.**

A meeting of the Evaluation and Compensation Committee of the University of South Alabama Board of Trustees was duly convened by Mr. Jimmy Shumock, Chair, on Thursday, September 8, 2016, at 2:38 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

| | |
|---|---|
| Members Present: | Tom Corcoran, Steve Furr, John Peek, Jimmy Shumock and Mike Windom. |
| Member Absent: | Arlene Mitchell. |
| Other Trustees: | Scott Charlton, Ron Jenkins, Bettye Maye, Bryant Mixon, Ken Simon, Sandy Stimpson and Steve Stokes. |
| Administration and Others: | Joe Busta, Lynne Chronister, Josh Crownover (SGA), Joel Erdmann, Monica Ezell, Mike Finan, Sam Fisher (Faculty Senate), Happy Fulford, Mike Haskins, David Johnson, John Marymont, Mike Mitchell, John Smith, Jean Tucker, Tony Waldrop, Scott Weldon, and Kevin West and Kelly Woodford (Faculty Senate). |

The meeting came to order and the attendance roll was called. Mr. Shumock called for adoption of the revised agenda. On motion by Mr. Peek, seconded by Mr. Corcoran, the revised agenda was adopted unanimously.

Mr. Shumock called for consideration of the Evaluation and Compensation Committee Charge. On motion by Mr. Windom, seconded by Mr. Corcoran, the Committee voted unanimously to recommend approval of the Evaluation and Compensation Committee Charge by the Board of Trustees.

Mr. Shumock reported on the evaluation of the University President, **ITEM 12**. He said the analysis of President Waldrop's performance over the 2015-2016 academic year was conducted with the help of Mr. Windom, Committee Vice Chair, adding that the two-month process, which included interviews with a wide range of University, community and government constituencies and culminated in a meeting with President Waldrop to relay feedback and recommendations, was worthwhile for all involved. He said the Committee would carry out such evaluations annually, as stated in the terms of the President's contract, noting that, in doing so, the Board meets an obligation to the University community. He stated the broad consensus expressed was that President Waldrop met or exceeded expectations for his position and he declared

President Waldrop was eligible for the same compensation increase contemplated for all University employees.

Mr. Windom thanked President Waldrop for the good job he was doing to move the University forward. Mr. Peek conveyed appreciation to President Waldrop for his thorough approach to leadership and willingness to make improvements. Mr. Shumock concurred, noting President Waldrop's readiness to acknowledge the constructive suggestions presented to him and to recommend others who might participate in future performance surveys.

Regarding the President's compensation, **ITEM 13**, Mr. Shumock made a motion that the Committee assign responsibility for administering President Waldrop's adjustment in compensation to the Board Chair on the basis of the evaluation results and in accordance with the salary recommendation for all University employees. Dr. Furr seconded. Citing Board discussions on differential adjustments for highly-compensated individuals when University-wide raises were granted in the past, Mr. Peek asked whether this action would impact the Board's ability to make such determinations when considering compensation matters in the future. Mr. Shumock said the Board would not be restricted and restated the President's eligibility for compensation within the parameters of the motion. The Committee voted unanimously to recommend approval by the Board of Trustees.

There being no further business, the meeting was adjourned at 2:45 p.m.

Respectfully submitted:

James H. Shumock, Chair

# UNIVERSITY OF SOUTH ALABAMA

## BOARD OF TRUSTEES

# DEVELOPMENT, ENDOWMENT AND INVESTMENTS

# UNIVERSITY OF SOUTH ALABAMA
# BOARD OF TRUSTEES

## DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE

**September 8, 2016**
**2:45 p.m.**

A meeting of the Development, Endowment and Investments Committee of the University of South Alabama Board of Trustees was duly convened by Capt. Ron Jenkins, Committee Vice Chair, on behalf of Mr. Jim Yance, Chair, on Thursday, September 8, 2016, at 2:45 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

| | |
|---|---|
| Members Present: | Tom Corcoran, Ron Jenkins, Steve Stokes and Mike Windom. |
| Members Absent: | Chandra Brown Stewart and Jim Yance. |
| Other Trustees: | Scott Charlton, Steve Furr, Bettye Maye, Bryant Mixon, John Peek, Jimmy Shumock, Ken Simon and Sandy Stimpson. |
| Administration and Others: | Victoria Bishop, Joe Busta, Lynne Chronister, Josh Crownover (SGA), Veena Danthuluri, Karen Edwards, Joel Erdmann, Monica Ezell, Mike Finan, Sam Fisher (Faculty Senate), Happy Fulford, Mike Haskins, Ally Heng, David Johnson, John Marymont, Jocelyn Medina, Mike Mitchell, Zane Patterson, Norman Pitman, Derek Rowan, JuWan Robinson, Ailey Shirazi, John Smith, Jean Tucker, Tony Waldrop, Scott Weldon, and Kevin West and Kelly Woodford (Faculty Senate). |

The meeting came to order and the attendance roll was called. Capt. Jenkins called for adoption of the revised agenda. On motion by Dr. Stokes, seconded by Mr. Corcoran, the revised agenda was adopted unanimously. Capt. Jenkins called for consideration of the minutes of the meeting held on June 2, 2016. On motion by Mr. Corcoran, seconded by Mr. Windom, the minutes were adopted unanimously.

Capt. Jenkins called for consideration of the Development, Endowment and Investments Committee Charge. On motion by Mr. Windom, seconded by Mr. Corcoran, the Committee voted unanimously to recommend approval of the Development, Endowment and Investments Committee Charge by the Board of Trustees.

Capt. Jenkins called for presentation of **ITEM 14**, a report on endowment and investment performance. Mr. Albano noted a return of 6.56 percent for the period October 1, 2015, to July 31, 2016, a slight underperformance compared to the relative index of 7.77 percent, or a difference of 1.21 percent. He noted an endowment balance of just over $143 million. As to manager performance, he said Commonfund and Gerber/Taylor have shown modest improvement and Mr. Pitman explained the results of each manager as measured against the respective benchmark. Mr. Albano discussed asset allocation and observed compliance with the University's investment policies. Concerning annualized performance since inception in April 2000, he reported a return of 4.89 percent vs. the index of 4.03 percent, an outperformance of 0.86 percent. For perspective, he shared three-year, five-year and ten-year results as well. He reported that, as a result of rebalancing the University's equity positions, available cash that might otherwise be reinvested in underbalanced assets would, instead, be set aside while opportunities for reentering a favorable market are evaluated. He indicated $7 million placed in intermediate investments. Mr. Windom asked about private equity investments and Mr. Albano and Mr. Pitman shared a brief summation on manager engagement, initial investments and reporting expectations.

Concerning **ITEM 15**, a report on the activities of the Division of Development and Alumni Relations, Capt. Jenkins asked for an update from Dr. Stokes, Upward & Onward Campaign Co-Chair. Dr. Stokes reviewed campaign highlights as of August 31, 2016, noting a total of $93 million raised toward the goal of $150 million, an increase of $18 million since the public announcement of the campaign and of $75 million raised in October 2015. He reported 22,227 donors and 29,208 gifts. He stated the Development staff had identified gift goals for the 2016-2017 fiscal year. He said a meeting of the Regional Campaign Representative Committee was held on August 19 to make plans for nationwide campaign receptions in 2017 and advised the next Campaign Leadership Team meeting would take place on September 30.

Capt. Jenkins called for remarks from Dr. Busta, who thanked President Waldrop for the opportunity to present the *Southerners*. He called on Ms. Karen Edwards, Director of the Office of Alumni Relations, who described the Southerners as the pride and joy of the USA National Alumni Association (NAA). She gave background on the 20-member student ambassador group and introduced the members in attendance, who shared their hometown and major: Ms. Victoria Bishop, President; Ms. Ally Heng; Ms. Veena Danthuluri; Ms. Jocelyn Medina, Secretary of Public Relations; Mr. Derek Rowan; Mr. Zane Patterson; and Mr. JuWan Robinson. She recognized Assistant Director of Alumni Relations and Advisor to the Southerners Ms. Ailey Shirazi. Dr. Busta stated the Southerners was founded in 1978 and Ms. Edwards discussed member qualifications and the process whereby candidates are selected.

Dr. Busta advised that, for the first time in years, all staff positions but one were filled. He said a campaign budget of $30,000 was under consideration as part of the overall University budget proposal for 2016-2017. He discussed the success of major gift giving in terms of exceeding goals for the number of gifts as well as the volume of dollars generated. He said hosting campaign receptions statewide and nationwide was ambitious and fruitful. He added an evaluation of this strategy by the Regional Campaign Representative Committee indicated there is support for furthering this outreach to new regions like Dallas, Washington, D.C., and Tampa Bay/St. Petersburg. He said direct mailings and the JagLine phone program were less effective, which he attributed to the concentration on major gift giving. He added nationwide interest in phone drives has waned in recent years, a trend he anticipated should recover in the near future.

Dr. Busta gave information on a pilot fundraising initiative to employ "crowdfunding" capabilities. He said software had been acquired and an existing staff member would administer the project with the assistance of a student. He stated a slow and selective approach would be exercised over the first year to assure initial efforts are successful, after which the Development team would evaluate the return on the University's investment and make a recommendation to the President for the second year of programming.

Dr. Busta shared the names of new NAA members and officers, as well as college affiliations. He described the NAA Board as an active, diverse group of individuals. He talked about the expansion of Board membership beyond area and state boundaries and commented on the strong commitment of NAA members.

Capt. Jenkins asked Dr. Erdmann to present **ITEM 16**, a resolution to approve nominee Mr. Brian Munger for the position of Jaguar Athletic Fund (JAF) director with a three-year term beginning September 2016 (for copies of resolutions, policies and other authorized documents, refer to the minutes of the Board of Trustees meeting held on September 9, 2016). With reference to JAF bylaws provisions, Dr. Erdmann briefly discussed the vetting process for JAF directors. He said Mr. Munger would represent and help with fundraising efforts for the volleyball team. On motion by Mr. Windom, seconded by Mr. Corcoran, the Committee voted unanimously to recommend approval by the Board of Trustees.

There being no further business, the meeting was adjourned at 3:05 p.m.

Respectfully submitted:

Robert D. Jenkins III, Vice Chair

on behalf of:

James A. Yance, Chair

# University of South Alabama

## December 1, 2016

**Matthew K. Kinnear, CFA**

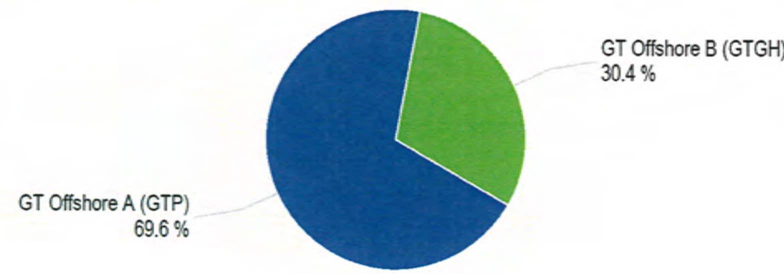
# Important Disclosures

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

## Summary of Cash Flows

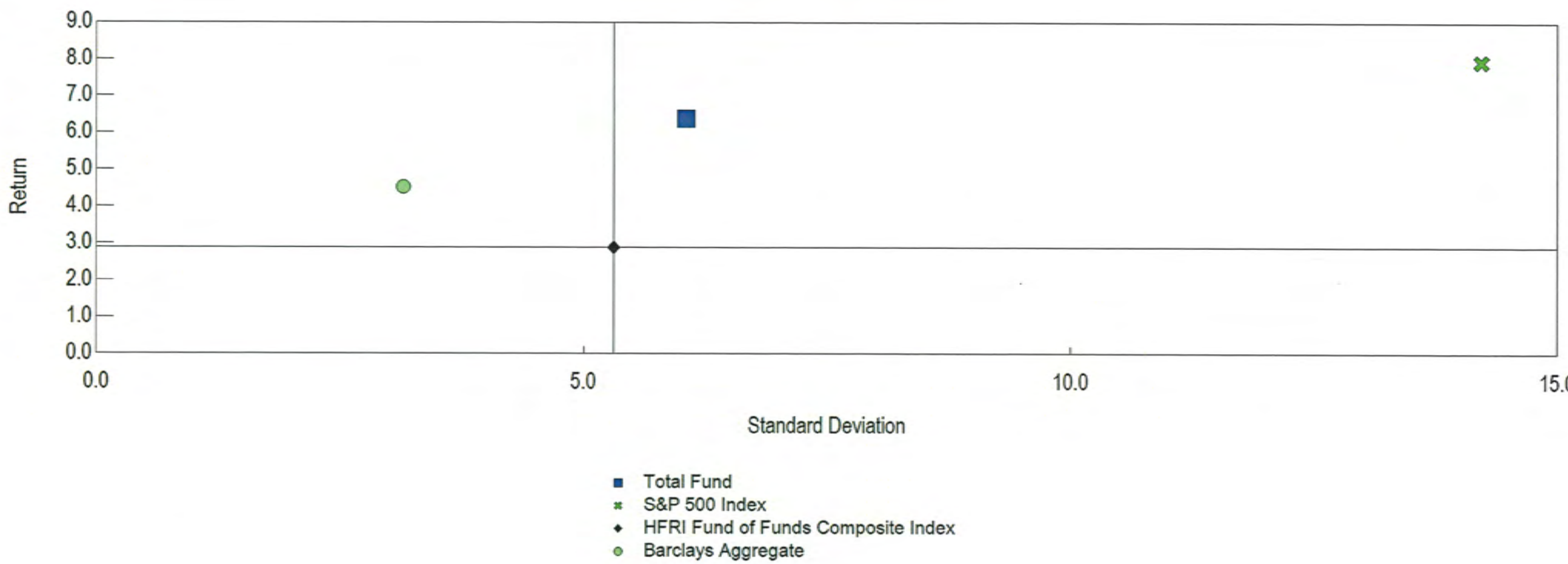
| | Third Quarter | Year-To-Date | Inception 9/30/04 |
|---|---|---|---|
| Beginning Market Value | $23,179,993 | $23,438,057 | -- |
| Net Cash Flow | $0 | $0 | $16,548,000 |
| Net Investment Change | $747,109 | $489,045 | $7,379,102 |
| Ending Market Value | $23,927,102 | $23,927,102 | $23,927,102 |

## Current Allocation




| | Market Value | % of Portfolio | 2016 Q3 | YTD | 1 Yr | 3 Yrs | 5 Yrs | 7 Yrs | 10 Yrs | Return | Since |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total Fund** | **$23,927,102** | **100.0%** | **3.2%** | **2.1%** | **3.1%** | **4.7%** | **6.2%** | **6.8%** | **5.5%** | **6.4%** | **Sep-04** |
| *HFRI Fund of Funds Composite Index* | | | *2.5%* | *-0.2%* | *0.5%* | *2.2%* | *3.2%* | *2.5%* | *1.8%* | *2.9%* | *Sep-04* |
| *Barclays Aggregate* | | | *0.5%* | *5.8%* | *5.2%* | *4.0%* | *3.1%* | *4.1%* | *4.8%* | *4.5%* | *Sep-04* |
| GT Offshore A (GTP) | $16,649,236 | 69.6% | 2.4% | 3.0% | 3.3% | 5.3% | 6.5% | 7.5% | 6.0% | 6.8% | Sep-04 |
| *HFRI FOF: Conservative Index* | | | *1.9%* | *0.3%* | *0.3%* | *2.2%* | *3.1%* | *2.6%* | *1.5%* | *2.4%* | *Sep-04* |
| GT Offshore B (GTGH) | $7,277,866 | 30.4% | 5.1% | 0.1% | 2.6% | 3.4% | 5.5% | -- | -- | 4.8% | Nov-09 |
| *MSCI World Gross* | | | *5.0%* | *6.1%* | *12.0%* | *6.4%* | *12.3%* | *9.1%* | *5.1%* | *9.0%* | *Nov-09* |
| *HFRI FOF: Strategic Index* | | | *3.5%* | *-0.2%* | *1.3%* | *2.1%* | *3.6%* | *2.6%* | *1.9%* | *2.6%* | *Nov-09* |

Return vs. Standard Deviation
12 Years Ending September 30, 2016




| | Annualized Return (%) | Total Return (%) | Annualized Standard Deviation | Annualized Alpha (%) | Beta | R-Squared | Sharpe Ratio | Up Market Capture Ratio Annualized (%) | Down Market Capture Ratio Annualized (%) |
|---|---|---|---|---|---|---|---|---|---|
| Total Fund | 6.38% | 109.96% | 6.05% | 3.50% | 0.99 | 0.76 | 0.85 | 122.87% | 75.40% |
| S&P 500 Index | 7.94% | 150.14% | 14.22% | 2.50% | 1.88 | 0.49 | 0.47 | 235.47% | 178.67% |
| HFRI Fund of Funds Composite Index | 2.89% | 40.78% | 5.31% | 0.00% | 1.00 | 1.00 | 0.31 | 100.00% | 100.00% |
| Barclays Aggregate | 4.53% | 70.14% | 3.15% | 4.62% | -0.03 | 0.00 | 1.04 | 25.98% | -40.11% |

# Firm Overview

- Founded in 1990
- Asset management firm focused on delivering multi-asset class portfolios
- $5.3 billion in assets under management
- Client base of families and small-mid sized endowments and foundations
- Employee owned
- SEC Registered Investment Adviser

# Gerber Taylor Team

| Portfolio Management & Research | |
|---|---|
| Charles Gerber* 26 | Jason Gowen* 21 |
| Mike Douglass* 22 | Tara Elliott* 8 |
| Bill Ryan* 14 | Sean Montesi 6 |
| Kojo McLennon* 8 | Leo Corrigan 4 |
| Allen Hawley* 16 | Will Estes 3 |
| Alex Moore* 6 | |

| Client Service | |
|---|---|
| Andy Taylor* 26 | Bart Reid 15 |
| Bill Pickens* 26 | Wallace Johnson 7 |
| Matt Robbins* 22 | Matt Kinnear* 6 |
| Beasley Wellford 22 | Lisa Mallory 5 |
| Warren Milnor* 17 | |

| Due Diligence |
|---|
| David East* 18 |
| Ryan Gibbs* 4 |
| Justin Rikard 3 |
| Ashlee Reid 5 |
| Marie McPherson 10 |
| Sara Kathryn Pace 8 |

| Client Analytics |
|---|
| Glynn Dean 21 |
| Mark Hicks 19 |
| Linda Cox 18 |
| Stacy Miller 15 |
| Sarah Thomas 12 |
| Steven Francomacaro 2 |

| Accounting & Operations |
|---|
| Mary Cornpropst* 17 |
| Simone Meeks* 14 |
| Scott Kay 2 |
| Erica Woodard 12 |
| Vivian Jones 15 |
| Janice Kruger 10 |
| Kristi Hicks 2 |
| Dana Czech 2 |

| Administrative |
|---|
| Clarice Rowlett 21 |
| Connie Meyer 2 |
| Sara Negri-Whitmer 1 |
| Beth Miller 1 |

* Indicates shareholder of the firm.
The number next to each name reflects years at Gerber Taylor. Average tenure = 12 years.

# Investment Committee

*An experienced investment team with diverse and complementary backgrounds.*

| | Years with Gerber Taylor | Alternatives Experience |
|---|---|---|
| Charles Gerber | 26 | 31 |
| Mike Douglass | 22 | 22 |
| Allen Hawley | 16 | 19 |
| Alex Moore | 6 | 16 |
| David East | 18 | 18 |

GERBER TAYLOR

# GT Partners, LP

## (GT Offshore A)

### Multi-Strategy Hedge

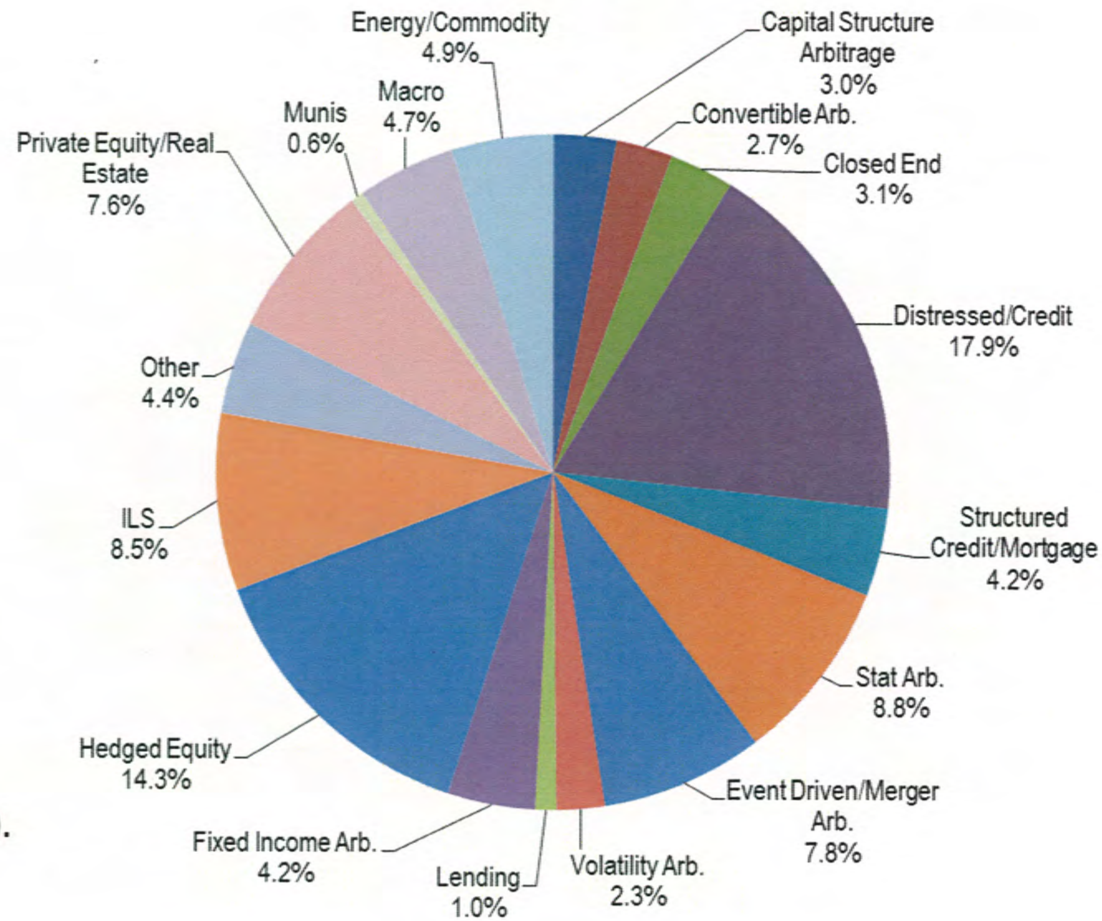
# GT Partners: Overview

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

**Strategy and Attributes:**

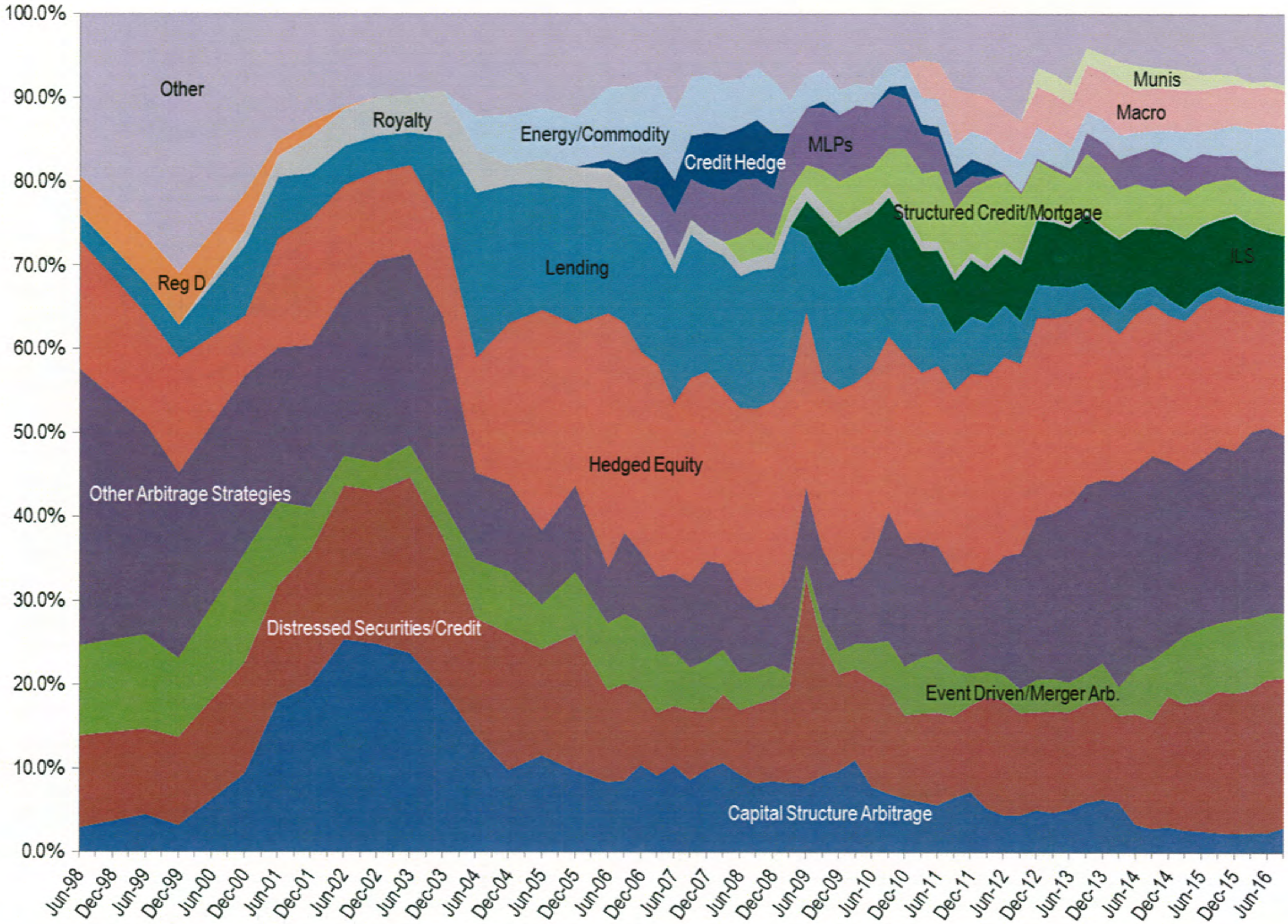
- Invested with an eclectic mix of managers who are oriented toward achieving consistent, absolute rates of return with minimal market exposure and low levels of leverage
- **Strategy includes:**
  - Multi-strategy Arbitrage
    - Convertible Bond
    - Fixed Income
    - Statistical
    - Closed-end Fund
    - Merger
  - Capital Structure
  - Distressed Debt
  - Long/Short Equity
  - Niche Financing
- Assets of approximately $1.7 billion
- Offshore fund available
- In 245 of the 309 months since inception, GT Partners has had positive returns (79%).

**Fund Allocation as of 9/30/16***




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

# GT Partners: Historical Strategy Allocation



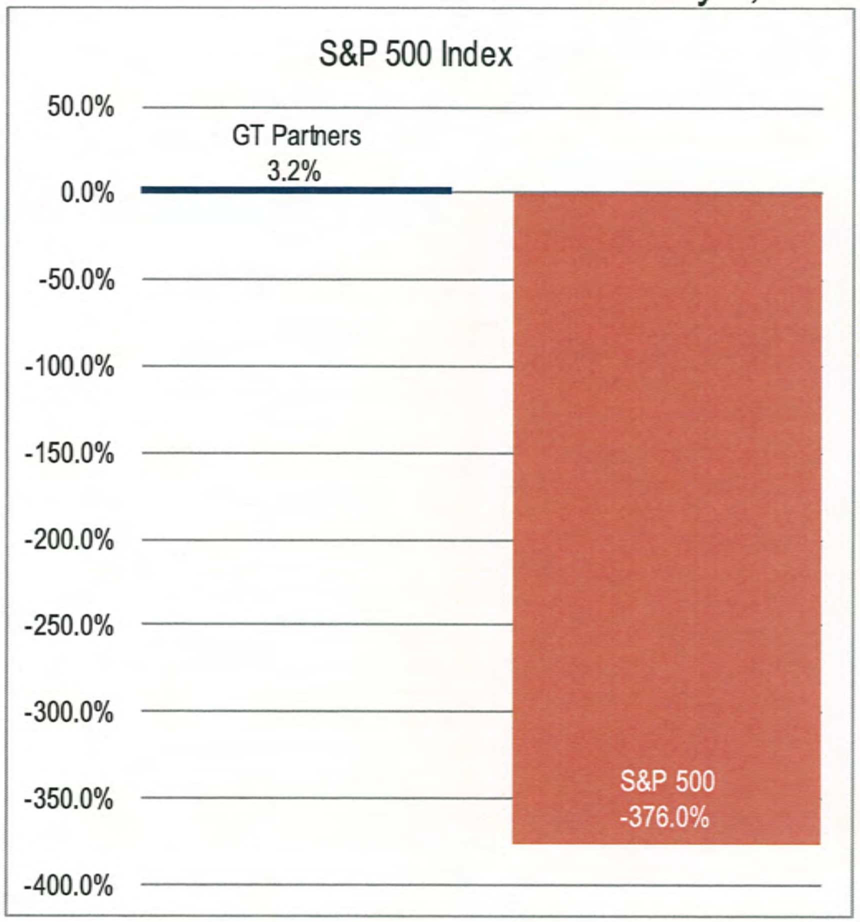
# GT Partners: Fund Allocation

| | STRATEGY | ALLOCATION | CLOSED | DISCOUNTED FEE |
|---|---|---|---|---|
| 1 | Multi-Strategy | 8.7% | x | |
| 2 | Multi-Strategy | 8.4% | x | |
| 3 | Multi-Strategy | 6.0% | x | |
| 4 | Multi-Strategy | 6.0% | | |
| 5 | Event Driven | 4.8% | x | |
| 6 | Multi-Strategy | 4.8% | | |
| 7 | Multi-Strategy | 4.8% | | |
| 8 | Multi-Strategy | 4.1% | x | |
| 9 | Global Long/Short | 4.1% | x | |
| 10 | Insurance Linked Securities | 3.9% | x | x |
| 11 | Multi-Strategy | 3.3% | x | x |
| 12 | Insurance Linked Securities | 3.1% | | x |
| 13 | Multi-Strategy | 2.7% | x | |
| 14 | Distressed | 2.5% | x | |
| 15 | Macro | 2.5% | | |
| 16 | Commodities | 2.5% | x | |
| 17 | Multi-Strategy | 2.4% | x | |
| 18 | Closed End Funds | 2.4% | | |
| 19 | Macro | 2.3% | | |
| 20 | Event Driven | 2.2% | | |

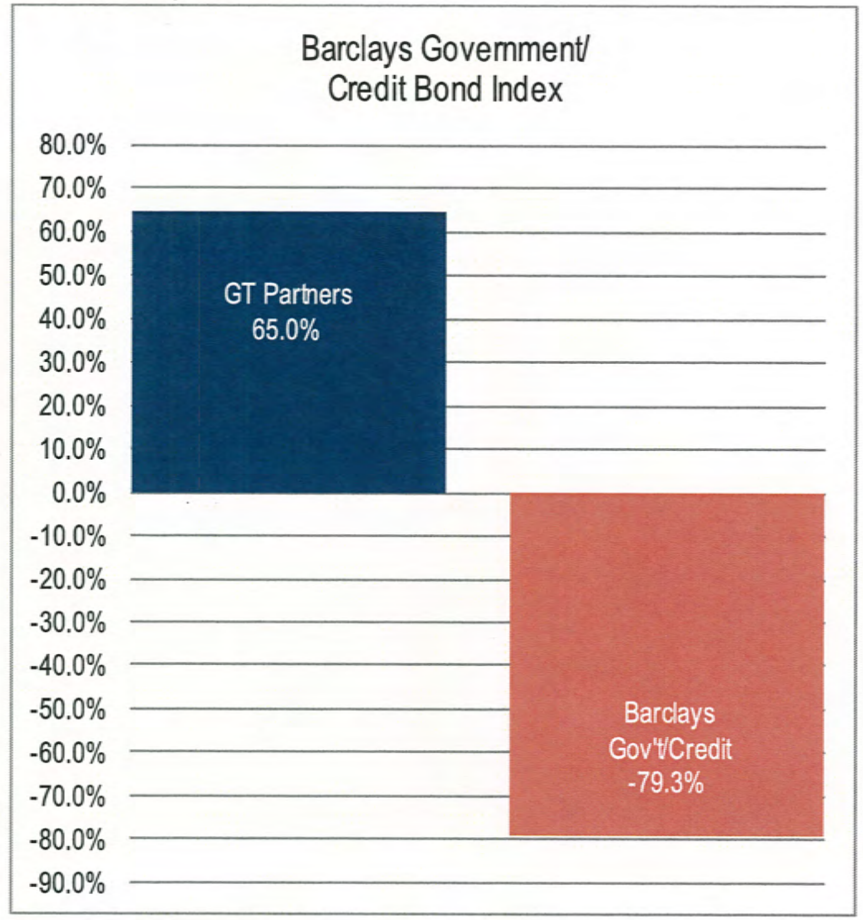
| FUND DIVERSIFICATION |
|---|
| The five largest funds represent 34% of assets, the top ten funds represent 55% of assets and the top 20 funds represent 81% of assets. |

# GT Partners Down Market Performance

*January 1, 1991 to September 30, 2016*




Estimated summed performance. Includes the 107 months when the S&P 500 Index had negative returns.




Estimated summed performance. Includes the 102 months when the Barclays Government/Credit Bond Index had negative returns.

GERBER TAYLOR

# GT Global Hedge, LP

## (GT Offshore B)

### Hedged Equity

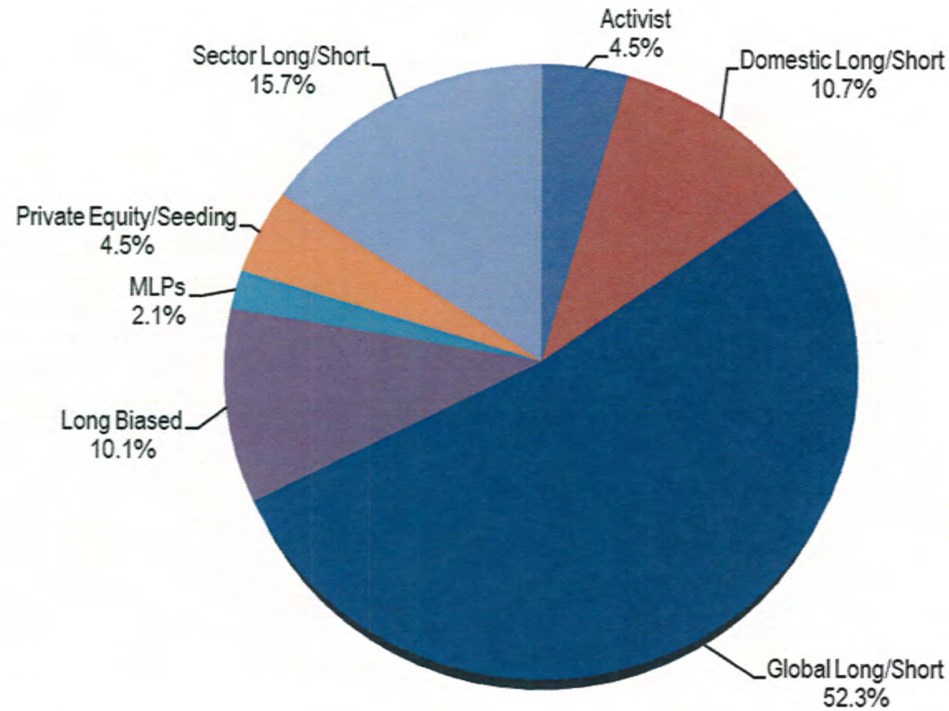
# GT Global Hedge: Overview

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

**Strategy and Attributes:**

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

**Fund Allocation as of 9/30/16**





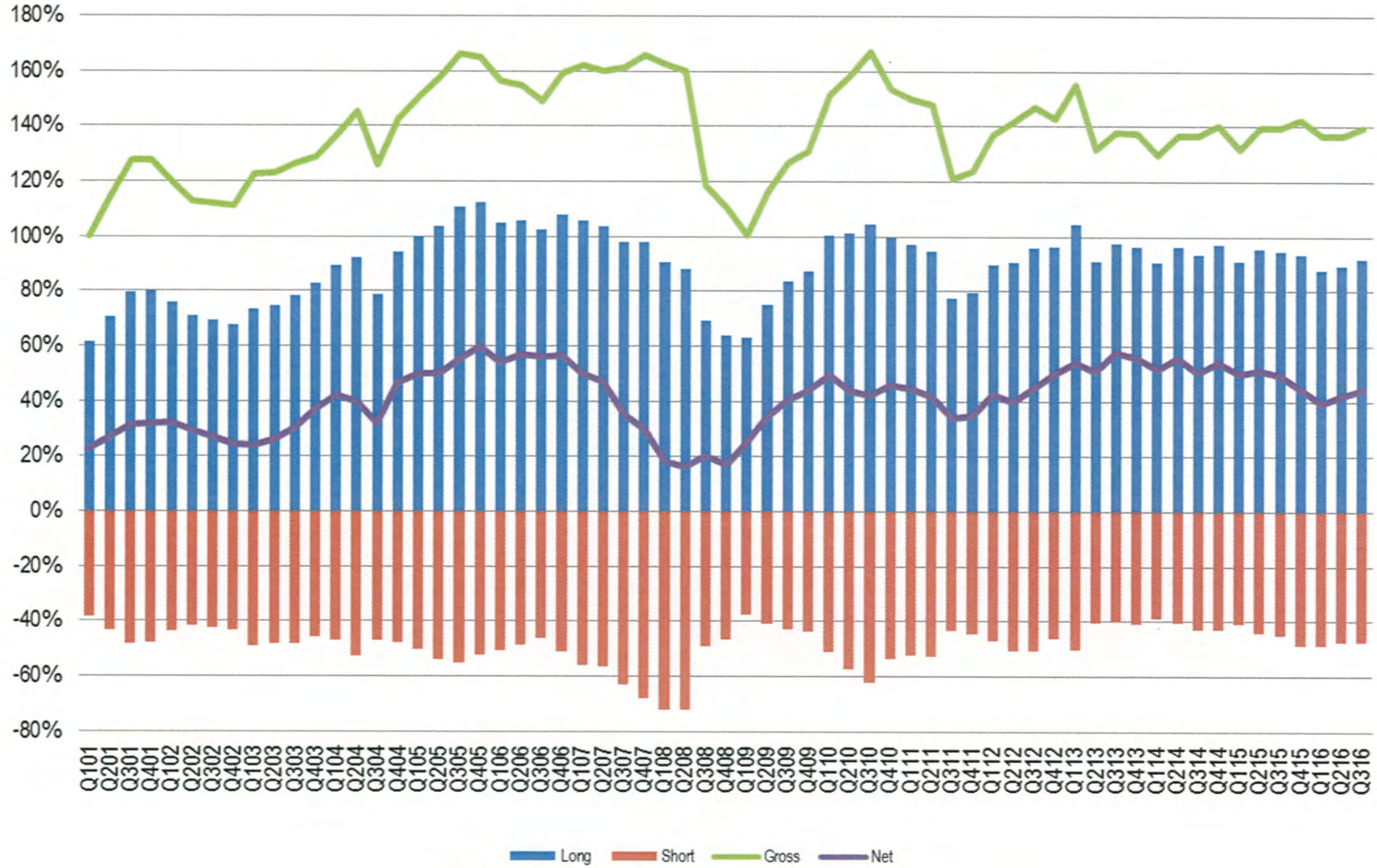

GERBER TAYLOR

# GT Global Hedge: Fund Allocation

| | STRATEGY | ALLOCATION | CLOSED | DISCOUNTED FEE |
|---|---|---|---|---|
| 1 | Global Long/Short | 7.9% | x | |
| 2 | Sector Long/Short | 5.6% | | x |
| 3 | Global Long/Short | 5.2% | x | |
| 4 | Domestic Long/Short | 5.1% | x | x |
| 5 | Domestic Long/Short | 5.1% | x | x |
| 6 | Global Long/Short | 4.7% | x | |
| 7 | Domestic Long/Short | 4.7% | | x |
| 8 | Global Long/Short | 4.6% | | x |
| 9 | Activist | 4.5% | x | |
| 10 | Global Long/Short | 4.3% | | |
| 11 | Long Biased | 4.1% | | |
| 12 | Domestic Long/Short | 4.1% | | |
| 13 | Global Long/Short | 3.6% | x | |
| 14 | Global Long/Short | 3.6% | x | |
| 15 | Global Long/Short | 3.3% | x | |
| 16 | Global Long/Short | 3.0% | | |
| 17 | Global Long/Short | 2.9% | | x |
| 18 | Sector Long/Short | 2.9% | x | x |
| 19 | Long Biased | 2.7% | | |
| 20 | Global Long/Short | 2.6% | | |

| FUND DIVERSIFICATION |
|---|
| The five largest funds represent 29% of assets, the top ten funds represent 52% of assets and the top 20 funds represent 85% of assets. |

# GT Global Hedge: Historical Exposures

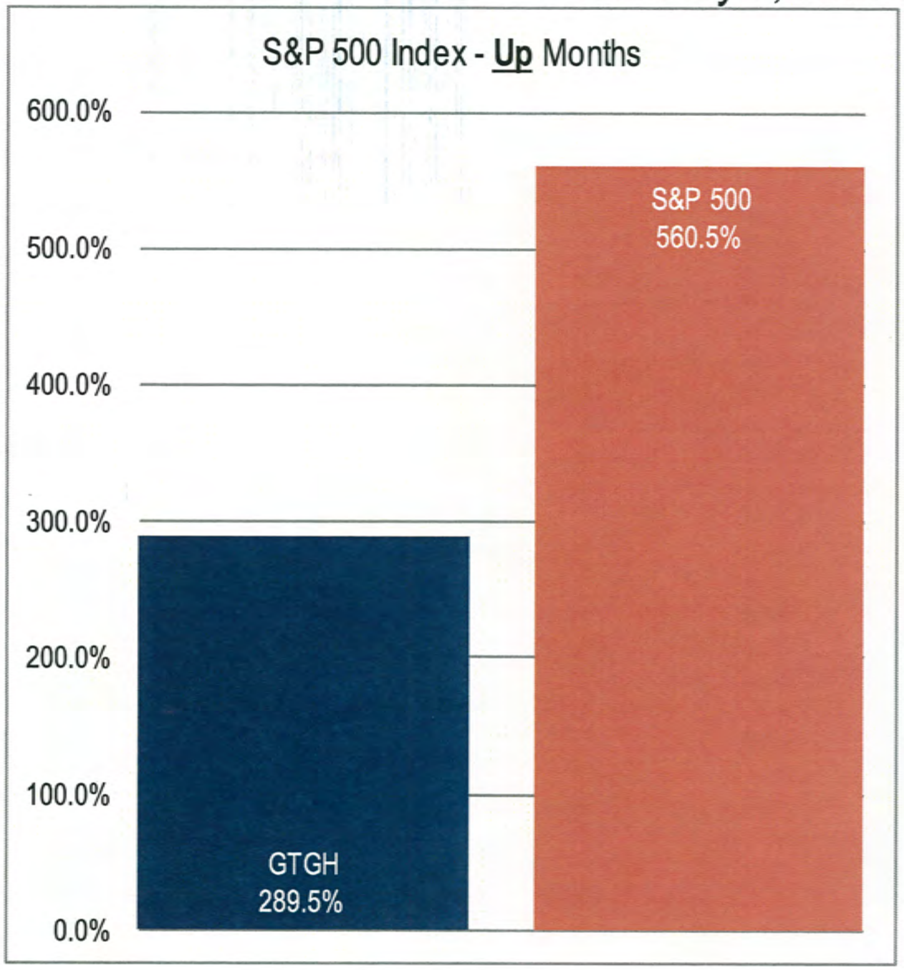




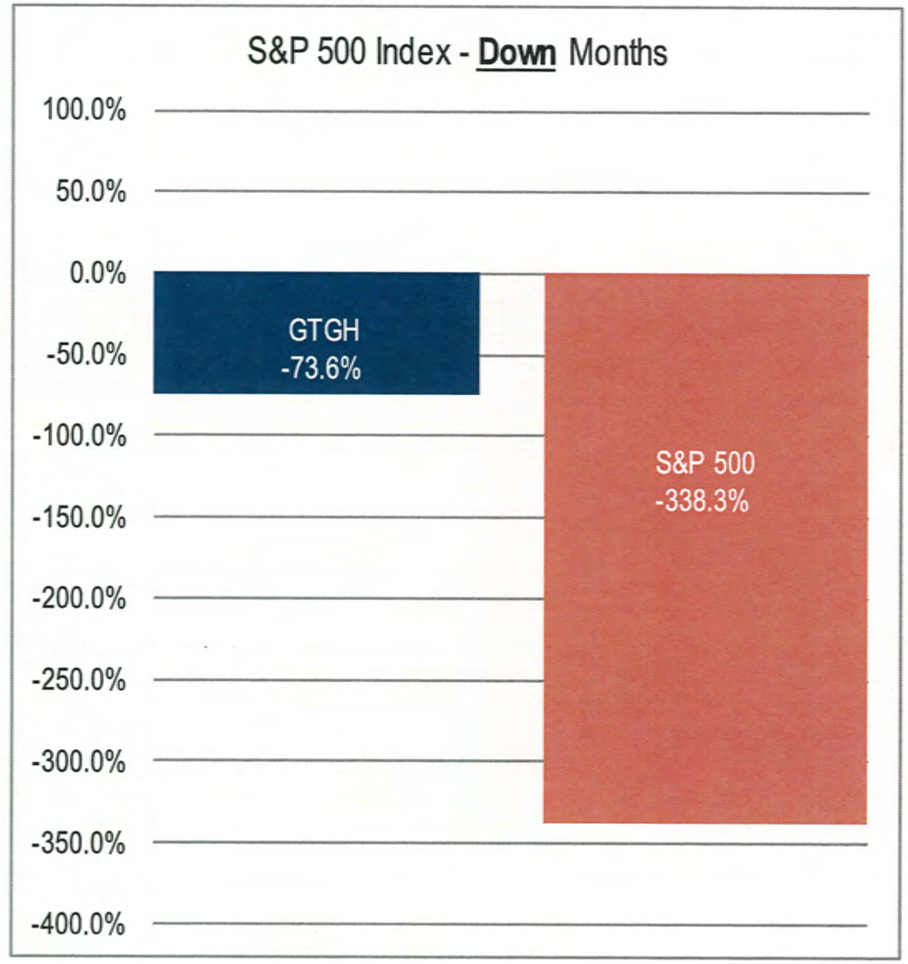

GERBER TAYLOR

# GT Global Hedge Performance in Up and Down Markets

*January 1, 1995 to September 30, 2016*




Estimated summed performance. Includes the 170 months when the S&P 500 Index had positive returns.




Estimated summed performance. Includes the 91 months when the S&P 500 Index had negative returns.

# Terms and Fees

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

| Fund | Management Fee | Profit Participation |
|---|---|---|
| GT Partners | 1% of capital | 1% of profits with high water mark |
| GT Global Hedge | 1% of capital | 1% of profits with high water mark |

**Auditor**

Elliott Davis Decosimo
629 Market Street
Suite 100
Chattanooga, TN 37402

**Legal Counsel**

Sidley Austin LLP
One South Dearborn Street
Chicago, IL 60603

**GT Partners, GT Global Hedge & Offshore Administrator**

UMB Fund Services
2225 Washington Blvd.
Suite 300
Ogden, UT 84401

# University of South Alabama

## Commonfund Portfolio Review

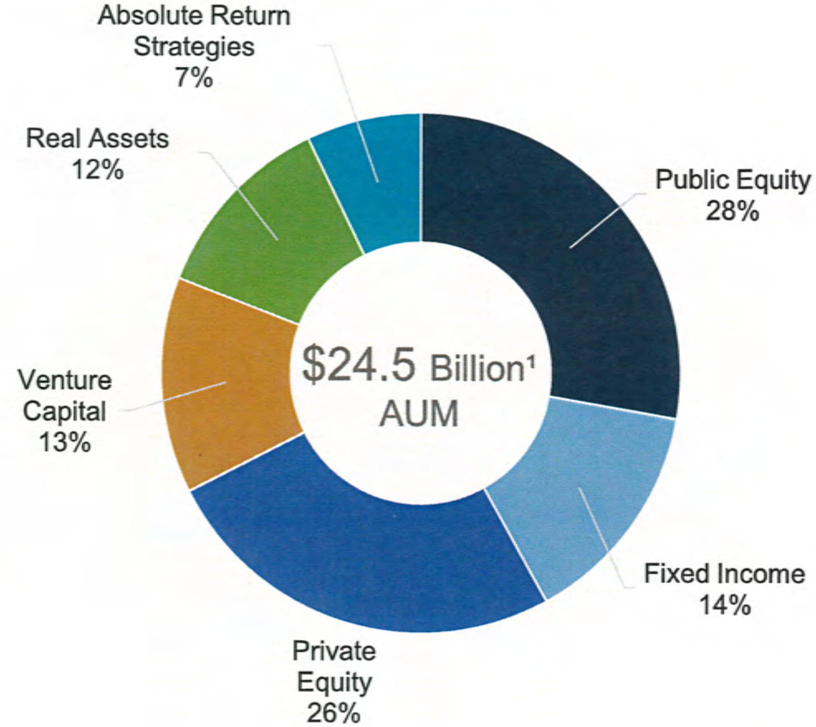
## December 1, 2016

commonfund

# Commonfund | Profile
## September 30, 2016

- Focus on nonprofits since 1971
- Private membership corporation[2]
- Our only business is investment management
- Comprehensive and customized investment solutions
- Independent research through the Commonfund Institute

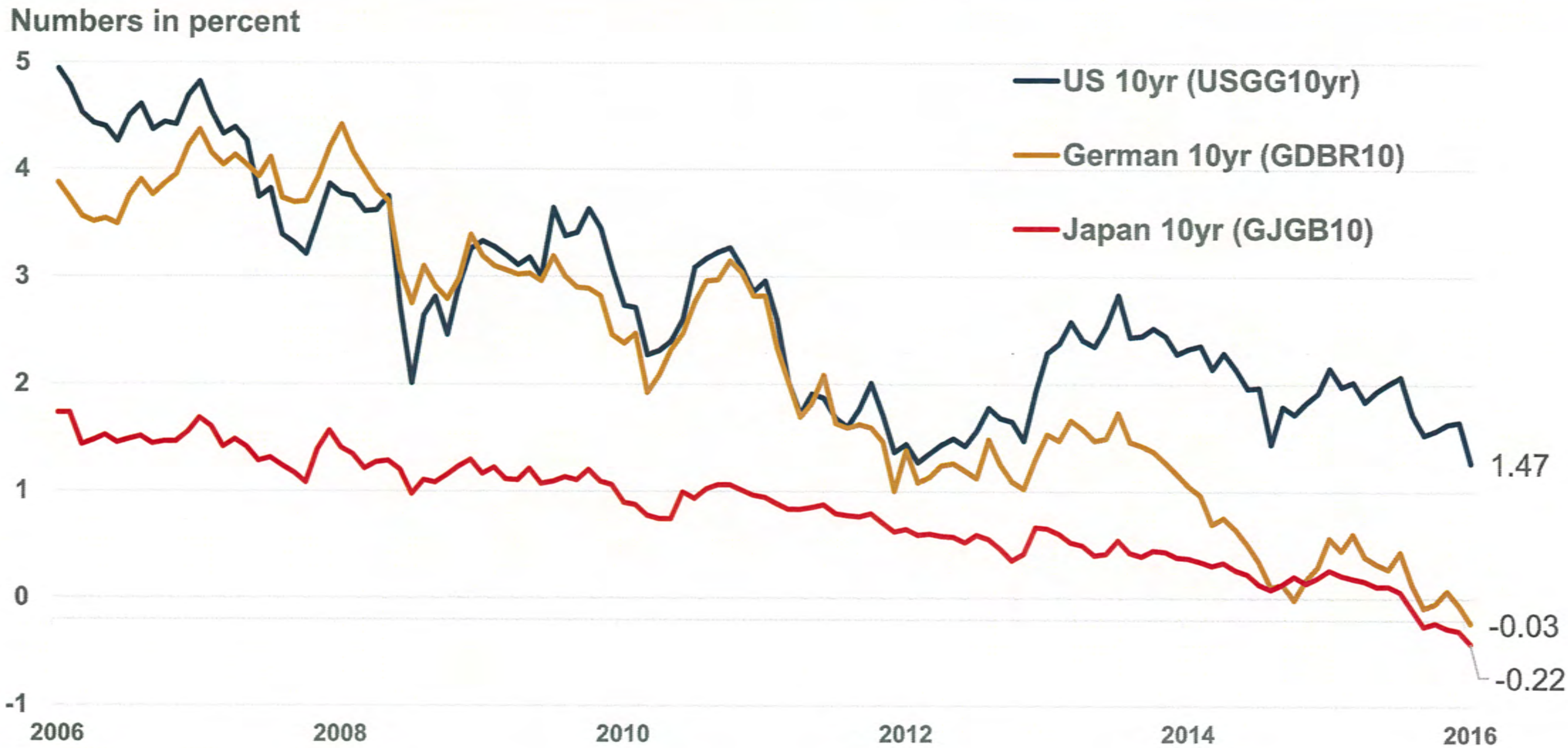
**Distribution of assets by asset category[3]**




1. Combined assets of The Common Fund for Nonprofit Organizations ("Commonfund") and other investment programs managed by Commonfund's subsidiaries Commonfund Asset Management Company, Inc. and Commonfund Capital, Inc.
2. Refers to parent "The Commonfund for Nonprofit Organizations"
3. Programs available through private placement only to eligible investors.
4. NOTE | Percentages based on discretionary AUM as of the end of current quarter end. AUM for private capital programs is based on capital commitments. Private capital and distressed debt values are quarterly in arrears. Real Estate assets under management are on a one to two quarter lag.

# Key driver of markets fiscal '16
# Collapsing global bond yields

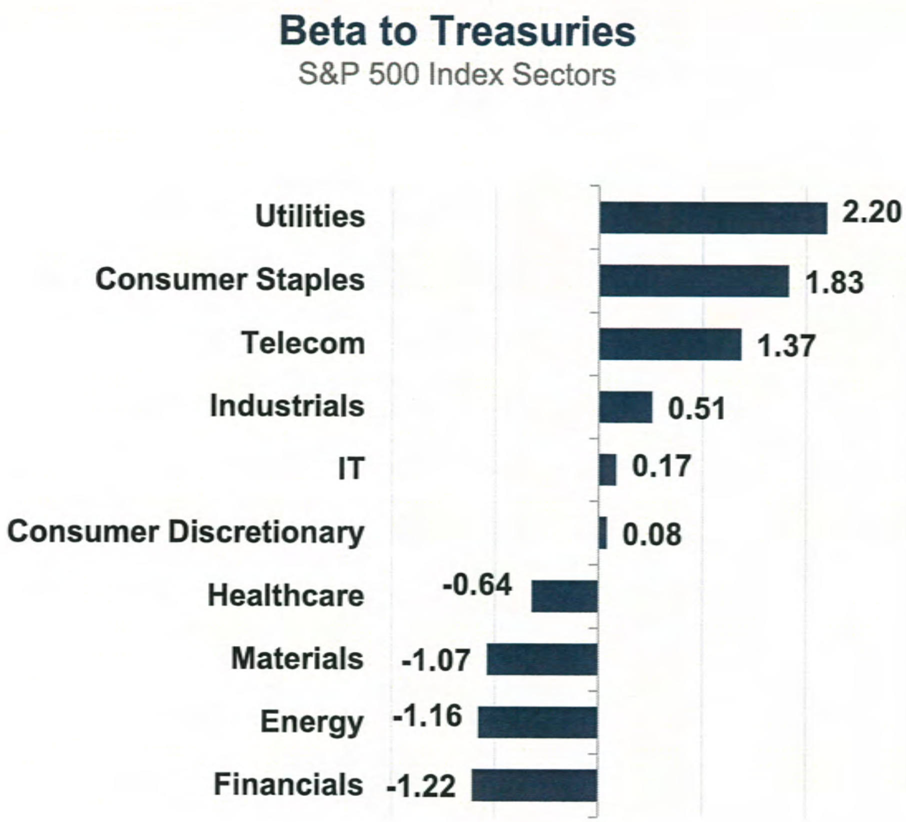
As of June 30, 2016

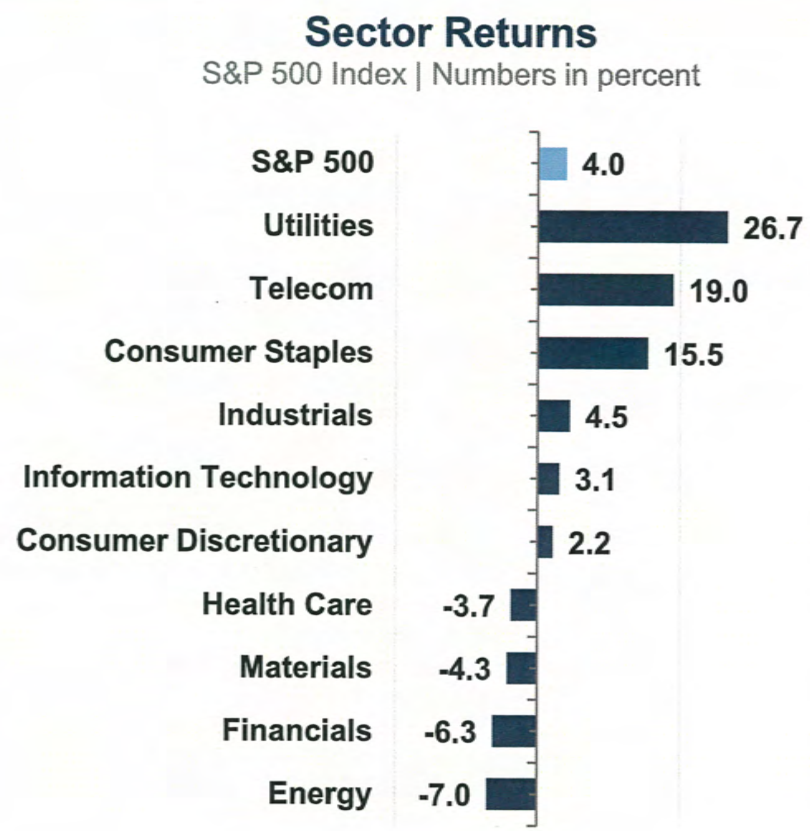



Past performance is not indicative of future results.
Source: Bloomberg

# Equity Sector Sensitivity and Returns

## July 2015 to June 2016




Past performance is not an assurance of future results.
Source: Bloomberg, Commonfund, ML Treasury Index

# All Accounts

## TOTAL PORTFOLIO MARKET VALUE AS OF 6/30/2016

| Investment Category | Adjusted Market Value | Allocation % |
|---|---|---|
| Portfolio Total Equity | $40,359,954.96 | 54.59% |
| Portfolio Total Fixed | $33,573,873.09 | 45.41% |
| **Portfolio Total** | **$73,933,828.05** | **100.00%** |

## MARKETABLE INVESTMENTS 7/1/2015 TO 6/30/2016

| Marketable Fund | Beginning Market Value | Purchases | Sales | Fees | Income Paid | Income Reinvested | Market Change | Ending Market Value |
|---|---|---|---|---|---|---|---|---|
| Multi-Strategy Equity Fund | $36,874,520.34 | $4,400,000.00 | $0.00 | ($79,126.45) | $0.00 | $543,599.39 | ($1,439,038.32) | $40,299,954.96 |
| **Total Equity** | **$36,874,520.34** | **$4,400,000.00** | **$0.00** | **($79,126.45)** | **$0.00** | **$543,599.39** | **($1,439,038.32)** | **$40,299,954.96** |
| Multi-Strategy Bond Fund | $32,049,766.15 | $1,550,000.00 | ($1,566,397.26) | ($46,136.47) | $0.00 | $1,102,817.67 | $483,823.00 | $33,573,873.09 |
| **Total Fixed** | **$32,049,766.15** | **$1,550,000.00** | **($1,566,397.26)** | **($46,136.47)** | **$0.00** | **$1,102,817.67** | **$483,823.00** | **$33,573,873.09** |
| **Marketable Total** | **$68,924,286.49** | **$5,950,000.00** | **($1,566,397.26)** | **($125,262.92)** | **$0.00** | **$1,646,417.06** | **($955,215.32)** | **$73,873,828.05** |

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

All fund returns are net of fees. Past performance is no assurance of future returns.

# All Accounts

## NON-MARKETABLE INVESTMENTS SINCE INCEPTION TO VALUE DATE

| Non-Marketable Fund | Incep. Date | Commitment | Capital Calls | Distributions | Net Income/ (Loss) | Value Date | Market Value | IRR | Multiple |
|---|---|---|---|---|---|---|---|---|---|
| Secondary Partners 2015 | 6/22/2016 | $2,000,000.00 | $0.00 | $0.00 | $0.00 | 3/31/2016 | $0.00 | | |
| **Total Equity** | | **$2,000,000.00** | **$0.00** | **$0.00** | **$0.00** | | **$0.00** | | |
| **Non-Marketable Total** | | **$2,000,000.00** | **$0.00** | **$0.00** | **$0.00** | | **$0.00** | | |

## NON-MARKETABLE INVESTMENTS ROLL FORWARD FROM VALUE DATE TO 6/30/2016

| Non-Marketable Fund | Incep. Date | Commitment | Valuation Date | Most Recent Valuation | Capital Calls since Valuation Date | Distributions since Valuation Date | Adjusted Market Value |
|---|---|---|---|---|---|---|---|
| Secondary Partners 2015 | 6/22/2016 | $2,000,000.00 | 3/31/2016 | $0.00 | $60,000.00 | $0.00 | $60,000.00 |
| **Total Equity** | | **$2,000,000.00** | | **$0.00** | **$60,000.00** | **$0.00** | **$60,000.00** |
| **Non-Marketable Total** | | **$2,000,000.00** | | **$0.00** | **$60,000.00** | **$0.00** | **$60,000.00** |

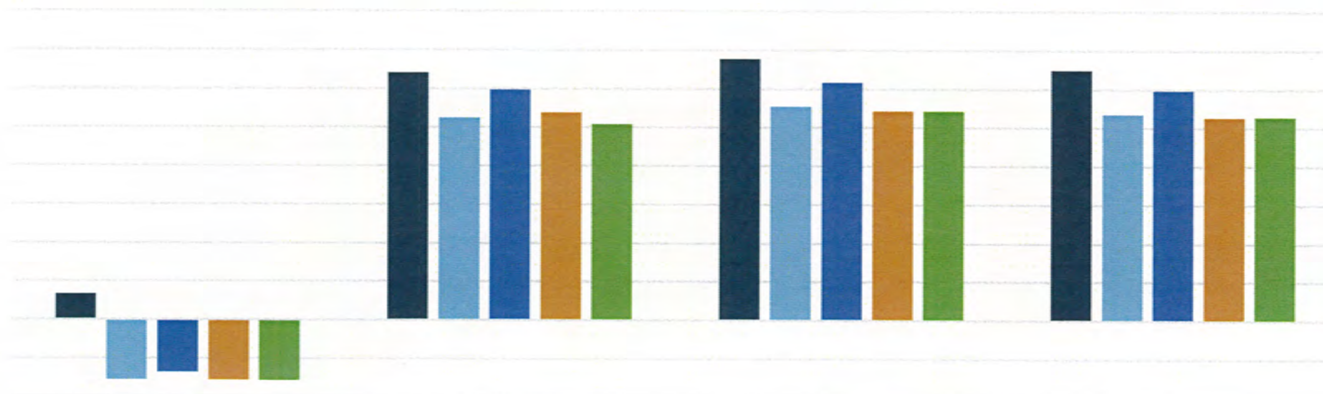
* Note: Month-end adjusted balances for marketable cash funds reflect the impact of pending cash subscriptions. Adjusted Balances for non-marketable securities reflect the impact of all cash transactions that have posted since the last valuation date.

1. IRR and multiple performance calculations are net of all fees and carried interest
2. IRR, or internal rate of return, represents the annualized implied discount rate calculated from the cash flows to/from the partnerships since inception of the respective partnership through the value date
3. Multiple represents a cash-on-cash return calculated by adding distributions to the ending market value and dividing the total value by capital called – ((Distributions to date + Adjusted ending market value)/$ called to date)

All fund returns are net of fees. Past performance is no assurance of future returns.

# University of South Alabama Portfolio Performance vs. Peer Universe

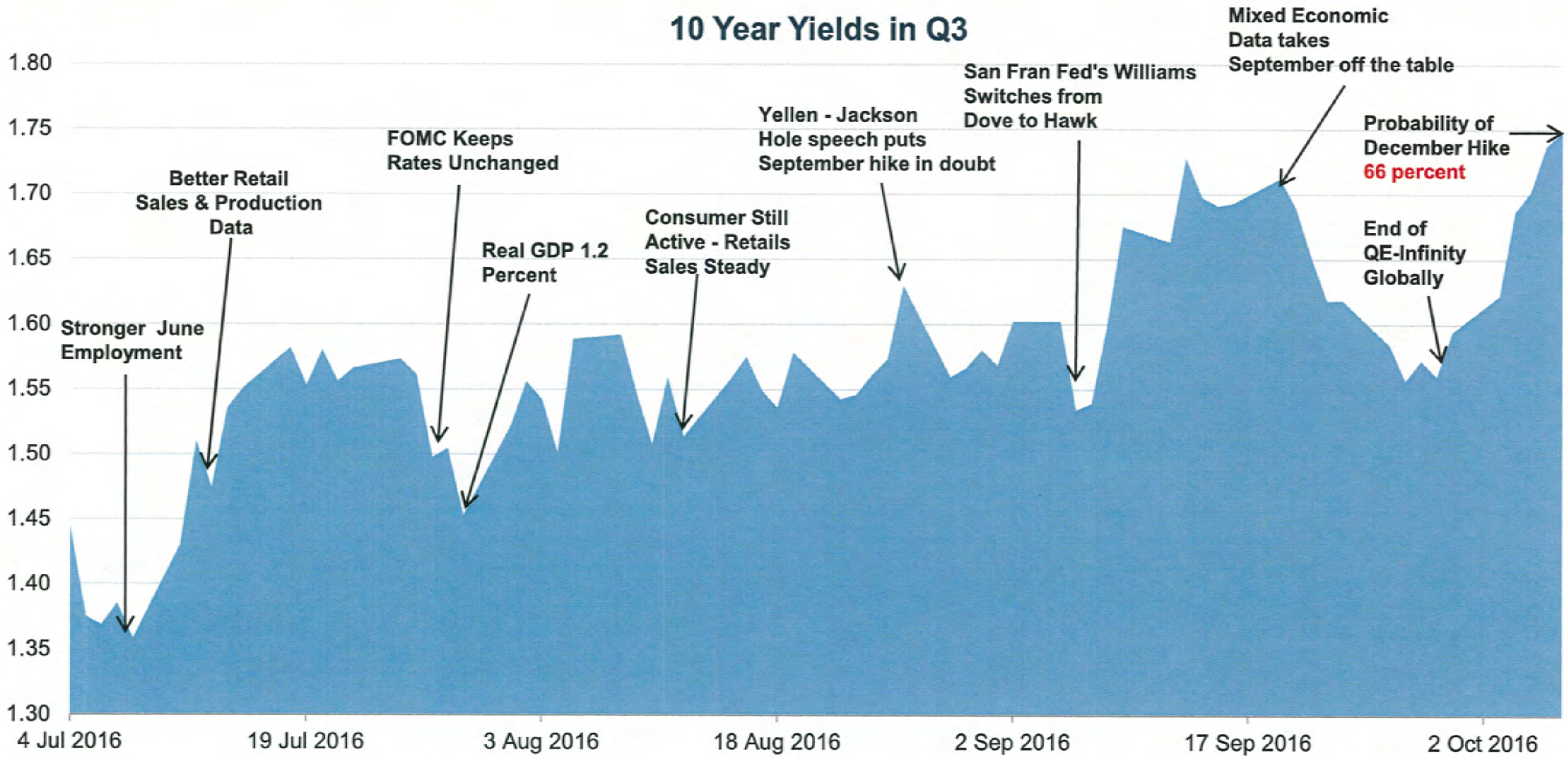
## June 30, 2016 | Peer universe from Callan Associates



| | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|
| University of South Alabama (Net) | 0.66 | 6.40 | 6.76 | 6.49 |
| CAI Endowment Foundation | -1.55 | 5.24 | 5.53 | 5.34 |
| CAI Endowment Foundation \| Large (> $1 Billion) | -1.36 | 5.96 | 6.16 | 5.96 |
| CAI Endowment Foundation \| Medium ( $100 Million - $1 Billion) | -1.56 | 5.37 | 5.42 | 5.26 |
| CAI Endowment Foundation \| Small (< $100 Million) | -1.57 | 5.07 | 5.42 | 5.28 |

Numbers shown in percentages. Past performance does not assure future results. See Important Notes | Important Information: Performance Comparisons.
Source: Commonfund Portal and Callan Associates (CA).
Callan Universe data calculated independently based on total returns gross of fees and expenses.
The CAI Endowment/Foundation group consists of pension, endowment, foundation, and multi-employer total funds including both Callan clients and surveyed non-client funds. For additional information on the CAI data shown please go to https://www.callan.com/data/

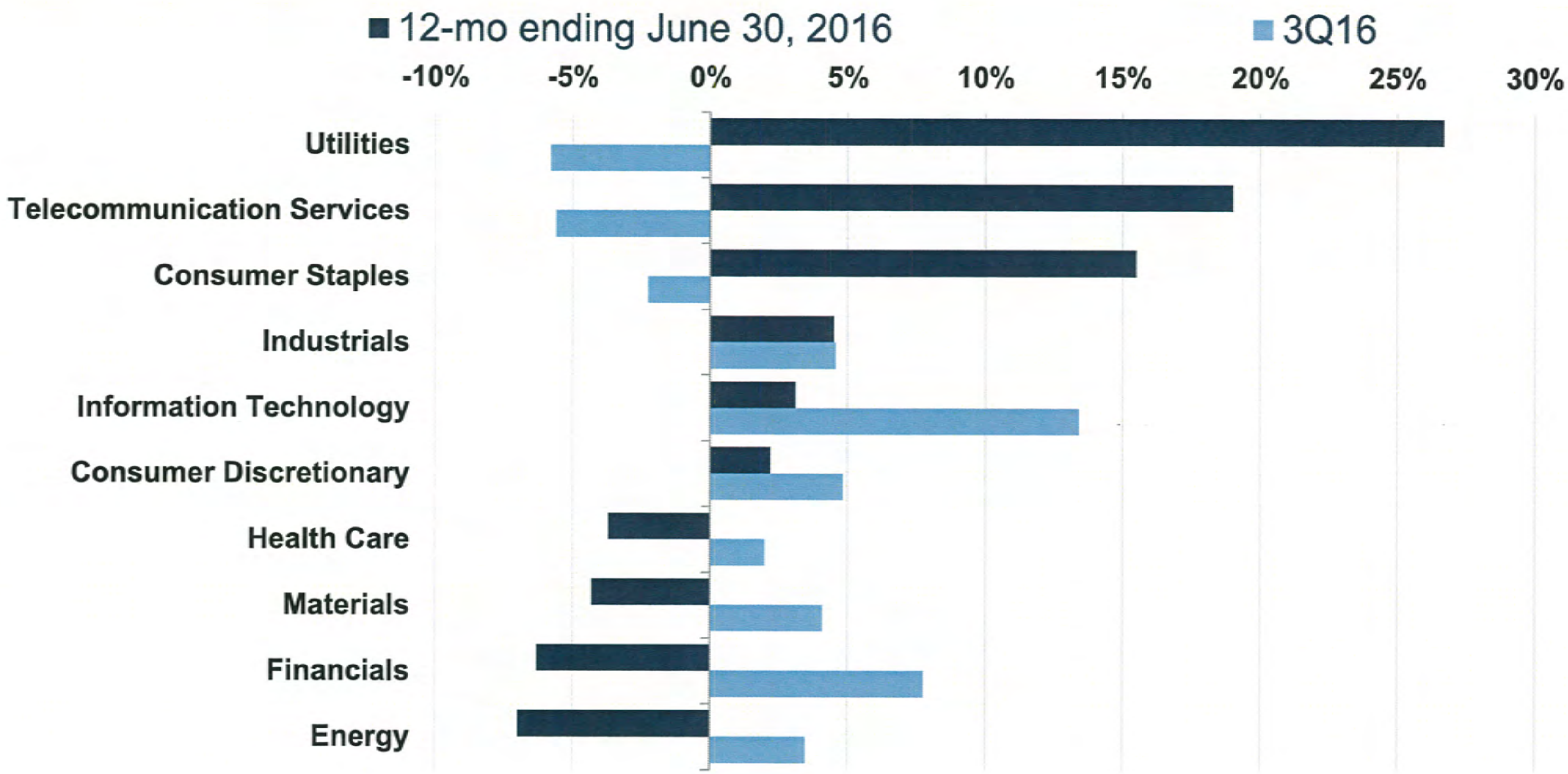
# Rates change direction in Q3 2016




Past performance is no assurance of future results.
Source: Bloomberg

# Rotation out of "bond-like" equities ........

## S&P 500 Index | Sector Returns




Past performance is not an assurance of future results.
Source: Bloomberg

# Multi-Strategy Equity Fund
# 3rd Quarter Performance Review | by Strategy
## As of September 30, 2016

| Strategies[1] | Allocation | QTD |
|---|---|---|
| US | 78% | 5.80% |
| Non- US | 9% | 6.21% |
| Hedge Funds | 13% | 1.57% |
| **MSEF Total (Net)** | **100%** | **5.19%** |
| Composite Benchmark[2] | | 4.18% |
| S&P 500 Index | | 3.85% |
| Additional Indexes | | |
| MSCI Europe | | 5.40% |
| MSCI Japan | | 8.60% |
| MSCI Emerging Markets | | 9.03% |
| HFRI FOF Composite | | 2.53% |

NOTE: MSEF/MSBF represent the Commonfund Multi-Strategy Equity and Bond Funds, which are available only to educational institutions. We offer parallel programs for other qualified investors. All returns are net of fees.

1. Strategies reflect adjusted gross returns before participant fees .ESTIMATED
2. The MSE Funds Composite Benchmark consists of the following components: U.S. | S&P 500 (75%), Non-U.S. | MSCI All Country World ex USA Index Net (15%), and Diversifying | HFRI Fund of Funds Composite Index (10%). The monthly return used for the HFRI Composite FOF Index, a component of the Composite Benchmark, is the Flash Update return that is published by HFRI by the 5th business day of the following month. HFRI reserves the right to adjust the monthly return of the HFRI index up to four months after the month end performance date. Monthly returns for the Composite Benchmark may be retroactively restated based on later adjustments to the HFRI index. See Important Notes regarding limitations of indices.

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

# Multi-Strategy Bond Fund
# 3rd Quarter Performance Review | by Strategy

## As of September 30, 2016

| Strategies* | Allocation | QTD |
|---|---|---|
| Core | 70% | 1.1% |
| Global | 11% | 1.8% |
| Credit | 4% | 2.7% |
| Opportunistic | 15% | 1.2% |
| **MSBF Total (Net)** | **100%** | **1.2%** |
| Barclays Capital U.S. Aggregate Bond Index | | 0.5% |
| Additional Indexes | | |
| Barclays Capital Treasury Bond Index | | -0.3% |
| Barclays Capital Corporate Bond Index | | 1.4% |
| Merrill Lynch High Yield Index | | 5.5% |
| Citi Group World Government Bond Index | | 0.3% |
| JP Morgan Emerging Local Markets Index Plus | | 1.5% |

NOTE: MSEF/MSBF represent the Commonfund Multi-Strategy Equity and Bond Funds, which are available only to educational institutions. We offer parallel programs for other qualified investors. All returns are net of fees.
*Strategies reflect adjusted gross returns before participant fees .ESTIMATED
Net returns are total returns net of all fees and expenses either charged to the fund or paid directly by Commonfund members. Returns for periods of one year or greater are annualized. For more information on fees and expenses, see Information for Members. Past performance does not assure future results.

# All Accounts

## TOTAL PORTFOLIO MARKET VALUE AS OF 9/30/2016

| Investment Category | Adjusted Market Value | Allocation % |
|---|---|---|
| Portfolio Total Equity | $42,495,035.04 | 57.06% |
| Portfolio Total Fixed | $31,976,799.15 | 42.94% |
| **Portfolio Total** | **$74,471,834.19** | **100.00%** |

## MARKETABLE INVESTMENTS 10/1/2015 TO 9/30/2016

| Marketable Fund | Beginning Market Value | Purchases | Sales | Fees | Income Paid | Income Reinvested | Market Change | Ending Market Value |
|---|---|---|---|---|---|---|---|---|
| Multi-Strategy Equity Fund | $38,078,005.93 | $0.00 | $0.00 | ($80,215.96) | $0.00 | $538,344.46 | $3,865,853.61 | $42,401,988.04 |
| **Total Equity** | **$38,078,005.93** | **$0.00** | **$0.00** | **($80,215.96)** | **$0.00** | **$538,344.46** | **$3,865,853.61** | **$42,401,988.04** |
| Multi-Strategy Bond Fund | $33,614,158.13 | $0.00 | ($3,566,397.26) | ($46,257.57) | $0.00 | $1,069,198.88 | $906,096.97 | $31,976,799.15 |
| **Total Fixed** | **$33,614,158.13** | **$0.00** | **($3,566,397.26)** | **($46,257.57)** | **$0.00** | **$1,069,198.88** | **$906,096.97** | **$31,976,799.15** |
| **Marketable Total** | **$71,692,164.06** | **$0.00** | **($3,566,397.26)** | **($126,473.53)** | **$0.00** | **$1,607,543.34** | **$4,771,950.58** | **$74,378,787.19** |

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

All fund returns are net of fees. Past performance is no assurance of future returns.

# All Accounts

## NON-MARKETABLE INVESTMENTS SINCE INCEPTION TO VALUE DATE

| Non-Marketable Fund | Incep. Date | Commitment | Capital Calls | Distributions | Net Income/ (Loss) | Value Date | Market Value | IRR | Multiple |
|---|---|---|---|---|---|---|---|---|---|
| Secondary Partners 2015 | 6/22/2016 | $2,000,000.00 | $60,000.00 | $0.00 | $33,047.00 | 6/30/2016 | $93,047.00 | 63.82%* | 1.55 |
| **Total Equity** | | **$2,000,000.00** | **$60,000.00** | **$0.00** | **$33,047.00** | | **$93,047.00** | **63.82%*** | **1.55** |
| **Non-Marketable Total** | | **$2,000,000.00** | **$60,000.00** | **$0.00** | **$33,047.00** | | **$93,047.00** | **63.82%*** | **1.55** |

## NON-MARKETABLE INVESTMENTS ROLL FORWARD FROM VALUE DATE TO 9/30/2016

| Non-Marketable Fund | Incep. Date | Commitment | Valuation Date | Most Recent Valuation | Capital Calls since Valuation Date | Distributions since Valuation Date | Adjusted Market Value |
|---|---|---|---|---|---|---|---|
| Secondary Partners 2015 | 6/22/2016 | $2,000,000.00 | 6/30/2016 | $93,047.00 | $0.00 | $0.00 | $93,047.00 |
| **Total Equity** | | **$2,000,000.00** | | **$93,047.00** | **$0.00** | **$0.00** | **$93,047.00** |
| **Non-Marketable Total** | | **$2,000,000.00** | | **$93,047.00** | **$0.00** | **$0.00** | **$93,047.00** |

* Note: Month-end adjusted balances for marketable cash funds reflect the impact of pending cash subscriptions. Adjusted Balances for non-marketable securities reflect the impact of all cash transactions that have posted since the last valuation date.

1. IRR and multiple performance calculations are net of all fees and carried interest

2. IRR, or internal rate of return, represents the annualized implied discount rate calculated from the cash flows to/from the partnerships since inception of the respective partnership through the value date
3. Multiple represents a cash-on-cash return calculated by adding distributions to the ending market value and dividing the total value by capital called – ((Distributions to date + Adjusted ending market value)/$ called to date)

All fund returns are net of fees. Past performance is no assurance of future returns.

# All Accounts

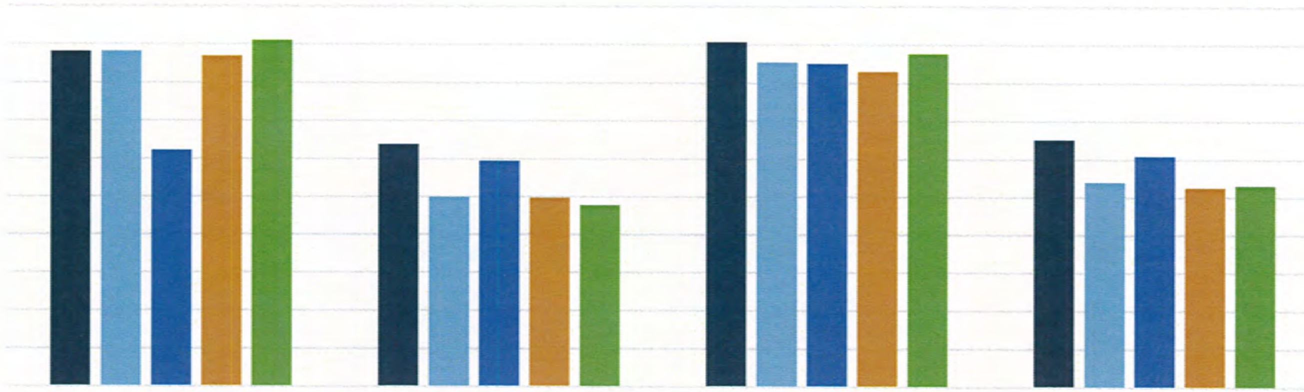
## ASSET ALLOCATION AS OF 6/30/2016

| | 6/30/2015 Allocation % | 6/30/2016 Allocation % |
|---|---|---|
| U.S. Equity | 39.76 | 42.00 |
| International Equity | 4.74 | 4.24 |
| Emerging Markets Equity | 1.88 | 1.12 |
| Private Capital | 0.00 | 0.08 |
| **Equity** | **46.38** | **47.45** |
| Core Bonds | 31.39 | 31.58 |
| Global Bonds | 4.66 | 5.17 |
| Credit | 0.97 | 0.00 |
| Opportunistic | 6.80 | 6.76 |
| Distressed Debt | 2.67 | 1.91 |
| **Fixed** | **46.50** | **45.41** |
| Hedge Strategies | 7.12 | 7.14 |
| **Diversifying Strategies** | **7.12** | **7.14** |
| **Total** | **100.00** | **100.00** |

All fund returns are net of fees. Past performance is no assurance of future returns.

# University of South Alabama Portfolio Performance vs. Peer Universe

## September 30, 2016 | Peer universe from Callan Associates



| | 1 Year | 3 Year | 5 Year | 10 Year |
|---|---|---|---|---|
| University of South Alabama(Net) | 8.80 | 6.37 | 9.06 | 6.51 |
| CAI Endowment Foundation | 8.81 | 4.99 | 8.52 | 5.39 |
| CAI Endowment Foundation \| Large (> $1 Billion) | 6.22 | 5.93 | 8.49 | 6.08 |
| CAI Endowment Foundation \| Medium ( $100 Million - $1 Billion) | 8.68 | 4.97 | 8.29 | 5.25 |
| CAI Endowment Foundation \| Small (< $100 Million) | 9.09 | 4.77 | 8.76 | 5.30 |

Past performance does not assure future results.
Source: Commonfund Portal and Callan Associates (CA). Callan Universe data calculated independently based on total returns gross of fees and expenses.
The CAI Endowment/Foundation group consists of pension, endowment, foundation, and multi-employer total funds including both Callan clients and surveyed non-client funds. For additional information on the CAI data shown please go to https://www.callan.com/data/

# Appendix

# Commonfund Capital, Inc. Summary Financial Data (Unaudited)

## June 30, 2016

| | First Drawdown | Capital Commitments (millions) | Capital Drawdown Since Inception (millions) | (%) | Distribution to Investors Since Inception (millions) | Rate of Return [1] | Burgiss Benchmark [2] | Total Value to Investment Capital [3] | Total Value [4] |
|---|---|---|---|---|---|---|---|---|---|
| **Venture Capital** | | | | | | | | | |
| Endowment Venture Partners I [12] | Mar-90 | $88.9 | $88.9 | 100% | $293.5 | 26.0% | 17.9% | 3.3x | $293.5 |
| Endowment Venture Partners II [12] | Apr-93 | $175.0 | $175.0 | 100% | $860.6 | 48.9% | 31.8% | 4.9x | $860.6 |
| Endowment Venture Partners III [12] | Apr-96 | $250.0 | $247.5 | 99% | $881.6 | 83.2% | 12.9% | 3.6x | $881.6 |
| Endowment Venture Partners IV | Sep-98 | $489.2 | $480.7 | 98% | $504.1 | 1.5% [5] | -2.1% [6] | 1.1x | $527.1 |
| Endowment Venture Partners V | Jan-00 | $727.1 | $707.7 | 97% | $599.4 | -0.1% [5] | -0.7% [7] | 1.0x | $703.3 |
| Commonfund Capital Venture Partners VI | Jan-02 | $596.3 | $547.7 | 92% | $709.3 | 8.7% [5] | 2.7% [8] | 1.7x | $927.7 |
| Commonfund Capital Venture Partners VII | Sep-05 | $500.5 | $472.6 | 94% | $425.4 | 8.6% [5] | 6.7% [6] | 1.6x | $759.5 |
| Commonfund Capital Venture Partners VIII | Aug-07 | $656.9 | $602.4 | 92% | $334.2 | 13.0% [5] | 9.9% [6] | 1.8x | $1,095.9 |
| Commonfund Capital Venture Partners IX | Apr-10 | $451.8 | $406.1 | 90% | $131.7 | 24.7% [5] | 17.0% [6] | 2.0x | $816.3 |
| Commonfund Capital Venture Partners X | Sep-12 | $502.4 | $354.5 | 71% | $11.2 | 23.2% [5] | 14.3% [6] | 1.4x | $508.9 |
| Commonfund Capital Venture Partners XI | Jan-15 | $525.0 | $74.7 | 14% | $0.0 | 11.4% [5,9] | N/M * | 1.1x | $82.2 |
| **U.S. Private Equity** [11] | | | | | | | | | |
| Endowment Equity Partners I [12] | Oct-88 | $42.9 | $42.9 | 100% | $91.0 | 13.7% | 11.9% [14] | 2.1x | $91.0 |
| Endowment Private Equity Partners II [12] | Jul-94 | $171.2 | $161.8 | 95% | $334.6 | 19.6% | 10.4% | 2.1x | $334.6 |
| Endowment Private Equity Partners III [12] | Jan-98 | $299.0 | $284.5 | 95% | $388.4 | 6.3% | 9.5% | 1.4x | $388.4 |
| Endowment Private Equity Partners IV | Jan-00 | $452.2 | $440.8 | 97% | $862.4 | 17.0% [5] | 13.7% [6] | 2.1x | $906.3 |
| Commonfund Capital Private Equity Partners V | Mar-02 | $725.6 | $654.0 | 90% | $982.3 | 11.2% [5] | 10.3% [8] | 1.8x | $1,187.0 |
| Commonfund Capital Private Equity Partners VI | Jul-05 | $754.4 | $699.2 | 93% | $700.6 | 6.8% [5] | 8.5% [6] | 1.5x | $1,039.8 |
| Commonfund Capital Private Equity Partners VII | Mar-07 | $1,018.8 | $873.2 | 86% | $552.6 | 12.2% [5] | 11.4% [8] | 1.6x | $1,401.1 |
| Commonfund Capital Private Equity Partners VIII | Dec-11 | $218.1 | $103.5 | 47% | $11.6 | 13.2% [5] | 8.7% [6] | 1.3x | $132.2 |
| Commonfund Capital Private Equity Partners IX | Dec-14 | $280.5 | $39.2 | 14% | $0.0 | 13.1% [5,9] | N/M * | 1.1x | $43.4 |

(Past results not necessarily indicative of future performance)
See Important Footnotes on the last page of the Summary Financial Data. Notes are an integral part of the Summary Financial Data.

# Commonfund Capital, Inc. Summary Financial Data (Unaudited) | Continued

## June 30, 2016

| | First Drawdown | Capital Commitments (millions) | Capital Drawdown Since Inception (millions) | (%) | Distribution to Investors Since Inception (millions) | Rate of Return [1] | Burgiss Benchmark [2] | Total Value to Investment Capital [3] | Total Value [4] |
|---|---|---|---|---|---|---|---|---|---|
| **Private Equity Outside the U.S.** | | | | | | | | | |
| International Private Equity Partners I [12] | Dec-95 | $85.3 | $85.3 | 100% | $107.3 | 4.3% | 8.0% [13] | 1.3x | $107.3 |
| International Private Equity Partners II [12] | Jan-98 | $110.9 | $103.9 | 94% | $143.5 | 6.0% | 5.2% [13] | 1.4x | $143.5 |
| International Private Equity Partners III | Dec-99 | $220.9 | $215.6 | 98% | $419.3 | 16.8% [5] | 9.8% [13] | 2.0x | $433.6 |
| Commonfund Capital Int'l. Partners IV | Apr-01 | $312.1 | $279.9 | 90% | $441.3 | 13.1% [5] | 8.3% [13] | 1.8x | $509.3 |
| Commonfund Capital Int'l. Partners V | Sep-05 | $506.2 | $478.6 | 95% | $492.6 | 6.5% [5] | 7.4% [13] | 1.5x | $706.3 |
| Commonfund Capital Int'l. Partners VI | Mar-07 | $804.8 | $704.4 | 88% | $530.2 | 8.0% [5] | 8.6% [13] | 1.4x | $993.6 |
| Commonfund Capital Int'l. Partners VII | Mar-10 | $243.1 | $138.5 | 57% | $24.0 | 6.8% [5] | 8.0% [13] | 1.2x | $167.2 |
| Commonfund Capital Int'l. Partners VIII | Jan-15 | $139.5 | $14.2 | 10% | $0.0 | -11.1% [5,9] | N/M * | 0.9x | $13.1 |
| **Emerging Markets** | | | | | | | | | |
| Commonfund Capital Emerging Markets 2013 | Jun-13 | $199.4 | $67.9 | 34% | $0.0 | 15.6% [5,9] | N/M * | 1.2x | $82.5 |
| **Global Private Equity** | | | | | | | | | |
| Commonfund Capital Global Private Equity 2014 | Jan-15 | $151.2 | $36.6 | 24% | $0.0 | 11.0% [5,9] | N/M * | 1.1x | $39.8 |
| Commonfund Capital Strategic Solutions Global Private Equity | Jan-15 | $152.3 | $25.9 | 17% | $0.0 | 16.5% [5,9] | N/M * | 1.2x | $30.5 |
| Commonfund Capital Strategic Solutions Global Private Equity II | Jun-16 | $50.8 | $3.0 | 6% | $0.0 | N/M [10] | N/M * | N/M [10] | $4.3 |
| **Specialty Funds** | | | | | | | | | |
| Commonfund Capital Secondary Partners 2015 | Aug-15 | $170.7 | $3.3 | 2% | $0.0 | N/M [10] | N/M * | N/M [10] | $5.1 |
| Commonfund Capital Co-Investment Opportunities 2015 | Jan-15 | $66.3 | $8.3 | 12% | $0.0 | 35.8% [5,9] | N/M * | 1.4x | $11.7 |

(Past results not necessarily indicative of future performance)
See Important Footnotes on the last page of the Summary Financial Data. Notes are an integral part of the Summary Financial Data.

# Commonfund Capital, Inc. Summary Financial Data (Unaudited) | Continued

## June 30, 2016

| | First Drawdown | Capital Commitments (millions) | Capital Drawdown Since Inception (millions) | (%) | Distribution to Investors Since Inception (millions) | Rate of Return [1] | Burgiss Benchmark [2] | Total Value to Investment Capital [3] | Total Value [4] |
|---|---|---|---|---|---|---|---|---|---|
| **Natural Resources** | | | | | | | | | |
| Endowment Energy Partners [12] | Oct-89 | $82.5 | $82.5 | 100% | $131.6 | 8.9% | N/A | 1.6x | $131.6 |
| Endowment Energy Partners II [12] | Dec-91 | $30.1 | $30.1 | 100% | $47.7 | 12.6% | N/A | 1.6x | $47.7 |
| Endowment Energy Partners III | Jul-95 | $129.9 | $118.0 | 91% | $330.6 | 16.7% [5] | N/A [16] | 2.9x | $338.3 |
| Endowment Energy Partners IV | Jan-98 | $171.0 | $167.2 | 98% | $618.2 | 25.2% [5] | N/A [16] | 3.8x | $633.4 |
| Commonfund Capital Natural Resources Partners V | Aug-03 | $252.8 | $248.7 | 98% | $330.9 | 10.4% [5] | N/A [16] | 1.6x | $407.2 |
| Commonfund Capital Natural Resources Partners VI | Sep-05 | $302.2 | $295.3 | 98% | $243.0 | 5.3% [5] | N/A [16] | 1.4x | $398.4 |
| Commonfund Capital Natural Resources Partners VII | Jan-07 | $505.0 | $467.4 | 93% | $299.9 | 3.4% [5] | N/A [16] | 1.2x | $543.6 |
| Commonfund Capital Natural Resources Partners VIII | Nov-08 | $752.2 | $667.4 | 89% | $171.4 | 2.0% [5] | N/A [16] | 1.1x | $712.7 |
| Commonfund Capital Natural Resources Partners IX | Oct-12 | $507.0 | $274.4 | 54% | $0.0 | -5.1% [5] | N/A [16] | 0.9x | $254.0 |
| Commonfund Capital Natural Resources Partners X | Aug-15 | $252.7 | $7.3 | 3% | $0.0 | N/M [10] | N/A [16] | N/M [10] | $6.2 |
| **Commonfund Capital Partners** | | | | | | | | | |
| Commonfund Capital Partners 1999 | Sep-99 | $47.2 | $46.2 | 98% | $62.7 | 6.3% [5] | 1.8% [15] | 1.4x | $65.2 |
| Commonfund Capital Partners 2000 | Apr-01 | $96.8 | $93.1 | 96% | $126.1 | 9.5% [5] | 8.1% [15] | 1.8x | $163.4 |
| Commonfund Capital Partners III | Jul-05 | $29.1 | $27.0 | 93% | $24.9 | 6.6% [5] | 7.9% [15] | 1.5x | $41.1 |
| Commonfund Capital Partners IV | Aug-07 | $40.0 | $35.5 | 89% | $22.4 | 9.2% [5] | 9.5% [15] | 1.5x | $54.1 |
| Commonfund Capital Partners V | Sep-11 | $102.2 | $55.0 | 54% | $0.0 | 11.4% [5] | 10.2% [15] | 1.3x | $69.3 |
| Commonfund Capital Partners VI | Apr-16 | $66.9 | $6.3 | 9% | $0.0 | N/M [10] | N/M * | N/M [10] | $6.9 |
| **Commonfund Capital New Leaders** | | | | | | | | | |
| Commonfund Capital New Leaders [12] | Mar-99 | $103.1 | $100.7 | 98% | $113.1 | 2.1% | 1.2% [15] | 1.1x | $113.1 |
| Commonfund Capital New Leaders II | Oct-00 | $60.6 | $58.2 | 96% | $62.1 | 3.6% [5] | 8.6% [15] | 1.3x | $73.4 |

(Past results not necessarily indicative of future performance)
See Important Footnotes on the last page of the Summary Financial Data. Notes are an integral part of the Summary Financial Data.

# Commonfund Capital, Inc. Summary Financial Data (Unaudited) | Continued

## June 30, 2016

**THESE FOOTNOTES ARE AN INTEGRAL PART OF THE SUMMARY FINANCIAL DATA**

1. All performance data set forth herein is net of fees and carried interest and excludes commitments by the applicable general partner and any limited partners that do not pay a management fee. With respect to Commonfund Capital Strategic Solutions Global Private Equity, Commonfund Capital Private Equity Partners IX, Commonfund Capital International Partners VIII and Commonfund Capital Global Private Equity 2014, certain Limited Partners have a management fee discount; the performance data herein reflects the weighted average blended management fee applicable to actual limited partners of such vehicles. Internal Rates of Return (IRR) should be evaluated in light of information on the investment program of the partnership, the risks associated therewith, and performance of the partnership as disclosed in the Offering Memorandum for the partnership, the Annual Reports of Commonfund Capital, Inc. and the partnership and the Quarterly Reports of the partnership. Commonfund Capital, Inc. presents return information for its partnerships on a dollar-weighted (e.g., internal rate of return) basis, which is standard for the private capital industry, rather than the time-weighted (e.g., annual or other period rate of return) basis, which is used principally to report performance of publicly-traded securities. The IRR since inception is the most commonly used calculation methodology for presentation of performance in the private capital business. Comparison of returns calculated on an IRR basis with returns on a time-weighted basis is not appropriate. There can be no assurance that unrealized investments ultimately will be realized at the valuations used in calculating IRRs or Net Multiples or that the calculated IRRs will be obtained. The actual realized returns will depend on, among other factors, future operating results, the value of assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale.
2. Benchmarks calculated from Burgiss Private IQ ("Burgiss") for the period ended June 30, 2016. This is the latest benchmark data now available.
3. Also referred to as Net Multiple, total value to invested capital net of the general partner's carried interest = (Distribution + Ending Capital Balance/Capital Drawdown).
4. Total distributions plus the ending capital balance net of the general partner's carried interest.
5. Net annualized internal rate of return since inception through June 30, 2016.
6. The Burgiss benchmark is calculated using the grouped median returns of the three relevant vintage years.
7. The benchmark for EVP V includes vintage years 2000 & 2001. Burgiss benchmark is calculated using the grouped median return for the vintage years.
8. The Burgiss benchmark is calculated using the grouped median returns of the four relevant vintage years.
9. Not Meaningful: Funds with a vintage year of less than three years of age from the stated valuation date are in the early stages of their investment life cycle. Performance metrics on these funds may not be meaningful as private capital funds are generally long-term investments.
10. Information is not yet meaningful due to the youth of the fund.
11. Endowment Mezzanine Partners I, L.P., a $5.5 million fund, was raised in 1988 and was liquidated March 31, 2003. This mezzanine fund had a final inception-to-date net IRR of (4.8%).
12. The following programs were fully realized and concluded as of the date indicated. Endowment Energy Partners and Endowment Energy Partners II, October 30, 2001 (benchmark N/A); Endowment Equity Partners I, December 31, 2003 (benchmark as of December 31, 2003); Endowment Equity Partners II, June 30, 2015 (benchmark as of June 30, 2014); Endowment Equity Partners III, June 30, 2015 (benchmark as of March 31, 2015); Endowment Venture Partners I and II, December 29, 2011 (benchmark as of June 30, 2011); International Private Equity Partners I and II, May 30, 2014 (benchmark as of June 30, 2013); Endowment Venture Partners III, June 30, 2014 (benchmark as of December 31, 2013); Commonfund Capital New Leaders, June 30, 2015 (benchmark as of June 30, 2014). The benchmark is as of the date of the last investment sold.
13. The Burgiss benchmark is calculated using the grouped median returns of the three relevant vintage years. IPEP I – IPEP III and CIP IV-CIP V use corporate finance and venture capital ex-U.S. performance data. Benchmarks for CIP VI and CIP VII exclude venture capital investments due to a change in the CCI mandate.
14. The median benchmark for 1988 vintage year returns as calculated by Burgiss Private IQ.
15. The Burgiss benchmark is calculated using the grouped median returns of the relevant vintage years. The Burgiss benchmark is calculated using corporate finance and venture capital performance data for all of the funds. In addition, CCP IV includes performance data for real assets. The vintage years for CCP 1999 and CCNL are 1999 and 2000. The vintage years for CCP 2000 are 2002, 2003, 2004 and 2005. The vintage years for CCNL II are 2001, 2002, 2003 and 2004. The vintage years for CCP III are 2005, 2006 and 2007. The vintage years for CCP IV are 2007, 2008 and 2009. The vintage years for CCP V are 2011, 2012, 2013 and 2014.
16. No comparable benchmark available.

Effective December 31, 2013, Thomson Reuters ceased publishing its own private capital benchmark. Going forward, Commonfund Capital will continue to compare the performance of our funds to the Burgiss Benchmark data which we have been using since Q3 2013.

Commonfund Capital also manages multiple separate accounts; information regarding such accounts is excluded from this report.

Past results not necessarily indicative of future performance.

* Performance metrics on these funds are not yet meaningful.

# Commonfund Important Notes



## ELIGIBLE INVESTORS ONLY

This material has been prepared by Commonfund Asset Management Company, Inc. ("Comanco") and/or Commonfund Capital, Inc. ("CCI") (each, an "Investment Manager") and is being distributed by Commonfund Securities, Inc. ("CSI"), each of which are indirect wholly owned subsidiaries of The Common Fund for Nonprofit Organizations ("Commonfund" and, together with Comanco, CCI and CSI and its or their affiliates, the "Commonfund Group"). CSI is registered as a broker-dealer with the U.S. Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA") and the Securities Investor Protection Corporation ("SIPC"). Each Investment Manager is registered with the SEC as an investment adviser. The registrations and memberships above in no way imply that the SEC, FINRA or SIPC have endorsed any of the entities, products or services discussed herein.

The information in this material is for illustration and discussion purposes only. It is not intended to be, nor should it be construed or used as, investment, tax or legal advice, any recommendation or opinion regarding the appropriateness or suitability of any investment or strategy, or an offer to sell, or a solicitation of an offer to buy, any interest in any security, including any interest in a private fund, pool, investment product, managed account or other investment vehicle (each, an "Investment Product") advised or managed by an Investment Manager or any of its affiliates. This material is qualified in its entirety by the information contained in any Investment Product's offering documents, including any prospectus or other offering memorandum related thereto (collectively, a "Prospectus").

Any offer or solicitation of an investment in an Investment Product may be made only by delivery of the Investment Product's Prospectus to qualified investors. Prospective investors should rely solely on the Prospectus in making any investment decision. The Prospectus contains important information, including, among other information, a description of an Investment Product's risks, investment program, fees and expenses, and should be read carefully before any investment decision is made. This material does not take into account the particular investment objectives, restrictions, or financial, legal or tax situation of any specific investor. An investment in an Investment Product is not suitable for all investors.

## INVESTMENT PROCESS

No representation is made that an Investment Manager's or an Investment Product's investment process, investment objectives, goals or risk management techniques will or are likely to be achieved or successful or that an Investment Product or any underlying investment will make any profit or will not sustain losses. An investment in an Investment Product involves risk, as disclosed in the Prospectus. An Investment Manager may engage in investment practices or trading strategies that may increase the risk of investment loss and a loss of principal may occur. The risk management techniques which may be utilized by an Investment Manager cannot provide any assurance that an Investment Product will not be exposed to risks of significant trading losses.

Any descriptions involving investment process, investment examples, statistical analysis, investment strategies or risk management techniques are provided for illustration purposes only, will not apply in all situations, may not be fully indicative of any present or future investments, may be changed in the discretion of an Investment Manager and are not intended to reflect performance.

Portfolio characteristics and limits reflect guidelines only and are implemented, and may change, in the discretion of an Investment Manager. Investments are selected by, and will vary in the discretion of, an Investment Manager and are subject to availability and market conditions, among other factors. Similarly, an Investment Manager's access to particular managers may vary in the future and cannot be guaranteed. Prospective investors should review with care the Prospectus related to an Investment Product; the Prospectus contains a fuller discussion of applicable risks.

Any portfolio characteristics shown reflect current intentions and general guidelines that may be modified or eliminated from time to time by an Investment Manager without prior notice to investors. There is no requirement that an Investment Manager or an Investment Product observe these guidelines, or that any action be taken if these guidelines are exceeded or are not met or followed.

## MARKET COMMENTARY

Any opinions, assumptions, assessments, statements or the like (collectively, "Statements") regarding future events or which are forward-looking, including regarding portfolio characteristics and limits, constitute only subjective views, beliefs, outlooks, estimations or intentions of an Investment Manager, should not be relied on, are subject to change due to a variety of factors, including fluctuating market conditions and economic factors, and involve inherent risks and uncertainties, both general and specific, many of which cannot be predicted or quantified and are beyond an Investment Manager's or an Investment Product's control. Future evidence and actual results (including actual composition and investment characteristics of an Investment Product's portfolio) could differ materially from those set forth in, contemplated by, or underlying these Statements, which are subject to change without notice. In light of these risks and uncertainties, there can be no assurance and no representation is given that these Statements are now, or will prove to be accurate, or complete in any way. Neither Investment Manager undertakes any responsibility or obligation to revise or update such Statements. Statements expressed herein may not necessarily be shared by all personnel of an Investment Manager or the Commonfund Group.

# Commonfund Important Notes



**BENCHMARKS**

Benchmarks and financial indices are shown for illustrative purposes only and are provided for the purpose of making general market data available as a point of reference only. Such benchmarks and financial indices may not be available for direct investment, may be unmanaged, assume reinvestment of income, do not reflect the impact of any trading commissions and costs, management or performance fees and have limitations when used for comparison or other purposes because they, among other reasons, may have different trading strategy, volatility, credit, or other material characteristics (such as limitations on the number and types of securities or instruments). An Investment Product's investment objective is not restricted to the securities and instruments comprising any one index. No representation is made that any benchmark or index is an appropriate measure for comparison.

**IMPORTANT INFORMATION: PERFORMANCE**

Gross performance results do not reflect the deduction of investment advisory fees and other fees and expenses as disclosed in the relevant Form ADV on file with the SEC with respect to an Investment Manager, which will reduce the returns. Investment advisory fees have a compounding effect on cumulative results. For example, an account with an initial $10,000.00 investment on January 1, 2010, earning a recurring 1.25% quarterly gross return (5.09% annualized), and paying a 0.25% quarterly management fee (1.00% annual fee) would have grown to $12,820.37 on a gross of fees basis and $12,201.90 on a net of fees basis by December 31, 2015 (5 years). .

**COMANCO PERFORMANCE**

Unless otherwise indicated, Comanco performance shown is unaudited, net of applicable management, performance and other fees and expenses, presumes reinvestment of earnings and excludes investor specific sales and other charges. Fees may be modified or waived for certain investors. Please refer to an Investment Product's Prospectus for more information regarding the Investment Product's fees, charges and expenses, which will offset the Investment Product's gains. Performance may vary substantially from year to year or even from month to month. An investor's actual performance and actual fees may differ from the performance information shown due to, among other factors, capital contributions and withdrawals/redemptions, different share classes and eligibility to participate in "new issues." The value of investments can go down as well as up. Certain share classes of an Investment Product may be closed, including the share class from which the performance shown has been derived. No representation is being made that any account will or is likely to achieve profits or losses similar to those discussed in the presentation. Past performance is not indicative of future results.

**CCI PERFORMANCE**

Unless otherwise indicated CCI performance shown is net of all fees and carried interest. Internal rates of return ("IRR") should be evaluated in light of information on the investment program of a related partnership, the risks associated therewith, and performance of the partnership as disclosed in the Prospectus for the partnership, the annual reports of CCI and the partnership and the quarterly reports of the partnership.

CCI presents return information for its partnerships on a dollar-weighted (e.g., IRR) basis, which is standard for the private capital industry, rather than the time-weighted (e.g., annual or other period rate of return) basis, which is used principally to report performance of publicly-traded securities. The IRR since inception is the most commonly used calculation methodology for presentation of performance in the private capital business. Comparison of returns calculated on an IRR basis with returns on a time-weighted basis is not appropriate. For a description of the two return calculation methods, see "Measuring Investment Returns, Time vs. Dollar-Weighted – What's the Difference?", a copy of which is available from CCI.

There can be no assurance that unrealized investments ultimately will be realized at the valuations used in calculating IRRs or net multiples or that the calculated IRRs will be obtained. The actual realized returns will depend on, among other factors, future operating results, the value of assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale. Past performance is not indicative of future results.

**IMPORTANT INFORMATION: PERFORMANCE COMPARISONS**

**HYPOTHETICAL PERFORMANCE – GENERALLY**

Certain composite performance results (based on sector attribution and other dissections and combinations of actual Investment Product performance) may be considered hypothetical results ("Hypothetical Results"), even though based on actual trading of one Investment Product but because this type of performance does not reflect the actual trading or performance of other Investment Products. Hypothetical Results have inherent limitations, some of which are described below. One limitation is that they do not reflect actual trading by an Investment Product and therefore do not reflect the impact that economic and market factors, including concentration, lack of liquidity or market disruptions, may have on investment decisions for an Investment Product. In fact, there may be sharp differences between the Hypothetical Results and the actual results of any Investment Product. There also may be a material difference between the amount of an Investment Product's assets at any time and the amount of the assets managed in the Hypothetical Results, which difference may have an impact on the management of an Investment Product. No representation is made that an Investment Product's performance would have been the same as the Hypothetical Results had the Investment Product been in existence during such time or that such investment strategy will be maintained in the future; an Investment Manager may choose to implement a different investment strategy, make different investments or have an Investment Product invest in other investments. To the extent there are any material differences between an Investment Manager's management of an Investment Product and the Hypothetical Results, the Hypothetical Results performance results will no longer be representative and their illustration value will decrease

# Commonfund Important Notes



substantially. A decision to invest in an Investment Product should not be based on the returns of the Hypothetical Results. These returns should not be considered as indicative of the skills of the investment adviser.

### HYPOTHETICAL PORTFOLIO – FUNDS

The stated return is the net total return for a hypothetical investment in a portfolio of each of the indicated funds for the stated period, allocated between the funds at the indicated ratio and calculated assuming an annual rebalancing at year-end to the indicated ratio.

While the stated blended return is based on historical performance, it is provided for illustrative purposes only, and does not necessarily represent the actual performance of any investor, or a recommendation on the part of an Investment Manager or CSI to any particular investor. The goals, risk tolerance and circumstances of each investing institution should be taken into account in determining whether any such blended investment might be appropriate for their institution.

In addition, the reader should be aware that the assumption underlying this return - namely, that the investor maintained a steady allocation among the funds and rebalanced annually - is artificial in that it does not take into account changes that might be made in response to significant market events, etc.

The depicted performance is also based on an assumption that the investor is not being charged any asset allocation or overall portfolio level fee, although it is presented net of the fees and expenses incurred within the depicted funds.

All Investment Manager returns depicted in these types of portfolios are net of all fees and expenses. Returns for periods of one year or greater are annualized.

### HYPOTHETICAL PORTFOLIO – INDICES

The stated returns are total returns for a hypothetical investment in a portfolio of each of the indicated indices for the stated period, allocated between the indices at the indicated ratio and calculated assuming an annual rebalancing at year-end to the indicated ratio. An index is a hypothetical measure of performance based on the ups and downs of securities that make up a particular market. An index does not show actual investment returns or reflect payment of management or brokerage fees, which would lower the index's performance.

While the stated blended return is based on historical performance, it is provided for illustrative purposes only and does not necessarily represent the actual performance of any investor, or a recommendation on the part of an Investment Manager or CSI to any particular investor. The goals, risk tolerance and circumstances of each investing institution should be taken into account in determining whether any such blended investment might be appropriate for it.

In addition, the reader should be aware that the assumption underlying these returns - namely, that the investor maintained a steady allocation among the indices and rebalanced annually - is artificial in that it does not take into account changes that might be made in response to significant market events, etc.

The depicted performance is also based on an assumption that the investor is not being charged any asset allocation or overall portfolio fee.

### RELATED PERFORMANCE COMPARISIONS

The historical performance results of any funds indicated as a "Related Fund" shown are being provided for illustrative and information purposes only and should not be relied upon and do not represent, and are not indicative of, an Investment Product's actual or future performance or the results that may be achieved by an investor in an Investment Product.

A decision to invest in an Investment Product should not be based on the returns of the Related Fund.

A Related Funds' performance results may be considered hypothetical even though based on the actual trading of the accounts of the Related Fund, because the performance of the Related Fund does not reflect the actual trading, performance or fees applicable to any one Investment Product. The investments in the Related Fund and the investments in an Investment Product will not be identical. Investments for an Investment Product are made in the discretion of an Investment Manager and will vary over time.

Related performance, such as the Related Fund results, have inherent limitations, some of which are described below. One limitation is that they do not reflect actual trading by an Investment Product and therefore do not reflect the impact that economic and market factors, including concentration, lack of liquidity or market disruptions, may have on investment decisions for an Investment Product. In fact, there may be sharp differences between the Related Fund results and the actual results of any Investment Product. There also may be a material difference between the amount of an Investment Product's assets at any time and the amount of the assets managed in the Related Fund, which difference may have an impact on the management of an Investment Product. No representation is made that an Investment Product's performance would have been the same as the Related Fund results had the Investment Product been in existence during such time or that such investment strategy will be maintained in the future; an Investment Manager may choose to implement a different investment strategy, make different investments or have an Investment Product invest in other investments in which it chooses not to have a Related Fund invest or vice versa. To the extent there are any material differences between an Investment Manager's management of an Investment Product and the management of the Related Fund, the Related Fund's performance results will no longer be representative and their illustration value will decrease substantially. A decision to invest in an Investment Product should not be based on the returns of a Related Fund.

# Commonfund Important Notes


## IMPORTANT INFORMATION: OUTSOURCED INVESTMENT SOLUTIONS

### ADVISORY SERVICES

Advisory services described under the trade names "Commonfund Strategic Solutions" and "Commonfund Custom Investment Office" in this presentation are provided by Comanco. Investors in these services enter investment advisory agreements with Comanco and are provided with copies of Comanco's Form ADV Part 2A (copies of which are available to prospective investors upon request to your Commonfund Relationship Officer).

COMMONFUND MULTI-ASSET PROGRAM

The "Commonfund Multi-Asset Program" described in this presentation provides to qualifying investors who invest significant portions of their assets in Comanco's commingled funds the described web portal and associated reporting services, as well as incidental consulting from investors' relationship officers (who are affiliated with CSI). These services do not include direct investment advisory services (although the Comanco funds in which such investors place their assets do receive advisory services from Comanco). In particular, investors in the Commonfund Multi-Asset Program should be aware that Comanco has no obligation, as well as no authorization from such investors, to engage in ongoing continuous management with respect to such investors' overall portfolios or asset allocations, or specifically to rebalance such investors' allocations among Comanco funds without specific directions from such investors delivered in accordance with the underlying funds' current procedures.

## IMPORTANT INFORMATION: MSE COMPOSITE BENCHMARK

### MSE FUNDS COMPOSTIE BENCHMARK

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

## DESCRIPTION OF COMMONLY USED INDICES

This list may not represent all indices used in this material. A description of certain indices specific to a particular slide may be listed on or adjacent to the slide.

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

**MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada. The MSCI EAFE Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. (List as of January 2016.)

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

**MSCI ACWI Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are as follows: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the U.S.

# Commonfund Important Notes



The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates. (List as of January 2016.)

**CSFB Leveraged Loan Index** is an index designed to mirror the investable universe of the U.S. dollar denominated leveraged loan market. The index inception is January 1992. The index frequency is monthly. New loans are added to the index on their effective date if they qualify according to the following criteria: loans must be rated "5B" or lower; only fully-funded term loans are included; the tenor must be at least one year; and the Issuers must be domiciled in developed countries (i.e., issuers from developing countries are excluded). Fallen angels are added to the index subject to the new loan criteria. Loans are removed from the index when they are upgraded to investment grade, or when they exit the market (for example, at maturity, refinancing or bankruptcy workout). Note that issuers remain in the index following default. Total return of the index is the sum of three components: principal, interest, and reinvestment return. The cumulative return assumes that coupon payments are reinvested into the index at the beginning of each period.

**MSCI ACWI ex USA Index** captures large and mid-cap representation across 22 of 23 developed markets countries – excluding the U.S. With 1,003 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. (List as of January 2016.)

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

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

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

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

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

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

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

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

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

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

## IMPORTANT INFORMATION: RISK REPORTING

Portfolio, volatility or return targets or objectives, if any, are used solely for illustration, measurement or comparison purposes and as an aid or guideline for prospective investors to evaluate a particular Investment Product's strategies, volatility and accompanying information. Such targets or objectives reflect subjective determinations of an Investment Manager based on a variety of factors including, among others, the Investment Product's investment strategy and prior performance (if any), volatility measures, portfolio characteristics and risk, and market conditions. Volatility and performance will fluctuate, including over short periods, and should be evaluated over the time period indicated and not over shorter periods. Performance targets or objectives should not be relied upon as an indication of actual or projected future performance. Actual volatility and returns will depend on a variety of factors including overall market conditions and the ability of an Investment Manager to implement an Investment Product's investment process, investment objectives and risk management. No representation is made that these targets or objectives will be achieved, in whole or in part, by any Investment Product.

**Value at Risk ("VaR")**

VaR is a method of estimating the maximum expected potential loss of a given portfolio for a specific time period under normal market conditions and at a given probability level. VaR is calculated for an Investment Product by setting the confidence level to a specific value (0-100) over a one year period. For example, if the monthly VaR of a portfolio is 5 percent at a 95 percent confidence level, then there are five chances in 100, under normal market conditions, of a loss greater than 5 percent. An Investment Manager's calculations are based on the portfolio constituents' monthly returns with weekly frequency looking back five years, and greater weight is given to more recent returns than less recent returns. The resultant returns time series has a one-year half-life.

The VaR method relies on simplifying assumptions which are not always present in real investing environments, including, but not limited to, that normal market conditions are present (i.e., that a normal distribution of returns exists and that historical returns and correlations are representative of future returns and correlations). Estimates of future performance are based on assumptions that may not be realized. The projections or other information generated by VaR analysis are not guarantees of future results and do not take into account abnormal market conditions – situations in which the risk of loss may be greatest. VaR is not a 'worst case' scenario and can understate the amount of actual loss to which an investor may be exposed.

**Conditional Value at Risk ("CVaR")**

While VaR is useful in understanding the maximum potential loss in a given portfolio 95 percent of the time, CVaR attempts to measure the average downside risk in a portfolio the remaining 5 percent of the time. For example, if the monthly CVaR of a portfolio is 10 percent at a 95 percent confidence level, then the average loss is 10 in those 5 percent of outcomes where VaR is exceeded – note that this calculation predicts the average loss, not the worst potential loss. Similar to VaR calculations, CVaR calculations are based on the portfolio constituents' monthly returns with weekly frequency looking back five years, and greater weight is given to more recent returns than less recent returns. CVaR calculations may be less reliable than VaR calculations because there are typically fewer data points.

**Standard Deviation**

This is a measure of how much a portfolio's value can deviate in one year. It is calculated as annualized standard deviation of the portfolio monthly returns with weekly frequency time series looking back five years, weighting recent returns more heavily. This generates a half-life of one year.

**Historical Beta (β)**

This is a measure of the risk arising out of the movement of market factors. A beta (or β) of 1.0 indicates that an up/down movement in the benchmark will generate an equal percent movement in the portfolio. Any idiosyncratic factor in the portfolio can generate an up/down move in addition to the beta.

**Historical Stress Tests**

We report the portfolio risk as the profit/loss it will generate if six major historic market events were to recur independently. These metrics are calculated by combining the portfolio constituents' movements during those events for the portfolio as a whole.

**Hypothetical Factor Stress Tests**

We also report the portfolio risk as the profit/loss it will generate if five hypothetical market movements were to occur independently. These metrics are calculated by combining the portfolio constituents' current sensitivity to the movements in these market factors.

## IMPORTANT INFORMATION: DISTRIBUTION

Distribution of this material and the offer of an Investment Product may be restricted in certain jurisdictions. This material is not intended for distribution or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

# Commonfund Important Notes



This material is as of the date indicated, may not be complete, is subject to change and does not contain material information regarding an Investment Product, including specific information relating to an investment in an Investment Product and related risks factors. Unless otherwise stated, information provided in this material is derived from one or more parts of the Commonfund Group's databases and internal sources. Certain information, including information related to indices and benchmarks, has been provided by and/or is based on third party sources and, although believed to be reliable, has not been independently verified. An Investment Manager is not responsible for errors or omissions from these sources. No representation is made with respect to the accuracy, completeness or timeliness of information and no Investment Manager assumes any obligation to update or otherwise revise such information. Unless the context otherwise requires, the term "investor" and "client" may be used interchangeably.

If so marked, this material is intended only for broker-dealers, financial intermediaries and advisers for their internal use in evaluating an Investment Product for their investors and clients and may not be distributed or relied upon by any other person.

This material and the information contained in this material is confidential, is the property of the related Investment Manager and CSI, is intended only for intended recipients and their authorized agents and representatives and may not be reproduced or distributed to any other person without prior written consent.

### IMPORTANT INFORMATION: OPENING A NEW ACCOUNT

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

### RISKS AND OTHER DISCLOSURES

Investment Products, depending upon their investment objectives and strategies, may invest and trade in many different markets, strategies and instruments (including securities, non-securities and derivatives) and are NOT subject to the same regulatory requirements as mutual funds, including requirements to provide certain periodic and standardized pricing and valuation information to investors. There are substantial risks in investing in any Investment Product, which also are applicable to the underlying investment vehicles in which an Investment Product may invest, including risks associated with limited or no regulatory oversight. You should note that:

- An Investment Product represents a speculative investment and involves a high degree of risk. Investors must have the financial ability, sophistication/experience and willingness to bear the risks of an investment in an Investment Product. An investor could lose all or a substantial portion of his/her/its investment in an Investment Product.
- An Investment Product is not suitable for all investors. An investment in an Investment Product should be discretionary capital set aside strictly for speculative purposes. Only qualified eligible investors may invest in an Investment Product, as further described in the related Prospectus and/or subscription documents.
- Governing investment documents or the related Prospectus or the managed account agreement, as the case may be, are not reviewed or approved by federal or state regulators and privately placed interests are not federally or state registered.
- An Investment Product may be illiquid and there are significant restrictions on transferring or redeeming interests in an Investment Product. There is no secondary market for an investor's investment in an Investment Product, and none is expected to develop. Substantial redemptions by investors within a limited period of time could compel an Investment Product to liquidate its securities positions more rapidly than otherwise would be desirable, which could adversely affect the value of the distribution proceeds and the value of the remaining interests in an Investment Product.
- Net asset value may be determined by its administrator or a pricing committee retained by an Investment Product in consultation with its manager or advisor in certain cases. Certain portfolio assets may be illiquid and without a readily ascertainable market value. Since the value assigned to portfolio securities affects a manager's or an advisor's compensation, a manager's or an advisor's involvement in the valuation process creates a potential conflict of interest. The value assigned to such securities may differ from the value an Investment Product is able to realize. Instances of mispriced portfolios, due to fraud or negligence, have occurred in the industry.
- An Investment Product may have little or no operating history or performance and may use performance which may not reflect actual trading of an Investment Product and should be reviewed carefully. Investors should not place undue reliance on hypothetical, pro forma or predecessor performance. An Investment Product's actual performance may differ substantially and may be volatile.
- An Investment Product may trade in commodity interests and futures, may execute a substantial portion of trades on foreign exchanges and/or may invest in credit instruments, real estate, alternative or non-traditional assets or other instruments, each of which involve specified risks and which could result in a substantial risk of loss. Commodities and futures prices may be highly volatile and are difficult to predict.

# Commonfund Important Notes



- An Investment Product may use derivative financial instruments, including futures, swaps, options, credit default swaps and credit default indices, both for hedging and speculative purposes. The use of derivative instruments involves a variety of material risks, including the high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance as well as of material and prolonged deviations between the actual and the theoretical value of a derivative instrument.
- A manager or advisor has total trading authority over an Investment Product. The death or disability of the portfolio manager or advisor, or their departure, may have a material adverse effect on an Investment Product.
- An Investment Product may use a single advisor or employ a single strategy, which could mean a lack of diversification and higher risk. A fund of funds relies on the expertise of its underlying managers. An Investment Product and its managers or advisors may rely on the trading expertise and experience of third-party managers or advisors, the identity of which may not be disclosed to investors.
- An Investment Product may involve a complex tax structure, which should be reviewed carefully, and may involve structures or strategies that may cause delays in important tax information being sent to investors.
- Fees and expenses – which may be substantial regardless of any positive return – will offset an Investment Product's trading profits. If an Investment Product's investments are not successful, these payments and expenses may, over a period of time, deplete the net asset value of the Investment Product.
- Managers/advisors and their affiliates may be subject to various potential and actual conflicts of interest.
- An Investment Product may employ investment strategies or techniques aimed to reduce the risk of loss which may not be successful.
- An Investment Product may not be required to provide periodic pricing or valuation information to investors.
- An Investment Product may employ leverage. The more leverage used, the more likely a substantial change in value may occur, either up or down.

**The above summary is not a complete list of the risks, tax considerations and other important disclosures involved in investing in an Investment Product and is subject to the more complete disclosures in such Investment Product's Prospectus and/or managed account agreement, which must be reviewed carefully prior to making any investment in such Investment Product.**

**Commonfund Securities, Inc., member FINRA, SIPC.**

# Economic and Capital Markets Quarterly Commentary

September 30, 2016

commonfund

## Table of Contents



## About Commonfund

Commonfund was founded in 1971 as an independent nonprofit asset management firm with a grant from the Ford Foundation. Commonfund today manages customized investment programs for endowments, foundations and public pension funds. Among the pioneers in applying the endowment model of investing to institutional investors, we provide extensive investment flexibility using independent investment sub-advisers for discretionary outsourcing engagements, single strategies and multi-asset solutions. Investment programs incorporate active and passive strategies in equities and fixed income, hedge funds, real assets and private capital. All securities are distributed through Commonfund Securities, Inc., a member of FINRA. For additional information about Commonfund, please visit www.commonfund.org.

# Economic and Capital Markets Quarterly Commentary

**This report details events in the capital markets, our outlook and point-of-view and the broad themes that shape our portfolio positioning.**

*"Autumn is a second spring when every leaf is a flower"*
*- Albert Camus*

As the warmer weather fades and the hours of daylight get shorter there is no doubt change is in the air. Most likely this is only the beginning considering we are in the throes of election season in the United States and the Federal Open Market Committee (FOMC) once again looks ready to embark on the path to rate normalization (albeit one year removed from the first rate increase). Many investors took comfort in the low volatility of late summer; the S&P 500 went over 40 days without a one-percent or greater move in either direction between July and September. However, looking back at the first three quarters of 2016 as a whole this hasn't been the story.

Since the beginning of the year, the S&P 500 has returned 7.84 percent with the most extreme volatility of the summer centered on the Brexit vote at the end of June. Perhaps, more impressively, since the lows of the Brexit sell-off the S&P 500 has returned almost nine percent. It is clear that the U.S. markets, both debt and equity, have shrugged off bouts of volatility induced by global socioeconomic and political upheaval, and reaped the benefits of the consistently better domestic economic data versus global counterparts.

## Developed Markets

U.S. economic data kept a steady pace in the third quarter and most would agree it supports a slow and steady normalization of the fed funds rate by the FOMC. Recent jobs data have shown an average monthly gain of more than 150,000 and the unemployment rate has held steady at 4.9 percent. Real GDP increased an annualized rate of 1.4 percent in the second quarter, but appears to be tracking closer to a two to three-percent pace in the third quarter. For reference, GDP grew at a modest pace of 0.9 percent in the fourth quarter of 2015 and 0.8 percent in the first quarter of 2016. A highlight of the Bureau of Economic Analysis 2Q GDP report was the 4.4 percent increase in consumer spending.

U.S. corporate earnings for the second quarter showed that many of the losses stemming from the sell-off in the energy complex had already been realized and that a recovery in corporate earnings had taken hold. Of the reporting companies in the S&P 500 Index that released 2nd quarter 2016 earnings, 78 percent surprised to the upside on an earnings-per-share basis with approximately 61 percent reporting positive growth. The overall average earnings growth rate was negative 3.88 percent, due to steep losses in the energy sector. Nonetheless, this was about two percent better than market consensus estimates and more than four percent better than the earnings results in the first quarter. Moreover, profits excluding the energy sector were up more than 1.5 percent in the second quarter.

Unfortunately, profits in many international markets have remained elusive. In Europe, companies in the EuroStoxx 50 Index have reported a year-over-year drop in corporate profitability of over nine percent with significant weakness in the energy and telecommunications services sectors. Japan is still experiencing a significant decline in corporate profits, with year-over-year earnings down over 20 percent. Both the European Central Bank and the Bank of Japan have struggled to bolster their respective economies and are now realizing the limits of accommodative policy measures in the face of stubbornly anemic growth and low inflation.

Perhaps a more pressing development in Europe is the changing political climate. In a recent election in the northeast German state of Mecklenburg-West Pomerania, polls indicated the populist, anti-immigrant AfD party could defeat German Chancellor Angela Merkel's mainstream conservative Christian Democrats in next summer's next national election. This is a troubling turning point in the politics of Europe's largest economy.

This result is hardly surprising given the rise in populist politics in Europe. The same sentiment has fueled support for Marine Le Pen in France and Geert Wilders in the Netherlands. Although these parties might not hold a super-majority of the seats of their respective governments, they have been disruptive enough to prevent government from functioning properly. A prime example of this is Spain. Mariano Rajoy, the acting Prime Minister of Spain, lost a parliamentary bid for a second term in August. This defeat increased the likelihood of a third election this year, deepening the country's political instability.

## Emerging Markets

One of the biggest new stories in the emerging markets during the quarter was the impeachment of Brazilian President, Dilma Rousseff, which potentially paves the way for a fundamental shift in economic policy after 13 years of her party's leftist rule. With a vote of 61 to 20, the Senate found Rousseff guilty of bypassing Congress to finance government spending, allowing her vice president, Michel Temer to serve out the term until the end of 2018.

In China, the rapid growth of non-performing loans remains the single biggest risk to financial stability. Years of aggressive lending have kept growth steady, but left banks over-extended and corporations and local governments with a heavy debt burden. At the end of 2008, the collapse of global trade prompted China's leaders to embark on a credit-fueled investment stimulus. In the past nine years China's debt-to-GDP ratio has quadrupled to over 280 percent, with a debt load that is roughly 1.5 times the U.S. GDP. In the third quarter it was reported China's largest banks began writing off huge volumes of soured loans in an effort to clean up their balance sheets, as they look to improve their future profitability despite the country's economic slowdown.

China has also been experiencing steady foreign capital outflows and corporate earnings from old line industries are continuing to decline. True structural economic activity, excluding government action, is still weakening. China's decision to open up their markets a bit more may reflect the need for capital but the markets they are opening are not cheap. Moreover, market participants still have a lack of confidence in Chinese regulators, which have shown a tendency to reverse course and restrict trading when stocks plunge and capital outflows increase.

## Presidential Election

With approximately one month until the U.S. Presidential election, the market is anxiously waiting for one candidate to establish a decisive advantage going into November 8th, and it appears that Hillary Clinton has done so. As is typical in election season, the candidates disagree on most issues ranging from immigration to fiscal policy and from globalization to protectionism. However, a topic that seems to have found the middle ground with both parties is infrastructure spending.

A resounding number of Republicans and Democrats have said that our national infrastructure has gotten worse over the last five years. Secretary Clinton said she would increase federal spending on infrastructure projects by $275 billion in the five years after her inauguration. Candidate Trump has championed infrastructure since the beginning of his campaign, touting his experience as a real estate developer. With both candidates infrastructure investing and fiscal policy spending is likely to increase next year.

All of this proposed spending is potentially good news for the industrials and materials sectors which account for almost 20 percent of the S&P 500. Infrastructure investments also have the potential to boost broad economic productivity and employment growth. Of course, all of these potentially stimulative effects hinge on the new president's ability to forge bipartisan collaboration in Congress, a panacea that has long eluded our political apparatus.

# Thematic Quarterly Charts

### REAL ESTATE - RATES, RATES, RATES

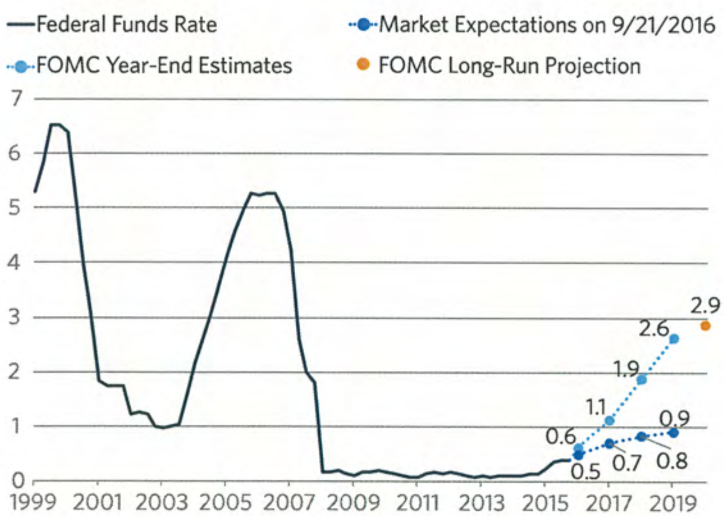
March 2001 - June 2016


Weighted Average Cap Rate (%): 35 Office, 25 Multifamily, 20 Retail, 20 Industrial
Source: Commonfund; Bloomberg; Real Capital Analytics

- Cap rate = ratio of net operating income to a property's asset value, effectively how much an investor is willing to pay per unit of income generated from a real estate investment; lower the cap rate, the higher the price being paid for the property
- While cap rates have declined to new lows, so have interest rates. The spread above 10-year Treasuries is nearly 80 basis points higher than its historical average
- Why is this important? Should interest rates rise, there remains some cushion before there is upward pressure on cap rates and, therefore, real estate prices

### FEDERAL FUNDS RATE EXPECTATIONS

Numbers in percent




NOTE: Market expectations are the federal funds rates priced into the fed futures market as of the date of the September 2016 FOMC meeting.
*Last futures market expectation is for August 2019 due to data availability
Source: Federal Reserve, Bloomberg, J.P. Morgan Asset Management

- There is a sizable difference in expectations for the speed of the interest rate "normalization" process
- Federal Open Market Committee (FOMC) Fed Fund Rate estimates are much higher than market expectations
- Commonfund remains in the "low and slow" camp

### MARKET AND ECONOMIC PERFORMANCE UNDER PRESIDENTS

Average annual S&P 500 returns and percent real GDP growth, standard deviation 1949-2015

- Bars represent average S&P 500 return and U.S. real GDP growth, respectively; lines represent ranges


*Stock market returns are price returns and do not include dividends. Average annual returns are calculated using year-end to year-end and fourth quarter to fourth quarter number for both the S&P 500 and real GDP respectively.
Source: BEA, Office of the President, Standard & Poor's, U.S. House of Representatives, U.S. Senate, FactSet, J.P. Morgan Asset Management

## Capital Markets Index Returns

### EQUITY MARKET INDEX RETURNS

September 30, 2016

| Index (in USD) | Q3 2016 | 1-Year | 5-Year | 10-Year |
|---|---|---|---|---|
| MSCI ACWI (Net) | 5.3% | 12.0% | 10.6% | 4.34% |
| S&P 500 | 3.9% | 15.4% | 16.4% | 7.24% |
| Russell 3000 | 4.4% | 15.0% | 16.4% | 7.37% |
| Russell 2000 | 9.0% | 15.5% | 15.8% | 7.07% |
| MSCI World ex US (Net) | 6.3% | 7.2% | 6.9% | 1.88% |
| MSCI Europe (Net) | 5.4% | 2.5% | 7.5% | -1.07% |
| MSCI Japan (Net) | 8.6% | 12.1% | 7.4% | 1.05% |
| MSCI Emerging Markets (Net) | 9.2% | 16.9% | 3.1% | 3.96% |

Source: MSCI, Bloomberg

## FIXED INCOME INDEX RETURNS

September 30, 2016

| Index | Q3 2016 | 1-Year | 5-Year | 10-Year |
|---|---|---|---|---|
| Barclays Aggregate | 0.5% | 5.2% | 3.1% | 4.8% |
| Barclays US Treasury | -0.3% | 4.1% | 2.2% | 4.5% |
| Barclays US Treasury (Long) | -0.4% | 13.1% | 5.5% | 8.1% |
| Citi World Gov't Bond | 0.3% | 9.7% | 0.8% | 4.1% |
| U.S. TIPS | 1.1% | 7.0% | 2.0% | 4.6% |
| MBS (Agency) | 0.6% | 3.6% | 2.7% | 4.7% |
| CMBS | 0.6% | 5.2% | 4.8% | 5.5% |
| Investment Grade | 1.2% | 8.3% | 4.8% | 5.8% |
| High Yield | 5.5% | 12.8% | 8.2% | 7.6% |
| Short-Dated High Yield | 3.8% | 8.8% | 6.8% | 6.7% |

Source: Barclays, Citigroup, Merrill Lynch

## REAL ASSET MARKET INDEX RETURNS

September 30, 2016

| Index | Q3 2016 | 1-Year | 5-Year | 10-Year |
|---|---|---|---|---|
| Bloomberg Commodity Index | -3.9% | -2.6% | -9.4% | -5.3% |
| MSCI U.S. REIT Index | -1.4% | 19.8% | 15.8% | 6.2% |
| MSCI GIM World Natural Resource Stock Index | 3.1% | 20.5% | 0.3% | 0.9% |
| DJ Brookfield Global Infrastructure Index | 2.2% | 15.3% | 11.5% | 8.4% |
| Alerian MLP Total Return Index | 1.1% | 12.7% | 5.0% | 9.0% |
| NCREIF ODCE (lagged) | 2.0% | 11.2% | 11.7% | 5.0% |
| Philadelphia Utilities Index | -5.6% | 17.8% | 10.9% | 7.4% |

Source: Bloomberg, NCREIF

## HEDGE FUND MARKET INDEX RETURNS

September 30, 2016

| Index | Q23 2016 | 1-Year | 5-Year | 10-Year |
|---|---|---|---|---|
| HFRI Equity Hedge Index | 4.7% | 6.0% | 5.6% | 3.3% |
| HFRI Event-Driven Index | 4.4% | 6.3% | 5.3% | 4.3% |
| HFRI Relative Value Index | 3.1% | 5.6% | 5.6% | 5.4% |
| HFRI Macro Index | -0.9% | 1.7% | 0.7% | 3.4% |
| HFRI FoF Composite | 2.5% | 0.6% | 3.2% | 1.8% |
| HFRI FoF Conservative | 2.0% | 0.4% | 3.1% | 1.5% |

Source: Hedge Fund Research Group

## Commonfund Outlook For 2016

It seems as though each quarter is defined by its distinctive event risk. Over the last four quarters we have seen numerous terrorist attacks, a meltdown in the energy complex, Brexit, and a significant slowdown in the world's economic engine - China. The third quarter was unique in that there wasn't a significant defining event that dictated the course of the global risk markets. This is the main reason for the relatively low volatility in the risk markets this summer. That being said, the combination of a more-hawkish FOMC and the upcoming U.S. Presidential election will keep the markets on alert. Equities are close to fully priced, but remain attractive on a relative basis when viewed in the context of historically low Treasury yields and muted inflation.

### Equities

We remain overweight U.S. equities, have slightly narrowed our relative overweight to Japan, and maintain our relative underweight to Europe. Given the continued political and economic uncertainty, we see no reason to neutralize the underweight to Europe in the months ahead. We hold a slight underweight to the emerging markets, predominantly among the energy and resource providers. If energy prices rally and hold significantly above our crude oil forecast of $45 per barrel, we could see a broader boost for the emerging markets, particularly for commodity-exporting economies. Another indicator, in addition to improved earnings that would cause us to reallocate to emerging market equities would be a move down in the U.S. dollar.

### Fixed Income

We remain underweight fixed income securities; however, we believe fixed income continues to serve an important role in a policy portfolio as a call option on liquidity. Within fixed income, we look for the yield curve to flatten with longer-dated securities outperforming short-maturity notes. Given the extremely low level of nominal yields, current bond prices imply little-to-no room for the normalization of either inflation or U.S. Fed monetary policy. We favor an overweight to mortgages (including short-duration, higher-coupon mortgages) and an underweight to high-yield and distressed credit due to deterioration in corporate credit quality and increasing leverage from share buybacks and merger and acquisition activity.

### Real Assets

Inflation in the U.S. has been extremely low in recent years and will likely increase but remain low for the remainder of 2016. The current macroeconomic environment suggests that the decline in input costs is ending. Our neutral weighting to real estate is based on our expectation that real estate will deliver positive returns in 2016, although at a likely decelerated rate from the torrid pace of the last few years. Fundamentals in the domestic real estate market continue to be positive with employment gains and favorable household formations. However, near-term headwinds within the energy sector and the fact that capitalization rates are low could temper the gains from this sector as the Fed continues to normalize interest rates. Demographic conditions, such as the aging of baby boomers, will likely have a positive impact on certain areas of the U.S. housing sector such as senior housing.

### Diversifying Hedge Funds

Hedge fund strategies continue to play an important role in policy portfolios as volatility dampeners and a potential source of truly uncorrelated alpha. We are increasingly unwilling to have exposure to conventional equity and credit beta in our hedge fund portfolios, and accordingly continue to shift our focus to managers that seek to generate returns from sources other than directional market risk.

Past performance is not indicative of future results. See Important Notes | Market Commentary.

## Risks

We still believe that greater clarity has emerged regarding the U.S. and now ex-U.S. in certain areas. This gives us greater confidence in future growth prospects. However, we are still in a world of increased post-crisis regulation and diverging global central bank policy action. This makes markets susceptible to large flows between asset classes that could feed into other areas.

- We are sensitive to the potential for a liquidity crisis in fixed income. The structure of fixed income markets has been changing through the combination of increased banking and market regulation, and less dealer activity supporting underlying liquidity could become a significant headwind.

- Macroeconomic weakness in Europe may persist given the political tensions. The Middle East situation (including the ongoing refugee crisis) and the conflict both with and within Germany, which is opposed to aggressive additional ECB stimulus, combined with the British secession from the European Union, suggest that European unification is more fragile than ever. This could hinder economic activity and corporate profits.

**Market Commentary**

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

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

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

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

15 Old Danbury Road
P.O. Box 812
Wilton, CT 06897-0812

Tel 888-TCF-Main
Tel 203-563-5000
www.commonfund.org

commonfund

Douglas C. Lane & Associates
REGISTERED INVESTMENT ADVISOR

# University of South Alabama Endowment

December 1, 2016

DCL&A

777 Third Avenue, 38th Floor
New York, NY 10017-1424

Telephone: 212-262-7670
Fax: 212-262-2801

Email: mvetto@dclainc.com
Website: www.dclainc.com

# Performance Summary Through 9/30/16

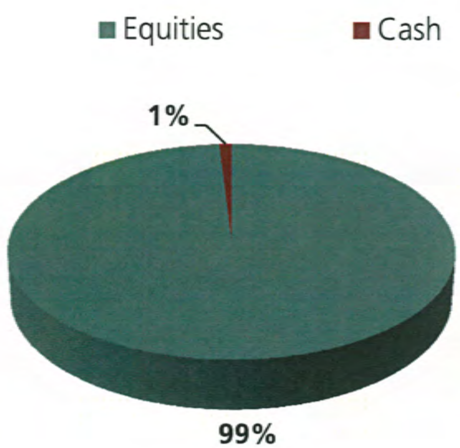
| CUMULATIVE | One Year *Ended 9/30/16* | Three Years *Ended 9/30/16* | Five Years *Ended 9/30/16* | Since Inception *(1/3/08 – 9/30/16)* |
|---|---|---|---|---|
| University of South Alabama Endowment | | | | |
| Total (Gross of Fees) | 8.84% | 30.74% | 110.11% | 120.23% |
| Total (Net of Fees) | 8.24% | 28.18% | 102.83% | 106.88% |
| *S&P 500 Index* | *15.43%* | *37.36%* | *113.44%* | *81.27%* |

| ANNUALIZED | | | | |
|---|---|---|---|---|
| University of South Alabama Endowment | | | | |
| Total (Gross of Fees) | 8.84% | 9.35% | 16.01% | 9.45% |
| Total (Net of Fees) | 8.24% | 8.63% | 15.19% | 8.67% |
| *S&P 500 Index* | *15.43%* | *11.16%* | *16.37%* | *7.04%* |

DCL&A
REGISTERED INVESTMENT ADVISOR

# USA Portfolio Summary: 11/15/16

## Total Portfolio Value: $7,762,503




| | |
|---|---|
| **Annual Income** | **$115,886** |
| **Dividend Yield** | **1.49%** |

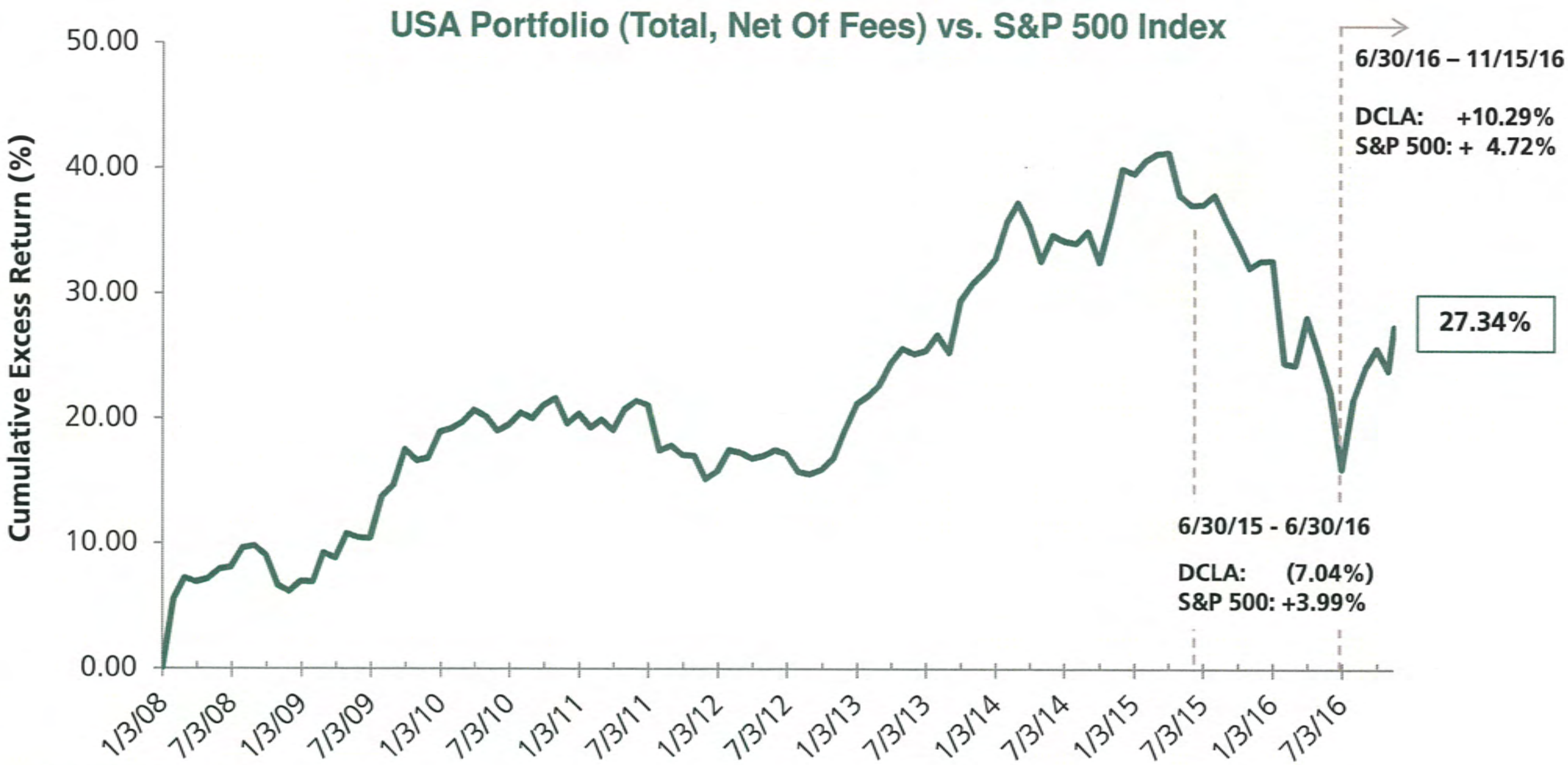
### Top 10 Holdings

| Shares | Security | Cost | Market Value |
|---|---|---|---|
| 325 | Alphabet Inc Cap Stk Cl A/C | $116,992 | $248,593 |
| 5,000 | Delta Airlines, Inc | 54,232 | 238,250 |
| 3,500 | United Continental Hldgs Inc | 84,142 | 231,210 |
| 4,500 | Southwest Airlines Co. | 35,081 | 208,125 |
| 2,000 | Mastercard Inc Cl A | 36,868 | 204,960 |
| 5,500 | Air Lease Corp Cl A | 160,457 | 193,600 |
| 2,400 | Visa Inc Cl A | 37,993 | 188,568 |
| 3,600 | Cerner Corp | 39,460 | 177,120 |
| 5,000 | General Motors Co | 161,811 | 167,150 |
| 1,500 | Harman International Inds Inc | 121,359 | 164,235 |
| **TOTAL** | | **$848,395** | **$2,021,811** |

DCL&A
REGISTERED INVESTMENT ADVISOR

# Performance – Cumulative Excess Returns

From 1/3/08 to 11/15/16




DCL&A®
REGISTERED INVESTMENT ADVISOR

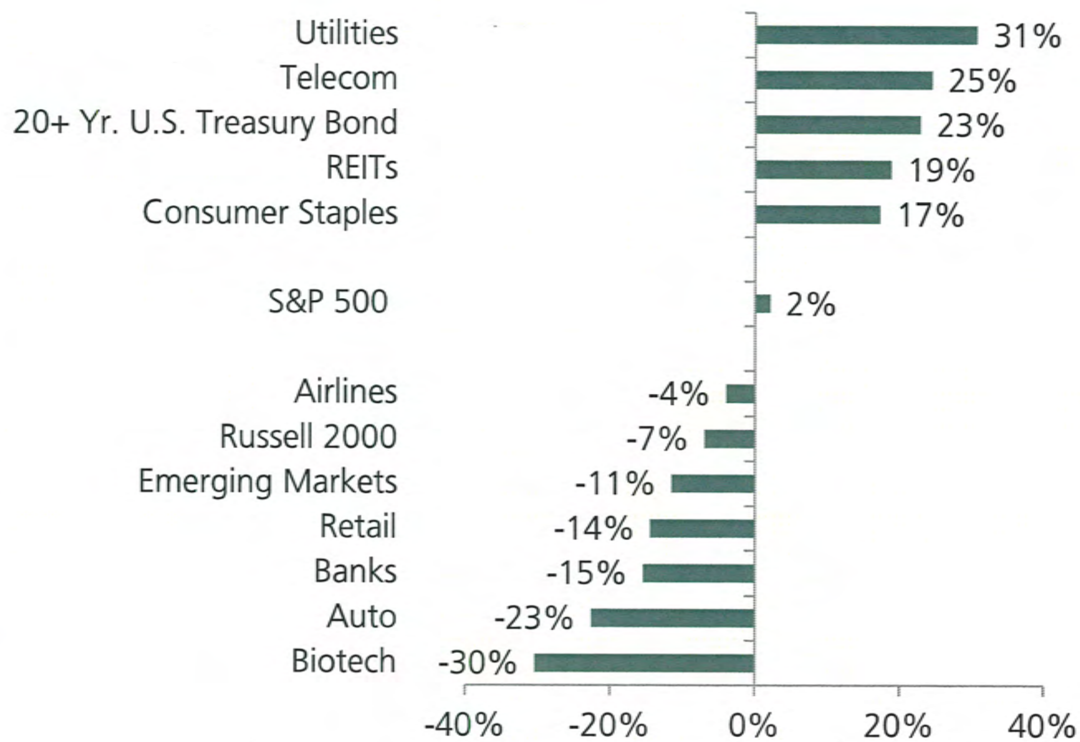
# Market Focus on Safe Income

Falling Interest Rates and Easy Monetary Policy

Prevalent Pessimism Around Economic Outlook

Heightened Investor Search For Safe Income

Performance from 6/30/15 to 6/30/16



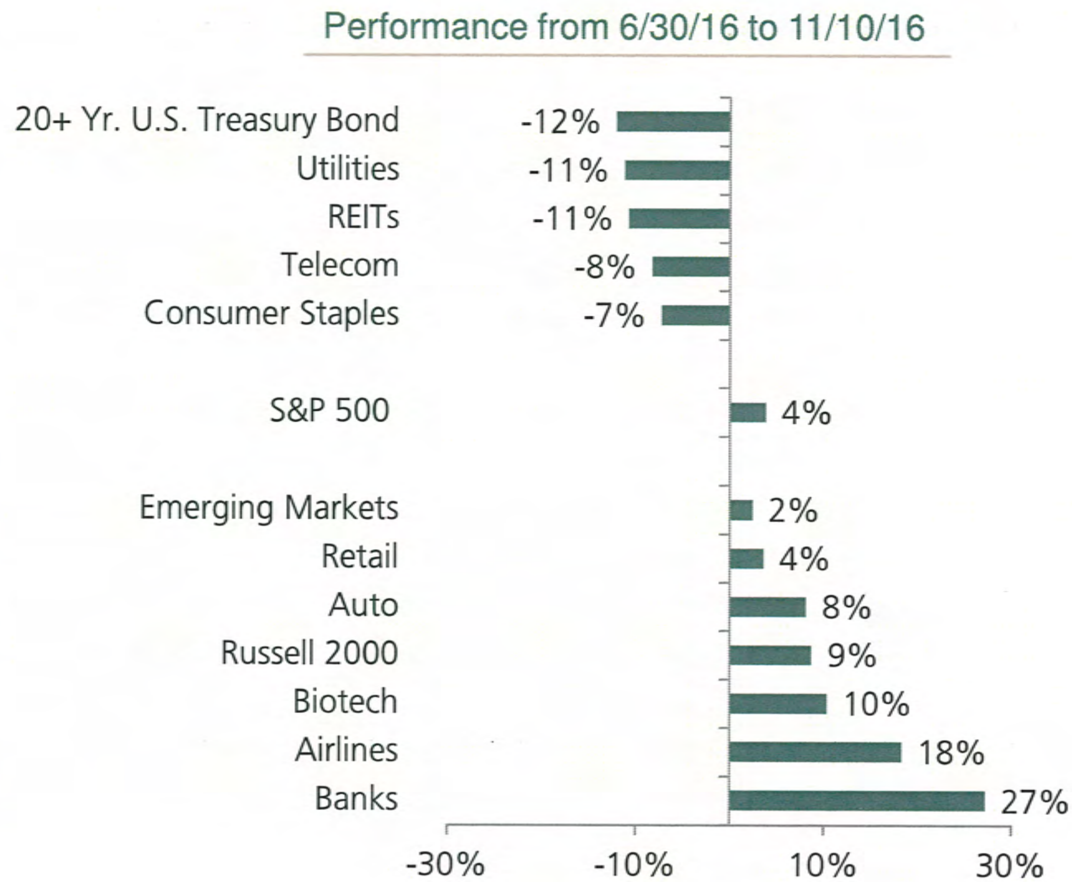

DCL&A
REGISTERED INVESTMENT ADVISOR

# Market Focus on Growth and Cycicals

Increased Likelihood of Tighter Monetary Policy

Resilient Economic Data

Potential Pivot to Fiscal Stimulus, Reduced Regulations, Tax Reform




DCL&A
REGISTERED INVESTMENT ADVISOR

# Current Portfolio Positioning and Key Themes

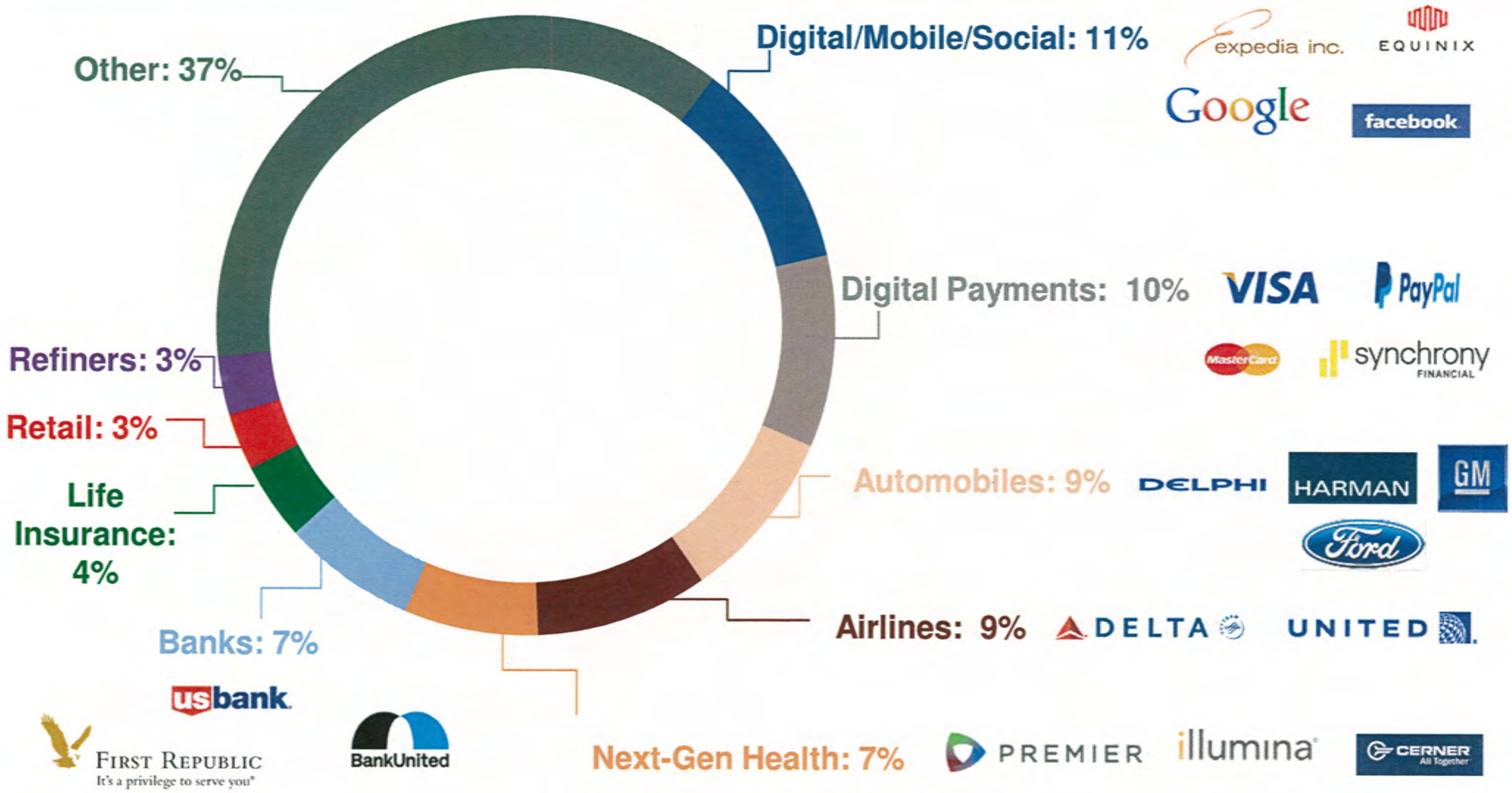
As of 11/15/16

| | Cost | Market Value | Percent of USA Equity Portfolio | | Percent of S&P 500 | |
|---|---|---|---|---|---|---|
| Industrials | $1,008,310 | $1,734,215 | 23 | | 10 | |
| Information Technology | 897,929 | 1,513,757 | 20 | | 22 | |
| Health Care | 607,760 | 1,320,490 | 17 | 56% | 14 | 36% |
| Consumer Discretionary | 1,113,215 | 1,230,672 | 16 | | 12 | |
| Financials | 881,410 | 1,036,582 | 13 | | 13 | |
| Basic Materials | 140,296 | 264,783 | 3 | | 3 | |
| Energy | 269,488 | 259,791 | 3 | | 7 | |
| Consumer Staples | 144,355 | 199,853 | 3 | | 10 | |
| REITs | 41,029 | 142,608 | 2 | 6% | 3 | 23% |
| Telecommunications | - | - | 0 | | 3 | |
| Utilities | - | - | 0 | | 3 | |
| **TOTAL** | **$5,103,793** | **$7,702,751** | **100** | | **100** | |

DCL&A
REGISTERED INVESTMENT ADVISOR

Note: S&P 500 Index as of October 31, 2016.

# Equity Portfolio By Theme




DCL&A
REGISTERED INVESTMENT ADVISOR

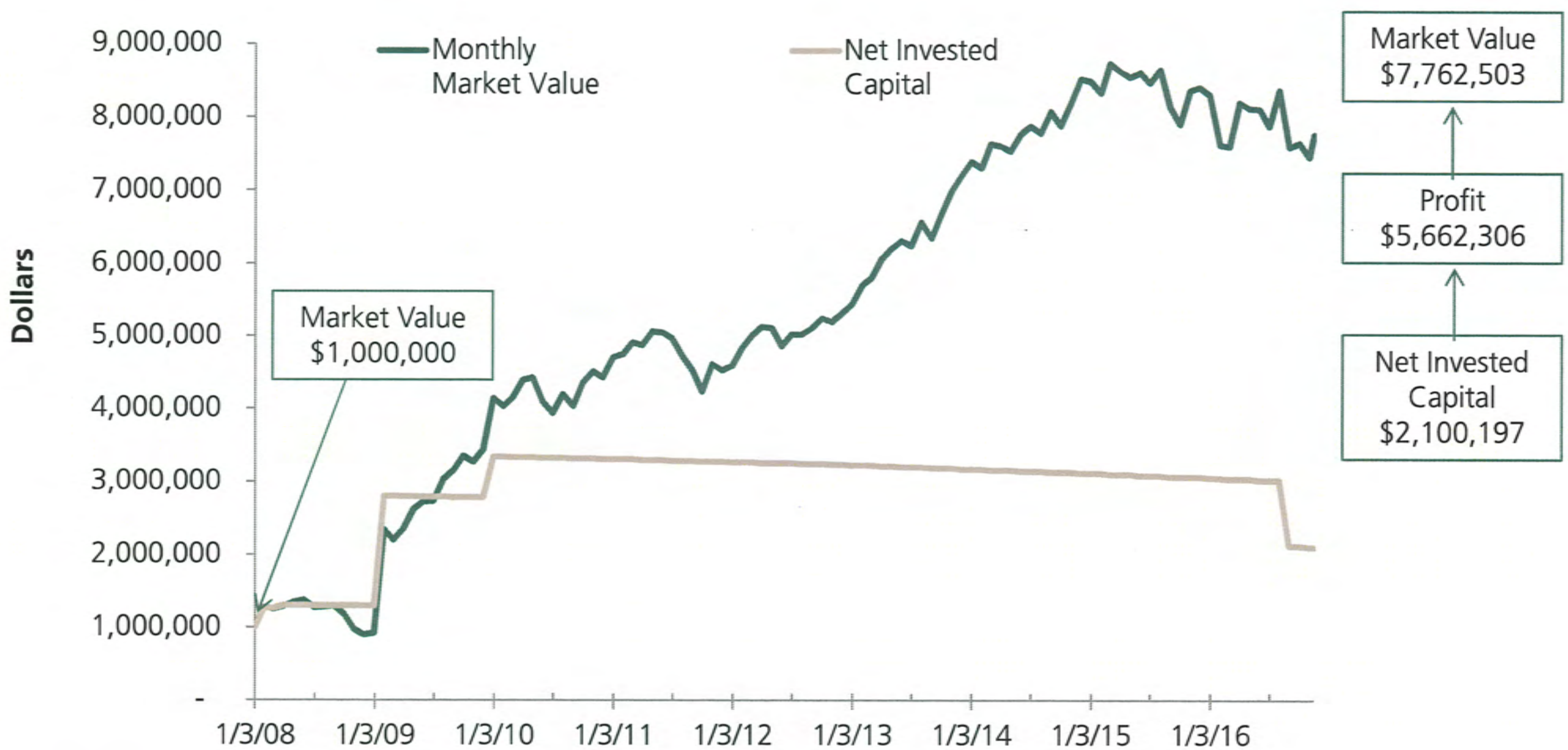
Note: As of 11/15/2016.

# Current Investment Themes and Ideas

| | |
|---|---|
| **Consumer/Retail/Housing** | • U.S. consumer strength drives discretionary spending growth<br>• Retail landscape undergoing significant change<br>• Housing activity below long-term trends |
| **Financials** | • U.S. economic outlook supports solid loan growth<br>• Eventual increase in interest rates should help margins<br>• Strong credit quality trends<br>• Attractive valuations |
| **Underappreciated Cyclicals** | • Airline consolidation improves profitability through the cycle<br>• Auto industry changes strategy: maximize returns, not market share<br>• Restructuring across the industrial sector creates more sustainable, profitable businesses |
| **Healthcare** | • Biopharma R&D productivity surging<br>• Technology breakthroughs enabling precision medicine<br>• Shift to outcomes-based payment models is driving significant change |

# USA and DCLA – Relationship History

From 1/3/08 to 11/15/16




DCL&A
REGISTERED INVESTMENT ADVISOR

# University of South Alabama

## PEG Global Private Equity Institutional Investors VI

**December 1, 2016**

# Our Private Equity Group is one of the most experienced teams dedicated to building high quality private equity portfolios

Proven strategy and process developed and refined over the past 36 years

## EXPERIENCED, COHESIVE TEAM OF INVESTMENT PROFESSIONALS

- PEG average tenure[1]
  - 26 years: 9 founding members
  - 17 years: 19 senior portfolio managers
  - 12 years: portfolio management team
- Combined private equity experience of over 865 years
- Located in New York, London, Hong Kong, Beijing[2], and New Delhi
- Supported by dedicated resources and leveraging the extensive expertise of the broader firm

## SIGNIFICANT PRIVATE EQUITY KNOWLEDGE AND INSIGHT

- Approximately $24 billion in assets under management[3]
- Investing in the U.S. private equity markets since 1980 and globally since 1983
- More than 6,000 private equity offerings in our database and active data capture of 880+ partnerships
- Meaningful and long-standing investor with top tier private equity firms

## PROVEN RESULTS AND ALIGNMENT WITH OUR INVESTORS

- Opportunistic approach seeking the highest conviction investments
- Consistent out-performance over multiple cycles
- Dedicated distribution management team to ensure efficient cash returns to investors
- Transparent reporting and comprehensive servicing platform
- Team professionals personally invest 1.25% alongside all investments[4]

1 Includes tenure at both PEG and AT&T Investment Management Corporation (ATTIMCO).
2 Beijing Equity Investment Development Management Co., Ltd., a joint venture in China through the PEG's affiliate JPMorgan Asset Management Private Equity (China) LLC, is located in Beijing.
3 Preliminary as of 6/30/2016, includes private equity commingled vehicles, managed accounts and trusts within J.P. Morgan Asset Management (JPMAM); includes unfunded commitments awarded subsequent to 6/30/2016.
4 The co-investment percentage for PEG professionals is calculated across PEG's platform of products and accounts, and may be greater or less than 1.25% for any particular one. The allocation percentage is reviewed each calendar year, and on an aggregate level it has been at or above 1% for the past 9 years and is expected to remain at or above this level going forward. The co-investment by PEG professionals in a particular product or investment may be limited or discontinued if required by law or policy.
Past performance is no guarantee of future results.

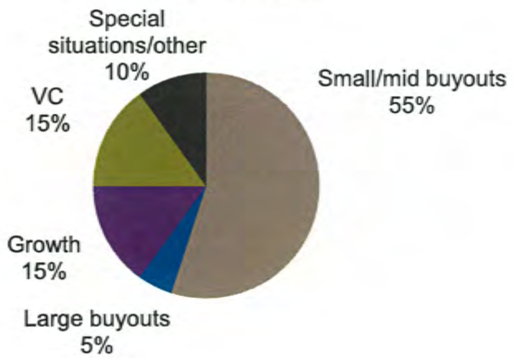
# Global Private Equity VI ("GPE VI")

## Portfolio construction overview

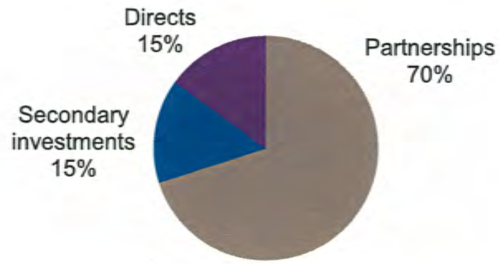
- General Partners: appropriately diversified to approximately 20 core GP relationships
- Vintage years: targeting 3 year commitment period
- Return objective: 500 basis points in excess of a diversified public equity portfolio

## Representative target allocation

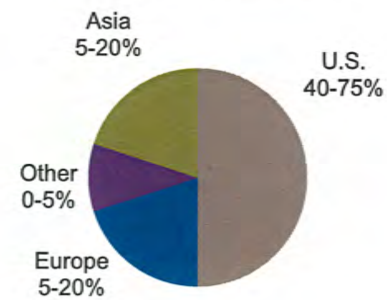
### Investment Sector




### Investment Type




### Geographic Location




**Corporate Finance:**
- Focus on small to mid market and opportunistically larger companies
- Target proven GP teams with sector and strategy focus that can provide an execution and operating advantage

**Venture Capital / Growth:**
- Up to 30% in venture capital investments
- Focus on areas of innovation
- Target GPs with domain expertise and strong entrepreneurial networks

- Up to 35% in secondary and direct investments (opportunistic investments)
- Opportunistic investments expected to be return and income enhancing to the portfolio, as well as mitigate j-curve risk
- Target opportunities where we can leverage existing relationships with fund sponsors

- Global opportunity set with a focus on key private equity markets and high growth regions
- Focus on regional firms who leverage their networks to create value beyond local markets

The manager seeks to achieve the stated objectives. There can be no guarantee those objectives will be met.



J.P.Morgan Asset Management

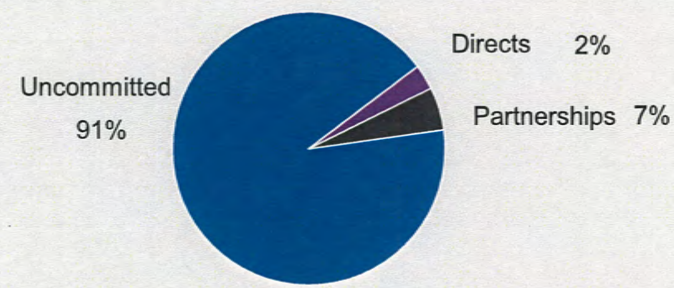
# PEG Global Private Equity VI

## Fund characteristics and current commitments as of November 2016

| FUND CHARACTERISTICS | |
|---|---|
| Vintage years | 2H 2016 – est. 2019 |
| Fund size target / closed to date: | $400mm / $256mm |
| Expected final closing: | 1Q 2017 |
| Committed to investments: | $35.7mm |

| Investment | Date | Investment Type | Commitment (mm) |
|---|---|---|---|
| Accel India[1] | 2016 | Partnership | $2.9 |
| Aleph II | 2016 | Partnership | $2.2 |
| Fresh Direct | 2016 | Direct | $4.0 |
| Kinderhook V | 2016 | Partnership | $8.0 |
| MZ, Inc. [2] | 2016 | Direct | $4.0 |
| Quad-C Partners[1] | 2016 | Partnership | $6.1 |
| Thoma Bravo XII | 2016 | Partnership | $6.0 |
| Venrock VIII[1] | 2016 | Partnership | $2.5 |
| **Total** | | | **$35.7** |

Fund composition by investment type[3]




1 Investment pending legal close.
2 Formerly known as Machine Zone, Inc.
3 Composition relative to investor commitments closed to date.

# Our sourcing generates significant investment opportunities

- Each year we proactively source and review, on average, more than 500 investment opportunities
- We have been very selective in our investment decisions

## REPRESENTATIVE DEAL LOG FROM 2008 – 3Q 2016[1]

| U.S. Corporate Finance | European Corporate Finance | Venture Capital | Asia | Emerging Managers[2] | Secondaries[3] | Direct Investments[3] |
|---|---|---|---|---|---|---|
| 1,056 offerings reviewed | 661 offerings reviewed | 842 offerings reviewed | 771 offerings reviewed | 2,191 offerings reviewed | 750 offerings reviewed | 1,314 offerings reviewed |
| 552 due diligence | 352 due diligence | 450 due diligence | 434 due diligence | 1,141 due diligence | | 836 due diligence |
| 73 investments | 30 investments | 86 investments | 42 investments | 99 investments | 59 investments | 65 investments |

1 Time horizon as shown above was chosen for non-performance based reasons. Ending date for time horizon is 9/30/2016

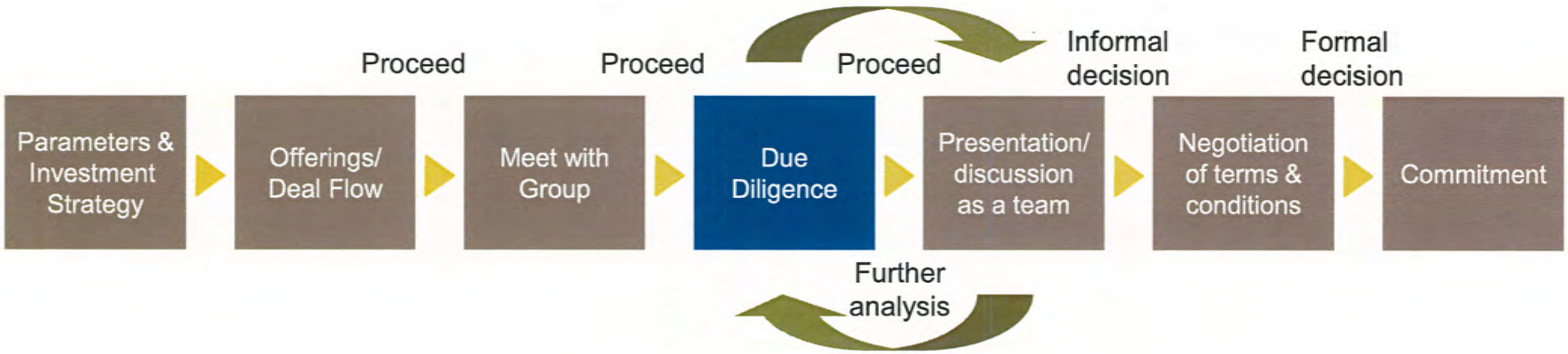
2 Emerging managers are defined as institutional fundraisers I-III

3 Represents projects, not underlying partnerships, and includes investments pending legal close.

These are examples of the types of investments that may be considered by the PEG and are included solely for illustrative purposes. There can be no assurance as to the type or number of investment opportunities that will be made available to the PEG and, even if available, that such investment opportunities would be selected by the PEG.

# Each opportunity is vetted using a thorough and well documented due diligence process

No "formula" for conducting due diligence as each investment is unique and may require a differentiated focus




- Offering logged into database
- New opportunity summary
- Email team on analysis and reference calls
- Update team at weekly meeting
- Sanity Check memo
- Final Decision memo
- Pre-close terms

- Weekly team meeting with continual information discussion
- Deal teams include at least 2 senior team members and average involvement from 5+ team members throughout the process
- Detailed and comprehensive diligence materials
- Interactive consensus-building investment decision making
- Supermajority required to consummate an investment
- Continuous due diligence and active monitoring through Advisory and Valuation board seats

# Kinderhook Capital (Oct 2016)

| | |
|---|---|
| **Firm overview and highlights** | ■ Team led by Tom Tuttle, Rob Michalik, Chris Michalik, Cor Corruthers and Paul Cifelli<br>■ Focus on non-auctioned, privately negotiated transactions in the small to mid market<br>■ PEG has invested with Kinderhook since Fund I in 2003 and is the lead investor<br>■ PEG investment thesis<br>- experienced team known to the PEG<br>- unique and proprietary deal flow in an attractive market segment<br>- strong alignment of interest with large GP commitment in each fund |
| **Fund I 2003** | ■ Strong performance, 2.4x TVPI/ 21% IRR net (1.8x DPI)<br>- several large exits including NTI (7.5x), CPC Associates (7x), Nurse on Call (5x), and DDI (6x) |
| **Fund II 2006** | ■ Fund is fully invested in 11 companies; held at 2.2x TVPI/15% IRR net (1.8x DPI)<br>■ PEG also purchased two secondaries in Fund II (24% IRR and 2.2x net)<br>■ THI: leading company selling tonneau covers to the light truck aftermarket; realized 23x cost and returned the entire Fund<br>■ EQ (PEG direct investment): full-service environmental solutions provider sold for 2.8x cost in June 2014 |
| **Fund III 2010** | ■ Kinderhook III sized at $300 million; GP commitment of $20 million<br>■ Fully invested in 10 companies; 3 early exits to date; held at 1.4x TVPI/14% IRR net (0.5x DPI) |
| **Fund IV 2014** | ■ Significantly oversubscribed at $500 million cap. GP commitment of $40 million. PEG continues as lead investor<br>■ 70% called and reserved as of June 2016<br>■ PEG direct investment in CVCC |
| **Fund V 2016** | ■ Oversubscribed at $750 million cap. GP commitment of $50 million. PEG continues as lead investor |

Performance as of 6/30/16. Past performance is no guarantee of future results. Partnership performance is net of underlying investment fees and expenses, gross of Advisor fees; if Advisor fees were included, returns would be lower. Portfolio company performance is gross of underlying investment fees and expenses and gross of Advisor fees. Not all partnerships have had or will have similar results.

# Machine Zone

## COMPANY DESCRIPTION

- MZ, Inc. was founded in 2007 and has a global presence
  - high grossing products, an attractive pipeline and strong growth / cash flow generation
  - experienced and deep management team with strong technical backgrounds
- Key asset is proprietary technology platform focused on real-time messaging (RTM)
  - mainly applied to mobile video games but expanding to enable real-time, multi-lingual experiences in other applications

## INVESTMENT THESIS

- MZ's innovative platform connects the entire world together in one real-time environment
  - introduced the idea of global gameplay, giving players from around the world the ability to communicate through an automatic translation engine
- The market for mobile video games and entertainment is large and has attractive prospects for future growth
- Potential to commercialize real time messaging technology platform for application in other verticals

## INVESTMENT UPDATE

- Game of War: Fire Age continues to be a top grossing mobile game
  - #1 grossing Apple iOS game in more than 90 countries
  - launched on Android mobile devices (Google Play Store) in 2014 and quickly rose to #1 game
- Mobile Strike launched in November 2015 and quickly became a top grossing game on both iOS and Android
- Launched new advertising agency business in 2016
  - MZ is the #1 mobile marketer and #1 marketer of games (online and on television)
  - ability to provide data driven, ROI for digital advertising to customer
- Commercializing real time technology platform for application in transportation, finance and logistics

Source: MZ, Inc. This example is included solely to illustrate strategies which have been utilized by PEG. Examples shown here are not intended to indicate overall performance that may be expected to be achieved by the portfolio. There can be no guarantee or assurance that the portfolio will be able to make similar investments on similar terms in the future.
Past performance is no guarantee of future results. Not all investments have had or will have similar results. The logo presented is registered trademark by its company.

1 Source: Digi-Capital "Global Games Investment Review 2015 Executive Summary", Dec. 2015. Estimates may prove to be incorrect and outcomes could be substantially different than those estimated.

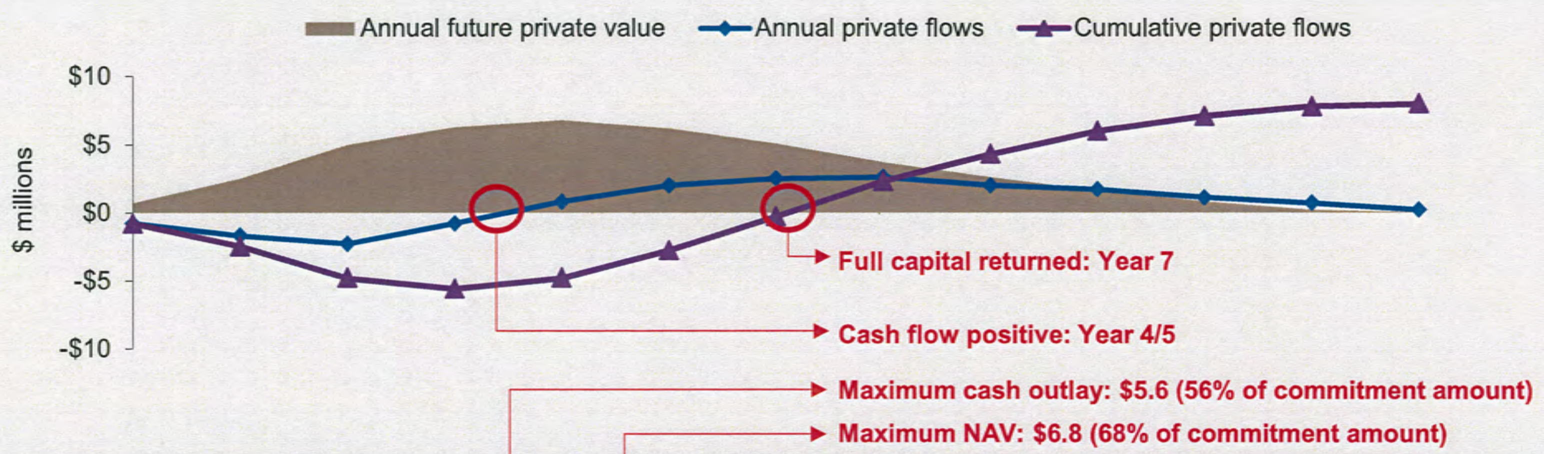
# Appendix

# Global Private Equity: hypothetical cash flow model

## $10 million commitment, invested across three vintage years with ramp up

- Annual allocations: 70% partnerships, 15% secondaries and 15% directs

### PRIVATE EQUITY VALUES AND CASH FLOWS




| $ millions | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Year 11 | Year 12 | Year 13 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total client commitment** | **$10.0** | | | | | | | | | | | | | **$10.0** |
| **Commitments to investments** | **2.0** | **4.0** | **4.0** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **$10.0** |
| Capital calls | (0.8) | (1.9) | (2.8) | (1.9) | (1.3) | (0.8) | (0.4) | (0.1) | - | - | - | - | - | (10.0) |
| Distributions | - | 0.2 | 0.5 | 1.1 | 2.1 | 2.8 | 2.9 | 2.7 | 2.0 | 1.7 | 1.1 | 0.7 | 0.2 | 18.0 |
| Annual net cash flows | (0.8) | (1.7) | (2.3) | (0.8) | 0.8 | 2.0 | 2.5 | 2.6 | 2.0 | 1.7 | 1.1 | 0.7 | 0.2 | 8.0 |
| Cumulative cash flows | (0.8) | (2.5) | (4.8) | (5.6) | (4.8) | (2.8) | (0.3) | 2.3 | 4.3 | 6.0 | 7.1 | 7.8 | 8.0 | |
| Private equity value | 0.7 | 2.5 | 5.0 | 6.3 | 6.8 | 6.2 | 5.1 | 3.7 | 2.6 | 1.6 | 0.8 | 0.2 | - | |
| MOIC | 0.9x | 1.0x | 1.0x | 1.1x | 1.2x | 1.4x | 1.5x | 1.6x | 1.7x | 1.8x | 1.8x | 1.8x | 1.8x | 1.8x |

Projection based on PEG estimates using a return of 18% IRR and 1.8x

Hypothetical for illustrative purposes only. Net of underlying investment fees and expenses; gross of Advisor fees; if Advisor fees were included, returns would be lower.

Past performance is no guarantee of future results. The manager seeks to achieve the stated objectives. There can be no guarantee those objectives will be met.



J.P.Morgan
Asset Management

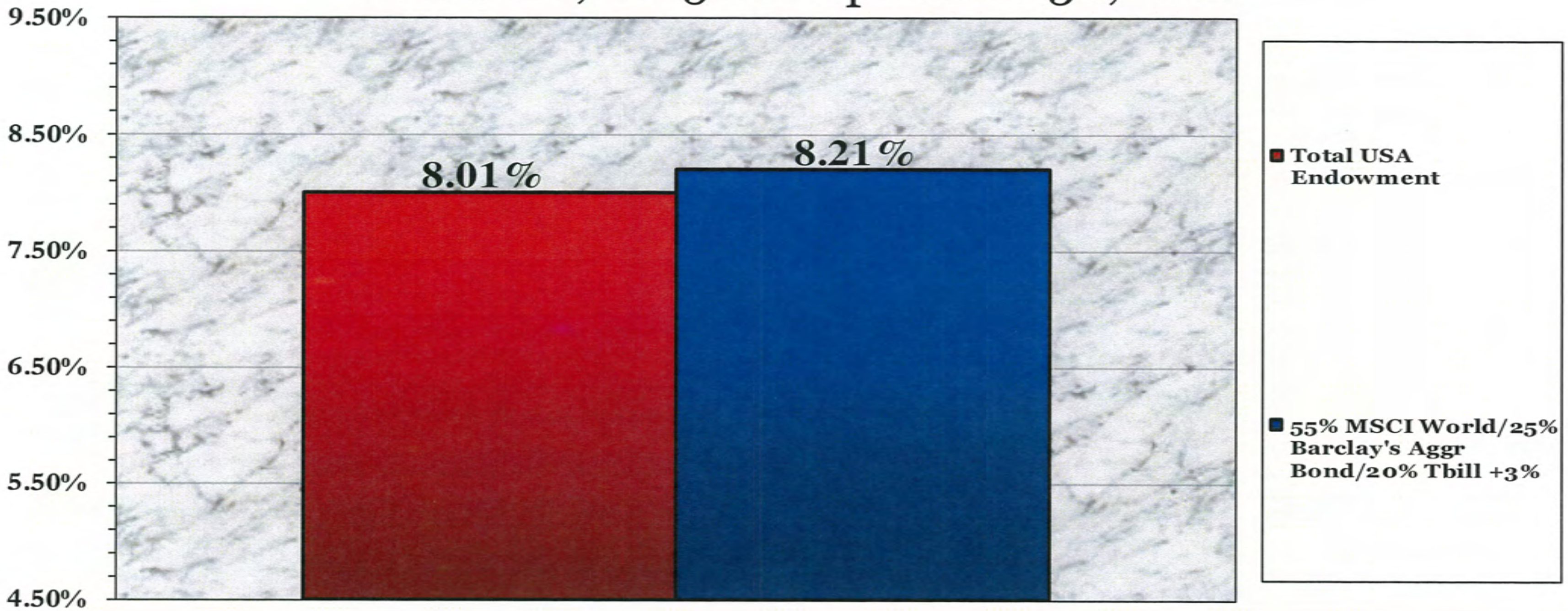
# University of South Alabama Endowment Investment Performance Review/Analysis

Fiscal Year 2016

USA

UNIVERSITY OF
SOUTH ALABAMA

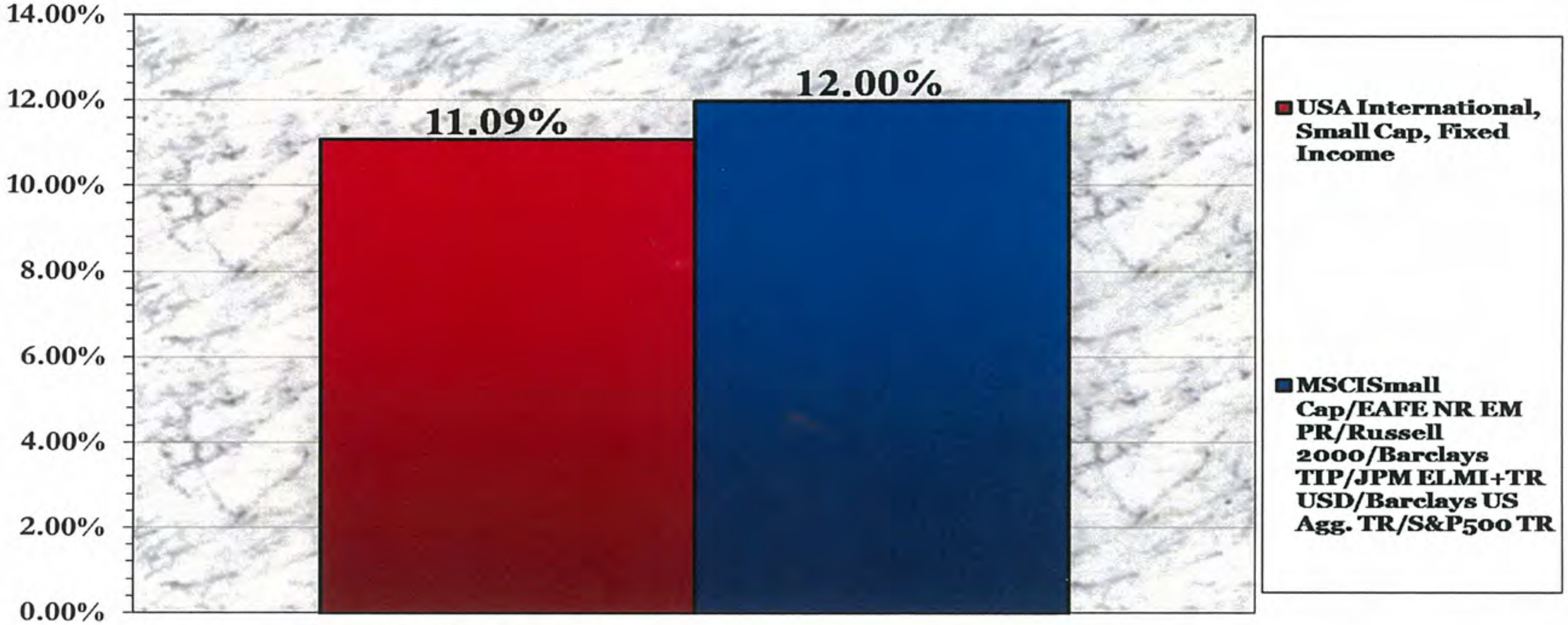
Total USA Endowment
Fiscal Year 2016
October 1, 2015 To September 30, 2016




Underperformed (0.20)%

Balance: $138,474,056

USA Endowment
International, Small Cap, Fixed Income
Fiscal Year 2016
October 1, 2015 To September 30, 2016

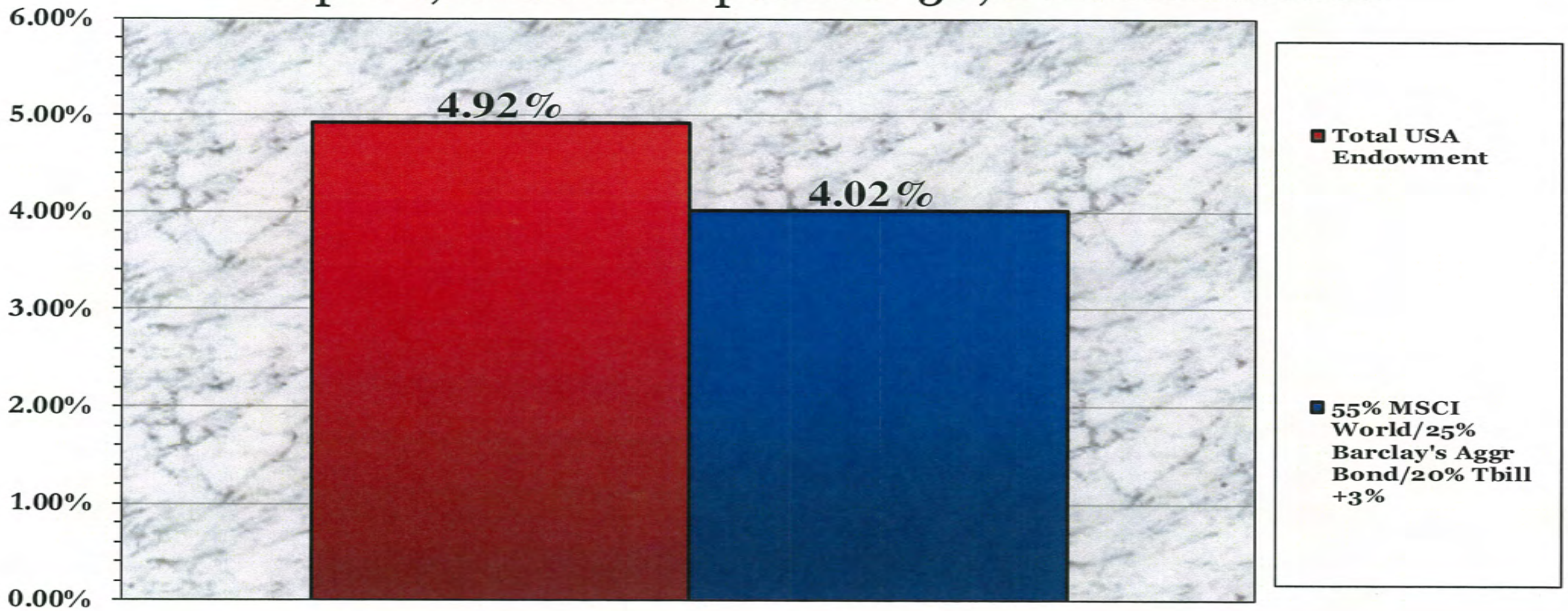



Underperformed (0.91)%

# Total USA Endowment Breakdown
# Fiscal Year 2016

| Manager | Money Market | Large Cap Equity | Small Cap Equity | International | Fixed | Hedge | Total | % |
|---|---|---|---|---|---|---|---|---|
| Private Advisors | $ - | $ - | $ - | $ - | $ - | $ 3,957,321 | $ 3,957,321 | 3% |
| Schwab | $ 6 | $ 7,023,351 | $ 6,619,573 | $ 14,616,441 | $ 5,462,170 | $ - | $ 33,721,540 | 24% |
| Doug Lane | $ 65,306 | $ 7,577,881 | $ - | $ - | $ - | $ - | $ 7,643,187 | 6% |
| Common Fund | $ - | $ 37,197,927 | $ - | $ - | $ 31,976,799 | $ - | $ 69,174,726 | 50% |
| Gerber Taylor | $ - | $ - | $ - | $ - | $ - | $ 23,977,282 | $ 23,977,282 | 17% |
| Total | $ 65,312 | $ 51,799,159 | $ 6,619,573 | $ 14,616,441 | $ 37,438,970 | $ 27,934,603 | $ 138,474,056 | 100% |
| % | 0% | 37% | 5% | 11% | 27% | 20% | 100% | |
| Policy % | | 25-55% | 0-8% | 5-15% | 15-35% | 10-30% | 100% | |

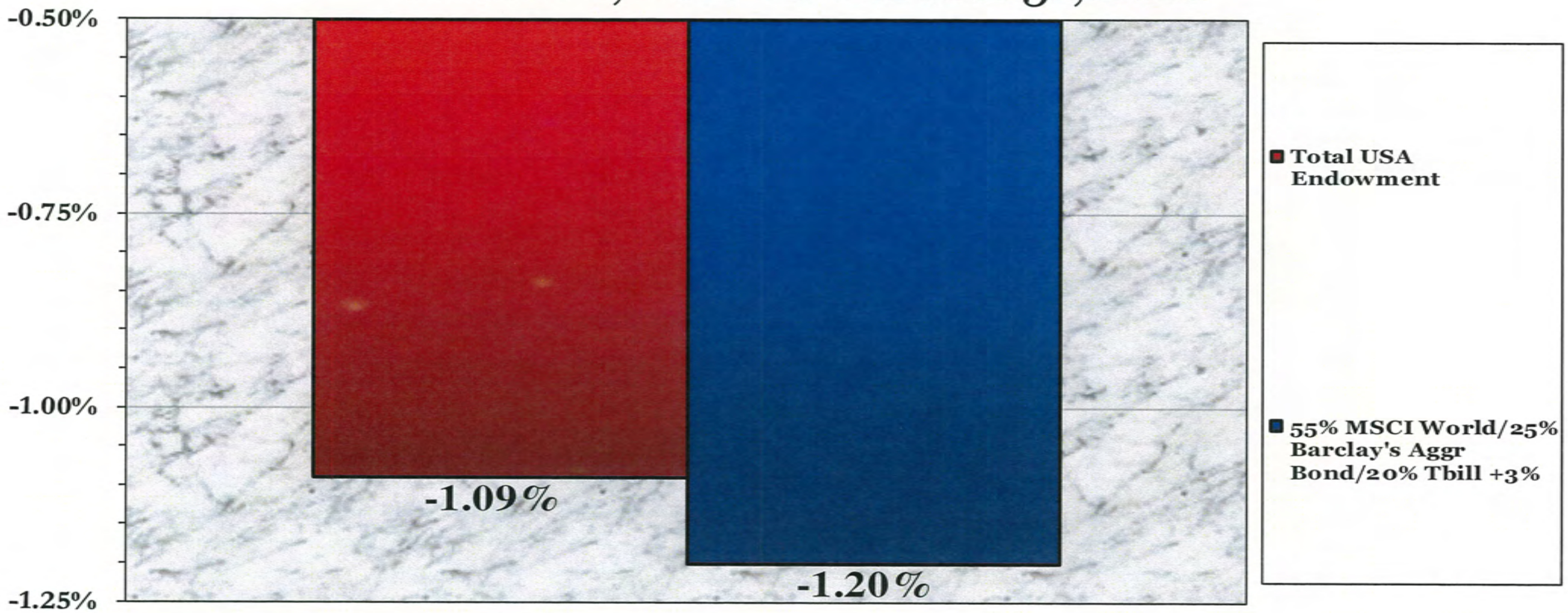
Total USA Endowment
Since Inception
April 1, 2000 To September 30, 2016 Annualized




Outperformed 0.90%

Balance: $138,474,056

# Total USA Endowment
# Fiscal Year 2017
# October 1, 2016 To October 31, 2016




Outperformed 0.11%

# RESOLUTION

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

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

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

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

**Endowment Funds**
**Investment Policies and Guidelines**

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

## I. Purpose of the Endowment Funds

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

## II. Purpose of the Investment Policy

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

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

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

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

4. Establish a basis of evaluating investment results.

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

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

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

## III. Delegation of Authority

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

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

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

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

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

## IV. Assignment of Responsibility

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

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

### B. Responsibility of the Endowment Committee

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

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

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

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

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

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

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

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

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

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

## C. Responsibility of the Investment Manager(s)

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

Each Investment Manager must acknowledge, in writing, their acceptance of responsibility as a fiduciary. Each Investment Manager will have full discretion to make all investment decisions for the assets placed under their jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Each Investment Manager will be provided with a copy of this statement of investment objectives and policies. In turn, as part of the investment management contract that will govern their portfolio, the Investment

Manager is expected to provide a written statement of the firm's expectations, stated in terms of the objectives and comparative benchmarks that will be used to evaluate performance and the allowable securities that can be used to achieve these objectives. These statements will be consistent with the statement of investment objectives and policies and will be incorporated as appendices. Specific responsibilities of the Investment Manager(s) include:

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

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

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

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

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

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

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

8. Meeting with the Endowment Committee at least annually.

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

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

## V. General Investment Principles

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

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

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

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

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

## VI. Investment Objectives

In order to meet its needs, the investment strategy of the University of South Alabama Endowment Funds is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. The total Endowment Funds shall be monitored for return relative to objectives, consistency of investment philosophy, and investment risk. The Endowment Funds results shall be evaluated on a rolling five-year basis against a market benchmark weighted 40 percent in favor of the S&P 500 Index, 5% Russell 2000 Index, 12% MSCI EAFE (US Dollar) Index, 23 percent toward the Barclay's Capital US Aggregate Bond Index and 20 percent Treasury-bill rate plus 3 percent.

## VII. Portfolio Composition and Risk

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

| | Range | Long-term neutral |
|---|---|---|
| Fixed Income | 15-35% | 25% |
| Equity | 35-75% | 50% |
| Private Equity | 0-10% | 5% |
| Fixed Income Alternative | 10-30% | 20% |
| Cash | 0-5% | 0% |

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

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

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

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

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

F. Any assets not committed to the fixed-income fund or fixed income alternative shall be allocated to the equity fund and the private equity fund. The equity fund should normally represent approximately 35-75 percent of total Endowment Funds assets at market value. The private equity fund should normally represent approximately 0-10 percent of total Endowment Fund assets at market value. Although the actual percentage of equities will vary with market conditions, levels outside these ranges should be closely monitored by the Investment Committee.

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

| Asset Class | Long-Term Strategic Target (%) of Endowed Funds | Range |
|---|---|---|
| ***DOMESTIC EQUITY*** | **42%** | **30-60%** |
| Large/Mid-Cap | 35% | 25-55% |
| Small Cap | 5% | 3-8% |
| High Yield Debt | 2% | 0-5% |
| | | |
| ***INTERNATIONAL STOCKS*** | **10%** | **5-15%** |
| Developed Markets | 6% | 3-10% |
| Emerging Markets | 4% | 0-6% |
| | | |
| ***PRIVATE EQUITY*** | **5%** | **0-10%** |
| | | |
| ***TOTAL EQUITY COMPONENT*** | **57%** | **35-75%** |
| ***ALTERNATIVE INVESTMENTS*** | **20%** | **10-30%** |
| Absolute Return | 15% | 12-205 |
| Long/Short Equity | 5% | 0-10% |
| | | |
| ***TOTAL ALTERNATIVE COMPONENT*** | **20%** | **10-30%** |
| ***Fixed Income Component*** | **23%** | **15-35%** |
| U.S. Core Bonds | 16% | 12-20% |
| Global Bonds | 4% | 0-7% |
| TIPS | 2% | 0-5% |
| Emerging Markets Debt | 1% | 0-2% |
| | | |
| ***TOTAL FIXED INCOME COMPONENT*** | **23%** | **15-35%** |
| ***CASH AND EQUIVALENTS*** | **0%** | **0-5%** |

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

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

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

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

## VIII. Spending Policy

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

## IX. Volatility of Returns

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

## X. Liquidity

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

## XI. Marketability of Assets

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

## XII. Investment Guidelines

### A. Allowable Assets

1. Cash Equivalents

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

2. Fixed Income Securities

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

3. Fixed Income Alternatives

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

4. Equity Securities

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

5. Private Equity

6. Mutual Funds

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

**Other Assets:**

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

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

(Is now covered under the derivative section)
The Endowment will avoid highly leveraged strategies and managers who provide insufficient transparency of their actions for adequate monitoring of the risks they are taking.

**B. Guidelines for Fixed Income Investments and Cash Equivalents**

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

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

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

### C. Guidelines for Fixed Income Alternatives

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

### D. Limitations on Manager Allocations

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

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

## XIII. Investment Manager Performance Review and Evaluation

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

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

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

3. Significant qualitative changes to the investment management organization.

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

## XIV. Investment Policy Review

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

### Investment Manager Selection

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

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

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

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

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

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

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

**Securities Summary – Fixed Income Alternative**

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

**Skill Set Analysis**

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

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

**UNIVERSITY OF SOUTH ALABAMA**
**NON-ENDOWMENT CASH POOL INVESTMENT POLICIES**

## Purpose

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

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

## INVESTMENT OBJECTIVES

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

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

### Maintenance of Adequate Liquidity

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

### Return on Investments

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

## DELEGATION OF AUTHORITY

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

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

## IMPLEMENTATION OF THE INVESTMENT POLICY

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

## AUTHORIZED INVESTMENT INSTRUMENTS

### Short-Term Operational Funds

### Safety of Capital

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

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

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

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

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

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

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

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

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

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

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

## **Intermediate-Term Investment of Operational Funds**

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

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

**Long-Term Investment of Operational Funds**

From time to time management may have the opportunity to invest Operational Funds designated by the President to achieve higher earnings over a longer time horizon. These funds will be invested based on the Non-endowment Equity and Alternative Investment Pool Guidelines referenced in Appendix A.

## PASS THROUGH OR DESIGNATED FUNDS

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

## PRUDENCE AND ETHICAL STANDARDS

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

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

## EFFECTIVE DATE

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

**Appendix A**

# University of South Alabama

# Non-Endowment Equity and Alternative Investment Pool Guidelines

**Purpose**

The purpose of the University's Non-Endowment Equity and Alternative Investment Pool (Equity and Alternative Pool) is to maximize returns for those operating funds that are not utilized for day to day cash management needs. These funds will have a seven- to ten- year time horizon. The goal of the Equity and Alternative Pool is to provide revenue while preserving principal to fund University projects as set forth by the University President.

**Return on Investments**

The University seeks to optimize return on these investments within the constraints of the Equity and Alternative Pool guidelines. The portfolio strives to provide a return consistent with each investment category.

**Oversight and Delegation of Authority**

The Equity and Alternative Pool will be governed by the Non-Endowment Cash Pool Investment Policy. The Board of Trustees is ultimately responsible for the Non-Endowment Cash Pool Investment Policy. Investment oversight will be delegated to the President or Vice President for Finance and Administration or other such persons as may be authorized to act on their behalf.

**Investment Objectives**

In order to meet its needs, the investment strategy of the Equity and Alternative Pool is to emphasize long-term growth; that is, the aggregate return from capital appreciation. The Equity and Alternative Pool shall be monitored for return relative to objectives, consistency of investment philosophy, and investment risk.

**Portfolio Composition and Risk**

A. To achieve its investment objective, the Equity and Alternative Pool assets are considered as divided into two parts; an alternative investment component or hedged strategy and an equity component. Total Equity and Alternative Pool assets should not exceed 25% of all non-endowment cash and cash-equivalents of the University as of September 30th of the prior fiscal year. This percentage will be reassessed periodically and any changes will be communicated to the Board. The Equity and Alternative Pool commitment to these funds shall be as follows:

| | Range | Long-term neutral |
|---|---|---|
| Equity | 45-85% | 70% |
| Alternative Investment | 10-35% | 30% |

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

C. The purpose of the alternative investment component is to provide the Equity and Alternative Pool a source of returns with low to negative correlation to equity markets and volatility of one third to one half that of the U.S. equity market, while still achieving equity-like returns of Treasury Bills plus 2-8% over time. The alternative investment component should normally represent approximately 10-35 percent of the total Equity and Alternative Pool.

D. Any assets not committed to the alternative investment component shall be allocated to the equity fund. The equity fund should normally represent approximately 45-85 percent of total the Equity and Alternative Pool assets at market value. Although the actual percentage of equities will vary with market conditions, levels outside this range should be closely monitored.

E. The Equity and Alternative Pool includes investments in several categories:

| Asset Class | Long-Term Strategic Target (%) of Funds | Range |
|---|---|---|
| ***DOMESTIC EQUITY*** | **55%** | **40-70%** |
| Large Cap | 40% | 30-65% |
| Mid Cap | 10% | 5-15% |
| Small Cap | 5% | 3-10% |
| ***INTERNATIONAL STOCKS*** | **15%** | **5-25%** |
| Developed Markets | 10% | 3-20% |
| Emerging Markets | 5% | 0-10% |
| ***TOTAL EQUITY COMPONENT*** | **70%** | **45-85%** |
| ***ALTERNATIVE INVESTMENTS*** | **30%** | **10-35%** |
| Absolute Return | 30% | 10-35% |
| ***TOTAL ALTERNATIVE COMPONENT*** | **30%** | **10-35%** |
| ***TOTAL*** | **100%** | |

F. Within the equity fund, certain investments can be included to provide a hedge against unanticipated, rapidly accelerating inflation. These include cash, real estate and oil and gas investments.

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

**Spending Policy**

It shall be the policy of the Equity and Alternative Pool to preserve and maintain the real purchasing power of the principal of the Fund. The current spending policy of the Equity and Alternative Pool will be determined annually by the University President. The spending guideline is based on an expected total return over the long-term less expected inflation and will use the excess return over the inflation adjusted principal using a 3 year moving average to help fund the operating needs of the University.

**Line of Credit**

At times of extreme volatility related to the Equity and Alternative Pool a Line of Credit (LOC) will be utilized to meet day to day management of the University's operating needs. A LOC of up to $30,000,000 will be established and available to meet those periods when operating cash is low due to seasonal tuition revenue. The LOC will be repaid in full as soon as sufficient cash is available. The Investment Manager will be required to inform the Vice-President for Finance and Administration, Treasurer and President and obtain appropriate approval of any draws and repayments on the LOC and will be required to provide them with balance reports throughout the year.

# Division of Development and Alumni Relations
# Campaign Fundraising Report
# as of September 30, 2016

## Upward & Onward Campaign

**Progress toward $150 Million**

| | |
|---|---|
| Number of Donors: | 22,587 |
| Number of Gifts: | 29,687 |
| | |
| Quiet Phase: | $75,690,322 |
| Public Phase: | $18,138,973 |
| **Campaign Progress:** | **$93,829,295** |

**Progress by Priority**

| | Progress |
|---|---|
| Student Access & Success | $38,430,731 |
| Enhancement of Research & Graduate Educatior | $14,592,378 |
| Global Engagement | $1,520,900 |
| Excellence in Healthcare | $17,959,614 |
| University/Community Engagement | $5,807,937 |
| Priority Category Pending | $15,517,735 |
| **Campaign Progress** | **$93,829,295** |

## Mitchell-Moulton Scholarship Initiative

**Progress toward $50 Million**

| | Count | Amount |
|---|---|---|
| New Gifts | 3,730 | $3,897,899.52 |
| Gift Matches | 3,716 | $3,796,517.28 |
| New Pledges | 2,493 | $2,169,728.02 |
| Pledge Match Expectancies | 2,493 | $2,169,728.02 |
| Campaign Progress | | **$12,033,872.84** |

# RESOLUTION

## NAMING OF THE USA MITCHELL CANCER INSTITUTE KILBORN CLINIC

**WHEREAS**, the University of South Alabama (USA) has listed Excellence in Health Care as one of its five institutional priorities, and

**WHEREAS**, USA provides a unique academic and clinical environment to foster interdisciplinary education, treatment and research relating to causes, diagnoses, treatment and prevention of disease, including cancer, and be the region's leader in patients' access to care, and

**WHEREAS**, the USA Board of Trustees approved plans in June 2015 to design and construct an 11,000-square-foot medical office building to enhance clinical activities and patient care experiences for residents of Baldwin County, and

**WHEREAS**, this building will be completed this summer and will contain eight patient exam rooms, 15 infusion stations, a radiation vault, and patient education rooms, and

**WHEREAS**, the University's Mitchell Cancer Institute will utilize the clinic space to provide leading-edge patient care, conduct clinical trials, and provide education, and

**WHEREAS**, Mr. Vincent F. Kilborn III desires to further advance the progress of the USA Mitchell Cancer Institute and other USA health care affiliates and their outreach to the citizens of Alabama in their fight against cancer, and

**WHEREAS**, Mr. Kilborn has committed $1,500,000 to create the Vincent F. Kilborn III Endowment as a means of assuring the resources to support the operations of a state-of-the-art medical office building in perpetuity,

**THEREFORE, BE IT RESOLVED**, the Board of Trustees authorizes the President and the Administration of USA Health to recognize Vincent F. Kilborn III for his dedication to the USA Mitchell Cancer Institute, his devotion toward hope and healing, and his generosity to the Fairhope community by naming the new free-standing, medical office building in Fairhope *Mitchell Cancer Institute, Kilborn Clinic*.

## RESOLUTION

## COMMENDATION OF KIM AND JULIAN MACQUEEN

**WHEREAS,** the University of South Alabama has, in pursuit of its educational mission, built a diverse body of alumni more than 74,000 strong, who are capable of providing support in many forms, including philanthropy and advocacy locally, nationally, and internationally for the advancement of the progress of the University, and

**WHEREAS,** the National Alumni Association (USANAA) was founded in 1974 with the sole mission to support and positively influence the goals of the University of South Alabama through an active relationship among the University, its alumni, students and friends, and

**WHEREAS,** the beneficial impact of the USANAA will be immeasurably heightened by the advanced quality of engagement that a state-of-the-art alumni center at the heart of campus will promote for alumni who will gather there to celebrate, work, and advocate in the community and among current and future students for whom this alumni center will foster an expectation of lifelong engagement with the University, and

**WHEREAS**, Kim and Julian MacQueen credit the University and its experimental college program of the early 1970s with giving Mr. MacQueen the opportunity of learning about the Bahá'í Faith, upon which he has built a successful business, Innisfree Hotels, which reflects his commitment to a workplace culture that celebrates diversity, creativity, dignity and principled corporate citizenship, and

**WHEREAS,** Mr. and Mrs. MacQueen desire to honor the significant role that the University has played in shaping their lives and to further the work of the USANAA through an extraordinarily generous gift to establish an alumni center,

**THEREFORE, BE IT RESOLVED,** the Board of Trustees gratefully acknowledges the selfless and profound generosity of Kim and Julian MacQueen for their commitment of $2,000,000 for the USANAA's new alumni center, a place that will bring the history and traditions of the University to life and instill the USA spirit in future generations of students, and

**BE IT FURTHER RESOLVED** that the Board of Trustees, the President, the faculty, administrators, staff, and students of the University of South Alabama warmly thank Kim and Julian MacQueen for their commitment and support of the University and the University of South Alabama National Alumni Association.

**RESOLUTION**

**COMMENDATION OF DR. JOSEPH F. BUSTA, JR.**

**WHEREAS,** the University of South Alabama seeks to honor exceptional individuals who have provided outstanding leadership and service to the University and have distinguished themselves throughout their professional careers, and

**WHEREAS,** Dr. Joseph F. Busta, Jr., spent nearly 40 years in support of higher education and has loyally served the University of South Alabama for 14 years as its first Vice President for Development and Alumni Relations, and

**WHEREAS,** Dr. Busta, through determination, advocacy and the support of his staff, created a culture of philanthropy among South alumni, friends, faculty and staff to advance the mission of the University, and

**WHEREAS,** the University's active alumni base vastly expanded under Dr. Busta's leadership, growing from a mostly local club to a strong and vibrant national organization with chapters across the state and country and nearly 6,000 members, and

**WHEREAS,** total giving under Dr. Busta's leadership reached nearly $200 million from 120,000 gifts, including the University's first comprehensive campaign and a successful 50th Anniversary Campaign that resulted in 50,000 gifts, and

**WHEREAS,** development efforts during Dr. Busta's service have enabled the University to expand its general endowment fund to nearly $140 million and create more than 360 new endowments, funding endowed professorships, chairs and hundreds of named scholarships, and

**WHEREAS,** significant funds have been raised to construct or enhance buildings and facilities, including the renovations of Stanky Field and the Mitchell College of Business, improvements at USA Children's & Women's Hospital, construction support for the USA Mitchell Cancer Institute, and the creation of Moulton Tower and Alumni Plaza, and

**WHEREAS,** in addition to his dedication to the University, Dr. Busta has served in roles supporting and advancing the state and Gulf Coast, including active participation in Leadership Alabama and Sunrise Rotary; serving on the boards of directors of the Business Council of Alabama, the Mobile Arts & Sports Authority and the Mobile Symphony; and serving on the boards and leadership of the Mobile Opera, the Alabama School of Mathematics and Science, and United Way of Southwest Alabama, and

**WHEREAS,** Dr. Busta has created a solid foundation for advancing philanthropy at the University of South Alabama and now will be able to spend more time creating works of beauty in his woodworking shop and works of fiction in a fishing boat,

**THEREFORE, BE IT RESOLVED** that the University of South Alabama Board of Trustees expresses its deep appreciation to Dr. Joseph F. Busta, Jr., for his many contributions to the University of South Alabama and wishes him and his wife, Jackie, the best upon his retirement.

# UNIVERSITY OF SOUTH ALABAMA
# BOARD OF TRUSTEES

# AUDIT

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

**AUDIT COMMITTEE**

**September 8, 2016**
**2:16 p.m.**

A meeting of the Audit Committee of the University of South Alabama Board of Trustees was duly convened by Mr. John Peek, Chair, on Thursday, September 8, 2016, at 2:16 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

| | |
|---|---|
| Members Present: | Scott Charlton, Ron Jenkins, Bryant Mixon, John Peek, Jimmy Shumock and Sandy Stimpson. |
| Other Trustees: | Tom Corcoran, Steve Furr, Bettye Maye, Ken Simon, Steve Stokes and Mike Windom. |
| Administration and Others: | Joe Busta, Lynne Chronister, Josh Crownover (SGA), Ken Davis, Joel Erdmann, Monica Ezell, Mike Finan, Sam Fisher (Faculty Senate), Happy Fulford, Mike Haskins, David Johnson, John Marymont, Eileen McGinn (KPMG), Mike Mitchell, John Smith, Jean Tucker, Tony Waldrop, Scott Weldon, Kevin West and Kelly Woodford (Faculty Senate), and Ashley Willson (KPMG). |

The meeting came to order and the attendance roll was called. Mr. Peek called for adoption of the revised agenda. On motion by Mr. Shumock, seconded by Capt. Jenkins, the revised agenda was adopted unanimously. Mr. Peek called for consideration of the minutes of the meeting held on June 2, 2016. On motion by Mr. Shumock, seconded by Capt. Jenkins, the minutes were adopted unanimously.

Mr. Peek called for consideration of the Audit Committee Charge. Dr. Charlton made a motion to approve and Mr. Shumock seconded. Mr. Peek commented on the importance for institutions to prepare for the emerging role of risk management. He called for a vote and the Committee voted unanimously to recommend approval of the Audit Committee Charge by the Board of Trustees.

Mr. Peek asked Mr. Weldon to address **ITEM 10**, the KPMG report. Mr. Weldon introduced KPMG partners Ms. Ashley Willson and Ms. Eileen McGinn. Brief remarks were made about the periodic rotation of engagement partners. With reference to KPMG materials detailing the audit planning process and key areas of attention, Ms. McGinn stated KPMG team members were busy on campus performing control evaluation procedures, the second step of a four-phase audit process. She spoke about the engagement timeline, pointing out that KPMG would deliver the financial statements by November 15. She said significant time would be spent on key components, for instance the A133 audit that examines the use of federal money, and on programs, such as student financial aid, and research and development. She gave information on GASB 72, a new criterion of the Governmental Accounting Standards Board that relate to disclosure on the fair value of investments. She remarked on the current engagement status, reporting substantial completion of the team's interim work, no disagreements with management and full access to the Institution's books and records. As to the considerable impact GASB 68 had on institutional financial reporting, Mr. Peek asked that future discussions include perspective on far-reaching trends the University would need to anticipate. Ms. McGinn cautioned the group that GASB 75, which regards the reporting of non-pension, post-retirement benefits, should be expected in the next couple of years. Ms. Willson addressed questions about cyber security and emphasized it was a hot topic in board rooms universally. President Waldrop reminded the group that, as a result of recommendations from an outside information systems consultant and internal committees, an information technology professional had been added to the staff to manage information protection.

Mr. Peek called on Mr. Davis for presentation of **ITEM 11**, a report on the independent audit of the USA Foundation's (USAF) consolidated financial statements and the disproportionate share hospital (DSH) funds combined financial statements for the period ended June 30, 2016. Mr. Davis noted an unqualified opinion rendered by Deloitte & Touche on the USAF consolidated financial statements. He pointed out that the $157.5 million reported in timber and mineral property investments is largely timber valued at $153 million, and that the Brookley property valued at $61 million makes up most of the $69 million reported in real estate investments. He noted the income schedule shows $10.6 million in distributions to the University, which is $5.7 million more than reported for fiscal year 2015. He said this difference is due to a three percent distribution of DSH funds that began once the debt service for the Brookley property was completed in 2014. He stated the DSH funds primarily support USA Health and the clinical activities of the University. He added that an unqualified opinion was issued on the DSH funds combined financial statements.

There being no further business, the meeting was adjourned at 2:38 p.m.

Respectfully submitted:

John M. Peek, Chair

# University of South Alabama

## Results of the 2016 audit: Presentation to the Audit Committee

Mobile, Alabama

December 1, 2016

# Prepared by

**Eileen McGinn**
615-248-5619
emcginn@kpmg.com

# Responsibilities of management and KPMG

# Management's responsibilities

— Adopting sound accounting policies

— Establishing and maintaining internal control

— Fairly presenting the financial statements in conformity with generally accepted accounting principles

# Management and audit committee responsibilities related to fraud risks

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

# KPMG's responsibilities

**KPMG is responsible for:**

— Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

— Conducting an audit in accordance with professional standards and complying with the code of professional conduct adopted by the American Institute of Certified Public Accountants.

— Complying with the ethical standards of state CPA societies, state boards of accountancy, the SEC (or other regulators), and the PCAOB.

— Planning and performing an audit with an attitude of professional skepticism.

— Communicating all required information to management and to the Audit Committee or those charged with governance.

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

# KPMG's responsibilities related to fraud

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

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

# Overview of 2016 audit – Required communications

- Audit performed according to professional standards
- Objective: Reasonable (not absolute) assurance
  - Financial statements free of material misstatement
  - Not intended to be an audit of internal control
- Two passed audit differences which netted to $347K
- Relationship with management
  - Received full cooperation
  - No disagreements
  - Full access to all books and records
- Other matters
  - Transparency and quality
  - Critical accounting policies
  - Independence – In our professional judgment, KPMG is independent of the University within the meaning of the Securities and Exchange Commission and the requirements of the Independence Standards Board

KPMG

# Overview of 2016 audit – Other information

- Unmodified opinion on financial statements
- Reviewed internal controls and key processes as necessary to express opinion
  - No material weaknesses related to overall University financial statement audit
  - Review of key processes (including technology)
- Results of A-133 audit – no significant findings were noted during the audit
- Significant accounting estimates
  - Allowance for doubtful accounts (patient accounts receivable)
  - Allowances for contractual adjustments
  - Due from and to third-party payors
  - Self-insurance reserves
  - Valuation of swaps/extinguishment of swaption
  - Valuation of alternative investments
- Implementation of GASB 72

KPMG

# Other discussion information

# Definitions of a control deficiency, significant deficiency, and material weakness in internal control

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

# Open dialogue

kpmg.com/socialmedia

# UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

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

September 30, 2016

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

September 30, 2016

**Table of Contents**

**UNIVERSITY OF SOUTH ALABAMA**
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2016

## 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 (the Health System), a division of the University, at September 30, 2016 and 2015 and for the years then ended. This discussion has been prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

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

As more fully described in note 1 to the basic financial statements, effective July 1, 2016, all operations of the USA Health Services Foundation were transferred to the University. University net position at September 30, 2015 was restated to reflect the cumulative effect of this change in reporting entity. The University's 2016 condensed financial statements include the financial position and results of operations of USA Health Services Foundation. Such amounts are not included in the 2015 condensed financial statements.

## Financial Highlights

At September 30, 2016 and 2015, the University had total assets and deferred outflows of $1,184,911,000 and $1,114,951,000, respectively; total liabilities and deferred inflows of $966,917,000 and $919,899,000, respectively; and net position of $217,994,000 and $192,089,000, respectively. Net position increased $25,905,000 during the year ended September 30, 2016 compared to an increase of $9,239,000 for the year ended September 30, 2015.

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

### *Statement of Net Position*

The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows and net position of the University at September 30, 2016. Net position is displayed in three parts: net investment in capital assets, restricted and unrestricted. Restricted net position may either be expendable or nonexpendable and is the net position that is restricted by law or external donors. Unrestricted net position is generally designated for specific purposes, and is available for use by the University to meet current expenses for any purpose. The statement of net position, along with all of the University's basic financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

Assets included in the statement of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments, and net patient accounts receivable. Of these amounts, cash and cash equivalents, investments, and net patient accounts receivable comprise approximately 37%, 31% and 18%, respectively, of current assets at September 30, 2016. Noncurrent assets at September 30, 2016 consist primarily of capital assets, restricted cash and cash equivalents, and restricted investments.

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

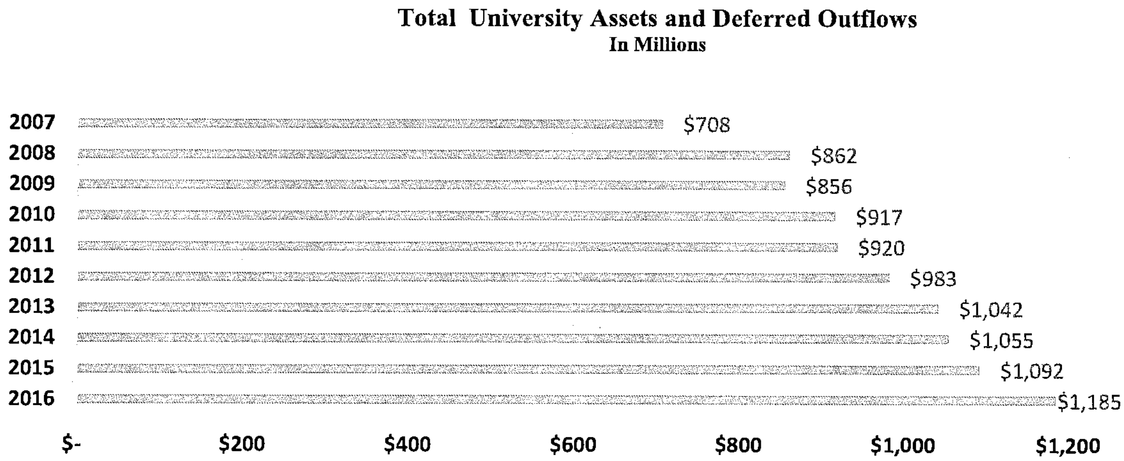
**Condensed Schedules of Net Position**

| | | 2016 | 2015 |
|---|---|---|---|
| Assets: | | | |
| Current | $ | 273,634 | 233,940 |
| Capital assets | | 653,297 | 609,630 |
| Other noncurrent | | 213,462 | 248,539 |
| Total assets | | 1,140,393 | 1,092,109 |
| Deferred outflows | | 44,518 | 22,842 |
| Total assets and deferred outflows | $ | 1,184,911 | 1,114,951 |
| Liabilities: | | | |
| Current | $ | 153,887 | 132,128 |
| Noncurrent | | 789,016 | 751,880 |
| Total liabilities | | 942,903 | 884,008 |
| Deferred inflows | | 24,014 | 35,891 |
| Total liabilities and deferred inflows | $ | 966,917 | 919,899 |
| Net position: | | | |
| Net investment in capital assets | $ | 270,127 | 246,567 |
| Restricted, nonexpendable | | 48,760 | 43,425 |
| Restricted, expendable | | 55,592 | 60,106 |
| Unrestricted | | (156,485) | (155,046) |
| Total net position | $ | 217,994 | 195,052 |



(Continued)

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




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

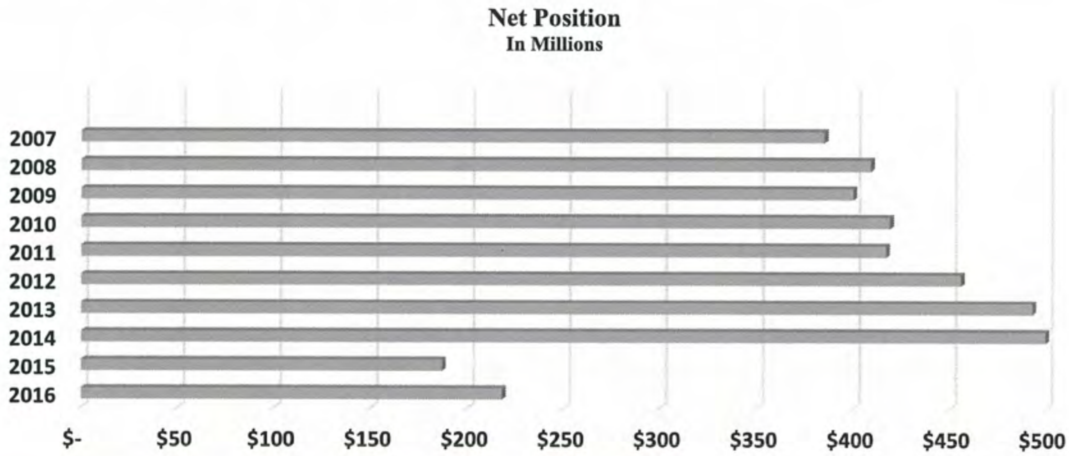
Net investment in capital assets represents the University's capital assets less accumulated depreciation and outstanding principal balances of the debt attributable to the acquisition, construction, or improvement of those assets.

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

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

Unrestricted net position represents amounts not subject to externally imposed stipulations. Even though these funds are not legally restricted, the majority of the University's unrestricted net position has been internally designated for various projects, all supporting the mission of the University. Unrestricted net position includes funds for various academic and research programs, auxiliary operations (including the bookstore, student housing and dining services), student programs, capital projects and general operations. Also included in unrestricted net position at September 30, 2016 and 2015 is the impact of the net pension liability recorded pursuant to the requirements of GASB Statement No. 68.

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




All categories of restricted net position increased by approximately 1% in fiscal year 2016, primarily due to the addition of restricted gifts to the University. Unrestricted net position decreased by $1,439,000 in fiscal year 2016 due primarily to the increase in unfunded pension liability. A summary of unrestricted net position at September 30, 2016 is summarized below:

| | |
|---|---|
| Unrestricted net position related to net pension liability | $ (329,294,000) |
| Unrestricted net position related to other activity | 172,809,000 |
| Unrestricted net position | $ (156,485,000) |

***Statement of Revenues, Expenses, and Changes in Net Position***

Changes in total University net position are based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of this statement is to present the change in net position resulting from 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 hospital patient care services, tuition and fees (net of scholarship discounts and 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.



(Continued)

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

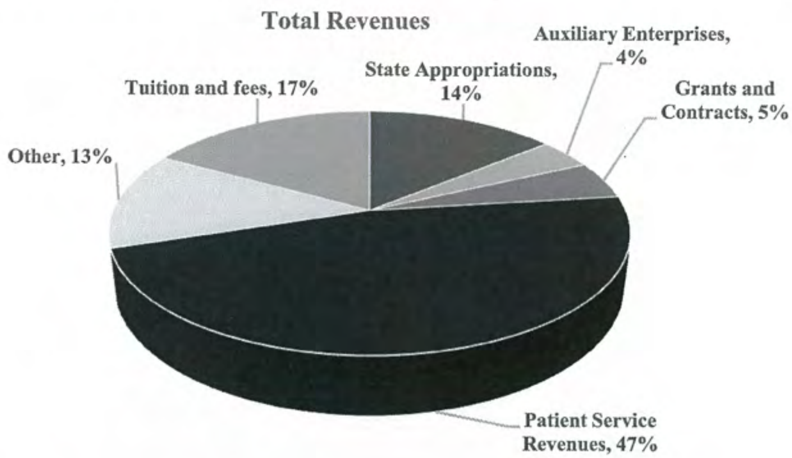
The condensed schedules of revenues, expenses, and changes in net position for the years ended September 30, 2016 and 2015 follow (in thousands):

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

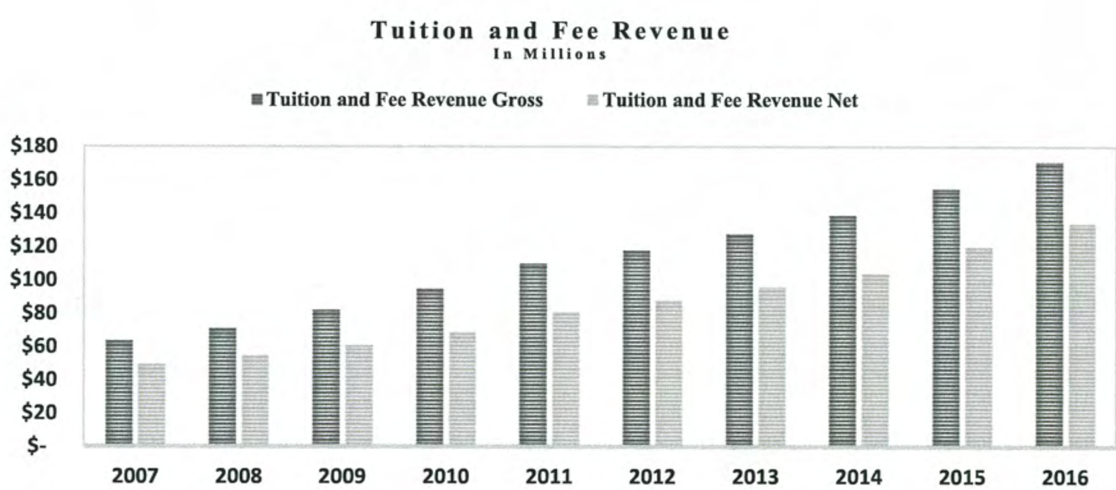
| | | 2016 | 2015 |
|---|---|---|---|
| Operating revenues: | | | |
| Tuition and fees | $ | 137,074 | 120,265 |
| Net patient service revenue | | 360,657 | 271,655 |
| Federal, state and private grants and contracts | | 38,187 | 85,756 |
| Other | | 88,943 | 78,845 |
| | | 624,861 | 556,521 |
| Operating expenses: | | | |
| Salaries and benefits | | 460,219 | 433,679 |
| Supplies and other services | | 198,518 | 169,873 |
| Other | | 65,530 | 57,476 |
| | | 724,267 | 661,028 |
| Operating loss | | (99,406) | (104,507) |
| Nonoperating revenues and expenses: | | | |
| State appropriations | | 105,024 | 103,974 |
| Investment income (loss) | | 2,631 | (10,718) |
| Other, net | | 8,135 | 13,259 |
| Net nonoperating revenues and expenses | | 115,790 | 106,515 |
| Income before capital appropriations, capital contributions, grants, and additions to endowment | | 16,384 | 2,008 |
| Capital appropriations, capital contributions, grants, and additions to endowment | | 9,521 | 7,231 |
| Increase in net position | | 25,905 | 9,239 |
| Beginning net position, before cumulative effect of change in reporting entity/accounting principle | | 195,052 | 499,550 |
| Cumulative effect of change in reporting entity/accounting principle | | (2,963) | (313,737) |
| Beginning net position – as adjusted | | 192,089 | 185,813 |
| Ending net position | $ | 217,994 | 195,052 |

Approximately 47% and 39% of total revenues of the University were net patient service revenue in 2016 and 2015, respectively. Excluding net patient service revenue, net tuition and fees charged to students represent the largest component of total University revenues, approximately 17% of total revenues in 2016. Also in 2016 and 2015, respectively, state appropriations and grants and contracts (federal, state and private) represented approximately 19% and 15% of total revenues.

A summary of University revenues for the year ended September 30, 2016 is presented below:

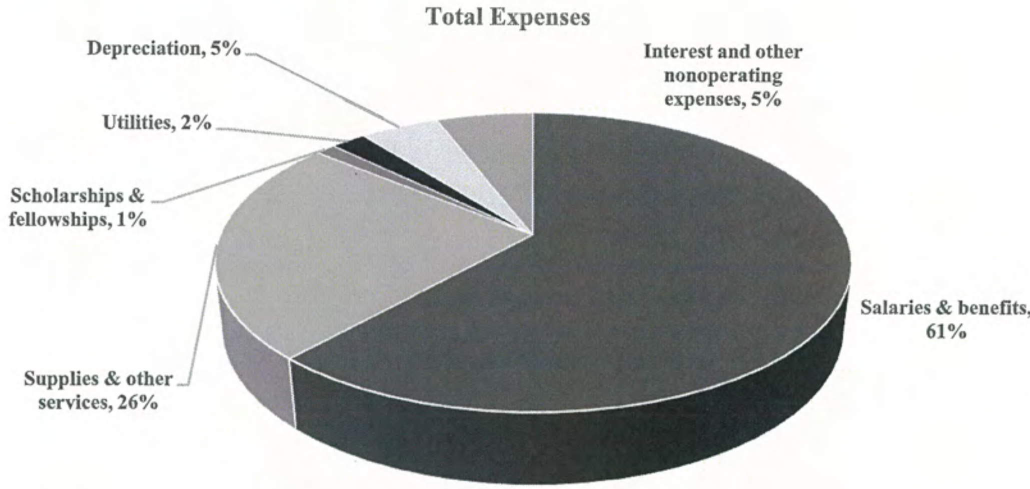



Tuition and fees have increased in each of the last ten years. These increases are due primarily to increases in tuition and fee rates charged to students and the number of enrolled students and credit hours taken by those students. Additionally, net tuition and fees as a percent of total operating revenues continue to increase, from 13% of operating revenues in 2007 to 22% in 2016. Tuition and fees, gross and net of scholarship allowances, for the past ten fiscal years are as follows:



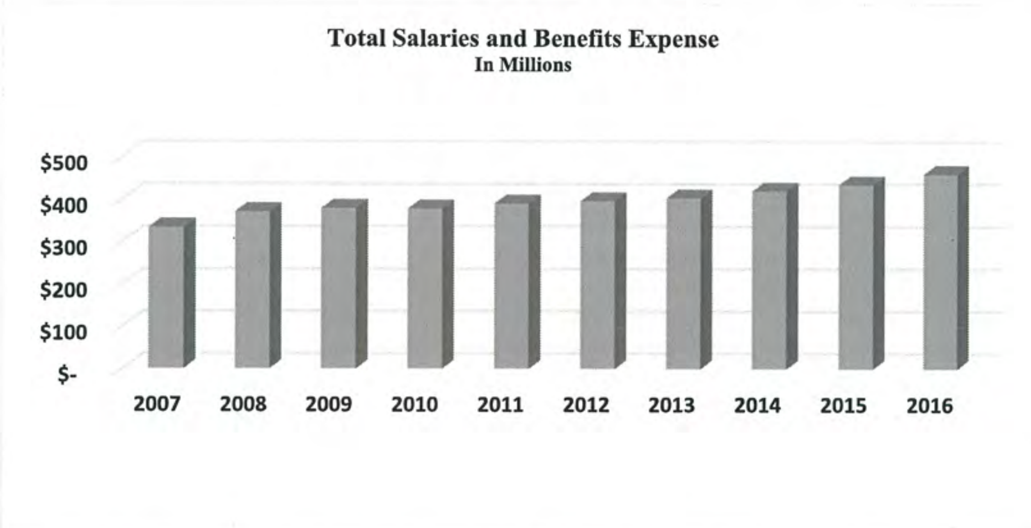
Capital contributions and grants increased from $2,784,000 in 2015 to $3,053,000 in 2016.

University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2016 is presented below:



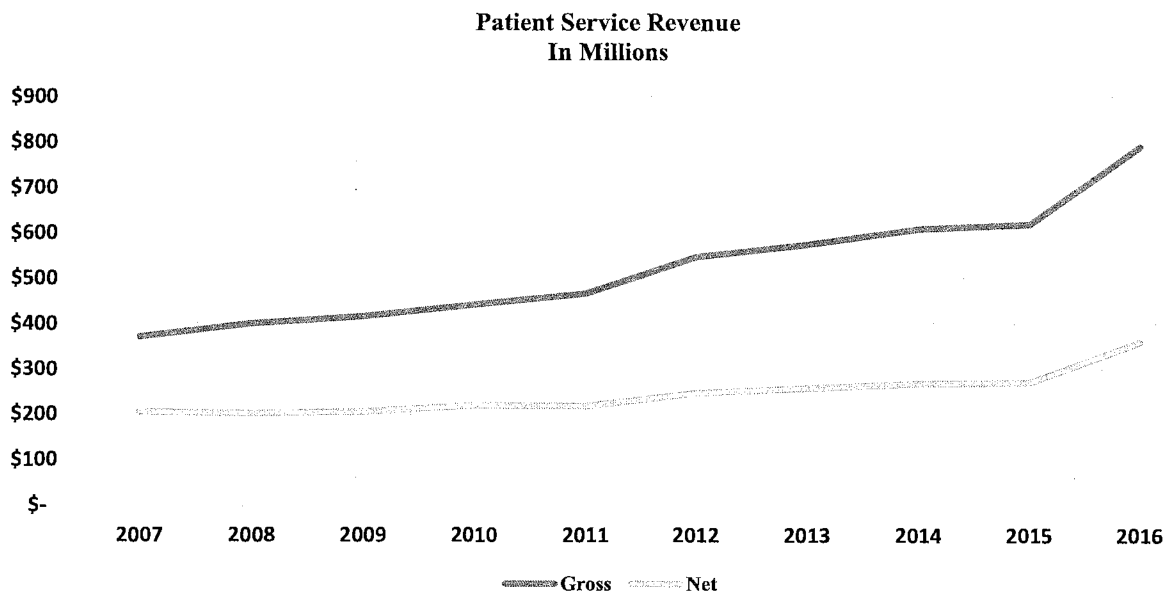

Functional classifications represent expenses categorized based on the function within the University. Such University functions include instruction, research, public service, academic support, student services, institutional support, scholarships, and operation and maintenance of plant. Expenses related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

In 2016 and 2015, approximately 64% and 62%, respectively, of the University's total operating expenses were salaries and benefits.




For the years ended September 30, 2016 and 2015, the University reported operating losses of approximately $99,406,000 and $104,507,000, respectively. Operating losses are offset partially by state appropriations, which are reported as nonoperating revenue. After adding state appropriations and other nonoperating revenues and expenses (primarily capital appropriations, capital contributions, and additions to endowment), and applying the cumulative effect of the change in reporting entity related to the transfer of the Health Services Foundation (HSF), the total change in net position was approximately $22,942,000 and $(304,498,000), for the years ended September 30, 2016 and 2015, respectively. The decrease in net position in 2015 was a result of the implementation of GASB Statement No. 68.

The Health System represents a significant portion of total University revenues. The large increase in net patient service revenue from 2015 to 2016 is due to the transfer of HSF operations to the University. Operating patient service revenues, gross and net, for the last ten fiscal years are presented below.




### *Statement of Cash Flows*

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

## Capital Assets and Debt Administration

Total capital asset additions for the University were approximately $78,688,000 in 2016. Significant construction projects that remain in progress at September 30, 2016 include a new professional medical office building, a medical office building in Fairhope, Alabama and a major upgrade of infrastructure on the University's main campus. Major projects completed and placed into service in fiscal 2016 included the Student Health Center and an addition to the Mitchell Cancer Institute. At September 30, 2016, the University had outstanding commitments of approximately $10,867,000 for various capital projects.

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

In September 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016, with a face value of $85,605,000. The proceeds from the series 2016 bonds were used to partially defease the Series 2008 bonds. The funds were deposited into escrow trust funds to provide for the subsequent repayment of the Series

2008 bonds when they are called in December 2018. Neither the assets of the escrow trust account, nor the defeased indebtedness is included in the accompanying statement of net position. The principal outstanding on all defeased bonds is $93,540,000 at September 30, 2016. The refunding resulted in net present value savings of approximately $15,016,000. The remaining undefeased portion of the Series 2008 bonds at September 30, 2016 is $5,565,000 and is included in current and noncurrent long-term debt on the accompanying statement of net position.

In order to realize debt service savings currently from future debt refunding, in January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to the counterparty and resulted in an up-front payment to the University totaling $9,328,000 in exchange for selling the counterparty the option to enter into interest rate swaps with respect to the Series 2004 and 2006 bonds. A portion of this payment was considered a borrowing and was included in the long-term debt of the University. The fair value component of the refunding associated with the swaps was considered an investment derivative and, as such, the change in the fair value component was reflected as a component of investment income (loss) in 2016 and 2015.

In December 2013, the counterparty exercised its option with respect to the 2004 swaption and forced the University into an underlying swap. The University refunded its Series 2004 bonds, and issued the 2014-A variable rate bond. As a result of the exercise of the option by the counterparty, the swaption was terminated and the borrowing arising from the Series 2004 swaption of $1,696,000 and the investment derivative of $5,213,000 were written off and an investment loss of $2,229,000 was recognized. A borrowing arising from the 2014 swap of $9,138,000 was recognized and is reported in the statement of net position at September 30, 2016.

In September 2016, the counterparty exercised its option with respect to the 2006 swaption and forced the University into an underlying swap. As a result of the exercise of the option by the counterparty, the swaption was terminated and the borrowing arising from the Series 2006 swaption of $6,939,000 and the investment derivative of $34,078,000 were written off. A borrowing arising from the 2016 swap of $41,017,000 was recognized and is reported in the statement of net position at September 30, 2016.

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

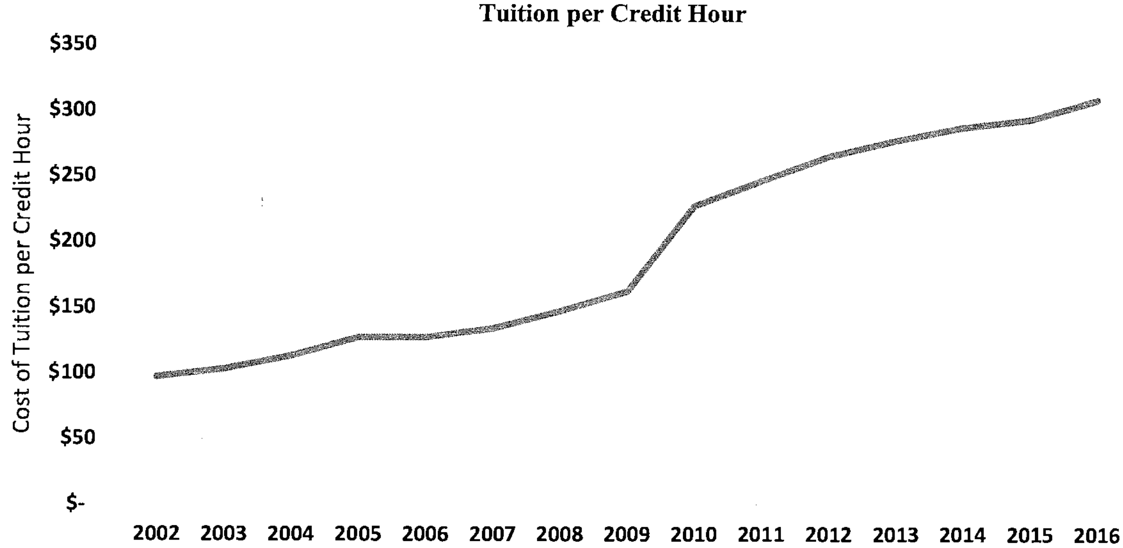
## Economic Outlook

Student enrollment and tuition and fee rates have both increased over the past fifteen years. The University has experienced an increase in enrollment between 2002 and 2016, from 12,510 in 2002 to 16,699 for the 2016 Fall semester. The enrollment trend for the University between 2002 and 2016 is as follows:

**Enrollment Growth Summary**


During the same time period, in-state tuition per credit hour has increased by approximately 229%. The large increase in 2010 is the result of the University's bundling of tuition and required fees into a single per-hour charge. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. The trend of in-state tuition per credit hour between 2002 and 2016 is as follows:

**Tuition per Credit Hour**



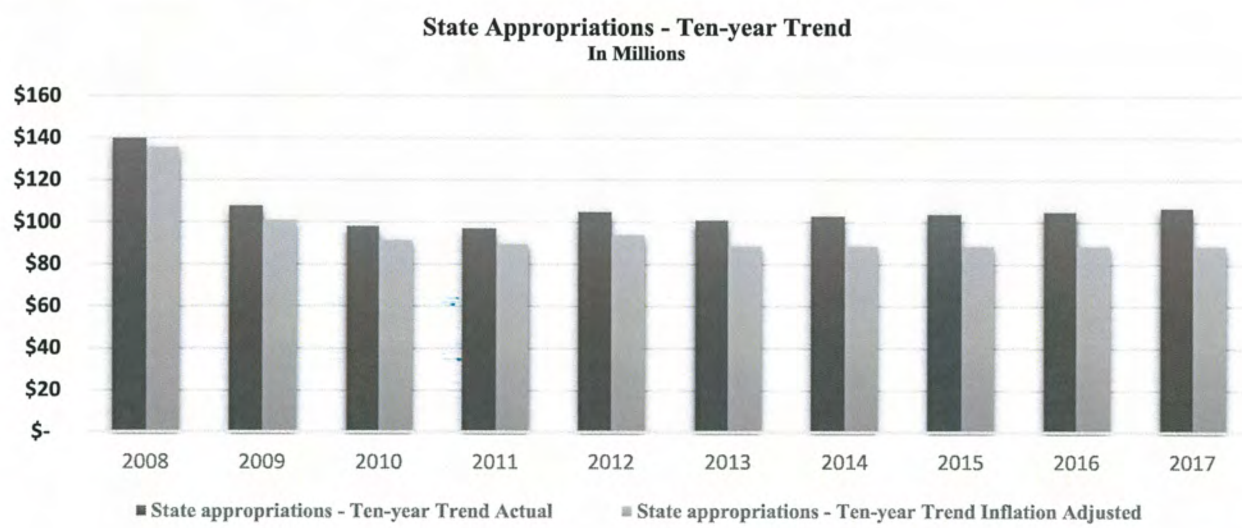
While enrollment and tuition have both increased in recent years, state appropriations prior to 2006 were relatively flat. However, in the 2006, 2007 and 2008 fiscal years, the University experienced increases of 16%, 19% and 17%, respectively, or approximately $19,349,000, $19,185,000 and $14,581,000, respectively, in its state appropriation. These increases were unusually high. For the 2009 fiscal year, the University's state appropriation decreased 13% or approximately $17,882,000. Additionally, in December 2008 the Governor of Alabama announced proration of 9%, or approximately $10,967,000; and in July 2009, the Governor announced additional proration of 2%, or approximately $2,437,000.

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

A state appropriation in the amount of approximately $105,024,000 was authorized and received for the year ended September 30, 2016.

A state appropriation in the amount of approximately $107,285,000 has been authorized for the year ending September 30, 2017. This represents a $2,261,000 increase from the fiscal 2016 appropriation received. While no announcement has been made, the University is aware that reductions in the 2017 appropriation are possible.

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



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

Other than the issues presented above, University administration is not aware of any other currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during fiscal year 2017 beyond those unknown variables having a global effect on virtually all types of business operations.

**Requests for Information**

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

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

## Independent Auditors' Report

The Board of Trustees
University of South Alabama:

### Report on the Financial Statements

We have audited the accompanying financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the 2016 consolidated financial statements of the University of South Alabama Foundation, which represents 93%, 100%, and 52%, respectively, of the 2016 assets, net assets, and revenues, gains and other support of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University of South Alabama Foundation, the University of South Alabama Health Services Foundation, the USA Research and Technology Corporation, the Gulf Coast Regional Care Organization, and the Professional and General Liability Trust Funds were not audited in accordance with *Government Auditing Standards*.

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

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

***Opinions***

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of September 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

***Emphasis of Matters***

As discussed in note 1(z) to the basic financial statements, in 2016, the University adopted Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and application*. Our opinion is not modified with respect to this matter.

As described in note 1(d), beginning in fiscal 2016, the USA Health Services Foundation met the criteria for blended component unit presentation. The cumulative effect of this change in reporting entity resulted in a decrease in net position as of October 1, 2015 of ($2,963,000).

***Other Matters***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1-13 and the schedule of the University's proportionate share of the net pension liability and schedule of University's contributions on pages 64 and 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
November 15, 2016

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

Statement of Net Position

September 30, 2016

(In thousands)

| | |
|---|---|
| Current assets: | |
| Cash and cash equivalents | $ 100,155 |
| Investments | 85,182 |
| Net patient receivable, (net of allowance for doubtful accounts of $65,829) | 47,897 |
| Accounts receivable, affiliates | 464 |
| Accounts receivable, other | 20,674 |
| Notes receivable, net | 7,108 |
| Prepaid expenses, inventories, and other | 12,154 |
| Total current assets | 273,634 |
| Noncurrent assets: | |
| Restricted cash and cash equivalents | 18,927 |
| Restricted investments | 108,894 |
| Investments | 81,279 |
| Accounts receivable | 2,195 |
| Other noncurrent assets | 2,167 |
| Capital assets, net | 653,297 |
| Total noncurrent assets | 866,759 |
| Total assets | 1,140,393 |
| Deferred outflows | 44,518 |
| Total assets and deferred outflows | 1,184,911 |
| Current liabilities: | |
| Accounts payable and accrued liabilities | 55,234 |
| Unrecognized revenue | 62,674 |
| Deposits | 1,627 |
| Current portion of other long-term liabilities | 9,336 |
| Current portion of long-term debt | 25,016 |
| Total current liabilities | 153,887 |
| Noncurrent liabilities: | |
| Long-term debt, less current portion | 363,796 |
| Net pension liability | 329,294 |
| Other long-term liabilities | 95,926 |
| Total noncurrent liabilities | 789,016 |
| Total liabilities | 942,903 |
| Deferred inflows | 24,014 |
| Total liabilities and deferred inflows | 966,917 |
| Net position: | |
| Net investment in capital assets | 270,127 |
| Restricted, nonexpendable: | |
| Scholarships | 23,905 |
| Other | 24,855 |
| Restricted, expendable: | |
| Scholarships | 13,368 |
| Other | 42,224 |
| Unrestricted | (156,485) |
| Total net position | $ 217,994 |

See accompanying notes to basic financial statements.

**UNIVERSITY OF SOUTH ALABAMA FOUNDATION**
(Discretely Presented Component Unit)

Consolidated Statement of Financial Position

June 30, 2016

(In thousands)

| | | |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ | 368 |
| Investments: | | |
| Equity securities | | 120,900 |
| Timber and mineral properties | | 157,470 |
| Real estate | | 69,070 |
| Other | | 5,803 |
| Other assets | | 532 |
| Total assets | $ | 354,143 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable | $ | 90 |
| Other liabilities | | 649 |
| Total liabilities | | 739 |
| Net assets: | | |
| Unrestricted | | 99,115 |
| Temporarily restricted | | 84,699 |
| Permanently restricted | | 169,590 |
| Total net assets | | 353,404 |
| Total liabilities and net assets | $ | 354,143 |

See accompanying notes to basic financial statements.

**USA RESEARCH AND TECHNOLOGY CORPORATION**
(Discretely Presented Component Unit)

Statement of Net Position

September 30, 2016

(In thousands)

| | | |
|---|---|---|
| Assets: | | |
| Current assets: | | |
| Unrestricted cash and cash equivalents | $ | 627 |
| Rent receivable | | 26 |
| Prepaid expenses and other current assets | | 15 |
| Total current assets | | 668 |
| Noncurrent assets: | | |
| Intangible assets, net | | 30 |
| Capital assets, net | | 22,567 |
| Total noncurrent assets | | 22,597 |
| Deferred outflows | | 3,415 |
| Total assets and deferred outflows | | 26,680 |
| Liabilities: | | |
| Current liabilities: | | |
| Deposits, other current liabilities, and accrued expenses | | 162 |
| Unrecognized rent revenue | | 390 |
| Current portion of notes payable | | 1,062 |
| Total current liabilities | | 1,614 |
| Noncurrent liabilities: | | |
| Notes payable, excluding current portion | | 20,254 |
| Interest rate swap | | 3,415 |
| Payable to University of South Alabama | | 573 |
| Total noncurrent liabilities | | 24,242 |
| Total liabilities | | 25,856 |
| Net position: | | |
| Net investment in capital assets | | 678 |
| Unrestricted | | 146 |
| Total net position | $ | 824 |

See accompanying notes to basic financial statements.

**GULF COAST REGIONAL CARE ORGANIZATION**
(Discretely Presented Component Unit)

Statement of Net Position

September 30, 2016

(In thousands)

| | | |
|---|---|---|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | $ | 741 |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | | 11 |
| Due to affiliate | | 50 |
| Total liabilities | | 61 |
| Net position: | | |
| Unrestricted | $ | 680 |

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, 2016

(In thousands)

| | | |
|---|---|---|
| Operating revenues: | | |
| Tuition and fees (net of scholarship allowances of $35,179) | $ | 137,074 |
| Net patient service revenue (net of provision for bad debts of $83,211) | | 360,657 |
| Federal grants and contracts | | 20,119 |
| State grants and contracts | | 8,663 |
| Private grants and contracts | | 9,405 |
| Auxiliary enterprises (net of scholarship allowances of $1,147) | | 28,861 |
| Other operating revenues | | 60,082 |
| Total operating revenues | | 624,861 |
| Operating expenses: | | |
| Salaries and benefits | | 460,219 |
| Supplies and other services | | 198,518 |
| Scholarships and fellowships | | 14,230 |
| Utilities | | 15,126 |
| Depreciation and amortization | | 36,174 |
| Total operating expenses | | 724,267 |
| Operating loss | | (99,406) |
| Nonoperating revenues (expenses): | | |
| State appropriations | | 105,024 |
| Investment income | | 2,631 |
| Interest expense | | (14,342) |
| Other nonoperating revenues | | 38,708 |
| Other nonoperating expenses | | (16,231) |
| Net nonoperating revenues | | 115,790 |
| Income before capital contributions, grants and additions to endowment | | 16,384 |
| Capital contributions and grants | | 3,053 |
| Additions to endowment | | 6,468 |
| Increase in net position | | 25,905 |
| Net position: | | |
| Beginning of year, before cumulative effect of change in reporting entity | | 195,052 |
| Cumulative effect of change in reporting entity (note 1 (d)) | | (2,963) |
| Beginning balance, as adjusted | | 192,089 |
| End of year | $ | 217,994 |

See accompanying notes to basic financial statements.

**UNIVERSITY OF SOUTH ALABAMA FOUNDATION**
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2016

(In thousands)

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

See accompanying notes to basic financial statements.

**USA RESEARCH AND TECHNOLOGY CORPORATION**
(Discretely Presented Component Unit)

Statement of Revenues, Expenses, and Change in Net Position

Year ended September 30, 2016

(In thousands)

| | | |
|---|---|---|
| Operating revenues | $ | 3,424 |
| Operating expenses: | | |
| Building management and operating expenses | | 1,150 |
| Depreciation and amortization | | 951 |
| Legal and administrative fees | | 185 |
| Insurance | | 27 |
| Total operating expenses | | 2,313 |
| Operating income | | 1,111 |
| Nonoperating revenues (expenses): | | |
| Investment income | | 1 |
| Interest expense | | (1,199) |
| Other | | 5 |
| Net nonoperating expenses | | (1,193) |
| Decrease in net position | | (82) |
| Net position: | | |
| Beginning of year | | 906 |
| End of year | $ | 824 |

See accompanying notes to basic financial statements.

**GULF COAST REGIONAL CARE ORGANIZATION**
(Discretely Presented Component Unit)

Statement of Revenues, Expenses, and Change in Net Position

Year ended September 30, 2016

(In thousands)

| | |
|---|---|
| Operating revenues: | |
| Contract revenues | $ 3,586 |
| Operating expenses: | |
| Third party administration expense | 3,209 |
| Management company expense | 189 |
| Other operating expense | 199 |
| Total operating expenses | 3,597 |
| Operating income | (11) |
| Nonoperating revenues: | |
| Gifts and contributions | 594 |
| Increase in net position | 583 |
| Net position: | |
| Beginning of year | 97 |
| End of year | $ 680 |

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, 2016

(In thousands)

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts related to tuition and fees | $ | 135,642 |
| Receipts from and on behalf of patients and third-party payers | | 331,351 |
| Receipts from grants and contracts | | 56,071 |
| Receipts related to auxiliary enterprises | | 29,456 |
| Payments to suppliers and vendors | | (200,589) |
| Payments to employees and related benefits | | (444,936) |
| Payments for scholarships and fellowships | | (11,186) |
| Other operating receipts | | 51,605 |
| Net cash used in operating activities | | (52,586) |
| Cash flows from noncapital financing activities: | | |
| State appropriations | | 105,024 |
| Endowment gifts | | 6,468 |
| Agency funds received | | 646 |
| Agency funds disbursed | | (1,946) |
| Student loan program receipts | | 151,365 |
| Student loan program disbursements | | (152,855) |
| Other nonoperating revenues | | 47,401 |
| Other nonoperating expenses | | (5,347) |
| Net cash provided by noncapital financing activities | | 150,756 |
| Cash flows from capital and related financing activities: | | |
| Capital contributions and grants | | 3,052 |
| Purchases of capital assets | | (75,208) |
| Proceeds from issuance of capital debt | | 107,537 |
| Principal payments on capital debt | | (108,463) |
| Interest payments on capital debt | | (15,409) |
| Net cash used in capital and related financing activities | | (88,491) |
| Cash flows from investing activities: | | |
| Interest and dividends on investments | | 3,540 |
| Purchases of investments | | (122,288) |
| Proceeds from sales of investments | | 100,876 |
| Net cash used in investing activities | | (17,872) |
| Net decrease in cash and cash equivalents | | (8,193) |
| Cash and cash equivalents (unrestricted and restricted): | | |
| Beginning of year, as adjusted | | 127,275 |
| End of year | $ | 119,082 |



(Continued)

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

Statement of Cash Flows

Year ended September 30, 2016

(In thousands)

| | | |
|---|---|---|
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | $ | (99,406) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation and amortization expense | | 36,174 |
| Changes in assets and liabilities, net: | | |
| Student receivables | | (3,166) |
| Net patient accounts receivables | | (3,871) |
| Grants and contracts receivables | | 18,546 |
| Other receivables | | (8,936) |
| Prepaid expenses, inventories, and other | | (1,422) |
| Accounts payable and accrued liabilities | | 5,045 |
| Unrecognized revenue | | 4,450 |
| Net cash used in operating activities | $ | (52,586) |
| Noncash investing, noncapital financing, and capital and related financing transactions: | | |
| Net decrease in fair value of investments recognized as a component of investment incom( | $ | (2,025) |
| Payment for capital lease | | 3,678 |
| Additional maturity on capital appreciation on bonds payable and other borrowings recorded as interest expense | | 1,443 |
| Gifts of capital and other assets | | 2,257 |
| Capitalization of construction period interest | | 721 |
| Increase in accounts payable related to capital assets | | 2,606 |

See accompanying notes to basic financial statements.

## (1) Summary of Significant Accounting Policies

### *(a) Reporting Entity*

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

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

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

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF). This entity is not considered a component unit of the University under the provisions of GASB Statements No. 14, 39 and 61 because the University does not consider SAMSF significant enough to warrant inclusion in the University's reporting entity (see note 15 for further discussion of this entity).

GASB Statement No. 61 requires the University, as the primary government, to include in its basic financial statements, as a blended component unit, organizations that, even though they are legally separate entities, meet certain requirements as defined by GASB Statement No. 61. Based on these criteria, the University reports the Professional Liability Trust Fund, the General Liability Trust Fund, the USA HealthCare Management, LLC, and the USA Health Services Foundation (USAHSF) as blended component units. All significant transactions among the University and its blended component units have been eliminated.

***(b) USA HealthCare Management, LLC***

In June 2010, the University's Board of Trustees approved the formation of USA HealthCare Management, LLC (HCM). HCM was organized for the purpose of managing and operating on behalf of, and as agent for, substantially all of the health care clinical enterprise of the University. The University is the sole member of HCM. HCM commenced operations in October 2010 and is reported as a blended component unit (see note 18 for further discussion of, and disclosure for, this entity).

***(c) Professional Liability and General Liability Trust Funds***

The medical malpractice liability of the University is maintained and managed in its separate Professional Liability Trust Fund (the PLTF) in which the University, USAHSF, HCM and SAMSF are the only participants. In accordance with the bylaws of the PLTF, the president of the University is responsible for appointing members of the PLTF policy committee. Additionally, the general liability of the University, USAHSF, HCM, SAMSF and the Corporation is maintained and managed in its General Liability Trust Fund (the GLTF) for which the University, as defined by GASB Statement No. 18, is responsible. The PLTF and GLTF are separate legal entities which are governed by the University Board of Trustees through the University president. As such, PLTF and GLTF are reported as blended component units (see note 18 for further discussion of, and disclosure for, these entities).

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

During fiscal 2016, due to the Board's approval of governance changes and assignment of operational responsibility to the University, the USA Health Services Foundation now meets the criteria for blended component unit presentation. The cumulative effect of this change in reporting entity resulted in a decrease to the beginning balance of the University's net position in the amount of ($2,963,000). All transactions for the USA Health Services Foundation for fiscal year ended September 30, 2016 are blended in the University's financial statements.

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

The USA Foundation is a not-for-profit corporation that was organized for the purpose of promoting education, scientific research, and charitable purposes, and to assist in developing and advancing the University in furthering, improving, and expanding its properties, services, facilities, and activities. Because of the significance of the relationship between the University and the USA Foundation, the USA Foundation is considered a component unit of the University. The Board of Directors of the USA Foundation is not appointed or controlled by the University. The University receives distributions from the USA Foundation primarily for scholarship, faculty and other support. Total distributions received or accrued by the University for the year ended September 30, 2016 were $10,455,000, and are primarily included in other nonoperating revenues and capital contributions and grants in the University's statement of revenues, expenses, and changes in net position. The USA Foundation presents its financial statements in accordance with standards issued by the Financial Accounting Standards Board (FASB). The USA Foundation is reported in separate financial statements because of the difference in the financial reporting format since the USA Foundation follows FASB rather than GASB pronouncements. The USA Foundation has a June 30 fiscal year end which differs from the

University's September 30 fiscal year end. In accordance with GASB Statement No. 14, this discretely presented unit has been included with the most recent fiscal year. The accompanying consolidated statement of financial position and statement of activities and changes in net assets for the USA Foundation as of and for the year ended June 30, 2016 are discretely presented.

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

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

***(g) Gulf Coast Regional Care Organization***

The RCO is a not-for-profit corporation that exists for the purpose of creating and operating a risk-based, community-led network to coordinate the heath care of Medicaid patients in a seven county region of southwest Alabama, one of five such regions in the state of Alabama identified by the Alabama Medicaid Agency. The RCO commenced operations in April 2015 and is currently operating a Health Home program, providing certain case management services to qualifying Medicaid beneficiaries. Effective July 1, 2017, the Alabama Medicaid Agency plans to begin full operations for all Medicaid patients throughout the state. If it elects to participate in this program, the RCO will be responsible for the care of between 50% and 100% of all Medicaid patients in the region. Because of the significance of the relationship between the University and the RCO, the RCO is considered a component unit of the University. The RCO presents its financial statements in accordance with GASB. The accompanying statements of net position and revenues, expenses and change in net position for the RCO are discretely presented. See note 20 for further discussion.

***(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


(Continued)

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

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

### *(j) Cash and Cash Equivalents*

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

### *(k) Investments and Investment Income*

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

### *(l) Derivatives*

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

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

In December 2013, the counterparty, Wells Fargo, exercised its option related to the Series 2004 swaption and, as a result, the University entered into an interest rate swap. As a result of the exercise of the option, the Series 2004 swaption was terminated. In March 2014, the University entered into an interest rate swap arrangement with a counterparty. The resulting derivative is a "receive-variable, pay-fixed" interest rate swap. The University pays the counterparty a fixed semi-annual payment based on an annual rate of 4.9753% and receives on a monthly basis a variable payment of 68% of the one-month London Interbank Offered Rate (LIBOR) plus 0.25%. The notional amount of the swap will at all times match the outstanding principal amount of the Series 2014-A bond. The change in the fair value of the swap ($609,000 at September 30, 2016) is reported as a deferred inflow and derivative asset on the 2016 statement of net position since the interest rate swap is a hedging derivative. See note 10 for further discussion.

In September 2016, the counterparty, Wells Fargo, exercised its option related to the Series 2006 swaption and, as a result, the University entered into an interest rate swap. As a result of the exercise of the option, the Series 2006 swaption was terminated. The resulting derivative is a "receive-variable, pay-fixed" interest rate swap. The University pays the counterparty a fixed semi-annual payment based on an annual rate of 5% and receives on a monthly basis a variable payment of 68% of the one-month London Interbank Offered Rate (LIBOR) plus 0.25%. The change in the fair value of the swap ($637,000 at September 30, 2016) is reported as a deferred inflow and derivative asset on the 2016 statement of net position since the interest rate swap is a hedging derivative. See note 10 for further discussion.

### *(m) Accounts Receivable*

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

### *(n) Inventories*

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

### *(o) Capital Assets*

Capital assets are recorded at cost, if purchased, or at fair value at date of donation. Depreciation is provided over the estimated useful life of each class of depreciable 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.

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

The University evaluates impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. For the year ended September 30, 2016, no impairments were recorded.

***(p) Unrecognized Revenue***

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

***(q) Cost Sharing Multi-Employer Pension Plan***

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

***(r) Classification of Net Position***

The University's net position is classified as follows:

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

*Restricted, nonexpendable* net position consists of endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, 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, net patient service revenue, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for



(Continued)

students, faculty, and staff. While unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees, they are available for use at the discretion of the governing board to meet current expenses for any purpose. Substantially all unrestricted net position is designated for academic and research programs and initiatives, and capital programs.

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

### *(s) Scholarship Allowances and Student Financial Aid*

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

### *(t) Donor Restricted Endowments*

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

### *(u) Classification of Revenues*

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

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

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

### *(v) Gifts and Pledges*

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

### *(w) Grants and Contracts*

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

### *(x) Net Patient Service Revenue and Electronic Health Records Incentive Program*

Net patient service revenue is reported at estimated net realizable amounts due from patients, third-party payers and others for healthcare services rendered, including estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods, as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

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

The Health System recognized Medicare EHR incentive revenues of $391,000 for the year ended September 30, 2016. EHR incentive revenues are included in other operating revenues in the accompanying statement of revenues, expenses and changes in net position.

### *(y) Compensated Absences*

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

### *(z) Recently Adopted Accounting Pronouncements*

In 2016, the University adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides hierarchical guidance for determining fair value measurement for assets and liabilities for financial reporting purposes and also provides guidance for required disclosure related to fair value measurements. See note 4 for a 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 are tax-exempt entities under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). Consistent with that designation, no provision for income taxes has been made in the accompanying discretely presented financial statements.

## (3) Cash

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

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

## (4) Investments

### *(a) University of South Alabama*

The investments of the University are invested pursuant to the University of South Alabama "Non-endowment Cash Pool Investment Policies," the "Endowment Fund Investment Policy," and the "Derivatives Policy" (collectively referred to as the University Investment Policies) as adopted by the Board of Trustees. The purpose of the non-endowment cash pool investment policy is to provide guidelines by which commingled funds not otherwise needed to meet daily operational cash flows can be invested to earn a maximum return, yet still maintain sufficient liquidity to meet fluctuations in the inflows and outflows of University operational funds. Further, endowment fund investment policies exist to provide earnings to fund specific projects of the endowment fund, while preserving principal. The University Investment Policies require that management apply the "prudent person" standard in the context of managing its investment portfolio.

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

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

Investments of the University, by type, at fair value, are as follows at September 30, 2016 (in thousands):

| | |
|---|---|
| U.S. Treasury notes | $ 5,167 |
| U.S. federal agency notes | 104,895 |
| Commingled equity funds | 91,695 |
| Commingled debt funds | 37,439 |
| Marketable equity securities | 7,864 |
| Real Estate | 360 |
| Managed income alternative investments (low-volatility multi-strategy funds of funds) | 27,935 |
| | $ 275,355 |

At September 30, 2016, $14,852,000 of cumulative appreciation in fair value of investments of donor-restricted endowments was recognized and is included in restricted expendable net position in the accompanying statement of net position.

**Credit Risk and Concentration of Credit Risk**

**(i) Non-Endowment 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.

**(ii) Endowment Fund Investment Policy**

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

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

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

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



(Continued)

### Interest Rate Risk

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

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

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

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

### Mortgage-Backed Securities

The University, from time to time, invests in mortgage backed securities 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.

### Fair Value Measurement

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

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

The level in the fair value hierarchy that determines the classification of an asset or liability depends on the lowest level input that is significant to the fair value measurement. Observable inputs are derived from quoted market prices for assets or liabilities traded on an active market where there is sufficient activity to determine a readily determinable market price. Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable inputs. The University of South Alabama's assets that have unobservable inputs consist of the investment in real estate with fair value based on an independent third party appraisal performed by qualified appraisers specializing in real estate investments. Other assets included in the University's investment portfolio with unobservable inputs are the shares or units in certain partnerships or other comingled funds that do not have readily determinable fair values. For these funds, fair value is estimated using the net asset value (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 as of September 30, 2016 (in thousands):

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

| | Liability Fair value measurements at September 30, 2016 | | | |
|---|---|---|---|---|
| **Description** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Interest rate exchange agreements | $ — | 49,378 | — | 49,378 |

A rollfoward schedule of amounts for Level 3 financial instruments for the fiscal year ended September 30, 2016 is as follows:

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

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

Investments in securities consist primarily of equity securities totaling $120,900,000 at June 30, 2016.

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

| | | |
|---|---|---|
| Unrealized gains | $ | 844 |
| Realized gains | | 1,972 |
| Timber sales | | 2,685 |
| Interest and dividends | | 2,131 |
| Rents | | 627 |
| Royalties | | 74 |
| | $ | 8,333 |

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

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

| | | |
|---|---|---|
| Land and land improvements – held for investment | $ | 67,935 |
| Building and building improvements – held for investment | | 1,135 |
| | $ | 69,070 |

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

Investments at June 30, 2016, include an equity interest in a timberland management company. The company's primary assets consist of timberland. The Foundation's proportionate share of the fair value of the company is based upon the valuation from the trustee responsible for the management of the company and the timber valuation.

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

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

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



(Continued)

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

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

As of June 30, 2016, the USA Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of the Foundation's equity securities at June 30, 2016 are considered readily liquid. Timber and mineral properties, real estate, and other investments are generally considered illiquid.

## (5) Derivative Transactions – Swaptions

In January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds with a counterparty. This transaction was effected through the sale of two swaptions by the University to the counterparty. The transactions resulted in an up-front payment to the University totaling $9,328,000, which was recorded as a liability, in exchange for selling the counterparty the option to enter into an interest rate swap with respect to the Series 2004 and 2006 bonds in 2015 and 2016, respectively.

### *Objective of the Derivative Transaction*

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

### *Terms*

A summary of the transactions is as follows:

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

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

As further discussed in note 10, in September 2016, the counterparty exercised its option with respect to the 2006 swaption. As a result of the exercise of the option by the counterparty, the swaption was terminated, the borrowing arising from the Series 2006 swaption of \$6,939,000 and the investment derivative of \$34,078,000 were written off. An original borrowing arising from the 2016 swap of \$41,017,000 was recognized and is reported, net of current year amortization, as long-term debt, in the amount of \$40,849,000, in the statement of net position at September 30, 2016.

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

The change in the fair market value of the swaption derivative until the exercise date of September 1, 2016 is reported as a component of investment income (loss) in the statement of revenues, expenses and changes in net position. For the year ended September 30, 2016, the change in the fair value of the derivative was (\$11,611,000).

## (6) Capital Assets

### (a) *University of South Alabama*

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

| | Beginning balance | Additions | Transfers | Reductions | Ending balance |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land and other | $ 22,516 | 213 | 111 | — | 22,840 |
| Construction-in-progress | 82,913 | 60,972 | (30,375) | — | 113,510 |
| | 105,429 | 61,185 | (30,264) | — | 136,350 |
| Capital assets being depreciated: | | | | | |
| Land improvements | 32,361 | 35 | 794 | — | 33,190 |
| Buildings, fixed equipment, and infrastructure | 676,831 | 4,474 | 28,751 | (408) | 709,648 |
| Other equipment | 150,661 | 8,104 | 719 | (4,128) | 155,356 |
| Equipment, net | — | 1,377 | — | — | 1,377 |
| Library materials | 63,964 | 3,513 | — | — | 67,477 |
| | 923,817 | 17,503 | 30,264 | (4,536) | 967,048 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | (19,218) | (1,309) | — | — | (20,527) |
| Buildings, fixed equipment, and infrastructure | (237,648) | (19,747) | — | 287 | (257,108) |
| Other equipment | (113,656) | (10,918) | — | 4,096 | (120,478) |
| Library materials | (49,094) | (2,894) | — | — | (51,988) |
| | (419,616) | (34,868) | — | 4,383 | (450,101) |
| Capital assets being depreciated, net | 504,201 | (17,365) | 30,264 | (153) | 516,947 |
| Capital assets, net | $ 609,630 | 43,820 | — | (153) | 653,297 |

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

### *(b) USA Research and Technology Corporation*

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

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

## (7) Noncurrent Liabilities

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

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

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

In September 2016, the University signed a six-year purchase agreement as a method of financing the purchase of certain hospital equipment for the Health System. See Note 9 for further disclosure.

In June 2016, the University entered into a variable interest rate revolving line of credit with Compass Bank to, among other reasons, fund certain capital improvements to various health care facilities for the Health System. The total amount available under the line of credit is $30,000,000 and interest on the outstanding amounts is accrued at the rate of 65 percent of the London Interbank Offered Rate (LIBOR) plus 77 basis points. The maturity date is June 10, 2018. The amount outstanding at September 30, 2016 is $50,000 and is reported in current portion of long-term debt in the current liabilities section of the statement of net position. See note 16(c) for further disclosure.

## (8) Bonds Payable

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

| | | |
|---|---|---|
| University Tuition Revenue Bonds, Series 1999 Capital Appreciation, 4.70% to 5.25%, payable November 2011 through November 2018 | $ | 21,382 |
| University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006 5.00%, payable through December 2036 | | 100,000 |
| University Facilities Revenue and Capital Improvement Bonds, Series 2008, 3.00% to 5.00%, payable through August 2018 | | 5,565 |
| University Facilities Revenue and Capital Improvement Bonds, Series 2010, 3.81%, payable through August 2030 | | 23,102 |
| University Facilities Revenue Capital Improvement Bond, Series 2012-A, 2.92% payable through August 2032 | | 21,025 |
| University Facilities Revenue Capital Improvement Bond, Series 2012-B, 2.14% payable through August 2018 | | 2,690 |
| University Facilities Revenue Capital Improvement Bond, Series 2013-A, 2.83% payable through August 2033 | | 28,261 |
| University Facilities Revenue Capital Improvement Bond, Series 2013-B, 2.83% payable through August 2033 | | 7,065 |
| University Facilities Revenue Capital Improvement Bond, Series 2013-C, 2.78% payable through August 2025 | | 8,315 |
| University Facilities Revenue Refunding Bond, Series 2014-A, variable rate payable at 68% of LIBOR plus .73%, payable through March 2024 | | 40,285 |
| University Facilities Revenue Capital Improvement Bond, Series 2015, 2.47% payable through August 2030 | | 5,250 |
| University Facilities Revenue Refunding Bonds, Series 2016, 3.00% to 5.00% payable through November 2037 | | 85,605 |
| | | 348,545 |
| Plus unamortized premium | | 20,640 |
| Less unaccreted discount | | (16) |
| Less unamortized debt issuance costs | | (1,612) |
| | $ | 367,557 |

Substantially all student tuition and fee and auxiliary revenues secure University bonds. Additionally, security for Series 2008 bonds includes Children's and Women's Hospital revenues in an amount not exceeding $10,000,000. Series 1999 Capital Appreciation Bonds began maturing in November 2011. Series 1999 Bonds are not redeemable prior to maturity. Series 2006 Bonds begin maturing in December 2024 and are redeemable beginning in December 2016. Series 2008 Bonds began maturing in August 2009 and are redeemable beginning in September 2018. The Series 2010 Bond began maturing in August 2011 and is redeemable beginning in February 2020. The 2012-A and 2012-B Bonds began maturing in August 2013. The 2012-A Bond is redeemable beginning in August 2021. The 2012-B Bond is redeemable at any time. The 2013-A, 2013-B and 2013-C Bonds began maturing in August 2014 and are redeemable beginning in June 2023. The Series 2014-A bond began maturing in March 2015 and is redeemable at any time. The Series 2015 bond began maturing in August 2015 and is redeemable beginning in June 2020. The Series 2016 bonds will begin maturing in November 2018 and are redeemable in November 2026.

In September 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016, with a face value of $85,605,000. The proceeds from the series 2016 bonds were used to partially defease the Series 2008 bonds. The funds were deposited into escrow trust funds to provide for the subsequent repayment of the Series 2008 bonds when they are called in December 2018. Neither the asset of the escrow trust account, nor the defeased indebtedness is included in the accompanying statement of net position. The principal outstanding on all defeased bonds is $93,540,000 at September 30, 2016. The remaining undefeased portion of the Series 2008 bonds at September 30, 2016 is $5,565,000 and is included in current and noncurrent long-term debt on the accompanying statement of net position.

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

Approximately $2,551,000 of proceeds from the issuance of the Series 2012 Bond remained unspent at September 30, 2016 and is included in restricted cash and cash equivalents in the 2016 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

Approximately $1,638,000 of proceeds from the issuance of the Series 2013-A Bond remained unspent at September 30, 2016 and is included in restricted cash and cash equivalents in the 2016 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

Approximately $1,452,000 of proceeds from the issuance of the Series 2015 Bonds remained unspent at September 30, 2016 and is included in restricted cash and cash equivalents in the 2016 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

The University is subject to arbitrage restrictions on its bonded indebtedness prescribed by the U. S. Internal Revenue Service. As such, amounts are accrued as needed in the University's basic financial statements for any expected arbitrage liabilities. At September 30, 2016, no amounts were due or recorded in the financial statements.

The University is subject to restrictive covenants related to its bonds payable. At September 30, 2016, management believes the University was in compliance with such financial covenants.

**Debt Service on Long-Term Obligations**

Total debt service (which includes bonds and notes payable) by fiscal year is as follows as of September 30, 2016 (in thousands):

| | Debt service on note and bonds | | | |
|---|---|---|---|---|
| | **Principal** | **Interest** | **Additional maturity** | **Total** |
| 2017 | $ 20,661 | 10,868 | (782) | 30,747 |
| 2018 | 17,524 | 12,024 | (427) | 29,121 |
| 2019 | 16,076 | 11,667 | (49) | 27,694 |
| 2020 | 15,077 | 11,355 | — | 26,432 |
| 2021 | 15,745 | 11,012 | — | 26,757 |
| 2022-2026 | 83,056 | 48,933 | — | 131,989 |
| 2027-2031 | 85,258 | 32,805 | — | 118,063 |
| 2032-2036 | 77,085 | 13,968 | — | 91,053 |
| 2037-2038 | 22,805 | 667 | — | 23,472 |
| Subtotal | 353,287 | $ 153,299 | (1,258) | 505,328 |
| Plus (less): | | | | |
| Additional maturity | (1,258) | | | |
| Unamortized bond premium | 20,640 | | | |
| Unaccreted bond discount | (16) | | | |
| Unamortized debt extinguishment costs | (1,612) | | | |
| Total | $ 371,041 | | | |

The principal amount of debt service due on bonds at September 30, 2016 includes $1,099,000 representing additional maturity value on Series 1999 Capital Appreciation Bonds. These bonds mature through 2019. Although this additional maturity is presented as principal on the debt service schedule above, it is also recognized as interest expense on an annual basis in the University's basic financial statements as it accretes.

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

**Notes Payable**

Notes payable consisted of the following at September 30, 2016 (in thousands):

| | |
|---|---|
| Wells Fargo, promissory note, one-month LIBOR plus 0.85% (1.377% at September 30, 2016) payable through 2028 | $ 13,034 |
| PNC Bank promissory note, 4.50%, payable through 2021 | 8,282 |
| | $ 21,316 |



(Continued)

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

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

In connection with each note, the University entered into an agreement with the lender providing that for any year in which the Corporation's debt service coverage ratio is less than 1 to 1, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to 1 to 1. The debt service coverage ratio is calculated by dividing the sum of unrestricted cash and cash equivalents at the beginning of the year (reduced by current year capital assets additions) and current year change in net position (determined without depreciation, amortization, and interest expense) by current year debt service. For fiscal 2016 the Corporation's debt service coverage ratio was 1.24 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2016.

**Debt Service on Long-Term Obligations**

At September 30, 2016, total debt service by fiscal year is as follows (in thousands):

| | | Debt service on note and loan | | |
|---|---|---|---|---|
| | | **Principal** | **Interest** | **Total** |
| 2017 | $ | 1,062 | 1,151 | 2,213 |
| 2018 | | 1,119 | 1,094 | 2,213 |
| 2019 | | 1,194 | 1,020 | 2,214 |
| 2020 | | 1,264 | 949 | 2,213 |
| 2021 | | 8,111 | 670 | 8,781 |
| 2022–2026 | | 6,084 | 1,773 | 7,857 |
| 2027–2028 | | 2,482 | 137 | 2,619 |
| Total | $ | 21,316 | 6,794 | 28,110 |

**Derivative Transaction**

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

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

The swap will terminate on May 1, 2028, when the loan matures. The notional amount of the swap will at all times match the outstanding principal amount of the loan. Under the swap, the Corporation pays the counterparty a fixed payment of 6.10% and receives a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the loan bears interest at the one-month LIBOR rate plus .85%. The Corporation paid $651,955 under the interest rate swap agreement for the year ended September 30, 2016, which is reflected as an increase in interest expense.

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

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

***Risks Associated with this Transaction***

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

*Credit risk.* As of September 30, 2016, the Corporation was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivative becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa1 by Moody's and AA- by S&P as of September 30, 2016.

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

*Derivative payments and hedged debt.* As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of September 30, 2016, debt service requirements by fiscal year of the variable rate debt and net derivative payments, assuming current interest rates remain the same in the future, are as follows (in thousands):

| | Variable rate loan | | Interest rate | |
|---|---|---|---|---|
| | **Principal** | **Interest** | **swap, net** | **Total** |
| 2017 | $ 787 | 177 | 607 | 1,571 |
| 2018 | 832 | 167 | 573 | 1,572 |
| 2019 | 893 | 153 | 525 | 1,571 |
| 2020 | 949 | 141 | 482 | 1,572 |
| 2021 | 1,008 | 127 | 436 | 1,571 |
| 2022–2026 | 6,083 | 400 | 1,373 | 7,856 |
| 2027–2028 | 2,482 | 31 | 106 | 2,619 |
| Total | $ 13,034 | 1,196 | 4,102 | 18,332 |

## (9) Capital Lease Obligation

In April 2015, the University signed a seven-year purchase agreement as a method of financing the purchase of certain computer software and hardware for the USA Health System. In July 2015, the University also signed a second seven-year purchase agreement as a method of financing additional laboratory software and hardware for the USA Health System. In September 2016, the University signed a six-year purchase agreement as a method of financing the purchase of certain hospital equipment for the USA Health System.

Future minimum capital lease payments at September 30, 2016, are as follows (in thousands).

| | |
|---|---|
| Year ending September 30: | |
| 2017 | $ 4,177 |
| 2018 | 3,402 |
| 2019 | 3,402 |
| 2020 | 3,402 |
| 2021 | 3,402 |
| Thereafter | 1,833 |
| | 19,618 |
| Less amounts representing interest | (1,847) |
| Net minimum lease payments | $ 17,771 |

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

## (10) Derivative Transaction – Interest Rate Swaps

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

In September 2016, Wells Fargo exercised its option with respect to the synthetic advance refunding of the Series 2006 bonds to enter into an interest rate swap agreement with the University with an effective date of September 1, 2016. The resulting derivative is a "receive-variable, pay-fixed" interest rate swap. It is management's intention to redeem the Series 2006 bonds with the proceeds from bonds to be issued in December 2016.

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

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

The 2016 swap will terminate in December 2036, when the 2006 bond matures. The notional amount of the swap will at all times match the outstanding principal amount of the bond. Under the swap, the University pays the counterparty a fixed semi-annual payment based on an annual rate of 5% and receives on a monthly basis a variable payment of 68% of the one-month London Interbank Offered Rate (LIBOR) plus 0.25%.

*Fair value.* The 2014 interest rate swap had a negative fair value of approximately $(9,138,000) at its inception. This amount, net of any amortization, is reported as a borrowing arising from the 2014 interest rate swap as long-term-debt in the amount of $6,854,000 in the 2016 statement of net position. The change in the fair value of the swap, $609,000, at September 30, 2016, is reported as a deferred inflow and derivative asset on the statement of net position since the interest rate swap is a hedging derivative instrument.

The 2016 interest rate swap had a negative fair value of approximately $(41,017,000) at its inception. This amount, net of any amortization, is reported as a borrowing arising from the 2016 interest rate swap as long-term-debt in the amount of $40,849,000 in the 2016 statement of net position. The change in the fair value of the swap, $637,000, at September 30, 2016, is reported as a deferred inflow and derivative asset on the statement of net position since the interest rate swap is a hedging derivative instrument.

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

***Risks Associated with this Transaction***

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

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

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

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

| | Variable rate loan | | Interest rate | |
|---|---|---|---|---|
| | Principal | Interest | swap, net | Total |
| 2017 | $ 615 | 476 | 1,704 | 2,795 |
| 2018 | 640 | 513 | 1,634 | 2,787 |
| 2019 | 665 | 522 | 1,589 | 2,776 |
| 2020 | 6,925 | 493 | 1,411 | 8,829 |
| 2021 | 7,280 | 410 | 1,106 | 8,796 |
| 2022–2024 | 24,160 | 585 | 1,436 | 26,181 |
| Total | $ 40,285 | 2,999 | 8,880 | 52,164 |

Management expects to enter into a debt refunding for the 2006 bonds in December 2016. Anticipated debt service requirements for the 2016 interest rate swap by fiscal year are as follows (in thousands):

| | Variable rate loan | | Interest rate | |
|---|---|---|---|---|
| | Principal | Interest | swap, net | Total |
| 2017 | $ — | 895 | 1,957 | 2,852 |
| 2018 | — | 1,307 | 4,163 | 5,470 |
| 2019 | — | 1,387 | 4,083 | 5,470 |
| 2020 | — | 1,485 | 3,985 | 5,470 |
| 2021 | — | 1,575 | 3,895 | 5,470 |
| 2022–2036 | 100,000 | 19,146 | 36,505 | 155,651 |
| Total | $ 100,000 | 25,795 | 54,588 | 180,383 |

## (11) Net Patient Service Revenue

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

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

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

During fiscal year 2016, USA Medical Center received a final settled 2012 cost report. The USA Medical Center amended its 2013 cost report and it is still not audited or settled and we have received no status update on the report. The 2014 cost report was amended in December 2015. The 2015 cost report was initially filed in February 2016 and amended in August 2016. Both the 2014 and 2015 cost reports are in the audit process. The 2016 cost report was filed in February 2016.

During fiscal year 2016, USA Children's & Women's Hospital's 2012 cost report was reopened and resettled. The 2013 cost report was settled in October 2015 and re-opened in August 2016 per our request. The 2013, 2014 and 2015 cost reports are in the audit process.

Revenue from the Medicare program accounted for approximately 18% of the Health System's net patient service revenue for the year ended September 30, 2016.

***Blue Cross*** – Inpatient services rendered to Blue Cross subscribers are paid at a prospectively determined per diem rate. Outpatient services are reimbursed under a cost reimbursement methodology. For outpatient services, the Health System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Health System and audits thereof by Blue Cross. The 2014 Blue Cross settlement for USA Children's & Women's Hospital was filed and reserved in 2015. It was repaid in installments during 2016. The 2015 Cost Finding was prepared and filed in 2016 with the anticipated settlement being fully reserved. As of September 30, 2016, the 2015 Cost Finding was not completed by BCBS. For 2016, the BCBS Retro Reserve is estimated to be a payable and reserved in the Retro Settlement Account. The Blue Cross 2015 retroactive settlement for USA Medical Center was filed in 2016 and a settlement was received in October 2016. For 2016, the BCBS Retro Reserve is estimated to be a payable and reserved in the Retro Settlement Account. Revenue from the Blue Cross program accounted for approximately 28% of the Health System's net patient service revenue for the year ended September 30, 2016.

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

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

Revenue from the Medicaid program accounted for approximately 26% of the Health System's net patient service revenue for the year ended September 30, 2016.

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

The composition of net patient service revenue for the year ended September 30, 2016 follows (in thousands):

| | | |
|---|---|---|
| Gross patient service revenue | $ | 791,625 |
| Less provision for contractual and other adjustments | | (347,757) |
| Less provision for bad debts | | (83,211) |
| | $ | 360,657 |

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately $5,638,000 in net patient service revenue for the year ended September 30, 2016.

## (12) Defined Benefit Cost Sharing Pension Plan

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

### *Plan description*

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

### *Benefits provided*

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

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

### *Contributions*

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

of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

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

Participating employers' contractually required contribution rates were 11.71% of annual pay for Tier 1 members and 11.08% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were $22,691,000 for the year ended September 30, 2016.

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

At September 30, 2016, the University reported a liability of $329,294,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014. The University's proportion of the collective net pension liability was based on the employer's shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2015, the University's proportion was 3.185471%, which was a decrease of 0.136877% from its proportion measured as of September 30, 2014.

For the year ended September 30, 2016, the University recognized pension expense of approximately $20,116,000. At September 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred outflows of resources | Deferred inflows of resources |
|---|---|---|
| Net difference between projected and actual earnings on pension plan investments | $ 21,827,000 | — |
| Difference between expected and actual experience | — | 1,806,000 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | — | 20,962,000 |
| Employer contributions subsequent to measurement date | 22,691,000 | — |
| | $ 44,518,000 | 22,768,000 |



(Continued)

Approximately $22,691,000 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | | |
|---|---|---|
| Year ending September 30, | | |
| 2017 | $ | (1,987,000) |
| 2018 | | (1,987,000) |
| 2019 | | (1,987,000) |
| 2020 | | 5,596,000 |
| 2021 | | (576,000) |
| | $ | (941,000) |

### *Actuarial assumptions*

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

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

*Net of pension plan investment expense

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

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

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

* Includes assumed rate of inflation of 2.50%

***Discount Rate***

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

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

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

| | 1% Decrease (0.07)% | Current Rate (8.00)% | 1% Increase (9.00)% |
|---|---|---|---|
| University's proportionate share of collective net pension liability | $ 435,633,000 | $ 329,294,000 | $ 239,104,000 |

***Pension plan fiduciary net position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2015. The auditors' report dated October 4, 2016 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, 2015 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

## (13) Other Employee Benefits

### *(a) Other Pension Plans*

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

All employees of HCM working at least half time are eligible to participate in a defined contribution pension plan. Under this plan, contributions by eligible employees are matched equally by HCM up to a maximum of 5% of current annual pay. HCM and the employees contributed $3,900,000 in 2016 representing 1,425 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.

### *(b) Compensated Absences*

Regular University employees accumulate vacation and sick leave and hospital and clinical employees accumulate paid time off. These are subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon separation of employment, employees who were hired before January 1, 2012 are paid all unused accrued vacation at their regular rate of pay up to a maximum of two times their annual accumulation rate. Employees hired after January 1, 2012 are not eligible for payment of unused accrued vacation or PTO hours upon separation of employment. The accompanying statement of net position includes accruals for vacation pay and paid time off of approximately $15,158,000 at September 30, 2016. The current portion of the accrual is included in accounts payable and accrued liabilities and the noncurrent portion is included in other long term liabilities in the accompanying basic financial statements. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

### *(c) Other Postretirement Employee Benefits*

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

## (14) Risk Management

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

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

The University and HCM participate in a self-insured health plan, administered by an unaffiliated entity. Administrative fees paid by the University for such services were approximately $2,019,000 in 2016. Contributions by the University and its employees, together with earnings thereon, are used to pay liabilities arising from healthcare claims. It is the opinion of University administration that plan assets are sufficient to meet future plan obligations.

The changes in the total self-insurance liabilities for the year ended September 30, 2016 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

| | | |
|---|---|---|
| Balance, beginning of year | $ | 23,130 |
| Liabilities incurred and other additions | | 79,226 |
| Claims, administrative fees paid and other reductions | | (62,775) |
| Balance, end of year | $ | 39,581 |

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

## (15) Other Related Party

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

## (16) Commitments and Contingencies

### *(a) Grants and Contracts*

At September 30, 2016, the University had been awarded approximately $25,411,000, in grants and contracts for which resources had not been received and for which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements as the eligibility requirements of the award have not been met. Advances include amounts received from grant and contract sponsors which have not been earned under the terms of the agreements and, therefore, have not yet been included in revenues in the accompanying basic financial statements. Federal awards are subject to audit by Federal agencies. The University's management believes any adjustment from such audits will not be material.

### *(b) Letters of Credit*

In connection with the Health System's participation in the State of Alabama Medicaid Program, the University has established a $77,000 irrevocable standby letter of credit with Wells Fargo. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds were advanced under this letter during the year ended September 30, 2016.

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

### *(c) Lines of Credit*

In March 2015, the University entered into a variable interest rate revolving line of credit with Compass Bank to, among other reasons, fund the acquisition of certain real property by the Health System. The total amount available under the line of credit is $5,000,000 and interest on the outstanding amounts accrue at the rate of the London Interbank Offered Rate (LIBOR) plus 1.00% with a maturity date of April 15, 2017. The amount outstanding at September 30, 2016 is $3,434,000 and is reported as debt in the current liabilities section of the statement of net position as of September 30, 2016.

In March 2016, the University entered into a variable interest rate revolving line of credit with Compass Bank to fund certain capital improvements of the Health System. The total amount available under the line of credit is $30,000,000 and interest on the outstanding amounts accrue at the rate of sixty-five percent of the London Interbank Offered Rate (LIBOR) plus seventy-seven basis points with a maturity date of June 10, 2018. The amount outstanding at September 30, 2016 is $50,000 and is reported as debt in the current liabilities section of the statement of net position as of September 30, 2016.

### *(d) HCM Commitment*

In September 2016, HCM entered into a commitment to the RCO. This letter commits HCM to contribute cash or other assets to the RCO only upon the execution of a contract between the RCO and the Alabama Medicaid Agency to provide medical services to Medicaid patients on a capitated basis. The amount of the commitment is $6,644,000. As of September 30, 2016, no amounts have been paid to the RCO.

### *(e) Federal Program Review*

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

### *(f) 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.

### *(g) Rent Supplement Agreements*

The University has entered into two irrevocable rent supplement agreements with the Corporation and a financial institution. The agreements require that, in the event the Corporation fails to maintain a debt service coverage ratio of one to one with respect to all of its outstanding indebtedness, the University will pay to the Corporation any and all rent amounts necessary to cause the Corporation's net operating income to be equal to the Corporation's annual debt service obligations (see note 8). As of September 30, 2016, no amounts were payable pursuant to these agreements.

### *(h) USA Research and Technology Corporation Leases*

The Corporation leases space in Building I to three tenants under operating leases. One lease has a 5-year initial term expiring in October 2018 with two 5-year renewal options. Another lease has a 10-year initial term expiring in May 2021, an option to cancel at the end of 6 years, and two 5-year renewal options. The third lease has a 67-month initial term expiring in December 2018 with no renewal options.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. These leases have terms varying from month-to-month to ten years.

The Corporation leases from the University the third floor of a campus building. Located on that floor is the Coastal Innovation Hub (the Hub), a technology incubator, which currently houses three tenants with month-to-month leases.

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

Space under lease to the University was 40,345 square feet at September 30, 2016.

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

The Corporation, as lessor, had three ground leases in place at September 30, 2016. One lease is for a 40-year initial term expiring in October 2046 with 20-year, and 15-year renewal options. The second lease is for a 30-year initial term expiring in October 2036 with four 5-year renewal options. The third lease has a 38.5-year initial term expiring in September 2046 with 20-year and 15-year renewal options.

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

| | | |
|---|---|---|
| 2017 | $ | 1,912 |
| 2018 | | 1,497 |
| 2019 | | 887 |
| 2020 | | 472 |
| 2021 | | 263 |
| 2022–2047 | | 5,739 |
| Total | $ | 10,770 |

## (17) Functional Expense Information

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

| | | |
|---|---|---|
| Instruction | $ | 112,521 |
| Research | | 25,229 |
| Public service | | 3,209 |
| Academic support | | 21,465 |
| Student services | | 32,920 |
| Institutional support | | 22,464 |
| Operation and maintenance of plant | | 35,184 |
| Scholarships | | 13,106 |
| Hospital | | 397,353 |
| Auxiliary enterprises | | 24,643 |
| Depreciation and amortization | | 36,174 |
| | $ | 724,268 |

## (18) Blended Component Units

As more fully described in notes 1(b) and 1(c), the HCM, HSF, PLTF and GLTF are considered component units pursuant to the provisions of GASB Statement No. 61. In accordance with that statement, the HCM, HSF, 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, 2016 is presented below (in thousands):

| | | |
|---|---|---|
| Current assets | $ | 15,292 |
| Noncurrent assets | | 56,041 |
| Total assets | | 71,333 |
| Noncurrent liabilities | | 70,286 |
| Net position | $ | 1,047 |
| Operating revenues | $ | 212,376 |
| Operating expenses | | (216,869) |
| Operating income | | (4,493) |
| Nonoperating revenues | | 3,007 |
| Change in net position | $ | (1,486) |

## (19) Recently Issued Accounting Pronouncements

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

The effect of the implementation of GASB Statements Nos. 75, 80, 81 and 82 on the University has not yet been determined.

Statement Nos. 77, 78, and 79 will not have an impact on the University's financial statements.

## (20) Subsequent Events

In November 2016, the board of the RCO approved a resolution to cease its active pursuit of full regional care organization certification from Alabama Medicaid Agency (the Agency) along with its efforts to enter into an at-risk contract with the Agency to provide regional care organization services to Medicaid beneficiaries. The RCO will continue to consider the possibility of pursuing full regional care organization status of entering into an at risk contract with the agency in the future should that become a viable option.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

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

Teachers' Retirement Plan of Alabama

September 30, 2016

| | | 2016 | 2015 |
|---|---|---|---|
| University's proportion of the net pension liability | | 3.185471% | 3.322348% |
| University's proportionate share of the net pension liability | $ | 329,294,000 | 297,734,000 |
| University's covered-employee payroll | | 198,378,000 | 201,858,000 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | | 165.99% | 147.50% |
| Plan fiduciary net position as a percentage of the total pension liability | | 67.51% | 71.01% |

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

See accompanying independent auditors' report.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

Schedule of University's Contributions (Unaudited)

Teachers' Retirement Plan of Alabama

September 30, 2016

| | | 2016 | 2015 |
|---|---|---|---|
| Contractually required contribution | $ | 23,405,000 | 23,524,000 |
| Contributions in relation to the contractually required contribution | | 23,405,000 | 23,524,000 |
| Contribution deficiency (excess) | $ | — | — |
| University's covered-employee payroll | $ | 198,378,000 | 201,858,000 |
| Contributions as a percentage of covered-employee payroll | | 11.80% | 11.65% |

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

See accompanying independent auditors' report.

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

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

### *(a) Actuarial assumptions*

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

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

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2015, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of the fiscal year 2012.

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

### *(b) Discount Rate*

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

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2016

| Federal sponsor/Program title | CFDA | Pass-through award number | Pass-through entity | Direct expenditures | Pass-through to USA expenditures | Total expenditures | Pass-through from USA expenditures |
|---|---|---|---|---|---|---|---|
| Student Financial Aid Cluster*: | | | | | | | |
| U.S. Department of Education: | | | | | | | |
| Federal Supplemental Educational Opportunity Grant Program | 84.007 | | | $ 341,658 | — | 341,658 | — |
| Federal Work Study Program | 84.033 | | | 522,481 | — | 522,481 | — |
| Federal Perkins Loan Program | 84.038 | | | 4,006,122 | — | 4,006,122 | |
| Federal Pell Grant Program | 84.063 | | | 20,101,313 | — | 20,101,313 | — |
| Federal Direct Student Loan Program | 84.268 | | | 129,910,894 | — | 129,910,894 | — |
| Teacher Education Assistance for College and Higher Education | 84.379 | | | 26,579 | — | 26,579 | — |
| Nurse Faculty Loan Program | 93.264 | | | 115,872 | — | 115,872 | — |
| Total Student Financial Aid Cluster | | | | 155,024,919 | — | 155,024,919 | — |
| Research and Development Cluster*: | | | | | | | |
| U.S. Department of Agriculture: | | | | | | | |
| Plant and Animal Disease Pest Control and Animal Care | 10.025 | | | 62,562 | — | 62,562 | — |
| Plant and Animal Disease Pest Control and Animal Care | 10.025 | | | 32,889 | — | 32,889 | — |
| Total CFDA | | | | 95,451 | — | 95,451 | — |
| Wetlands Reserve Program | 10.072 | | | (249) | — | (249) | — |
| Forestry Research | 10.652 | | | 48,796 | — | 48,796 | — |
| Forestry Research | 10.652 | | | 40,757 | — | 40,757 | — |
| Total CFDA | | | | 89,553 | — | 89,553 | — |
| Total U.S. Department of Agriculture | | | | 184,755 | — | 184,755 | — |
| U.S. Department of Commerce: | | | | | | | |
| Economic Development Support for Planning Organizations | 11.302 | | | 28,997 | — | 28,997 | — |
| Economic Development Support for Planning Organizations | 11.302 | | | 1,302 | — | 1,302 | — |
| Total CFDA | | | | 30,299 | — | 30,299 | — |
| Sea Grant Support | 11.417 | USM-GR04867-01 | Mississippi-Alabama Sea Grant | — | 16,264 | 16,264 | — |
| Sea Grant Support | 11.417 | USM-GR05069-01 | University of Southern Mississippi | — | 138 | 138 | — |
| Sea Grant Support | 11.417 | 080100.340557.01 | Mississippi State University | — | 11,174 | 11,174 | — |
| Total CFDA | | | | — | 27,576 | 27,576 | — |
| Fisheries Development and Utilization Research | 11.427 | | | 60,661 | — | 60,661 | — |
| Marine Fisheries Initiative | 11.433 | | | 22,375 | — | 22,375 | 18,818 |
| Cooperative Fishery Statistics | 11.434 | 150294 | Alabama Department of Conservation and Natural Resources | — | 6,474 | 6,474 | — |
| Unallied Management Projects | 11.454 | 15–15 | Texas A&M University | — | 875 | 875 | — |
| Unallied Management Projects | 11.454 | | | 134,077 | — | 134,077 | 93,024 |
| Total CFDA | | | | 134,077 | 875 | 134,952 | 93,024 |
| Center for Sponsored Coastal Ocean Research – Coastal Ocean | 11.478 | | | 26,774 | — | 26,774 | — |
| Center for Sponsored Coastal Ocean Research – Coastal Ocean | 11.478 | ORSP-10097-20096-1 | Florida Gulf Coast University | — | 131,081 | 131,081 | — |
| Total CFDA | | | | 26,774 | 131,081 | 157,855 | — |
| Arrangements for Interdisciplinary Research Infrastructure | 11.619 | 140453 | Colorado State University | — | 65,883 | 65,883 | — |
| Total U.S. Department of Commerce | | | | 274,186 | 231,889 | 506,075 | 111,842 |
| U.S. Department of Defense: | | | | | | | |
| Procurement Technical Assistance For Business Firms | 12.002 | 150228 | Small Business Innovation | — | (212) | (212) | — |
| Procurement Technical Assistance For Business Firms | 12.002 | 150027 | DxDiscovery, Inc. | — | 157,258 | 157,258 | — |
| Total CFDA | | | | — | 157,046 | 157,046 | — |
| Navy Command, Control, Communications, Computers, Intel. Surv. And Recon | 12.335 | 150185 | AREA-I, Inc. | — | 24,000 | 24,000 | — |
| Basic Scientific Research – Combating Weapons of Mass Destruction | 12.351 | | | 584,045 | — | 584,045 | 205,517 |
| Basic Scientific Research – Combating Weapons of Mass Destruction | 12.351 | | | 6,000 | — | 6,000 | — |
| Total CFDA | | | | 590,045 | — | 590,045 | 205,517 |
| Military Medical Research and Development | 12.420 | 130457 | The Geneva Foundation | — | 17,848 | 17,848 | — |
| Military Medical Research and Development | 12.420 | | | 53,421 | — | 53,421 | — |
| Total CFDA | | | | 53,421 | 17,848 | 71,269 | — |
| Basic Scientific Research | 12.431 | | | 95,744 | — | 95,744 | — |
| Basic Scientific Research | 12.431 | | | 66,561 | — | 66,561 | — |
| Basic Scientific Research | 12.431 | DARPA2015A-02 | Sage Bionetworks | — | 16,194 | 16,194 | — |
| Total CFDA | | | | 162,305 | 16,194 | 178,499 | — |
| Basic, Applied, and Advanced Research in Science and Engineering | 12.630 | RSC15035 | University of Dayton Research Institute | — | 1,549 | 1,549 | — |



(Continued)

| Federal sponsor/Program title | CFDA | Pass-through award number | Pass-through entity | Direct expenditures | Pass-through to USA expenditures | Total expenditures | Pass-through from USA expenditures |
|---|---|---|---|---|---|---|---|
| Department of Defense | 12.UNK | 150500 | National Collegiate Athletic Association | $ — | 66,152 | 66,152 | — |
| Department of Defense | 12.UNK | | | 25,104 | — | 25,104 | — |
| Department of Defense | 12.UNK | | | 11,001 | — | 11,001 | — |
| Total U.S. Department of Defense | | | | 841,876 | 282,789 | 1,124,665 | 205,517 |
| U.S. Department of Interior: | | | | | | | |
| Mineral Management Services Environmental Studies Program | 15.423 | 159 | University of New Orleans | — | 94,190 | 94,190 | — |
| Sport Fish Restoration Program | 15.605 | 160128 | Alabama Department of Conservation and Natural Resources | — | 54,394 | 54,394 | — |
| Sport Fish Restoration Program | 15.605 | 150159 | Alabama Department of Conservation and Natural Resources | — | 13,199 | 13,199 | — |
| Sport Fish Restoration Program | 15.605 | 140425 | Alabama Department of Conservation and Natural Resources | — | (2,237) | (2,237) | — |
| Total CFDA | | | | — | 65,356 | 65,356 | — |
| National Park Service Conservation, Protection, Outreach and Education | 15.954 | P14AC01312 | National Park Service | — | 20,440 | 20,440 | — |
| Total U.S. Department of Interior | | | | — | 179,986 | 179,986 | — |
| U.S. Department of Justice | 16.833 | 150293 | Mobile Police Department | — | 6,588 | 6,588 | — |
| U.S. Department of Treasury | | | | | | | |
| Resources and Ecosystems Sustainability, Tourist Opportunities, and revived Economies of the Gulf Coast States | 21.015 | UFDSP00011016 | University of Florida | — | 13,671 | 13,671 | — |
| Resources and Ecosystems Sustainability, Tourist Opportunities, and revived Economies of the Gulf Coast States | 21.015 | 215029 | University of West Florida | — | 2,200 | 2,200 | — |
| Resources and Ecosystems Sustainability, Tourist Opportunities, and revived Economies of the Gulf Coast States | 21.015 | 800006135-01UG | Florida Institute of Oceanography | — | 15,786 | 15,786 | — |
| Total U.S. Department of Treasury | | | | — | 31,657 | 31,657 | — |
| U.S. Department of Transportation: | | | | | | | |
| U.S. Department of Transportation | 20.UNK | 15-ENG-220178-USA | Auburn University | — | 64,539 | 64,539 | — |
| Highway Planning and Construction | 20.205 | 930-841R | Alabama Department of Transportation | — | 57,806 | 57,806 | — |
| Highway Planning and Construction | 20.205 | 930-917 | Alabama Department of Transportation | — | 35,066 | 35,066 | — |
| Total CFDA | | | | — | 92,872 | 92,872 | — |
| Total U.S. Department of Transportation | | | | — | 157,411 | 157,411 | — |
| National Aeronautics and Space Administration: | | | | | | | |
| Exploration | 43.003 | XHAB 2016-7 15280 | National Space Grant Foundation | — | 29,799 | 29,799 | — |
| Education | 43.008 | 160195 | University of Alabama in Huntsville | — | 1,131 | 1,131 | — |
| Education | 43.008 | 2013-067 | University of Alabama in Huntsville | — | 18,028 | 18,028 | — |
| Total CFDA | | | | — | 19,159 | 19,159 | — |
| Total National Aeronautics and Space Administration | | | | — | 48,958 | 48,958 | — |
| National Science Foundation: | | | | | | | |
| Engineering Grants | 47.041 | CBET-1133101 | | (1) | — | (1) | — |
| Engineering Grants | 47.041 | CBET-1126597 | | (26,532) | — | (26,532) | — |
| Engineering Grants | 47.041 | 1624793 | | 6,469 | — | 6,469 | — |
| Engineering Grants | 47.041 | RSCH-9999-09(168)/107389 | Mississippi Department of Education | — | 8,875 | 8,875 | — |
| Total CFDA | | | | (20,064) | 8,875 | (11,189) | — |
| Mathematical and Physical Sciences | 47.049 | CHE-0957482 | | 27,141 | — | 27,141 | — |
| Mathematical and Physical Sciences | 47.049 | CHE 1464740 | | 91,614 | — | 91,614 | — |
| Total CFDA | | | | 118,755 | — | 118,755 | — |
| Geosciences | 47.050 | AGS-1151450 | | 77,857 | — | 77,857 | — |
| Geosciences | 47.050 | OCE-1342699 | | 133,707 | — | 133,707 | 9,451 |
| Geosciences | 47.050 | 1436576 | | 90,858 | — | 90,858 | 27,298 |
| Total CFDA | | | | 302,422 | — | 302,422 | 36,749 |
| Computer and Information Science and Engineering | 47.070 | CSN-1305369 | | (2,385) | — | (2,385) | — |
| Computer and Information Science and Engineering | 47.070 | CNS-1444634 | | (1,342) | — | (1,342) | — |
| Computer and Information Science and Engineering | 47.070 | ACI-1440784 | | 51,315 | — | 51,315 | — |
| Computer and Information Science and Engineering | 47.070 | CNS-1503654 | | 3,010 | — | 3,010 | — |
| Computer and Information Science and Engineering | 47.070 | 150355 | | 48,915 | — | 48,915 | — |



(Continued)

| Federal sponsor/Program title | CFDA | Pass-through award number | Pass-through entity | Direct expenditures | Pass-through to USA expenditures | Total expenditures | Pass-through from USA expenditures |
|---|---|---|---|---|---|---|---|
| Computer and Information Science and Engineering | 47.070 | 1636470 CNS | | $ 13,514 | — | 13,514 | — |
| Total CFDA | | | | 113,027 | — | 113,027 | — |
| Biological Sciences | 47.074 | MCB-1350064 | | 75,186 | — | 75,186 | — |
| Biological Sciences | 47.074 | NYBG-120619710-USAM | New York Botanical Gardens | — | 3,470 | 3,470 | — |
| Total CFDA | | | | 75,186 | 3,470 | 78,656 | — |
| Social Behavioral and Economic Sciences | 47.075 | | | 9,343 | — | 9,343 | — |
| Education and Human Resources | 47.076 | | | 45,399 | — | 45,399 | — |
| Education and Human Resources | 47.076 | | | 137,721 | — | 137,721 | 627 |
| Education and Human Resources | 47.076 | | | 1,216,431 | — | 1,216,431 | — |
| Education and Human Resources | 47.076 | | | 132,756 | — | 132,756 | — |
| Education and Human Resources | 47.076 | | | 266,354 | — | 266,354 | — |
| Education and Human Resources | 47.076 | | | 137,902 | — | 137,902 | — |
| Education and Human Resources | 47.076 | | | 70,647 | — | 70,647 | — |
| Education and Human Resources | 47.076 | | | 28,654 | — | 28,654 | — |
| Education and Human Resources | 47.076 | USM-GR05135-002 | University of Southern Mississippi | — | 20,728 | 20,728 | — |
| Education and Human Resources | 47.076 | 000398033-006 | University of Alabama at Birmingham | — | 17,550 | 17,550 | — |
| Total CFDA | | | | 2,035,864 | 38,278 | 2,074,142 | 627 |
| Polar Programs | 47.078 | | | 2,750 | — | 2,750 | — |
| Office of Experimental Programs | 47.081 | 34-21530-200-76190 | Tuskegee University | — | 39,061 | 39,061 | — |
| ARRA – Trans-NSF Recovery Act Research Support | 47.082 | | | 385 | — | 385 | — |
| Total National Science Foundation | | | | 2,637,668 | 89,684 | 2,727,352 | 37,376 |
| U.S. Environmental Protection Agency: | | | | | | | |
| Dendritic Polymers as Biocompatible | 66.509 | 1614-218-2008962 | Clemson University | — | 12,589 | 12,589 | — |
| U.S. Department of Energy: | | | | | | | |
| Basic Energy Sciences University and Science Education | 81.049 | DE-SC0002470 | University of Alabama | — | 198 | 198 | — |
| Basic Energy Sciences University and Science Education | 81.049 | UA13-073 | University of Alabama | — | 25,933 | 25,933 | — |
| Total CFDA | | | | — | 26,131 | 26,131 | — |
| Nuclear Energy Research, Development, and Demonstration | 81.121 | 246281 | Battelle Memorial Institute, Pacific NW Division | — | 31,754 | 31,754 | — |
| Island World: A Small World Simulation | 81.UNK | 4000137203 | Oak Ridge National Laboratory | — | 476 | 476 | — |
| Total U. S. Department of Energy | | | | — | 58,361 | 58,361 | — |
| U.S. Department of Health and Human Services: | | | | | | | |
| Environmental Health | 93.113 | | | 204,778 | — | 204,778 | — |
| Environmental Health | 93.113 | | | 134,538 | — | 134,538 | — |
| Environmental Health | 93.113 | HSR-SSS-S-14-003667 | Social and Scientific Systems Inc. | — | 476,966 | 476,966 | — |
| Environmental Health | 93.113 | 130272 | Lynntech, Inc. | — | 3,852 | 3,852 | — |
| Environmental Health | 93.113 | 150121 | Trevigen Inc. | — | (22,911) | (22,911) | — |
| Total CFDA | | | | 339,316 | 457,907 | 797,223 | — |
| Minority Health and Health Disparities Research | 93.307 | | | 1,251,150 | | 1,251,150 | — |
| Minority Health and Health Disparities Research | 93.307 | USM-GR04826-01 | University of Southern Mississippi | | 81,467 | 81,467 | — |
| Total CFDA | | | | 1,251,150 | 81,467 | 1,332,617 | — |
| National Center for Advancing Translational Sciences | 93.350 | Various | University of Alabama at Birmingham | — | 189,853 | 189,853 | — |
| Research Infrastructure Programs | 93.351 | | | 394,644 | — | 394,644 | — |
| Research Infrastructure Programs | 93.351 | | | 220,481 | — | 220,481 | 123,429 |
| Total CFDA | | | | 615,125 | — | 615,125 | 123,429 |
| Nursing Research | 93.361 | | | 380,716 | — | 380,716 | 28,842 |
| Cancer Cause and Prevention Research | 93.393 | | | 274,223 | — | 274,223 | 37,098 |
| Cancer Cause and Prevention Research | 93.393 | | | 44,189 | — | 44,189 | — |
| Cancer Cause and Prevention Research | 93.393 | | | 193,784 | — | 193,784 | — |
| Cancer Cause and Prevention Research | 93.393 | | | 62,324 | — | 62,324 | — |



(Continued)

**UNIVERSITY OF SOUTH ALABAMA**
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2016

| Federal sponsor/Program title | CFDA | Pass-through award number | Pass-through entity | Direct expenditures | Pass-through to USA expenditures | Total expenditures | Pass-through from USA expenditures |
|---|---|---|---|---|---|---|---|
| Cancer Cause and Prevention Research | 93.393 | | | $ (1) | — | (1) | — |
| Cancer Cause and Prevention Research | 93.393 | | | 203,864 | — | 203,864 | — |
| Cancer Cause and Prevention Research | 93.393 | | | 136,156 | — | 136,156 | — |
| Cancer Cause and Prevention Research | 93.393 | | | 229,009 | — | 229,009 | 168,271 |
| Total CFDA | | | | 1,143,548 | — | 1,143,548 | 205,369 |
| Cancer Detection and Diagnosis Research | 93.394 | | | 213,698 | — | 213,698 | — |
| Total CFDA | | | | 213,698 | — | 213,698 | — |
| Cancer Treatment Research | 93.395 | | | 558,937 | — | 558,937 | — |
| Cancer Treatment Research | 93.395 | 160252 | ADT Pharmaceuticals, Inc. | — | 14,513 | 14,513 | — |
| Cancer Treatment Research | 93.395 | 150469 | NRG Oncology | — | 6,602 | 6,602 | — |
| Cancer Treatment Research | 93.395 | 27469-02 | University of Alabama | — | 401 | 401 | — |
| Cancer Treatment Research | 93.395 | 9500080215-12C | Children's Hospital of Philadelphia | — | (11,945) | (11,945) | — |
| Total CFDA | | | | 558,937 | 9,571 | 568,508 | — |
| Cancer Biology Research | 93.396 | | | 261,283 | — | 261,283 | — |
| Cancer Biology Research | 93.396 | | | 336,124 | — | 336,124 | — |
| Cancer Biology Research | 93.396 | | | 334,164 | — | 334,164 | 107,317 |
| Cancer Biology Research | 93.396 | | | 237,555 | — | 237,555 | — |
| Cancer Biology Research | 93.396 | | | 106,359 | — | 106,359 | — |
| Total CFDA | | | | 1,275,485 | — | 1,275,485 | 107,317 |
| Cancer Research Manpower | 93.398 | | | 124,347 | — | 124,347 | — |
| Cardiovascular Diseases Research | 93.837 | | | 274,625 | — | 274,625 | — |
| Cardiovascular Diseases Research | 93.837 | PS#107223 | Brigham and Women's Hospital | — | 1,682 | 1,682 | — |
| Total CFDA | | | | 274,625 | 1,682 | 276,307 | — |
| Lung Diseases Research | 93.838 | | | 1,870,393 | — | 1,870,393 | 372,921 |
| Lung Diseases Research | 93.838 | | | 339,604 | — | 339,604 | — |
| Lung Diseases Research | 93.838 | | | 312,935 | — | 312,935 | — |
| Lung Diseases Research | 93.838 | | | 435,523 | — | 435,523 | — |
| Lung Diseases Research | 93.838 | | | 313,933 | — | 313,933 | — |
| Lung Diseases Research | 93.838 | | | 179,360 | — | 179,360 | — |
| Lung Diseases Research | 93.838 | | | 361,267 | — | 361,267 | — |
| Lung Diseases Research | 93.838 | | | 306,404 | — | 306,404 | — |
| Lung Diseases Research | 93.838 | 150095 | Exscien | — | 165,376 | 165,376 | — |
| Lung Diseases Research | 93.838 | 080-18007-S11201 | Thomas Jefferson University | — | 18,838 | 18,838 | — |
| Total CFDA | | | | 4,119,419 | 184,214 | 4,303,633 | 372,921 |
| Blood Diseases and Resources Research | 93.839 | 130317 | Cincinnati Children's Hospital Medical Center | — | 775 | 775 | — |
| Blood Diseases and Resources Research | 93.839 | T098327 | Emory University | — | 126,916 | 126,916 | — |
| Blood Diseases and Resources Research | 93.839 | 160253 | Emory University | — | 2,720 | 2,720 | — |
| Blood Diseases and Resources Research | 93.839 | 136444 | Children's Hospital Medical Center | — | 56 | 56 | — |
| Total CFDA | | | | — | 130,467 | 130,467 | — |
| Clinical Research Related to Neurological Disorders | 93.853 | 0019741(121423-1) | University of Pittsburgh | — | 8,811 | 8,811 | — |
| Clinical Research Related to Neurological Disorders | 93.853 | A08580(M10A10568) | Yale University | — | 4,599 | 4,599 | — |
| Total CFDA | | | | — | 13,410 | 13,410 | — |
| National Institutes of Health | 93.UNK | 150238 | University of Maryland | — | 1,339 | 1,339 | — |
| Allergy Immunology and Transplantation Research | 93.855 | | | 766,686 | — | 766,686 | — |
| Pharmacology Physiology and Biological Chemistry | 93.859 | | | 276,941 | — | 276,941 | — |
| Pharmacology Physiology and Biological Chemistry | 93.859 | 130270 | Exscien | — | 128 | 128 | — |

**UNIVERSITY OF SOUTH ALABAMA**
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2016

| Federal sponsor/Program title | CFDA | Pass-through award number | Pass-through entity | Direct expenditures | Pass-through to USA expenditures | Total expenditures | Pass-through from USA expenditures |
|---|---|---|---|---|---|---|---|
| Total CFDA | | | | $ 276,941 | 128 | 277,069 | — |
| Aging Research | 93.866 | | | 160,527 | — | 160,527 | — |
| Total U.S. Department of Health and Human Services | | | | 11,500,520 | 1,070,038 | 12,570,558 | 837,878 |
| Total Research and Development Cluster | | | | 15,439,005 | 2,169,950 | 17,608,955 | 1,192,613 |
| Other federal assistance: | | | | | | | |
| U.S. Department of Commerce: | | | | | | | |
| Congressionally Identified Projects | 11.617 | | | (1,146) | — | (1,146) | — |
| | 11.UNK | 140062 | Earth Networks, Inc. | — | 68,168 | 68,168 | — |
| Total U.S. Department of Commerce | | | | (1,146) | 68,168 | 67,022 | — |
| 2016 GenCyber Grants Program | 12.903 | | | 49,940 | — | 49,940 | — |
| Library of Congress | 42.UNK | 140075 | Board of Trustees – Illinois State | — | 3,057 | 3,057 | — |
| National Aeronautics and Space Administration: | | | | | | | |
| Aerospace Education Services Program | 43.001 | 150364-MATCH 160249 | University of Alabama in Huntsville | — | 4,992 | 4,992 | — |
| Aerospace Education Services Program | 43.001 | SUB 2015-055 UAH | University of Alabama in Huntsville | — | 2,351 | 2,351 | — |
| Total CFDA | | | | — | 7,343 | 7,343 | — |
| Education | 43.008 | 140309 | University of Alabama in Huntsville | — | 54,135 | 54,135 | — |
| Education | 43.008 | 150366 | University of Alabama in Huntsville | — | 20,111 | 20,111 | — |
| Education | 43.008 | 2015-055 | University of Alabama in Huntsville | — | 20,166 | 20,166 | — |
| Education | 43.008 | UAHSUB2015-055 MAYES | University of Alabama in Huntsville | — | 3,201 | 3,201 | — |
| Education | 43.008 | UAHSUB2015-055 UGRADS | University of Alabama in Huntsville | — | 2,000 | 2,000 | — |
| Education | 43.008 | UAHSUB2015-055 DEAL | University of Alabama in Huntsville | — | 2,590 | 2,590 | — |
| Total CFDA | | | | — | 102,203 | 102,203 | — |
| Total National Aeronautics and Space Administration | | | | — | 109,546 | 109,546 | — |
| National Endowment for the Arts | | | | | | | |
| Promotion of the Humanities | 45.129 | 0215-2235MJ | Alabama Humanities Foundation | — | 2,500 | 2,500 | — |
| U. S. Environmental Protection Agency: | | | | | | | |
| Science to Achieve Results | 66.514 | | | 6,109 | — | 6,109 | — |
| U.S. Department of Education: | | | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 160318 | Alabama State Department of Education | — | 78,125 | 78,125 | — |
| Special Education Grants to States | 84.027 | 15-15304 | Alabama State Department of Education | — | — | — | — |
| TRIO Cluster: | | | | | | | |
| TRIO Talent Search | 84.044 | | | 307,664 | — | 307,664 | — |
| TRIO Upward Bound | 84.047 | | | 261,452 | — | 261,452 | — |
| Total TRIO Cluster | | | | 569,116 | — | 569,116 | — |
| Special Education – State Personnel Development | 84.323 | U600098 | Alabama State Department of Education | — | 9,150 | 9,150 | — |
| Transition to Teaching | 84.350 | | | (1,000) | — | (1,000) | — |
| U.S. Department of Education | 84.UNK | 140472 | Alabama State Department of Education | — | 2,888 | 2,888 | — |
| Mathematics and Science Partnerships | 84.366 | 140471 | Alabama State Department of Education | — | (1,470) | (1,470) | — |
| Mathematics and Science Partnerships | 84.366 | U600325 | Alabama State Department of Education | — | 212,786 | 212,786 | — |
| Total CFDA | | | | — | 211,316 | 211,316 | — |
| Improving Teacher Quality State Grants | 84.367 | U600727 | Alabama State Department of Education | — | 20,845 | 20,845 | — |
| Improving Teacher Quality State Grants | 84.367 | 140463 | Alabama State Department of Education | — | 79,951 | 79,951 | — |
| Improving Teacher Quality State Grants | 84.367 | 150477 | Alabama Commission on Higher Education | — | 52,525 | 52,525 | — |
| Total CFDA | | | | — | 153,321 | 153,321 | — |
| Transition Programs for Students with Intellectual Disabilities into Higher Ed | 84.407 | | | 44,056 | — | 44,056 | — |
| Total U.S. Department of Education | | | | 612,172 | 454,800 | 1,066,972 | — |
| U.S. Department of Health and Human Services: | | | | | | | |
| Alzheimer's Disease Demonstration Grants to States | 93.051 | 13-130338 | South Alabama Regional Planning Commission | — | 10,756 | 10,756 | — |



(Continued)

**UNIVERSITY OF SOUTH ALABAMA**
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2016

| Federal sponsor/Program title | CFDA | Pass-through award number | Pass-through entity | Direct expenditures | Pass-through to USA expenditures | Total expenditures | Pass-through from USA expenditures |
|---|---|---|---|---|---|---|---|
| HIV Demonstration Program for Children, Adolescents | 93.153 | | | $ 383,263 | — | 383,263 | — |
| HIV Demonstration Program for Children, Adolescents | 93.153 | | | 22,832 | — | 22,832 | — |
| Total CFDA | | | | 406,095 | — | 406,095 | — |
| Advanced Education Nursing Grant Programs | 93.247 | | | 305,862 | — | 305,862 | — |
| Advanced Education Nursing Grant Programs | 93.247 | | | 147,470 | — | 147,470 | — |
| Total CFDA | | | | 453,332 | — | 453,332 | — |
| Universal Newborn Hearing Screening | 93.251 | C50119125(CG-15-224) | State of Alabama Department of Public Health | — | 22,562 | 22,562 | — |
| Advanced Education Nursing Traineeships | 93.358 | | | 473,620 | — | 473,620 | — |
| Nurse Education, Practice Quality, and Retention Grants | 93.359 | | | 369,838 | — | 369,838 | — |
| Health Care Innovation Awards | 93.610 | Various | Alabama Medicaid Agency | — | 26,741 | 26,741 | — |
| Strong Start for Mothers and Newborns | 93.611 | | | 195,715 | — | 195,715 | — |
| Strong Start for Mothers and Newborns | 93.611 | | | 141,155 | — | 141,155 | — |
| Total CFDA | | | | 336,870 | — | 336,870 | — |
| Foster Care Title IV-E | 93.658 | 140348 | University of Alabama | — | 113,771 | 113,771 | — |
| ARRA-Health Information Technology Regional Extension Centers Program | 93.718 | | | 398,761 | — | 398,761 | 38,015 |
| State Children's Insurance Program | 93.767 | 150019 | University of Alabama at Birmingham | — | 3,300 | 3,300 | — |
| Medicaid Cluster* | 93.778 | Various | Alabama Medicaid Agency | — | 653,375 | 653,375 | — |
| Grants for Primary Care Training and Enhancement | 93.884 | | | 125,891 | — | 125,891 | 800 |
| Grants for Primary Care Training and Enhancement | 93.884 | | | 144,491 | — | 144,491 | — |
| Grants for Primary Care Training and Enhancement | 93.884 | | | 191,258 | — | 191,258 | — |
| Grants for Primary Care Training and Enhancement | 93.884 | | | 67,862 | — | 67,862 | — |
| Total CFDA | | | | 529,502 | — | 529,502 | 800 |
| National Bioterrorism Hospital Preparedness Program | 93.889 | Various | State of Alabama Department of Public Health | — | 1,003,724 | 1,003,724 | — |
| HIV Care Formula Grants | 93.917 | 150312 | United Way of Central Alabama | — | 20,948 | 20,948 | — |
| HIV Care Formula Grants | 93.917 | 160280 | United Way of Central Alabama | — | 12,410 | 12,410 | — |
| Total CFDA | | | | — | 33,358 | 33,358 | — |
| Cooperative Agreements to Support State-Based Infant | 93.946 | 140012 | Mobile County Health Department | — | (115) | (115) | — |
| Maternal and Child Health Services Block Grant | 93.994 | C60118058 (CG-16-088) | State of Alabama Department of Public Health | — | 14,548 | 14,548 | — |
| Total U.S. Department of Health and Human Services | | | | 2,968,018 | 1,882,020 | 4,850,038 | 38,815 |
| Corporation for National and Community Service: | | | | | | | |
| AmeriCorp Recovery | 94.006 | | | 17,556 | — | 17,556 | — |
| Total other federal assistance | | | | 3,652,649 | 2,520,091 | 6,172,740 | 38,815 |
| Total federal expenditures | | | | $ 174,116,573 | 4,690,041 | 178,806,614 | 1,231,428 |

*Indicates major program

See accompanying independent auditors' report.

See accompanying notes to schedule of expenditures of federal awards.

## (1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the University of South Alabama (the University) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards at 2 CFR 200 (Uniform Guidance)*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

## (2) Campus-Based Loan Programs

Outstanding campus-based federal loans made by the University are included in notes receivable in the University's 2016 statement of net position and consist of the following loan programs:

| | CFDA # | | Outstanding amount at September 30, 2016 | Amount advanced in 2016 |
|---|---|---|---|---|
| Federal Perkins Loan Program | 84.038 | $ | 3,369,816 | 494,750 |
| Nurse Faculty Loan Program | 93.264 | | 595,669 | 115,872 |
| Nurse Faculty Loan Program ARRA | 93.408 | | 24,649 | — |
| | | $ | 3,990,134 | 610,622 |

For the Federal Perkins Loan Program (FPLP) the accompanying schedule of expenditures of federal awards includes the beginning of the year balance of loans outstanding under the FPLP and current year FPLP loan advances to students totaling $3,511,372 and $494,750, respectively. No administrative cost allowance was claimed related to the FPLP during 2016.

## (3) Contingencies

The University's federal programs are subject to financial and compliance audits by grantor agencies which may result in disallowed expenditures and affect the University's continued participation in specific programs.

## (4) Federal Direct Student Loans (CFDA #84.268)

The University's Federal Direct Student Loan Program (Direct Loan) included in the Schedule represents loans advanced to students of the University during fiscal year 2016, which were not originated by the University. Accordingly, Direct Loan amounts are not reflected in the University's basic financial statements. It is not practicable to determine the balance of loans outstanding to students and former students of the University under these programs as of September 30, 2016.



(Continued)

During the year ended September 30, 2016, the University advanced to students the following amounts of new loans under Direct Loan Programs:

| | | Amount advanced |
|---|---|---|
| Stafford loans | $ | 22,240,126 |
| Unsubsidized Stafford loans | | 77,619,279 |
| Parent Loans for Undergraduate Students | | 30,051,489 |
| Total | $ | 129,910,894 |

## (5) Matching

Under the Federal Work-Study Program and the Federal Supplemental Education Opportunity Grant Program, the University matched $60,223 and $151,358, respectively, in funds awarded to students for the year ended September 30, 2016 in addition to the Federal share of expenditures included in the Schedule.

## (6) Indirect Cost Rate

For the year ended June 30, 2016, the University did not elect to use the 10% De Minimus Indirect Cost Rate permitted by Uniform Guidance as a negotiated indirect cost rate existed on all grants where indirect costs are applicable.

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

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

The Board of Trustees
University of South Alabama:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 15, 2016. Our report includes a reference to other auditors who audited the financial statements of the University of South Alabama Foundation, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the University of South Alabama Foundation, the USA Research and Technology Corporation, and the Gulf Coast Regional Care Organization were not audited in accordance with *Government Auditing Standards.*

## Internal Control Over Financial Reporting

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

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

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

KPMG

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Jackson, Mississippi
November 15, 2016

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

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

The Board of Trustees
University of South Alabama:

## Report on Compliance for Each Major Federal Program

We have audited the University of South Alabama (the University)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended September 30, 2016. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements to Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

### *Opinion on Each Major Federal Program*

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

## Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the basic financial statements of the University and its aggregate discretely presented component units as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated November 15, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Jackson, Mississippi
November 15, 2016

**UNIVERSITY OF SOUTH ALABAMA**
(A Component Unit of the State of Alabama)
Schedule of Findings and Questioned Costs
Year ended September 30, 2016

## (1) Summary of Auditor's Results

(a) Type of report issued on the financial statements: **Unmodified**

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

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

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

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

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

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

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

(g) Major programs:

- Student Financial Assistance Cluster – various CFDA numbers
- Research and Development Cluster – various CFDA numbers
- Medicaid Cluster – 93.778

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

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

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

There were no findings related to the financial statements reported in accordance with *Government Auditing Standards* for the year ended September 30, 2016.

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

There were no findings related to federal awards for the year ended September 30, 2016.

KPMG

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

November 15, 2016

Audit Committee of
the Board of Trustees
University of South Alabama

Ladies and Gentlemen:

We have audited the basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of and for the year ended September 30, 2016 and issued our report thereon under date of November 15, 2016. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

**Our Responsibility Under Professional Standards**

We are responsible for forming and expressing an opinion about whether the basic financial statements that have been prepared by management with the oversight of the Audit Committee of the Board of Trustees, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the basic financial statements as a whole are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the basic financial statements are detected. Our audit does not relieve management or the Audit Committee of the Board of Trustees of their responsibilities.

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

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

**Other Information in Documents Containing Audited Financial Statements**

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

**Accounting Practices and Alternative Treatments**

*Significant Accounting Policies*

The significant accounting policies used by the University are described in Note 1 to the basic financial statements. As described in Note 4 to the basic financial statements, in order to comply with the requirements of the Governmental Accounting Standards Board (GASB), the University adopted GASB No. 72, *Fair Value Measurement Application* in 2016. In addition, beginning in fiscal 2016, the USA Health Services Foundation met the criteria for blended component unit presentation. The cumulative effect of this change in reporting entity resulted in a decrease in net position as of October 1, 2015 of ($2,693,000).

*Unusual Transactions*

As described in Note 10 to the financial statements, in September 2016, the counterparty to the 2006 swaption instrument exercised its option to convert the instrument to a "receive variable, pay-fixed" swap, resulting in recognition of a borrowing of approximately $41 million. The swap will expire in 2036, when the related 2006 bond matures. There were no other transactions entered into by the University during the year that were both significant and unusual and of which, under professional standards, we are required to inform you, or transactions for which there is lack of authoritative guidance or consensus.

*Qualitative Aspects of Accounting Practices*

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

**Management Judgments and Accounting Estimates**

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

Management's estimates of the allowances for uncollectible accounts and contractual adjustments are based on, among other things, analyses of historical trends, the aging and mix of accounts receivable at year-end and expected third-party payor payment rates. Estimated professional and general liability costs and self-insurance reserves for employee health insurance are based on, among other things, reviews of occurrences accumulated by incident reporting systems, discussions with risk management professionals, actuarial valuations and consideration of recent developments. Additionally, the fair value of the University's derivatives (swaps) is based on calculating future net settlement payments utilizing forward rates implied by the yield curve based on future spot interest rates. The payments are discounted using spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of future settlement.

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

KPMG



**Uncorrected and Corrected Misstatements**

There were two uncorrected audit misstatements with a combined net impact to the change in net position of $347k.

**Disagreements with Management**

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

**Consultation with Other Accountants**

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended September 30, 2016.

**Material Written Communications**

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

1. Engagement letters, and
2. Management representation letters

**Confirmation of Audit Independence**

We hereby confirm that as of November 15, 2016, we are independent accountants with respect to the University under relevant professional and regulatory standards.

* * * * * * *

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

Very truly yours,

KPMG LLP

Jackson, Mississippi

P 2/3/15
ACF —

KPMG

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

Telephone +1 601 354 3701
Fax +1 601 354 3745
Internet www.us.kpmg.com

January 30, 2015

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

Dear Steve:

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

**Objectives and Limitations of Services**

***Financial Statement Audit Services***

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

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

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

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

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

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

*Internal Control over Financial Reporting and Compliance and Other Matters*

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

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

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the University's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements, this report will include any material weaknesses and significant deficiencies to the extent they come to our attention. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. This report will also include instances of:

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

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

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

*OMB Circular A-133 Audit Services*

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

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

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

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

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

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

***Offering Documents***

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

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

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

**Our Responsibility to Communicate with the Audit Committee**

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

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

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

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

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

**Management Responsibilities**

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

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

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

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

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

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

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

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

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

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

*Use of Internal Audit*

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

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

**Dispute Resolution**

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

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

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

**Other Matters**

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

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

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

KPMG uses the services of KPMG controlled entities, KPMG member firms and/or third party service providers to provide professional services and administrative, analytical and clerical support. These parties may have access to certain of your information with the understanding that the confidential information will be maintained under information controls providing equivalent protection as our own. You also understand and agree that KPMG aggregates your information with information from other sources for the purpose of improving audit quality and service, and for use in presentations to clients and non-clients in a form where it is sufficiently de-identified so as not to be attributable to the University or where the University could be identified as a source of the information.

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

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

***Other Government Auditing Standards Matters***

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

***Additional Reports and Fees for Services***

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

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

* * * * * * *

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

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

Very truly yours,

KPMG LLP

Mark P. Peach
*Partner*

MPP:jm

ACCEPTED:

University of South Alabama

Stephen H. Simmons

Stephen H. Simmons
Vice President for Finance and Administration

2/2/15
Date

Appendix I

## Fees for Services

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

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

Other Reports:

The reports that we will issue as part of this engagement are as follows:

| Report |
|---|
| Reports issued in connection with OMB Circular A-133 |
| Debt covenant compliance report |
| Debt agreed upon procedures report |
| University of South Alabama Health Services Foundation |
| South Alabama Medical Science Foundation |
| USA Research and Technology Corporation |
| NCAA agreed upon procedures report |

The above estimate is based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred. The fees assume that you will provide routine client assistance activities such as preparation of financial statements, certain account analyses, document retrieval and confirmation preparation. The fees also assume a commitment of approximately 400 hours of internal audit assistance related to the audit. The fees also assume no significant changes in operations, no significant increase in the purchase of additional alternative investments, and that we will only have to audit two major programs associated with OMB Circular A-133. The above fees do not consider any time associated with implementing any future GASB pronouncements (such as GASB 68). Any additional time associated with future GASB pronouncements will be billed separately. Progress billings will be sent every two weeks and are due within thirty days upon receipt.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

KPMG

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

Telephone +1 601 354 3701
Fax +1 601 354 3745
Internet www.us.kpmg.com

November 3, 2015

Mr. Scott Weldon
Vice President for Finance and Administration
University of South Alabama
307 University Boulevard, AD 180
Mobile, Alabama 36688

Dear Scott:

This letter (the Engagement Letter) confirms our understanding of our engagement to provide professional services to Gulf Coast Regional Care Organization (the Organization).

**Objectives and Limitations of Services**

***Financial Statement Audit Services***

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

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

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

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

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.

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

***Internal Control over Financial Reporting and Compliance and Other Matters***

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

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

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the Organization's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements, this report will include any material weaknesses and significant deficiencies to the extent they come to our attention. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. This report will also include instances of:

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

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

- Abuse that is material, either quantitatively or qualitatively.

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

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

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

***Uniform Guidance Audit Services***

We will also perform audit procedures with respect to the Organization'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 Organization'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 Organization'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.

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

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

We will perform tests of the Organization'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.

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

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

***Offering Documents***

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

Should the Organization wish to include or incorporate by reference these financial statements and our audit report thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our report on such financial statements, and we are not otherwise associated with the offering document, then the Organization 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 those charged with governance**

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

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

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

To the extent that they come to our attention, we will inform the appropriate level of management about any illegal acts, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud. Further, to the extent they come to our attention, we also will communicate directly to those charged with governance illegal acts, 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 Organization acknowledges and understands that they have responsibility for the preparation and fair presentation, in accordance with U.S generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the Organization complies with laws, regulations, contracts, and grant agreements applicable to its activities, and for informing us of any known material violations of such laws and regulations and provisions of contracts and grant agreements. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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

In addition to the 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 Organization to prepare a:

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

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

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 Organization agrees to notify KPMG LLP (KPMG) of any such request by a granting agency and to work with KPMG to modify the terms of this letter as necessary to accommodate such a request.

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

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

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

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

**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 and enforce 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**

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

Further, for purposes of the services described in this letter only, the Organization 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 Organization solely for presentations or reports to the Organization or for internal KPMG presentations and intranet sites.

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

KPMG, 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 Organization that KPMG will treat the Organization'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 Organization. In connection with the performance of services under this Engagement Letter, the KPMG Firms may, in their discretion, utilize the services of third party service providers within or outside of the United States to complete the services under this Engagement Letter. KPMG Firms and such third parties may have access to your confidential information from offshore locations. In addition, KPMG uses third party service providers within and outside of the United States to provide, at its direction, back-office administrative and clerical services to KPMG and these third party service providers may in the performance of such services have access to your confidential information. KPMG represents that it has technical, legal and/or other safeguards, measures and controls in place to protect your confidential information from unauthorized disclosure or use.

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

The audit documentation for this engagement is the property of KPMG. If KPMG receives a subpoena or other validly issued administrative, judicial, government or investigative regulatory demand/request ("Legal Demand") requiring it to disclose the Organization's confidential information, KPMG shall, unless prohibited by law or demand of a law enforcement agency, provide prompt written notice to the Organization of such demand. 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 Organization or is required by law, rule or regulation, Legal Demand, or other legal process 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 Organization or its agents, the Organization shall reimburse KPMG for its professional time at its standard hourly rates, and expenses, including reasonable attorney's fees and expenses, incurred in responding to such requests.

Pursuant to *Government Auditing Standards,* we are required to make certain audit documentation available in a full and timely manner to regulator upon request for their reviews of audit quality and for use by their auditors. In addition, we may also be requested to make certain audit documentation available to regulator pursuant to authority provided by law or regulation. If so requested, access to such audit documentation will be provided. Furthermore, regulator 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.

***Other Government Auditing Standards Matters***

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

***Additional Reports and Fees for Services***

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

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

* * * * * * *

KPMG



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

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

Very truly yours,

KPMG LLP

Mark P. Peach
*Partner*

ACCEPTED:

University of South Alabama

Scott Weldon

Scott Weldon

VICE-PRESIDENT FOR FINANCE AND ADMINISTRATION

Title

11/6/15

Date

**Appendix I**

**Fees for Services**

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

| | |
|---|---|
| Audit of financial statements and related notes to the financial statements of the Gulf Coast Regional Care Organization as of and for the period ended September 30, 2015 | $20,000 - $25,000 |

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 OMB A-133 |
| Report to those charged with governance |

The above estimate is based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

# 2250 — Additional Financial Reporting Considerations

Source: GASB Statement 56, GASB Statement 62

Section 2200, "Comprehensive Annual Financial Report"

See also: Section 2300, "Notes to the Financial Statements"

## Scope and Applicability of This Section

.101 This section establishes accounting and financial reporting standards for related party transactions, subsequent events, going concern considerations, prior-period adjustments, and accounting changes and error corrections. This section applies to all state and local governments. [GASBS 56, ¶2; GASBS 62, ¶54–¶89]

## Related Party Transactions

.102 Paragraphs .103–.108 provide guidance on disclosures of transactions between related parties.[1] Examples of related party transactions include transactions (a) between a government and its related organizations, joint ventures, and jointly governed organizations; (b) between a government and its elected and appointed officials, management, or members of their immediate families; and (c) between a government and trusts for the benefit of employees, such as pension and other postemployment benefit trusts that are managed by or under the trusteeship of the government's management. Transactions between related parties commonly occur in the normal course of operations. Some examples of common types of transactions with related parties are sales, purchases, and transfers of realty and personal property; services received or furnished, for example, accounting, management, engineering, and legal services; use of capital assets by lease or otherwise; borrowings and lendings; guarantees; and reimbursements based on allocations of common costs. Transactions between related parties are considered to be related party transactions even though they may not be given accounting recognition. For example, a government may receive services from a related party without charge and not record receipt of the services. [GASBS 62, ¶54]

.103 State and local governments are required to disclose certain related party transactions.[2] If the substance of a particular transaction is significantly different from its form because of the involvement of related parties, financial statements should recognize the substance of the transaction rather than merely its legal form. [GASBS 56, ¶4]

.104 Examples of transactions with related parties that have features that may indicate that governments should consider whether a *form-over-substance* condition exists include:

a. Borrowing or lending on an interest-free basis or at a rate of interest significantly above or below market rates prevailing at the time of the transaction

b. Selling real estate at a price that differs significantly from its appraised value

c. Exchanging property for similar property in a nonmonetary transaction

d. Making loans with no scheduled terms for when or how the loans will be repaid.

[GASBS 56, ¶5]

.105 Determining the substance of a related party transaction may pose challenges not present in assessing transactions between unrelated parties. For example, a related party relationship may result in transactions that would not take place between unrelated parties or would be subject to different terms and conditions. In such cases, the substance of the related party transaction may differ from its legal form due to the related party relationship.[3] [GASBS 56, ¶6]

.106 It may not be possible to determine whether a particular transaction would have taken place if the parties had not been related, or what the terms and conditions would have been. Therefore, it may be difficult to determine whether a transaction was consummated on terms comparable to those that would be present in arm's-length transactions. Furthermore, governments frequently enter into transactions and engage in activities that are driven by societal needs and concern for the "public good." Therefore, it may not be appropriate to compare some governmental programs and arrangements to what might have occurred in an arm's-length transaction in the private sector or with unrelated parties. [GASBS 56, ¶7]

.107 Financial statements should include disclosures of related party transactions, other than compensation arrangements, expense/expenditure allowances, and other similar items in the ordinary course of operations. The disclosures should include:[4]

a. The nature of the relationship(s) involved

b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which financial statements are presented, and such other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements

c. The dollar amounts of transactions for each of the periods for which financial statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period

d. Amounts due from or to related parties as of the date of each statement of net position[5] presented and, if not otherwise apparent, the terms and manner of settlement.

[GASBS 62, ¶55, as amended by GASBS 63, ¶8]

.108 Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist. Representations about transactions with related parties, if made, should not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm's-length transactions unless such representations can be substantiated. [GASBS 62, ¶56]

.109 Events or transactions that affect the financial statements sometimes occur subsequent to the statement of net position[6] date but before financial statements are issued. Some of those transactions and events (referred to as *recognized events*) require adjustments to the financial statements while others (referred to as *nonrecognized events*) may require disclosure in the notes to the financial statements. [GASBS 56, ¶8, as amended by GASBS 63, ¶8]

.110 Recognized events consist of those events that provide additional evidence with respect to conditions that existed at the date of the statement of net position and affect the estimates inherent in the process of preparing financial statements. All information that becomes available prior to the issuance of the financial statements should be used in evaluating the conditions on which the estimates were based. The financial statements should be adjusted for any changes in estimates resulting from the use of such evidence. [GASBS 56, ¶9, as amended by GASBS 63, ¶8]

.111 Nonrecognized events consist of those events that provide evidence with respect to conditions that did not exist at the date of the statement of net position but arose subsequent to that date. These events should not result in adjustment of the financial statements. Some of these events, however, may be of such a nature that their disclosure is essential to a user's understanding of the financial statements. [GASBS 56, ¶10, as amended by GASBS 63, ¶8]

.112 Identifying recognized events that require adjustment of the financial statements calls for the exercise of professional judgment and knowledge of the facts and circumstances. For example, a water utility's loss from an uncollectible account receivable as a result of a major customer's deteriorating financial condition leading to the bankruptcy of that customer subsequent to the statement of net assets date may be indicative of conditions existing at the statement of net assets date, thereby calling for adjustment of the financial statements before their issuance. In contrast, a similar loss resulting from that customer's major casualty, such as a fire or flood, subsequent to the statement of net assets date would not be indicative of conditions existing at the statement of net assets date, and adjustment of the financial statements would not be appropriate. The settlement of litigation for an amount different from the liability recorded in the accounts would require adjustment of the financial statements if the event that gave rise to the litigation, such as a personal injury occurring on government property, had taken place prior to the statement of net assets date. [GASBS 56, ¶11]

.113 Subsequent events affecting the realization of assets such as receivables and inventories or the settlement of estimated liabilities will ordinarily require adjustment of the financial statements because such events typically represent the culmination of conditions that existed over a relatively long period of time. Subsequent events such as changes in the quoted market prices of securities ordinarily should not result in adjustment of the financial statements because such changes typically reflect a concurrent evaluation of new conditions. [GASBS 56, ¶12]

.114 Other examples of nonrecognized events that require disclosure in the notes to the financial statements but should not result in adjustment include the issuance of bonds, the creation of a new component unit, or the loss of a government facility as a result of a tornado, fire, or flood. [GASBS 56, ¶13]

.115 When financial statements are reissued, certain events may have occurred subsequent to the original issuance that require disclosure. Events requiring disclosure are those that are considered essential to a user's understanding of the reissued financial statements. These events, occurring between the time of original issuance and reissuance of financial statements, should not result in adjustment of the financial statements unless the adjustment meets the criteria for the correction of an error or the criteria for prior-period adjustments. That also is the case for events occurring subsequent to the original issuance when financial statements are reissued in comparative form with financial statements of subsequent periods. [GASBS 56, ¶14]

.116 Section 2200, paragraph .109, requires a discussion in management's discussion and analysis (MD&A) of currently known facts, decisions, or conditions that are expected to have a significant effect on the government's financial position or results of operations. It may be necessary to include a discussion of subsequent events in the MD&A, depending on the facts and circumstances. [GASBS 56, ¶15]

.117 Continuation of a legally separate governmental entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to a governmental entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of governmental operations, restructuring of debt, submission to the oversight of a separate fiscal assistance authority or financial review board, or similar actions. Financial statement preparers have a responsibility to evaluate whether there is substantial doubt about a government's ability to continue as a going concern for 12 months beyond the financial statement date. Moreover, if there is information that is currently known to the government that may raise substantial doubt shortly thereafter (for example, within an additional three months), it also should be considered. [GASBS 56, ¶16]

.118 Indicators that there may be substantial doubt about a governmental entity's ability to continue as a going concern include:

a. *Negative trends*—for example, recurring periods in which expenses/expenditures significantly exceed revenues, recurring unsubsidized operating losses in business-type activities, consistent working capital deficiencies, continuing negative operating cash flows from business-type activities, or adverse key financial ratios

b. *Other indications of possible financial difficulties*—for example, default on bonds, loans or similar agreements, proximity to debt and tax limitations, denial of usual trade credit from suppliers, restructuring of debt (other than refundings), noncompliance with statutory capital or reserve requirements, or the need to seek new sources or methods of financing or to dispose of substantial assets

c. *Internal matters*—for example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project or program, uneconomic long-term commitments (burdensome labor contracts, for example), or the need to significantly revise operations

d. *External matters*—for example, legal proceedings, legislation, or similar matters that might jeopardize intergovernmental revenues and the fiscal sustainability of key governmental programs; loss of a critical license or patent for a business-type activity; loss of a principal customer, taxpayer, or supplier; or uninsured or underinsured catastrophe such as a drought, earthquake, or flood.

[GASBS 56, ¶17]

.119 In all cases, the effect of the governmental environment should be considered when evaluating the indicators. For example, the taxing power and borrowing capabilities of governments together with the constant demand for the provision of public services are factors that may diminish the possibility that a government would be unable to continue as a going concern. Some conditions or situations identified in the indicators in should be assessed differently for governments. For example, recurring operating losses are commonplace for some business-type activities such as transit operations or governmental healthcare organizations. However, quality-of-life considerations and the health and welfare needs and interests of the citizenry may create compelling incentives for those operations to be subsidized to the extent necessary by another governmental entity. [GASBS 56, ¶18]

.120 If it is determined that there is substantial doubt about a governmental entity's ability to continue as a going concern, the notes to the financial statements should include disclosure of the following, as appropriate:

a. Pertinent conditions and events giving rise to the assessment of substantial doubt about the government's ability to continue as a going concern for a reasonable period of time, as discussed in

b. The possible effects of such conditions and events

c. Government officials' evaluation of the significance of those conditions and events and any mitigating factors

d. Possible discontinuance of operations

e. Government officials' plans (including relevant prospective financial information)

f. Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities.

In addition, Section 2200, paragraph .109, requires a discussion in MD&A of currently known facts, decisions, or conditions that are expected to have a significant effect on the government's financial position or results of operations. It may be necessary to include a discussion of going concern issues in the MD&A, depending on the facts and circumstances. [GASBS 56, ¶19]

## Prior-Period Adjustments

.121 Paragraphs .121–.125 do not affect the manner of reporting accounting changes required or permitted by other provisions of this section and other authoritative pronouncements.[7] [GASBS 62, ¶58]

.122 Except as specified in paragraph .123, all increases and decreases in net position recognized during a period, including accruals of estimated losses from loss contingencies, should be included in the change in net position section of the flows statement[8] for that period. [GASBS 62, ¶59, as amended by GASBS 63, ¶8]

.123 A correction of an error in previously issued financial statements[9] should be accounted for and reported as a prior-period adjustment[10] and excluded from the change in net position section of the flows statement for the current period. [GASBS 62, ¶60, as amended by GASBS 63, ¶8]

.124 Those items that are reported as prior-period adjustments should, in single-period statements, be reflected as adjustments of the opening balance of net position. When comparative statements are presented, corresponding adjustments should be made of the amounts reported in the flows statement and the statement of net position[11] for all of the periods reported therein to reflect the retroactive application of the prior-period adjustments. (See paragraph .125 for required disclosures of prior-period adjustments.) [GASBS 62, ¶61, as amended by GASBS 63, ¶8]

.125 When prior-period adjustments are recorded, the resulting effects on the change in net position of prior periods should be disclosed in the notes to the financial statements in the period in which the adjustments are made. When financial statements for a single period only are presented, the disclosure should indicate the effects of such restatement on the balance of net position at the beginning of the period and on the change in net position of the immediately preceding period. When financial statements for more than one period are presented, the disclosure should include the effects for each of the periods included in the statements. Disclosure of restatements in annual reports issued subsequent to the first such post-revision disclosure is not required. [GASBS 62, ¶62, as amended by GASBS 63, ¶8]

## Accounting Changes and Error Corrections

.126 Paragraphs .126–.152 define various types of accounting changes and establish guidance for determining the manner of reporting and disclosing each type. Those paragraphs also cover reporting a correction of an error in previously issued financial statements. [GASBS 62, ¶63]

.127 Each Statement and Interpretation of the GASB specifies its effective date and the manner of reporting a change to conform with the conclusions of that pronouncement. Other pronouncements of the GASB or other designated bodies as described in categories (b)–(d) in the hierarchy of generally accepted accounting principles (GAAP), described in Section 1000, "The Hierarchy of Generally Accepted Accounting Principles," also may establish the manner of reporting a change in accounting principle. Accordingly, the provisions of paragraphs .126–.152 do not apply to changes made in conformity with such pronouncements issued in the past or in the future. [GASBS 62, ¶64]

.128 The term *accounting change* as used in paragraphs .126–.152 means a change in (a) an accounting principle, (b) an accounting estimate, or (c) the reporting entity (which is a special type of change in accounting principle classified separately for purposes of applying paragraphs .128–.152). The correction of an error in previously issued financial statements is not an accounting change. [GASBS 62, ¶65]

## *Change in Accounting Principle*

.129 A change in accounting principle results from adoption of a generally accepted accounting principle different from the one used previously for reporting purposes. The term *accounting principle* includes not only accounting principles and practices but also the methods[12] of applying them. [GASBS 62, ¶66]

.130 A characteristic of a change in accounting principle is that it concerns a choice from among two or more generally accepted accounting principles. However, neither (a) initial adoption of an accounting principle in recognition of events or transactions occurring for the first time or that previously were insignificant in their effect nor (b) adoption or modification of an accounting principle necessitated by transactions or events that are clearly different in substance from those previously occurring is a change in accounting principle. [GASBS 62, ¶67]

.131 Changes in accounting principle are numerous and varied. They include, for example, a change in the policy for determining which short-term, highly liquid investments will be treated as cash equivalents. (Paragraph .133 covers a change in accounting principle to effect a change in estimate.) [GASBS 62, ¶68]

## *Change in Accounting Estimate*

.132 Changes in estimates used in accounting are necessary consequences of periodic presentations of financial statements. Preparing financial statements requires estimating the effects of future events. Examples of items for which estimates are necessary are uncollectible receivables, inventory obsolescence, service lives and salvage values of depreciable assets, and periods benefited by an amount paid in advance. Future events and their effects cannot be perceived with certainty; estimating, therefore, requires the exercise of judgment. Therefore, accounting estimates change as new events occur, as more experience is acquired, or as additional information is obtained. [GASBS 62, ¶69, as amended by GASBS 65, ¶31]

### *Change in estimate effected by a change in accounting principle*

.133 Distinguishing between a change in an accounting principle and a change in an accounting estimate is sometimes difficult. For example, a government may change from capitalizing a cost to recording it as an expense when incurred because future benefits of the cost have become doubtful. The new accounting method is adopted, therefore, in partial or complete recognition of the change in estimated future benefits. The effect of the change in accounting principle is inseparable from the effect of the change in accounting estimate. Changes of this type are often related to the continuing process of obtaining additional information and revising estimates and are, therefore, considered to be changes in estimates for purposes of applying paragraphs .128–.152. [GASBS 62, ¶70, as amended by GASBS 65, ¶31]

### *Change in the Reporting Entity*

.134 One special type of change in accounting principle results in financial statements that, in effect, are those of a different reporting entity. This type is limited mainly to changing the organizations included in a reporting entity's financial statements. A different group of organizations comprise the reporting entity after each change. [GASBS 62, ¶71]

### *Correction of an Error in Previously Issued Financial Statements*

.135 Reporting a correction of an error in previously issued financial statements concerns factors similar to those relating to reporting an accounting change and is therefore discussed in paragraphs .128–.152. Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. In contrast, a change in accounting estimate results from new information or subsequent developments and, accordingly, from better insight or improved judgment. Therefore, an error is distinguishable from a change in estimate. A change from an accounting principle that is not generally accepted to one that is generally accepted is a correction of an error for purposes of applying paragraphs .126–.152. [GASBS 62, ¶72]

### *Justification for a Change in Accounting Principle*

.136 In the preparation of financial statements, there is a presumption that an accounting principle once adopted should not be changed in accounting for events and transactions of a similar type. Consistent use of accounting principles from one accounting period to another enhances the utility of financial statements to users by facilitating analysis and understanding of comparative accounting data. [GASBS 62, ¶73]

.137 The presumption that a government should not change an accounting principle may be overcome only if the government justifies the use of an alternative acceptable accounting principle on the basis that it is preferable. However, a method of accounting that previously was adopted for a type of transaction or event that is being terminated or that was a single, nonrecurring event in the past should not be changed. For example, the method of accounting should not be changed for inventory that is being discontinued. This does not imply, however, that a change in the estimated period to be benefited for an amount paid in advance (if justified by the facts) should not be recognized as a change in accounting estimate. The issuance of a new pronouncement by the GASB or by other designated bodies as described in categories (a)–(d) of the GAAP hierarchy discussed in Section 1000 that creates a new accounting principle, interprets an existing principle, expresses a preference for an accounting principle, or rejects a specific principle may require a government to adopt a change in accounting principle. The issuance of such a pronouncement is considered to constitute sufficient support for making a change in accounting principle provided that the hierarchy presented in Section 1000 is followed. The burden of justifying other changes rests with the government proposing the change. [GASBS 62, ¶74, as amended by GASBS 65, ¶31]

### *General Disclosure—A Change in Accounting Principle*

.138 The nature of and justification for a change in accounting principle and its effect on beginning net position/fund net position should be disclosed in the financial statements of the period in which the change is made. The justification for the change should explain clearly why the newly adopted accounting principle is preferable. [GASBS 62, ¶75, as amended by

GASBS 63, ¶8]

.139 Changes in accounting should be recognized by adjusting the beginning net position/fund net position in the period of the change for the cumulative effect of changing to a new accounting principle (paragraphs .140–.145),[13] but a change in reporting entity should be reported by restating the financial statements of prior periods (paragraphs .149 and .150). [GASBS 62, ¶76, as amended by GASBS 63, ¶8]

.140 For all changes in accounting principle except for a change in reporting entity described in paragraphs .149 and .150:

a. Financial statements for prior periods included for comparative purposes should be presented as previously reported.

b. The cumulative effect of changing to a new accounting principle on the amount of net position/fund net position at the beginning of the period in which the change is made should be reported as an adjustment to amounts previously reported.

c. The effect of adopting the new accounting principle on the change in net position/fund net position of the period of the change should be disclosed.

d. Changes in net position/fund net position computed on a pro forma basis should be shown on the face of the flows statements[14] for all periods presented as if the newly adopted accounting principle had been applied during all periods affected (paragraph .142).

Thus, the change in net position/fund net position (exclusive of the cumulative adjustment) for the period of the change should be reported on the basis of the newly adopted accounting principle. The conclusions in this paragraph are modified for various special situations, which are described in paragraphs .143 and .144. [GASBS 62, ¶77, as amended by GASBS 63, ¶8]

### Cumulative Effect of a Change in Accounting Principle

.141 The adjustment to beginning net position/fund net position for the cumulative effect of changing to a new accounting principle is the difference between (a) the balance of net position/fund net position at the beginning of the period of a change and (b) the balance of net position/fund net position that would have been reported at that date if the new accounting principle had been applied retroactively for all prior periods that would have been affected. [GASBS 62, ¶78, as amended by GASBS 63, ¶8]

### Pro Forma Effects of Retroactive Application

.142 Pro forma effects of retroactive application (paragraph .140d) should be shown on the face of the flows statement for the change in net position/fund net position. Pro forma amounts should be shown in both current and future reports for all periods presented that are prior to the change and that would have been affected. If a flows statement is presented for the current period only, the actual and the pro forma amounts for the immediately preceding period should be disclosed. [GASBS 62, ¶79, as amended by GASBS 63, ¶8]

### Pro Forma Amounts Not Determinable

.143 In rare situations, the pro forma amounts described in paragraph .142 cannot be computed or reasonably estimated for individual prior periods, although the cumulative effect on net position/fund net position at the beginning of the period of change can be determined. The reason for not showing the pro forma amounts by periods should be explained because disclosing those amounts is otherwise required. [GASBS 62, ¶80, as amended by GASBS 63, ¶8]

### Cumulative Effect Not Determinable

.144 Computing the effect on net position/fund net position at the beginning of the period in which a change in accounting principle is made may sometimes be impossible. In those rare situations, a government should disclose the effect of the change on the results of operations of the period of change and explain the reason for omitting accounting for the cumulative effect and disclosure of pro forma amounts for prior years. The principal example of this type of accounting change is a change in inventory pricing method from first in, first out (FIFO) to last in, first out (LIFO). [GASBS 62, ¶81, as amended by GASBS 63, ¶8]

### Reporting Accounting Changes under Other Pronouncements

.145 For purposes of applying paragraphs .128–.152, a government making a change in accounting principle to conform with the recommendations of a GASB Technical Bulletin or an AICPA Statement of Position or Practice Bulletin, should report the change as specified in the pronouncement. If the pronouncement does not specify the manner of reporting a change in accounting principle to conform with its recommendations, a government making a change in accounting principle to conform with the recommendations of the pronouncement should report the change as specified by paragraphs .128–.152. [GASBS 62, ¶82]

.146 The effect of a change in accounting estimate should be accounted for in (a) the period of change if the change affects that period only or (b) the period of change and future periods if the change affects both. A change in an estimate should not be accounted for by restating amounts reported in financial statements of prior periods or by reporting pro forma amounts for prior periods.[15] [GASBS 62, ¶83]

.147 A change in accounting estimate that is recognized in whole or in part by a change in accounting principle should be reported as a change in an estimate because the cumulative effect attributable to the change in accounting principle cannot be separated from the current or future effects of the change in estimate (paragraph .133). [GASBS 62, ¶84]

### Disclosure

.148 The effect on the change in net position/fund net position of the current period should be disclosed for a change in estimate that affects several future periods, such as a change in service lives of depreciable assets or actuarial assumptions affecting pension costs. Disclosure of the effect on the change in net position/fund net position is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts or inventory obsolescence. [GASBS 62, ¶85, as amended by GASBS 63, ¶8]

.149 Accounting changes that result in financial statements that are, in effect, the statements of a different reporting entity (paragraph .134) should be reported by restating the financial statements of all prior periods presented in order to show financial information for the new reporting entity for all periods. [GASBS 62, ¶86]

### *Disclosure*

.150 The financial statements of the period of a change in the reporting entity should describe the nature of the change and the reason for it. In addition, the effect of the change on beginning net position/fund net position should be disclosed for all periods presented. Financial statements of subsequent periods need not repeat the disclosures. [GASBS 62, ¶87, as amended by GASBS 63, ¶8]

.151 Correction of an error in the financial statements of a prior period discovered subsequent to their issuance (paragraph .135) should be reported as a prior-period adjustment. (Paragraphs .124 and .125 cover the manner of reporting prior-period adjustments.) [GASBS 62, ¶88]

### *Disclosure*

.152 The nature of an error in previously issued financial statements and the effect of its correction on the change in net position/fund net position should be disclosed in the period in which the error was discovered and corrected. Financial statements of subsequent periods need not repeat the disclosures. [GASBS 62, ¶89, as amended by GASBS 63, ¶8]

.501 The following paragraphs contain definitions of certain terms *as they are used in certain paragraphs in this section.* The paragraphs to which each definition applies are noted parenthetically at the end of each entry; the terms may have different meanings in other contexts. [GASBS 62, ¶57]

.502 **Immediate family(ies).** Family members whom an elected or appointed official or a member of management might influence or by whom they might be influenced because of the family relationship. (.102–.108) [GASBS 62, ¶57]

.503 **Management.** Persons who are responsible for achieving the objectives of the government and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes the chief executive officer (for example, city manager), directors or secretaries in charge of principal government departments or functions (such as service provision administration or finance), and other persons who perform similar policymaking functions. Persons without formal titles also may be members of management. (.102–.108) [GASBS 62, ¶57]

.504 **Related parties.** A government's related organizations, joint ventures, and jointly governed organizations, as defined in Section 2100; 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 (for example, through imposition of will as discussed in Statement 14, as amended) 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. (.102–.108) [GASBS 62, ¶57]

#### Footnotes

[1] 2250, Footnote 1—Terms defined in the glossary (see paragraphs .501–.504) are shown in **boldface type** the first time they appear in paragraphs .102–.108. [GASBS 62, fn26]

[2] 2250, Footnote 2—See paragraphs .107 and .108. [GASBS 62, ¶55 and ¶56]

[3] 2250, Footnote 3—For example, Section S20, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues," includes requirements that affect the basis of assets transferred within the same financial reporting entity. That requirement results in a measurement that is different from what would have occurred in an arm's-length transaction with an external party. [GASBS 56, fn2]

[4] 2250, Footnote 4—In some cases, aggregation of similar transactions by type of related party may be appropriate. Sometimes, the effect of the relationship between the parties may be so pervasive that disclosure of the relationship alone will be sufficient. If necessary to the understanding of the relationship, the name of the related party should be disclosed. [GASBS 62, fn27]

[5] 2250, Footnote 5—For purposes of applying paragraphs .107 and .108, the term *statement of net assets* includes the government-wide statement of net position, the governmental fund balance sheet, and the proprietary fund statement of fund net position. [GASBS 62, fn28, as amended by GASBS 63, ¶8]

[6] 2250, Footnote 6—For purposes of applying paragraphs .109–.120, the term *statement of net position* includes the government-wide statement of net position, governmental fund balance sheet, proprietary fund statement of fund net position, and statement of fiduciary net position, which are required to be presented as components of the basic financial statements. [GASBS 56, fn3, as amended by GASBS 63, ¶8]

[7] 2250, Footnote 7—Accounting changes resulting in restatement of previously issued financial statements of prior periods include a change in accounting method permitted by a change in the reporting entity described in paragraph .149. [GASBS 62, fn29]

[8] 2250, Footnote 8—For purposes of applying paragraphs .121–.125, the term *flows statement* includes the government-wide statement of activities and the proprietary fund statement of revenues, expenses, and changes in fund net position. [GASBS 62, fn30, as amended by GASBS 63, ¶8]

[9] 2250, Footnote 9—A *correction of an error in previously issued financial statements* is used here as that term is defined in paragraph .135. That paragraph also describes the distinction between a correction of an error and a change in accounting estimate. [GASBS 62, fn31]

[10] 2250, Footnote 10—The reporting of prior-period adjustments is described in paragraphs .124 and .125. [GASBS 62, fn32]

[11] 2250, Footnote 11—For purposes of applying paragraphs .121–.125, the term *statement of net position* includes the government-wide statement of net position and the proprietary fund statement of fund net position. [GASBS 62, fn33, as amended by GASBS 63, ¶8]

[12] 2250, Footnote 12—This provision does not apply to the term method when it is used in conjunction with depreciation, depletion, or amortization. [GASBS 62, fn34]

[13] 2250, Footnote 13—Changes in accounting principles should not be reported as a separately identified cumulative effect in the current-period statement of activities or proprietary fund statement of revenues, expenses, and changes in fund net position. [GASBS 34, fn13, as amended by GASBS 62, ¶77–¶82 and GASBS 63, ¶8]

[14] 2250, Footnote 14—For purposes of applying paragraphs .126–.152, the term *flows statement* includes the government-wide statement of activities and the proprietary fund statement of revenues, expenses, and changes in fund net position. [GASBS 62, fn35, as amended by GASBS 63, ¶8]

[15] 2250, Footnote 15—Specific guidance for reporting changes in estimates by municipal solid waste landfills is provided in paragraphs .111 and .112 of Section L10, "Landfill Closure and Postclosure Care Costs." [GASBS 62, fn36]

UNIVERSITY OF SOUTH ALABAMA

November 15, 2016

KPMG LLP
420 North 20th Street
1800 Wells Fargo Tower
Birmingham, AL 35203

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University), and its aggregate discretely presented component units as of and for the year ended September 30, 2016, for the purpose of expressing opinions as to whether these basic financial statements present fairly, and its aggregate discretely presented component units present fairly, in all material respects, the respective financial positions, changes in financial positions, and, where applicable, cash flows thereof in accordance with U.S. generally accepted accounting principles. We are also providing this letter to confirm our understanding that the purpose of your testing of transactions and records relating to the University's federal programs, in accordance with Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), was to obtain reasonable assurance that the University had complied, in all material respects, with the requirements of law, regulations, contracts, and grants that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.
Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.
We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purposes of appropriately informing ourselves, as of November 15, 2016, the following representations made to you during your audits:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 30, 2015, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.

2. We have made available to you:

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

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

BUSINESS OFFICE
ADMIN BLDG 380 | 307 N. University Blvd. | Mobile, Alabama 36688-0002
TEL: (251) 460-6241 | FAX: (251) 460-6647 | SouthAlabama.edu

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

d. All minutes of the meetings of Board of Trustees, and other appropriate committees, or summaries of actions of recent meetings for which minutes have not yet been prepared. 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:

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

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

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

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

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

5. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GASB Statement No. 62, paragraphs 96 – 113.

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

7. We acknowledge our responsibility for the design, implementation and maintenance of programs and controls to prevent and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the

preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

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

9. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

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

    a. Management

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

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

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

12. We have no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

13. We have no knowledge of any officer or trustee of the University, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audits.

14. The following have been properly recorded or disclosed in the financial statements:

    a. Related party relationships and transactions of which we are aware in accordance with the requirements of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties. The term "related party" refers to government's related organizations, joint ventures, and jointly governed organizations, as defined in GASB Statement No. 14, *The Financial Reporting Entity*, as amended; elected and appointed officials of the government; its management; members of the immediate families of elected or appointed officials of the government and its management; and other parties with which the government may deal if one party can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

b. Guarantees, whether written or oral, under which the University is contingently liable.

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

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

e. Changes in accounting principle affecting consistency.

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

15. The University has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed in the footnotes to the financial statements.

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

17. The University is responsible for compliance with the laws, regulations, donor restrictions, and provisions of contracts and grant agreements applicable to the University. Management has identified and disclosed to you all laws, regulations, donor restrictions, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

18. There have been no:

   a. Instances of fraud that could have a material effect on the adjustments.

   b. Allegations, either written or oral, of misstatements or other misapplication of accounting principles in the University's adjustments that have not been disclosed to you in writing.

   c. Allegations, either written or oral, of deficiencies in internal control that could have a material effect on the University's adjustments that have not been disclosed to you in writing.

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

19. The University's reporting entity includes all entities that are component units of the University. Such component units have been properly presented as either blended or discrete. Investments in joint ventures in which the University holds an equity interest have been properly recorded on the statement of net position. The financial statements disclose all other joint ventures and other related organizations.

20. The basic financial statements properly classify all funds and activities, including governmental funds, which are presented in accordance with the fund type definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

21. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.

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

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

24. Amounts advanced to related entities represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.

25. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net position and have been appropriately reduced to their estimated net realizable value.

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

27. The University is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. The amounts reported represent the University's best estimate of fair value of investments required to be reported under the Statement. The University also has disclosed the methods and significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at amortized cost.

28. The University has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows of resources related to hedging derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* The University complied with the requirements of GASB Statement No. 53 related to the determination of hedging derivative instruments and the application of hedge accounting. Further, the University has disclosed

all material information about its derivative and hedging arrangement in accordance with GASB Statement No. 53.

29. The estimate of fair value of derivative instruments is in compliance with GASB Statement No. 53. For derivative instruments with fair values that are based on other than quoted market prices, the University has disclosed the methods and significant assumptions used to estimate those fair values.

30. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:

    a. The extent, nature, and terms of financial instruments with off-balance-sheet risk;

    b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and

    c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

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

32. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated. There are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed in the footnotes to the basic financial statements.

33. The University has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* including those related to the recognition of outlays associated with the development of internally generated computer software.

34. The University has no:

    a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.

    b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.

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

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

36. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences,

subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.

37. We believe the actuarial assumptions and methods used to measure financial statement liabilities and costs associated with other post-employment benefits and to determine information related to the University's funding progress related to such benefits for financial reporting purposes are appropriate in the University's circumstances and the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.

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

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

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

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

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

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

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

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

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

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

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

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

45. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.

46. We agree with the findings of specialists in evaluating the reserves related to the Professional Liability and General Liability Trust Funds and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

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

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

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

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

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

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

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

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

    a. Believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria.
    b. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period
    c. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.

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

50. Management is responsible for the accuracy and propriety of all cost reports filed and all required Medicare, Medicaid, and similar cost reports have been properly filed. All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient related and properly allocated to applicable payors. The reimbursement methodologies and principles employed in accordance with applicable rules and regulations. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for subsequent appeal, have been fully disclosed in the cost report. Recorded third party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based on historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the entity is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.

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

We confirm having made such inquiries as we considered necessary for the purposes of appropriately informing ourselves, as of November 15, 2016, the following representations made to you during your single audit:

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

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

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

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

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

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

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

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

    a. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period other than as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*

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

Additionally, we confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purposes of appropriately informing ourselves, as of November 15, 2016, the following representations made to you during your single audit:

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

58. The University has prepared the SEFA in accordance with the requirements of the Uniform Guidance and has included all expenditures made during the year ended September 30, 2016 for all awards provided by federal agencies in the form of grants, American Recovery and Reinvestment Act (ARRA) awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

59. 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.

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

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

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

63. We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over compliance that we have identified, which could adversely affect the University's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, and the provisions of contracts and grant agreements. Under standards established by the American Institute of Certified Public Accountants, a deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal

course of performing their assigned functions, to prevent, or detect and correct on a timely basis, noncompliance with a type of compliance requirement of a federal program. A "material weakness" is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected on a timely basis. A "significant deficiency" is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

66. We have identified and disclosed to you all questioned costs and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.

67. The University is in compliance with documentation requirements contained in the requirements promulgated by the sponsoring Federal agencies for all costs charged to federal awards, including both direct costs and indirect costs charged through indirect cost proposals. Costs charged to Federal awards, are considered allowable under these same requirements.

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

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

70. 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 auditor's report.

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

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

73. We have disclosed 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.

74. The copies of federal financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

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

76. If applicable, the University has issued management decisions on a timely basis after receipt of subrecipient audit reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and has ensured that subrecipients have taken appropriate and timely corrective action on such findings.

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

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

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

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

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

82. We have disclosed any known noncompliance occurring subsequent to the period September 30, 2016.

83. The University has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent to September 30, 2016.

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

85. If the USA Research and Technology Corporation debt coverage ratio is less than 1 to 1, the University will pay the Corporation's rent equal to the amount necessary to bring the ratio to 1 to 1.

86. The University has the ability and intent to complete the anticipated December 7, 2016 bond refunding transaction substantially in accordance with the terms disclosed to us.

Further, we confirm that we are responsible for the fair presentation in the financial statements and the related notes to the financial statements, in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Very truly yours,

University of South Alabama

Dr. Tony G. Waldrop

*University President*

G. Scott Weldon

*Vice President for Finance and Administration*

Robert K. Davis

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

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

# Independent Auditors' Report

The Board of Trustees
University of South Alabama:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the University of South Alabama, a component unit of the State of Alabama (the University), and the related notes to the financial statements, and its aggregate discretely presented component units as of and for the year ended September 30, 2016, and have issued our report thereon dated November 15, 2016. We did not audit the 2015 consolidated financial statements of the University of South Alabama Foundation, which represents 93%, 100%, and 52%, respectively, of the 2016 assets, net assets, and revenues, gains, and other support of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based on the report of the other auditors.

In connection with our audit, nothing came to our attention that caused us to believe that the University failed to comply with the terms, covenants, provisions, or conditions of Article X of the Trust Indenture, dated December 1, 2006, authorizing the issuance of $100,000,000 of University Tuition Refunding and Capital Improvements Bonds, Series 2006, on September 25, 2008, authorizing the issuance of $112,885,000 University Facilities Revenue and Capital Improvement Bonds, Series 2008, on June 16, 2010, authorizing the issuance of $29,750,000 University Facilities Revenue and Capital Improvement Bond, Series 2010, on January 4, 2012, authorizing the issuance of $32,740,000 University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B, on June 28, 2013, authorizing the issuance of $50,000,000 University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B and 2013-C, on March 14, 2014, authorizing the issuance of $41,245,000 University Facilities Revenue Refunding Bond, Series 2014-A, on June 15, 2015, authorizing the issuance of $6,000,000 University Facilities Revenue Capital Improvement Bond, Series 2015, and on September 14, 2016, authorizing the issuance of 85,605,000 University Facilities Revenue Refunding Bonds, Series 2016, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the University's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Trust Indenture, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of trustees and management of the University of South Alabama and management of The Bank of New York Trust Company, N.A. and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Jackson, Mississippi
November 15, 2016

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

Independent Accountants' Report on Applying Agreed-Upon Procedures in Connection with University Tuition Revenue Bonds, Series 1999, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, University Facilities Revenue Capital Improvement Bonds, Series 2008, University Facilities Revenue Capital Improvement Bond, Series 2010, University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B, University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, 2013-C, University Facilities Revenue Refunding Bond Series 2014-A, University Facilities Revenue Capital Improvement Bond, Series 2015, and University Facilities Revenue Refunding Bonds, Series 2016.

September 30, 2016

KPMG

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

## Independent Accountants' Report on Applying Agreed-Upon Procedures

The Board of Trustees and Management
University of South Alabama:

We have performed the procedures enumerated below, which were agreed to by members of management of the University of South Alabama, a component unit of the State of Alabama (the University), solely to assist you in evaluating the accompanying Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the accompanying Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions relating to the University Tuition Revenue Bonds, Series 1999, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, University Facilities Revenue Capital Improvement Bonds, Series 2008, University Facilities Revenue Capital Improvement Bond, Series 2010, University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B, University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C, University Facilities Revenue Refunding Bond Series 2014-A, University Facilities Revenue Capital Improvement Bond, Series 2015, and University Facilities Revenue Refunding Bonds, Series 2016 as of September 30, 2016, and for the year then ended. The University's management is responsible for the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

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

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

c. We obtained from University management a schedule of general student fees (tuition) earned during the year ended September 30, 2016 (not included herein), which approximated $134 million and compared that amount to the general student fees recorded in the University's general ledger for the year ended September 30, 2016 and found them to be in agreement.

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

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

KPMG LLP

November 15, 2016

**Exhibit A**

## UNIVERSITY OF SOUTH ALABAMA

Statement of Changes in Cash and Investments
Held by Trustee Pursuant to the Bond Resolutions
University Tuition Revenue Bonds, Series 1999,
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006,
University Facilities Revenue Capital Improvement Bonds, Series 2008,
University Facilities Revenue Capital Improvement Bond, Series 2010,
University Facilities Revenue Capital Improvement Bond 2012-A and 2012-B,
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C,
University Facilities Revenue Refunding Bond, Series 2014-A,
University Facilities Revenue Capital Improvement Bond, Series 2015
University Facilities Revenue Refunding Bond, Series 2016

Year ended September 30, 2016

(In thousands)

| | | |
|---|---|---|
| Cash and investment transactions: | | |
| Cash receipts: | | |
| Deposits from University of South Alabama for interest and retirement of bonds | $ | 27,186 |
| Proceeds from sale of investments | | — |
| Proceeds from the issuance of bonds | | 101,512 |
| | | 128,698 |
| Cash disbursements: | | |
| Principal payments | | 13,873 |
| Interest payments | | 13,313 |
| Administrative Fees | | — |
| Purchases of investments | | — |
| Disbursements related to defeasance of bonds | | 101,512 |
| | | 128,698 |
| Net change in cash and investments during the year | | — |
| Total cash and investments held by trustee: | | |
| Beginning of year | | — |
| End of year | $ | — |

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

**Exhibit B**

## UNIVERSITY OF SOUTH ALABAMA

Statement of Cash and Investments
Held by Trustee Pursuant to the Bond Resolutions
University Tuition Revenue Bonds, Series 1999,
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006,
University Facilities Revenue Capital Improvement Bonds, Series 2008,
University Facilities Revenue Capital Improvement Bond, Series 2010,
University Facilities Revenue Capital Improvement Bond 2012-A and 2012-B,
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2013-B, and 2013-C,
University Facilities Revenue Refunding Bond, Series 2014-A,
University Facilities Revenue Capital Improvement Bond, Series 2015
University Facilities Revenue Refunding Bond, Series 2016

September 30, 2016
(In thousands)

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

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

KPMG

# USA RESEARCH AND TECHNOLOGY CORPORATION

(A Component Unit of the University of South Alabama)

Basic Financial Statements

September 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

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

## Table of Contents

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

## Independent Auditors' Report

The Board of Directors
USA Research and Technology Corporation:

We have audited the accompanying basic financial statements of USA Research and Technology Corporation (the Corporation), a component unit of the University of South Alabama, as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of September 30, 2016 and 2015, and its changes in financial position, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Other Matters*

**Required Supplementary Information**

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Jackson, Mississippi
November 15, 2016

### Introduction

The following discussion presents an overview of the financial position and financial activities of USA Research and Technology Corporation (the Corporation) at September 30, 2016, 2015, and 2014, and for the years then ended. This discussion was prepared by management and should be read in conjunction with the basic financial statements and notes thereto, which follow.

### Financial Highlights

The Corporation owns three buildings in the USA Technology & Research Park (the Park) on the campus of the University of South Alabama (the University), one building located on the premises of the USA Medical Center, and leases one floor of a University-owned, on-campus building. Housing both University and third-party tenants, the area available for lease totals approximately 227,204 square feet of gross leasable space. At September 30, 2016, total square feet under lease was approximately 198,381. The land on which each building is located is leased from the University. The Corporation owns another building located on the University campus, which is supplied at no cost to the University for use as a faculty club.

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

At September 30, 2016, 2015, and 2014, the Corporation had total assets and deferred outflows of $26,680,776, $27,312,101, and $27,954,017 respectively; total liabilities of $25,856,706, $26,405,889, and $27,073,811, respectively; and net position of $824,070, $906,212 and $880,206, respectively.

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


(Continued)

## Condensed Financial Information

Condensed financial information for the Corporation as of and for the years ended September 30, 2016, 2015, and 2014 follows (in thousands):

### Condensed Schedules of Net Position

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Assets and deferred outflows: | | | |
| Current | $ 669 | 842 | 1,030 |
| Capital assets – noncurrent | 22,567 | 23,040 | 23,794 |
| Other noncurrent assets | 30 | 47 | 77 |
| Deferred outflows | 3,415 | 3,383 | 3,053 |
| | $ 26,681 | 27,312 | 27,954 |
| Liabilities: | | | |
| Current | $ 1,615 | 1,707 | 1,796 |
| Noncurrent | 24,242 | 24,699 | 25,278 |
| | $ 25,857 | 26,406 | 27,074 |
| Net position: | | | |
| Net investment in capital assets | $ 678 | 574 | 503 |
| Unrestricted | 146 | 332 | 377 |
| | $ 824 | 906 | 880 |

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Operating revenues | $ 3,424 | 3,647 | 3,506 |
| Operating expenses: | | | |
| Depreciation and amortization | 951 | 992 | 1,017 |
| Other | 1,363 | 1,368 | 1,609 |
| Net operating expenses | 2,314 | 2,360 | 2,626 |
| Operating income | 1,110 | 1,287 | 880 |
| Nonoperating (expenses) revenues: | | | |
| Interest expense | (1,198) | (1,267) | (1,351) |
| Other | 6 | 6 | 8 |
| Net nonoperating expenses | (1,192) | (1,261) | (1,343) |
| Change in net position | (82) | 26 | (463) |
| Beginning net position | 906 | 880 | 1,343 |
| Ending net position | $ 824 | 906 | 880 |

## Analysis of Financial Position and Results of Operations

*Statement of Net Position*

The statement of net position presents the assets and deferred outflows, liabilities, and net position of the Corporation at September 30, 2016, 2015, and 2014. The net position is displayed in two parts; net investment in capital assets and unrestricted. Unrestricted net position is available for use by the Corporation to meet current expenses for any purpose. The statement of net position, along with all of the Corporation's basic financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is exchanged.

Current assets consist of cash and cash equivalents, rent receivable, prepaid expenses, and other current assets at September 30, 2016, 2015, and 2014. Noncurrent assets at September 30, 2016, 2015, and 2014 consist primarily of capital assets.

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

Current liabilities primarily consist of unrecognized rent revenue, accrued expenses, and the current portion of long-term debt at September 30, 2016, 2015, and 2014. Noncurrent liabilities consist of notes payable, an interest rate swap liability, and a payable to the University.

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

*Net investment in capital assets*, represents the Corporation's capital assets less accumulated depreciation and the outstanding principal balance of long-term debt attributable to the acquisition, construction, or improvement of those assets. To the extent debt has been incurred but the proceeds have not yet been expended for capital assets, such amounts are not included as a component of net investment in capital assets.

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

*Statement of Revenues, Expenses, and Changes in Net Position*

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

For the years ended September 30, 2016, 2015, and 2014, the Corporation reported a change in net position of $(82,142), $26,006, and $(462,421), respectively. The 2016 decrease in the change in net position was due primarily to the reduction in operating expense reimbursements from tenants (negative effect) and continued reductions in operating expenses (positive effect).

*Statement of Cash Flows*

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

**Capital Assets and Debt Administration**

Total capital asset additions during the years ended September 30, 2016 and 2015 were approximately $461,000 and $208,300, respectively. Financing was primarily provided for additions during fiscal year 2016 through use of a payable to the University. See notes 4, 6, and 7 to the basic financial statements for further information related to capital assets and debt.

**Economic Outlook**

Based on leases in effect at September 30, 2016 and estimates of operating expenses, it is expected that fiscal year 2017 financial performance will not be as strong as fiscal year 2016 results. Management will address this situation throughout the year. Corporation management is not aware of any other currently known facts, decisions, or conditions that are expected to have a significant effect on the Corporation's financial position or results of operations during fiscal year 2017 beyond those unknown variables having a global effect on virtually all types of business operations.

## Requests for Information

These basic financial statements are designed to provide a general overview of the Corporation and to demonstrate the Corporation's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Mr. G. Scott Weldon; Vice-President for Finance and Administration; University of South Alabama – Room 170; Mobile, Alabama 36688.

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

Statements of Net Position

September 30, 2016 and 2015

| | | 2016 | 2015 |
|---|---|---|---|
| Assets: | | | |
| Current assets: | | | |
| Unrestricted cash and cash equivalents | $ | 627,125 | 695,188 |
| Rent receivable | | 26,018 | 142,747 |
| Prepaid expenses and other current assets | | 15,481 | 4,166 |
| Total current assets | | 668,624 | 842,101 |
| Noncurrent assets: | | | |
| Intangible assets, net | | 29,855 | 46,769 |
| Capital assets, net | | 22,567,316 | 23,040,010 |
| Total noncurrent assets | | 22,597,171 | 23,086,779 |
| Deferred outflows | | 3,414,981 | 3,383,221 |
| Total assets and deferred outflows | | 26,680,776 | 27,312,101 |
| Liabilities: | | | |
| Current liabilities: | | | |
| Deposits, other current liabilities, and accrued expenses | | 162,183 | 165,162 |
| Payable to University of South Alabama | | — | 162,024 |
| Unrecognized rent revenue | | 390,442 | 378,467 |
| Current portion of notes payable | | 1,062,354 | 1,001,023 |
| Total current liabilities | | 1,614,979 | 1,706,676 |
| Noncurrent liabilities: | | | |
| Notes payable, excluding current portion | | 20,253,638 | 21,315,992 |
| Interest rate swap | | 3,414,981 | 3,383,221 |
| Payable to University of South Alabama | | 573,108 | — |
| Total noncurrent liabilities | | 24,241,727 | 24,699,213 |
| Total liabilities | | 25,856,706 | 26,405,889 |
| Net position: | | | |
| Net investment in capital assets | | 678,216 | 573,971 |
| Unrestricted | | 145,854 | 332,241 |
| Total net position | $ | 824,070 | 906,212 |

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2016 and 2015

| | | 2016 | 2015 |
|---|---|---|---|
| Operating revenues | $ | 3,424,286 | 3,647,205 |
| Operating expenses: | | | |
| Building management and operating expenses | | 1,150,462 | 1,135,640 |
| Depreciation and amortization | | 950,543 | 992,409 |
| Legal and administrative fees | | 185,478 | 229,234 |
| Insurance | | 27,375 | 3,350 |
| Total operating expenses | | 2,313,858 | 2,360,633 |
| Operating income | | 1,110,428 | 1,286,572 |
| Nonoperating revenues (expenses): | | | |
| Investment income | | 1,389 | 2,114 |
| Interest expense | | (1,198,795) | (1,266,770) |
| Other | | 4,836 | 4,090 |
| Net nonoperating expenses | | (1,192,570) | (1,260,566) |
| Change in net position | | (82,142) | 26,006 |
| Net position: | | | |
| Beginning of year | | 906,212 | 880,206 |
| End of year | $ | 824,070 | 906,212 |

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended September 30, 2016 and 2015

| | | 2016 | 2015 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Collections from lessees for rent and operating expense reimbursement | $ | 3,544,675 | 3,652,128 |
| Payments for expenses of leasing activity | | (1,170,297) | (1,171,924) |
| Payments to service providers and vendors for general corporate operating expenses | | (196,467) | (252,365) |
| Security deposits collected | | 1,250 | 1,450 |
| Net cash provided by operating activities | | 2,179,161 | 2,229,289 |
| Cash flows from noncapital financing activities: | | | |
| Vending commissions | | 4,836 | 4,090 |
| Cash flows from capital and related financing activities: | | | |
| Interest paid on notes payable | | (1,214,186) | (1,269,626) |
| Principal repaid on notes payable | | (1,001,023) | (967,945) |
| Purchases of capital assets | | (36,851) | (65,095) |
| Net cash used in capital and related financing activities | | (2,252,060) | (2,302,666) |
| Cash flows from investing activities: | | | |
| Investment income | | — | 4,011 |
| Net change in cash and cash equivalents | | (68,063) | (65,276) |
| Cash and cash equivalents: | | | |
| Beginning of year | | 695,188 | 760,464 |
| End of year | $ | 627,125 | 695,188 |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | $ | 1,110,428 | 1,286,572 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation and amortization expense | | 950,543 | 992,409 |
| Decrease in operating expense payable to the University of South Alabama | | (13,000) | (31,379) |
| Decrease in rent receivables and prepaid expenses | | 106,803 | 120,529 |
| Increase (decrease) in unrecognized rent revenue | | 11,975 | (115,606) |
| Increase (decrease) in other current liabilities, excluding items that are not components of operating income | | 12,412 | (23,236) |
| Net cash provided by operating activities | $ | 2,179,161 | 2,229,289 |
| Noncash investing and capital and related financing transactions: | | | |
| Increase in capital assets due from the change in payable to University of South Alabama related to building renovations | $ | 424,085 | 143,155 |
| Increase (decrease) in interest receivable recognized as a component of investment income | | 1,389 | (1,897) |
| Decrease in fair value of interest rate swap liability | | (31,760) | (329,945) |

See accompanying notes to basic financial statements.

## (1) Summary of Significant Accounting Policies

### *(a) Reporting Entity*

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

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

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

The Corporation has adopted GASB Statements No. 39 and No. 61, which provide criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. The statement also clarifies reporting requirements for those organizations. As of September 30, 2016, the Corporation reports NovALtech as a blended component unit. All significant transactions among the Corporation and its blended component unit have been eliminated.

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

### *(b) Measurement Focus and Basis of Accounting*

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

### *(c) Estimates*

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

### *(d) Cash and Cash Equivalents*

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

### *(e) Capital Assets*

All capital expenditures with a cost of $1,000 or more and having a useful life of two or more years are capitalized at cost at the date of acquisition. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, 40 years for buildings and infrastructure, 20 years for land improvements, 10 years for furniture and fixtures, and 5 years for other equipment. Tenant improvements are amortized over the shorter of the asset's useful life or the term of the related lease. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

### *(f) Intangible Assets*

Leasing commissions are capitalized and amortized over the term of the related lease. Amortization for these assets is calculated using the straight-line method.

### *(g) Derivatives*

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

The Corporation's only derivative instrument is an interest rate swap entered into to hedge the interest payments on its variable rate Wells Fargo Bank, N.A. note payable. The Corporation determined the hedging relationship between the note payable and the interest rate swap to be effective at September 30, 2016 and 2015.

### *(h) Fair Value*

In 2016, the Corporation adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides hierarchical guidance for determining a fair value measurement for assets and liabilities for financial reporting purposes and also provides guidance for required disclosures related to fair value measurements. The Corporation determined that the interest rate swap liability was subject to fair value measurement under GASB No. 72. The adoption of this statement had no significant financial reporting impact on the Corporation.

### *(i) Classification of Net Position*

The Corporation's net position is classified as follows:

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

*Unrestricted net position*, represents resources derived from building lease activity and intellectual property licensing activity. Neither management nor the board of directors has designated any part of unrestricted net position for specific purposes.

### *(j) Classification of Revenues*

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

## (2) Income Taxes

The Corporation is classified as a tax-exempt entity under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). NovALtech, from the date beginning with its organization through June 30, 2011, was treated as a disregarded entity for income tax purposes and its net income was treated as net income of the Corporation. Beginning July 1, 2011, NovALtech elected to be treated as an association taxable as a corporation. NovALtech had no net income for the fiscal years ended September 30, 2016 and 2015. Accordingly, no provision for income taxes has been made in the accompanying basic financial statements.

## (3) Fair Value Measurement

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

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

The following tables summarize the fair value measurements for the Corporation's liability carried at fair value as of September 30, 2016 and 2015:

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

| Description | Liability fair value measurement at September 30, 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Interest rate swap | — | 3,383,221 | — | 3,383,221 |

## (4) Capital Assets

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

| | Beginning balance | Additions | Transfers | Reductions | Ending balance |
|---|---|---|---|---|---|
| Land improvements | $ 2,199,402 | — | — | — | 2,199,402 |
| Buildings | 27,922,101 | 225,422 | — | — | 28,147,523 |
| Tenant improvements | 972,884 | 233,689 | — | (19,876) | 1,186,697 |
| Other equipment | 256,509 | — | — | — | 256,509 |
| Construction in progress - nondepreciable | 143,153 | 1,825 | — | — | 144,978 |
| | 31,494,049 | 460,936 | — | (19,876) | 31,935,109 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | (1,029,566) | (94,014) | — | — | (1,123,580) |
| Buildings | (6,584,006) | (715,118) | — | — | (7,299,124) |
| Tenant improvements | (672,957) | (98,540) | — | 19,874 | (751,623) |
| Other equipment | (167,510) | (25,956) | — | — | (193,466) |
| | (8,454,039) | (933,628) | — | 19,874 | (9,367,793) |
| Capital assets, net | $ 23,040,010 | (472,692) | — | (2) | 22,567,316 |

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

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

## (5) Property Taxes

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

## (6) Noncurrent Liabilities

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

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

Changes in noncurrent liabilities for the year ended September 30, 2015 are as follows:

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

## (7) Notes Payable

### *(a) Notes Payable*

Notes payable consisted of the following at September 30, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Wells Fargo Bank, N.A. promissory note, one-month LIBOR plus 0.85% (1.377% at September 30, 2016) payable through 2028 | $ 13,034,383 | 13,772,400 |
| PNC Bank promissory note, 4.50%, payable through 2021 | 8,281,609 | 8,544,615 |
| | $ 21,315,992 | 22,317,015 |

The note payable to Wells Fargo Bank, N.A. was incurred by the Corporation to acquire Buildings II and III in the USA Technology & Research Park and to provide funds for renovations and tenant finishing costs. The loan is a fully amortizing promissory note with a 20-year term. As more fully described in note 6(c), the Corporation entered into a “receive-variable, pay-fixed” type of interest rate swap on the promissory note, which will yield a synthetic fixed interest rate of 6.1%. The promissory note payable is secured by an interest in the ground lease with respect to the parcels of land on which Buildings II and III stand, an interest in Buildings II and III, an interest in tenant leases for Buildings II and III, and an interest in income received from rental of Buildings II and III.

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

In connection with each note, the University entered into an agreement with the lender providing that for any year in which the Corporation’s debt service coverage ratio is less than 1 to 1, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to 1 to 1. The debt service coverage ratio is calculated by dividing the sum of unrestricted cash and cash equivalents at the beginning of the year (reduced by current year capital asset additions) and current year change in net position (determined without depreciation, amortization, and interest expenses) by current year debt service. For fiscal 2016, the Corporation's debt service coverage ratio was 1.24 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2016.

### *(b) Debt Service on Long-Term Obligations*

At September 30, 2016, total future debt service by fiscal year is as follows:

| | | Debt service on notes payable | | |
|---|---|---|---|---|
| | | **Principal** | **Interest** | **Total** |
| 2017 | $ | 1,062,354 | 1,151,168 | 2,213,522 |
| 2018 | | 1,119,337 | 1,094,185 | 2,213,522 |
| 2019 | | 1,193,836 | 1,019,686 | 2,213,522 |
| 2020 | | 1,263,883 | 949,639 | 2,213,522 |
| 2021 | | 8,110,588 | 669,823 | 8,780,411 |
| 2022–2026 | | 6,083,652 | 1,773,291 | 7,856,943 |
| 2027–2028 | | 2,482,342 | 136,641 | 2,618,983 |
| Total | $ | 21,315,992 | 6,794,433 | 28,110,425 |

### *(c) Derivative Transaction*

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

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

The swap will terminate on May 1, 2028, when the loan matures. The notional amount of the swap will at all times match the outstanding principal amount of the loan. Under the swap, the Corporation pays the counterparty a fixed payment of 6.10% and receives a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the loan bears interest at the one-month LIBOR rate plus 0.85%. The Corporation paid $651,955 and $725,945 under the interest rate swap agreement for the years ended September 30, 2016 and 2015, respectively, which is reflected as an increase in interest expense.

*Fair value.* The interest rate swap had a negative fair value of $(3,414,981) and $(3,383,221) at September 30, 2016 and 2015, respectively. The change in fair value is reported as a deferred outflow on the statement of net position since the interest rate swap is an effective hedging derivative instrument.

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

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

*Credit risk.* As of September 30, 2016 and 2015, the Corporation was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivative becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa2 and Aa1 by Moody's Investors Services and AA- and AA- by Standard & Poor's Ratings Services as of September 30, 2016 and 2015, respectively.

*Termination risk.* The interest rate swap contracts use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard default and termination events, such as failure to make payments, breach of agreement, and bankruptcy. At September 30, 2016 and 2015, no events of default or termination had occurred. If the interest rate swap is terminated, interest rate risk associated with the variable rate debt would no longer be hedged. Also, if at the time of termination the interest rate swap had a negative fair value, the Corporation would be liable to the counterparty for a payment equal to the interest rate swap's fair value. The Corporation has granted the counterparty a $2,000,000 security interest in the ground lease with respect to the parcel of land on which Building II stands, an interest in Building II, a security interest in Building II tenant leases, and a security interest in income received from rental of Building II.

*Derivative payments and hedged debt.* As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of September 30, 2016, debt service requirements by fiscal year of the variable rate debt and net derivative payments, assuming current interest rates remain the same in the future, are as follows:

| | Variable rate loan | | Interest rate | |
|---|---|---|---|---|
| | Principal | Interest | swap, net | Total |
| 2017 | $ 787,266 | 177,034 | 607,089 | 1,571,389 |
| 2018 | 831,611 | 167,023 | 572,755 | 1,571,389 |
| 2019 | 892,892 | 153,187 | 525,310 | 1,571,389 |
| 2020 | 949,114 | 140,493 | 481,782 | 1,571,389 |
| 2021 | 1,007,506 | 127,310 | 436,573 | 1,571,389 |
| 2022–2026 | 6,083,652 | 400,363 | 1,372,928 | 7,856,943 |
| 2027–2028 | 2,482,342 | 30,850 | 105,791 | 2,618,983 |
| Total | $ 13,034,383 | 1,196,260 | 4,102,228 | 18,332,871 |

## (8) Leases

The Corporation leases space in Building I to three tenants under operating leases. One lease has a 5-year initial term expiring in October 2018 with two 5-year renewal options. Another lease has a 10-year initial term expiring in May 2021, an option to cancel at the end of 6 years, and two 5-year renewal options. The third lease has a 67-month initial term expiring in December 2018 with no renewal options.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. The leases have remaining terms varying from month-to-month to five years.

The Corporation leases from the University the third floor of a campus building. Located on that floor is the Coastal Innovation Hub (the Hub), a technology incubator, which currently houses eight tenants with month-to-month leases.

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

Space under lease to the University was 40,345 and 47,218 square feet at September 30, 2016 and 2015, respectively.

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

The Corporation, as lessor, had three ground leases in place at September 30, 2016 and 2015. One lease is for a 40-year initial term expiring in October 2046 with 20-year, and 15-year renewal options. The second lease is for a 30-year initial term expiring in October 2036 with four 5-year renewal options. The third lease has a 38.5-year initial term expiring in September 2046 with 20-year and 15-year renewal options.

Minimum future rental revenues by fiscal year are as follows:

| | | |
|---|---|---|
| 2017 | $ | 1,912,000 |
| 2018 | | 1,496,552 |
| 2019 | | 886,968 |
| 2020 | | 471,923 |
| 2021 | | 263,267 |
| 2022–2047 | | 5,739,139 |
| Total | $ | 10,769,849 |

## (9) Related Parties

*University of South Alabama*

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

During fiscal 2016 and 2015, the Corporation engaged in several transactions with the University. The University was charged $719,335 and $726,596 during the years ended September 30, 2016 and 2015, respectively, for rental space as described in note 8. The University provides certain administrative and other support services to the Corporation, for which the University charged $156,000 for such services during each of fiscal years 2016 and 2015.

The Corporation is a party to one license agreement and NovALtech is a party to three license agreements with the University for the licensing of patent rights pertaining to certain intellectual property and technology owned by the University which had been developed by faculty of the University. The license granted by each agreement is exclusive, worldwide, sublicensable, and royalty-bearing. Each agreement provides for payment to the University of royalties on product sales and a percentage of net income from sublicensing (such net income excluding fees, milestone payments and incurred patenting costs). In addition, one of the agreements provides for payment to the University of milestone payments. No conditions occurred during fiscal year 2016 causing either the Corporation or NovALtech to either make payments to or incur a liability to the University under the agreements. Also, the Corporation and NovALtech sublicensed certain patent rights obtained under two of the licenses to third parties under exclusive, worldwide, sublicensable, royalty-bearing license agreements. During fiscal year 2016 one of those licenses was terminated due to nonpayment of the annual maintenance payment. Under the remaining agreement, the third party agreed to pay the Corporation a $1,000 payment due at execution, milestone payments in the case of one license, royalties on product sales, annual maintenance payments in the case of one license, and a percentage of sublicensing revenues (excluding royalties). During fiscal 2016, no conditions occurred causing the third party to either pay to or incur a liability for milestone payments, royalties or a percentage of sublicensing revenues to the Corporation under the agreement.

Prior to fiscal 2015, the Corporation entered into four ground leases with the University for approximately 39 acres of land for $1.00 per year in connection with the acquisition or construction of buildings held for lease.

## (10) Recently Issued Accounting Pronouncements

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

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

# UNIVERSITY OF SOUTH ALABAMA
# BOARD OF TRUSTEES

# ACADEMIC AND STUDENT AFFAIRS

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

**ACADEMIC AND STUDENT AFFAIRS COMMITTEE**

**September 8, 2016**
**3:05 p.m.**

A meeting of the Academic and Student Affairs Committee of the University of South Alabama Board of Trustees was duly convened by Ms. Bettye Maye, Chair, on Thursday, September 8, 2016, at 3:05 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

| | |
|---|---|
| Members Present: | Scott Charlton, Steve Furr, Bettye Maye, Bryant Mixon, John Peek and Mike Windom. |
| Other Trustees: | Tom Corcoran, Ron Jenkins, Jimmy Shumock, Ken Simon, Sandy Stimpson and Steve Stokes. |
| Administration and Others: | Joe Busta, Nicole Carr, Raj Chaudhury, Lynne Chronister, Jerod Coleman, Josh Crownover (SGA), Joel Erdmann, Monica Ezell, Mike Finan, Sam Fisher (Faculty Senate), Happy Fulford, Mike Haskins, Raymond Horace, Kevin Ingles, David Johnson, Marlon Jones (100 Black Men of Greater Mobile), John Marymont, Mike Mitchell, Broderick Morrissette, Derrick Pickett, JuWan Robinson, Jack Shelley-Tremblay, John Smith, Jean Tucker, Tony Waldrop, Scott Weldon, and Kevin West and Kelly Woodford (Faculty Senate). |

The meeting came to order and the attendance roll was called. Ms. Maye called for adoption of the revised agenda. On motion by Mr. Peek, seconded by Mr. Windom, the revised agenda was adopted unanimously. Ms. Maye called for consideration of the minutes of the meeting held on June 2, 2016. On motion by Mr. Peek, seconded by Sheriff Mixon, the minutes were adopted unanimously.

Ms. Maye called for consideration of the Academic and Student Affairs Committee Charge. On motion by Mr. Windom, seconded by Sheriff Mixon, the Committee voted unanimously to recommend approval of the Academic and Student Affairs Committee Charge by the Board of Trustees.

Ms. Maye called upon Dr. Mitchell to address **ITEM 17**, a resolution to adopt a policy that ensures the availability of designated shelters for campus residents who live too far to travel home, as well as for essential personnel, when the Administration determines it necessary to close the campus and suspend classes due to hurricanes (for copies of resolutions, policies and other authorized documents, refer to the minutes of the Board of Trustees meeting held on September 9, 2016). Dr. Mitchell stated that, while the University has not had to prepare for severe storms in several years, adoption of the policy formalizes procedures that have been followed for many years. On motion by

Dr. Charlton, seconded by Mr. Peek, the Committee voted unanimously to recommend approval by the Board of Trustees.

Ms. Maye called upon Dr. Smith, who gave an update on campus housing. He advised of 100 percent occupancy in the residence halls for the 2016 fall semester and 100 beds leased from The Grove. He reminded the Committee of previous discussion on planning for a new residence hall. He said the Administration feels it is appropriate to move forward with the bid process for a 370-bed residence hall and, assuming the responses are within acceptable parameters, the University would present a recommendation for the Board's consideration in December. Dr. Furr asked about the location and Dr. Smith said a site next to New Hall, where Delta 2 once stood, has been prepared in anticipation of this construction. He gave an update on plans for the remaining four Delta halls.

Concerning **ITEM 18**, a report on the activities of the Division of Student Affairs, Ms. Maye called upon Dr. Mitchell, who discussed a partnership between the University of South Alabama and 100 Black Men of Greater Mobile that focuses on scholarship and mentorship. He introduced 100 Black Men Executive Director Mr. Marlon Jones and discussed the inspiration behind creation of the *Titus Wilson Scholarship* designed as a recruitment incentive for deserving African-American students to attend USA. He introduced Mr. Raymond Horace and Mr. Broderick Morrissette, USA's first and second Titus Wilson Scholarship recipients, and Mr. Morrissette talked briefly about his background and academic pursuits. Dr. Mitchell thanked Mr. Jones for his commitment to the partnership. Concerning the partnership's mentorship component, Dr. Mitchell talked about USA's *Collegiate 100* chapter, through which a mentor/mentee program was established and which currently has 38 members who are mentored by 25 members of 100 Black Men. He introduced mentee Mr. Derrick Pickett; mentee Mr. Jerod Coleman and his mentor Dr. Andre' Green, Associate Dean of the College of Education and Interim Director of the Center for Integrative Studies in Science, Technology, Engineering and Mathematics; and his own mentee Mr. JuWan Robinson, for whom he gave background information. Mr. Jones, Mr. Pickett and Mr. Coleman also shared brief remarks.

Ms. Maye called upon Provost Johnson to present **ITEM 19**, a report on the activities of the Division of Academic Affairs. Provost Johnson recognized Dr. Nicole Carr for her promotion to Associate Vice President for Student Success. He introduced and shared biographical information on Dr. Raj Chaudhury, USA's new Director of the Innovation in Learning Center and USA Online. He listed the programs under the direction of each.

Provost Johnson gave an update on undergraduate admissions and emphasized the University's philosophy of balancing the Institution's obligation to provide access to higher education with the ability to be increasingly selective of students who are likely to be successful. He gave an overview of the admissions changes effected since 2013 and stated a strategy of gradual implementation had helped buffer against large declines in enrollment. He remarked that, although enrollment dropped by an estimated 200 students in the freshman class each time the standards are raised, the strategy has paid off for the University, as demonstrated by fall enrollment figures. He mentioned the *Pathway USA* partnership with community colleges, which promotes access without limitation due to socio-economic factors. He shared statistics on the Fall 2016 freshman class of 1997 students, calling it the strongest freshman class in South Alabama history. He reported the average ACT score increased to a record 23.5, almost one full point higher than reported in 2015; 25 percent of freshmen had ACT scores of 26 or higher; a record 15 percent of freshmen had ACT scores of 28 or higher; seven percent of freshmen had ACT scores of 30 or higher; and a record high school GPA of 3.48. He asserted the positive standing of USA's freshman class among the top 10 schools in Alabama relative to ability, and added, based upon objective data, only four institutions in the state had a freshman profile exceeding that of USA. He stated South Alabama is gaining momentum to close the gap. Sheriff Mixon asked Provost Johnson which four institutions were inferred and Provost Johnson listed the University of Alabama (UA), Auburn University (AU), the University of Alabama in Huntsville (UAH) and the University of Alabama at Birmingham (UAB), citing UAB's freshman class as most comparable to that of USA. Mr. Windom asked Provost Johnson to comment on the elimination of conditional admission. Provost Johnson explained that students who seek conditional admission need remediation before attempting some college-level courses, such as mathematics, and had been required to take developmental studies classes. He said, with the phasing out of South Alabama's developmental studies programs, students can make necessary corrections at a community college and, through the Pathway USA program, complete an associate's degree before being admitted to South Alabama. Mr. Peek asked about the prospect of expanding Pathway USA and Provost Johnson said interest in the program was greater than anticipated and additional partnerships with feeder schools would be considered in future years.

Ms. Maye called for remarks from Ms. Chronister. Ms. Chronister talked about USA's undergraduate research program, citing it as a critical component of the Institution's research function. She gave information on the Office of Undergraduate Research (OUR), which was created in 2014 under the leadership of USA Psychology Professor Dr. Jack Shelley-Tremblay. She said, through the OUR, 120 faculty participate in mentoring undergraduate students; 50 students received stipends for their involvement in a 10-week research program during the 2016 summer term; 107 students are registered for the Volunteer Internship Program (VIP); and up to 40 students are paid for research work via grants and contracts. She advised that the OUR would host the Alabama Academy of Sciences' annual meeting in February 2017. She introduced and gave background on USA junior Mr. Kevin Ingles representing the departments of Physics, and Mathematics and Statistics. Mr. Ingles described multiple research activities he had engaged in and talked about his academic aspirations.

Chairman Simon asked Ms. Chronister to comment on a grant received by the City of Mobile. Ms. Chronister gave information on a collaboration between the University and the Chamber of Commerce, the City of Mobile, Mobile County and numerous private organizations to create the *Innovation PortAL*, a physical incubator for start-up companies concentrating mainly on innovations in manufacturing technologies. She credited Innovation PortAL Executive Director Ms. Hayley Van Antwerp for diligent efforts that led to a $2.9 million award from the U.S. Department of Commerce, which, with matching funds, will fund renovation of a circa-1928 building on St. Louis Street where Innovation PortAL activities, inclusive of prototyping space for industry, will be located. She said Mobile's designation as a *manufacturing community* was key to the receipt of $20 million in awards over the last two years. Mayor Stimpson shared insight on one of five TIGER (Transportation Investment Generating Economic Recovery) grants awarded to Alabama by the U. S. Department of Transportation, through which the City of Mobile will rebuild Broad Street from the GM&O Terminal building to the Brookley complex.

There being no further business, the meeting was adjourned at 3:35 p.m.

Respectfully submitted:

Bettye R. Maye, Chair

# RESOLUTION

## SABBATICAL AWARDS

**WHEREAS,** in accordance with University policy, proposals for Sabbatical Awards have been reviewed and recommended by the respective faculty committees, Departmental Chair, College Dean, the Provost and Senior Vice President for Academic Affairs, and by the President,

**THEREFORE, BE IT RESOLVED** that the University of South Alabama Board of Trustees approves said Sabbatical Awards on this date, December 2, 2016, for the 2017-2018 academic year.

| NAME | DISCIPLINE | TIME PERIOD |
|---|---|---|
| T. Allan Hillman | Philosophy | Fall 2017 |
| Mir Zohair Husain | Political Science and Criminal Justice | Academic Year 2017-18 |
| John W. McCreadie | Biology | Spring 2018 |
| Nutan T. Mishra | Mathematics and Statistics | Fall 2017 |
| Mark Moberg | Sociology, Anthropology and Social Work | Spring 2018 |
| Margarita Skiadas | Visual Arts | Spring 2018 |

UNIVERSITY OF SOUTH ALABAMA

# MEMORANDUM

Academic Affairs

**Date:**
November 4, 2016

**To:**
Tony Waldrop

TW

**From:**
G. David Johnson

**Subject:**
Sabbatical Recommendations for Academic Year 2017-18

I recommend that the individuals whose names are listed below be granted a sabbatical for the period of time as indicated.

| NAME | DISCIPLINE | TIME PERIOD |
|---|---|---|
| T. Allan Hillman | Philosophy | Fall 2017 |
| Mir Zohair Husain | Political Science and Criminal Justice | Academic Year 2017-18 |
| John W. McCreadie | Biology | Spring 2018 |
| Nutan T. Mishra | Mathematics and Statistics | Fall 2017 |
| Mark Moberg | Anthropology, Sociology and Social Work | Spring 2018 |
| Margarita Skiadas | Visual Arts | Spring 2018 |

Teaching coverage has been addressed in a satisfactory manner for all recommended proposals. Proposals have been reviewed and recommended at the department and college level. Full applications and supporting materials are available in the Office of Academic Affairs. A brief summary of each request is attached.

Thank you.

GDJ/njc

REC'D
Office of the President
NOV 0 1 2016
University of South Alabama

# SABBATICAL RECOMMENDATIONS
# 2017-2018

## College of Arts and Sciences

1. Dr. Mark Moberg, Professor of Sociology, Anthropology, and Social Work

   Sabbatical Request: Spring 2018 @ full pay

   Dr. Moberg's sabbatical leave will be used to accomplish major research and writing projects. The expected outcome will be completion an upper division/graduate level textbook in the field of economic Anthropology.

2. Ms. Margarita Skiadas, Assistant Professor of Visual Arts

   Sabbatical Request: Spring 2018 @ full pay

   A sabbatical would allow Ms. Skiadis to have intensive studio time to be used in the development of a new body of work based on photographs created over the past several years by integrating historical and contemporary processes with the aid of digital technology. The intended result would be to apply for shows and use these exhibitions toward her promotion to Associate Professor

3. Dr. T. Allan Hillman, Associate Professor of Philosophy

   Sabbatical Request: Fall 2017 @ full pay

   Dr. Hillman's sabbatical leave will be used to examine and determine the nature of justice in the works of two philosophers from the distant past, John Duns Scotus and John Stuart Mill. He intends to complete a publishable piece he has begun on Scotus and to begin work on a paper regarding his study on Mill.

4. Dr. Nutan T. Mishra, Associate Professor of Mathematics and Statistics

   Sabbatical Request: Fall 2017 @ full pay

   Dr. Mishra intends to work on four projects that are currently at various stages. Additionally, she plans to advance her research program through collaboration with mathematicians and statisticians at three different institutions. Her target is to publish four research papers in peer reviewed journals and to submit two grants.

# SABBATICAL RECOMMENDATIONS
# 2017-2018

5. Dr. Mir Zohair Husain, Associate Professor of Political Science and Criminal Justice

   Sabbatical Request: 2017-2018 Academic Year @ half pay

   Dr. Husain's sabbatical will be used to conduct research to thoroughly revise and update two previously-published books. His goal is to have the books submitted to the publisher at the end of his leave.

6. Dr. John W. McCreadie, Professor of Biology

   Sabbatical Request: Spring 2018 @ full pay

   Dr. McCreadie plans to initiate two research projects while continuing work on others. One new project is fully funded and the leave will allow time for analyses and publication of results. This sabbatical will give him an opportunity to focus exclusively on his research efforts to apply for future funding.

# RESOLUTION

## PROFESSORS EMERITUS

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

**ACADEMIC AFFAIRS:**

Isabel Z. Brown, Ph.D., Associate Professor of Spanish
Francis M. Donovan, Jr., Ph.D., Professor of Mechanical Engineering
Donald Epley, Ph.D., Professor of Marketing
William David Gartman, Ph.D., Professor of Sociology
Elizabeth T. Kennedy, Ph.D., Associate Professor of Physical Therapy
Herbert E. Longenecker, Jr., Ph.D., Professor of Information Systems
Clarence L. Mohr, Ph.D., Professor of History
Charles W. Newell, Ed.D., Associate Professor of Radiologic Sciences
Donna Retzlaff-Roberts, Ph.D., Professor of Management
Adel A. Sakla, Ph.D., Associate Professor of Electrical Engineering
Mark A. Segal, J.D., Professor of Accounting
Daniel S. Silver, Ph.D., Professor of Mathematics
Julie Sneath, Ph.D., Professor of Marketing
Susan G. Williams, Ph.D., Professor of Mathematics

**COLLEGE OF MEDICINE:**

Bantval S. Baliga, Ph.D., Associate Professor of Pediatrics
Eugene A. Cioffi, Ph.D., Associate Professor of Pharmacology
Charles R. Hamm, Jr., M.D., Professor of Pediatrics

**BAUGH BIOMEDICAL LIBRARY:**

Judith F. Burnham, M.S., Senior Librarian

and,

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

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

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

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

UNIVERSITY OF SOUTH ALABAMA

# MEMORANDUM

Academic Affairs

**Date:**
November 4, 2016

**To:**
Tony Waldrop

**From:**
G. David Johnson

**Subject:**
Emeritus Recommendations

In accordance with recommendations by the faculties, chairs and deans of the respective disciplines and colleges I recommend that the retired University of South Alabama faculty members listed below be granted the status of *Professor Emeritus, Associate Professor Emeritus and Senior Librarian Emeritus,* as indicated, effective upon approval by you and the Board of Trustees.

- Dr. Isabel Z. Brown, Associate Professor of Spanish
- Dr. Francis M. Donovan, Jr., Professor of Mechanical Engineering
- Dr. Donald Epley, Professor of Marketing
- Dr. William David Gartman, Professor of Sociology
- Dr. Elizabeth T. Kennedy, Associate Professor of Physical Therapy
- Dr. Herbert E. Longenecker, Jr., Professor of Information Systems
- Dr. Clarence L. Mohr, Professor of History
- Dr. Charles W. Newell, Associate Professor of Radiologic Sciences
- Dr. Donna L. Retzlaff-Roberts, Professor of Management
- Dr. Adel A. Sakla, Associate Professor of Electrical Engineering
- Dr. Mark A. Segal, Professor of Accounting
- Dr. David S. Silver, Professor of Mathematics
- Dr. Julie Sneath, Professor of Marketing
- Dr. Susan G. Williams, Professor of Mathematics

Thank you.

GDJ/njc

REC'D
Office of the President
NOV 04 2016
University of South Alabama

UNIVERSITY OF SOUTH ALABAMA

To: Dr. Tony G. Waldrop
President, University of South Alabama

From: Dr. John Marymont JM
Vice-President for Medical Affairs and Dean of the COM

Date: October 24, 2016

Re: College of Medicine and Baugh Biomedical Library Emeritus Recommendations, 2016

Below are my 2016 Emeritus recommendations for the College of Medicine and Baugh Biomedical Library. These recommendations are being forwarded to you for your approval and for approval by the Board of Trustees.

**RECOMMENDED:** tgw

**College of Medicine:**

Bantval S. Baliga, Ph.D., Associate Professor of Pediatrics

Eugene A. Cioffi, Ph.D., Associate Professor of Pharmacology

Charles R. Hamm, Jr., M.D., Professor of Pediatrics

**Baugh Biomedical Library:**

Judith F. Burnham, M.S., Senior Librarian

REC'D
Office of the President
NOV 03 2016
University of South Alabama

JM/ns

# RESOLUTION

## DEANS EMERITUS

**WHEREAS,** the following deans have retired from the University of South Alabama or have reverted to faculty status:

Dr. Richard L. Hayes, Dean, College of Education
Dr. Samuel J. Strada, Dean, College of Medicine
Dr. Richard E. Talbott, Dean, Pat Capps Covey College of Allied Health Professions

and,

**WHEREAS,** in recognition of their honorable and distinguished service to the University through extraordinary accomplishments in administrative leadership, teaching and in the generation of new knowledge through research and scholarship, and for serving as consistently inspiring influences to students, and

**WHEREAS,** in accordance with University policy, the Faculty Senate, the Provost and Senior Vice President for Academic Affairs, and the President have duly recommended the aforementioned former deans,

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

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

UNIVERSITY OF SOUTH ALABAMA

# MEMORANDUM

Academic Affairs

REC'D
Office of the President

OCT 31 2016

University of South Alabama

**Date:**
October 31, 2016

**To:**
Tony Waldrop

**From:**
G. David Johnson

**Subject:**
Dean Emeritus Recommendations

TAW

I recommend that the individuals below be granted the status of *Dean Emeritus* effective upon approval by you and the Board of Trustees.

- Dr. Richard L. Hayes, Dean, College of Education
- Dr. Samuel J. Strada, Dean, College of Medicine
- Dr. Richard E. Talbott, Dean, Pat Capps Covey College of Allied Health Professions

Thank you.

GDJ/njc

# RESOLUTION

## COMMENDATION OF DR. RICHARD L. HAYES

**WHEREAS,** Dr. Richard L. Hayes served as Dean of the College of Education for 11 years, and

**WHEREAS,** during his tenure as Dean, he implemented successful partnerships with area schools to support student teaching, internship supervision, early engagement in field-based learning experiences, and the mentoring of new teachers, and

**WHEREAS,** he established the USA *Center for Integrative Studies in Science, Technology, Engineering, and Mathematics*, and

**WHEREAS,** Dr. Hayes helped create new doctoral programs in Clinical and Counseling Psychology and in Educational Leadership, and helped to secure initial accreditation by the American Psychological Association for the Clinical and Counseling Psychology doctoral program and from the Council for Accreditation of Counseling and Related Educational Programs for the Clinical Mental Health and School Counseling graduate programs, and

**WHEREAS,** Dr. Hayes, in efforts to expand exchange programs with international universities, brokered collaborative agreements between USA and universities in South Korea, China, the Netherlands, Costa Rica, Scotland, Finland, Thailand, and Spain, among many other accomplishments,

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

# UNIVERSITY OF SOUTH ALABAMA
# BOARD OF TRUSTEES

# HEALTH AFFAIRS

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

**HEALTH AFFAIRS COMMITTEE**

**September 8, 2016**
**2:00 p.m.**

A meeting of the Health Affairs Committee of the University of South Alabama Board of Trustees was duly convened by Dr. Steve Furr, Chair, on Thursday, September 8, 2016, at 2:01 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

| | |
|---|---|
| Members Present: | Scott Charlton, Steve Furr, Bettye Maye and Steve Stokes. |
| Members Absent: | Chandra Brown Stewart and Arlene Mitchell. |
| Other Trustees: | Tom Corcoran, Ron Jenkins, Bryant Mixon, John Peek, Jimmy Shumock, Ken Simon, Sandy Stimpson and Mike Windom. |
| Administration and Others: | Owen Bailey, Joe Busta, Lynne Chronister, Josh Crownover (SGA), Joel Erdmann, Monica Ezell, Mike Finan, Sam Fisher (Faculty Senate), Happy Fulford, Mike Haskins, David Johnson, John Marymont, Mike Mitchell, John Smith, Jean Tucker, Tony Waldrop, Scott Weldon, and Kevin West and Kelly Woodford (Faculty Senate). |

The meeting came to order and attendance roll was called. Dr. Furr called for adoption of the revised agenda. On motion by Dr. Charlton, seconded by Ms. Maye, the revised agenda was unanimously adopted. Dr. Furr called for consideration of the minutes of the meeting held on June 2, 2016. On motion by Dr. Stokes, seconded by Dr. Charlton, the Committee voted unanimously to adopt the minutes.

Dr. Furr called for consideration of the Health Affairs Committee Charge. On motion by Dr. Charlton, seconded by Dr. Stokes, the Committee voted unanimously to recommend approval of the Health Affairs Committee Charge by the Board of Trustees.

Dr. Furr called on Mr. Bailey for presentation of **ITEM 7**, a resolution authorizing the USA Hospitals medical staff appointments and reappointments for May, June, and July 2016 (for copies of resolutions, policies and other authorized documents, refer to the minutes of the Board of Trustees meeting held on September 9, 2016). Mr. Bailey said the credentials had been reviewed and are recommended for approval. Dr. Furr called for a vote and the Committee voted unanimously to recommend approval by the Board of Trustees.

Dr. Furr asked Mr. Bailey to discuss **ITEM 8**, a resolution to accept the community health needs assessment conducted by USA Health and adopt the recommended implementation strategies.

Mr. Bailey stated that the Affordable Care Act mandates that non-profit hospitals must assess the health needs of the surrounding community every three years. He assured as to the thoroughness of the 120-page document and credited the individuals involved, including Dr. Thomas Shaw and his team from the Department of Political Science and Criminal Justice for facilitation of the demographic review and phone survey components of the study, as well as Ms. Denise Anderson, Director of Health System Care Management. He expressed pride in the document and offered to answer questions. On motion by Dr. Stokes, seconded by Dr. Charlton, the Committee voted unanimously to recommend approval by the Board of Trustees.

Concerning a report on the activities of the Division of USA Health and the College of Medicine, **ITEM 9**, Dr. Furr called for remarks by Dr. Marymont. Dr. Marymont presented a photo of the College of Medicine Class of 2020 and shared related statistics, such as 74 students accepted out of 1,525 applicants, of which 69 students are Alabama residents, two students are out-of-state residents, and three students originate from USA's service area. He said the class' average MCAT (Medical College Admission Test) score was 30 and high school GPA was 3.75. He gave details on USA's DREAM (Diversity Recruitment and Enrichment for Admission into Medicine) program, through which disadvantaged or underrepresented college students from Alabama and neighboring states may be considered to fill 12 positions to participate in an intensive course of study over two consecutive summers to prepare for the MCAT and potentially earn a slot in the USA College of Medicine program. He discussed USA's 43rd Annual Medical Student Summer Research Day, the culmination of a nine-week program that pairs medical students with faculty members to gain hands-on research experience and an appreciation of how research contributes to the knowledge and practice of medicine. He said 47 students participated in oral or poster presentations. As photos were shown, Dr. Marymont talked about a visit by Governor Bentley to the USA Medical Center, which took place prior to the regular legislative session and during which he toured an isolation station for Ebola treatment, the Arnold Luterman Regional Burn Center and USA's Level I Trauma Center. Discussion took place on the Early Acceptance Program and student and graduate tracking.

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

Respectfully submitted:

Steven P. Furr, M.D., Chair

# RESOLUTION

## USA HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS FOR AUGUST, SEPTEMBER AND OCTOBER 2016

**WHEREAS,** the Medical Staff appointments and reappointments for August, September and October 2016 for the University of South Alabama Hospitals are recommended for Board approval by the Medical Executive Committees and the Executive Committee of the University of South Alabama Hospitals,

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

UNIVERSITY OF SOUTH ALABAMA

# MEMORANDUM

USA Health

**Date:**
November 2, 2016

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

**From:**
Owen Bailey

**Subject:**
Board Meeting Documents

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

Resolution – University of South Alabama Hospitals Medical Staff Appointments and Reappointments for August, September and October 2016.

- Credentials Report – August, September and October 2016

Resolution – University of South Alabama Hospitals Medical Staff Bylaws and Rules and Regulations Revisions of October 19, 2016

- Proposed Changes to University of South Alabama Hospitals Medical Staff Bylaws and Rules and Regulations Revisions
- University of South Alabama Hospitals Medical Staff Meeting Minutes – October 19, 2016

OB/kh

Attachments

**UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK**
**MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS**
**FOR BOARD OF TRUSTEE APPROVAL**
**August 2016, September 2016, and October 2016**

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

| NAME | USACWH | | | USAMC | | | AMBULATORY CARE | | |
|---|---|---|---|---|---|---|---|---|---|
| | Type/Stat | Category | Dept/Ser | Type/Stat | Category | Dept/Ser | Type/Stat | Category | Dept/Ser |
| Agagan, Caesar C., MD | New Appt. | Refer & Follow | Internal Medicine | New Appt. | Refer & Follow | Internal Medicine | NA | NA | NA |
| Al-Ghafry, Maha, MD | New Appt. | Active | Evaluation Center | NA | NA | NA | NA | NA | NA |
| Al-Ghafry, Maha, MD | New Appt. | Active | Pediatrics | NA | NA | NA | New Appt. | Active | Pediatrics |
| Allen, Lisa M., Hearing Screener | Reappt. | Allied | Surgery | NA | NA | NA | NA | NA | NA |
| Ballard, Jr., Barry D., MD | New Appt. | Refer & Follow | Surgery | New Appt. | Refer & Follow | Surgery | NA | NA | NA |
| Blair, Scott B., DO | NA | NA | NA | New Appt. | Cont/Moonlighter | Emergency Med. | NA | NA | NA |
| Carlyle, Megan E., PA | Reappt. | Allied | Surgery | NA | NA | NA | NA | NA | NA |
| Chalam, Jennifer N., MD | New Appt. | Active | Evaluation Center | NA | NA | NA | NA | NA | NA |
| Chalhub, Elias G., MD | Reappt. | Active | Neurology | Reappt. | Active | Neurology | Reappt. | Active | Neurology |
| Cole, Jennifer G., MD | New Appt. | Active | Pediatrics | NA | NA | NA | New Appt. | Active | Pediatrics |
| Cook, Amy L., CRNP | Reappt. | Allied | Pediatrics | NA | NA | NA | Reappt. | Allied | Pediatrics |
| Coumanis, Lewis G., MD | Reappt. | Active | Radiology | Reappt. | Active | Radiology | Reappt. | Active | Radiology |
| Crews, LaDonna M., MD | Reappt. | Active | Pediatrics | Reappt. | Consult/Assoc. | Pediatrics | Reappt. | Active/Consult | Pediatrics |
| Daniels, Larkin J., MD | Reappt. | Courtesy | Surgery | Reappt. | Courtesy | Surgery | NA | NA | NA |
| Dann, Phoebe H., MD | New Appt. | Consult/Assoc. | Radiology | New Appt. | Consult/Assoc. | Radiology | NA | NA | NA |
| Davis, Virginia A., PA | New Appt. | Allied | Evaluation Center | NA | NA | NA | NA | NA | NA |
| Desverreaux, III, John N., MD | Reappt. | Active | Anesthesiology | Reappt. | Active | Anesthesiology | NA | NA | NA |
| Diegmann, Fred, MD | Reappt. | Refer & Follow | OBGYN | NA | NA | NA | NA | NA | NA |
| Dill, Stephen Reeves, MD | New Appt. | Refer & Follow | Internal Medicine | New Appt. | Refer & Follow | Internal Medicine | NA | NA | NA |
| Ding, Linda E., MD | New Appt. | Active | Surgery (Pediatrics) | New Appt. | Active | Surgery (Pediatrics) | New Appt. | Active | Surgery (Pediatrics) |
| Ding, Linda E., MD | New Appt. | Active | Surgery (Trauma) | New Appt. | Active | Surgery (Trauma) | New Appt. | Active | Surgery (Trauma) |
| DiPalma, Jack, MD | Reappt. | Active | Internal Medicine | Reappt. | Active | Internal Medicine | Reappt. | Active | Internal Medicine |
| Donnellan, Kimberly A., MD | Reappt. | Consult/Assoc. | Surgery | Reappt. | Consult/Assoc. | Surgery | NA | NA | NA |
| Ellis, Blesilda Q., MD | New Appt. | Refer & Follow | Internal Medicine | New Appt. | Refer & Follow | Internal Medicine | NA | NA | NA |
| Eyrich, George A., MD | NA | NA | NA | Reappt. | Courtesy | Internal Medicine | NA | NA | NA |
| Franklin, Alan, J., MD | Reappt. | Active | Surgery | Reappt. | Active | Surgery | NA | NA | NA |
| Gandy, Roy E., MD | NA | NA | NA | Reappt. | Academic | Surgery | NA | NA | NA |
| Goode, Russell D., MD | New Appt. | Active | Orthopaedics | New Appt. | Active | Orthopaedics | NA | NA | NA |
| Green, William K., MD | Reappt. | Active | Internal Medicine | Reappt. | Active | Internal Medicine | Reappt. | Active | Internal Medicine |
| Gutstein, Laurie L., MD | New Appt. | Consult/Assoc. | Radiology | New Appt. | Consult/Assoc. | Radiology | NA | NA | NA |
| Hanes, II, Charles, MD | Reappt. | Courtesy | OBGYN | NA | NA | NA | NA | NA | NA |
| Hannon, Jeffrey K., MD | Reappt. | Refer & Follow | Surgery | Reappt. | Refer & Follow | Surgery | NA | NA | NA |
| Harris, Janice D., CRNP | Reappt. | Allied | Pediatrics | NA | NA | NA | Reappt. | Allied | Pediatrics |
| Hartman, Catherine A., CRNP | Reappt. | Allied | Pediatrics | NA | NA | NA | Reappt. | Allied | Pediatrics |
| Haynes, Jr., Johnson, MD | Reappt. | Consult/Assoc. | Internal Medicine | Reappt. | Active | Internal Medicine | Reappt. | Consult/Active | Internal Medicine |
| Herrera, Jorge L., MD | Reappt. | Active | Internal Medicine | Reappt. | Active | Internal Medicine | Reappt. | Active | Internal Medicine |

**UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK**
**MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS**
**FOR BOARD OF TRUSTEE APPROVAL**
**August 2016, September 2016, and October 2016**

| NAME | USACWH | | | USAMC | | | AMBULATORY CARE | | |
|---|---|---|---|---|---|---|---|---|---|
| | Type/Stat | Category | Dept/Ser | Type/Stat | Category | Dept/Ser | Type/Stat | Category | Dept/Ser |
| Higgs, William R., MD | Reappt. | Courtesy | Surgery | Reappt. | Courtesy | Surgery | NA | NA | NA |
| Hinson, Robin L., SANE RN | New Appt. | Allied | OBGYN | New Appt. | Allied | OBGYN | NA | NA | NA |
| Hires, Alicia, RN | Reappt. | Allied | Internal Medicine | Reappt. | Allied | Internal Medicine | NA | NA | NA |
| Hogue, Antwan J., MD | New Appt. | Consult/Assoc. | Internal Medicine | New Appt. | Active | Internal Medicine | New Appt. | Consult/Active | Internal Medicine |
| Hupp, Saunders L., MD | NA | NA | NA | Reappt. | Consult/Assoc. | Surgery | NA | NA | NA |
| Hutchens, Dennis W., MD | Reappt. | Active | Anesthesiology | Reappt. | Active | Anesthesiology | NA | NA | NA |
| Jones, Richard E., MD | Reappt. | Refer & Follow | Pediatrics | Reappt. | Refer & Follow | Pediatrics | NA | NA | NA |
| Jurasek, Meleah A., CRNP | Reappt. | Allied | Pediatrics | NA | NA | NA | Reappt. | Allied | Pediatrics |
| Karidas, Steven J., MD | New Appt. | Consult/Assoc. | Radiology | New Appt. | Consult/Assoc. | Radiology | NA | NA | NA |
| King, Jessica H., CRNP | New Appt. | Allied | Internal Medicine | New Appt. | Allied | Internal Medicine | New Appt. | Allied | Internal Medicine |
| LaFleur, John C., MD | Reappt. | Active | OBGYN | Reappt. | Active | OBGYN | Reappt. | Active | OBGYN |
| LaFrance, Brianne M., CNIM | New Appt. | Allied | Neurosurgery | New Appt. | Allied | Neurosurgery | NA | NA | NA |
| Lane, Daniel R., MD | Reappt. | Refer & Follow | Surgery | Reappt. | Refer & Follow | Surgery | NA | NA | NA |
| Laskay, Kathleen, CRNP | Reappt. | Allied | Pediatrics | NA | NA | NA | Reappt. | Allied | Pediatrics |
| Leytham, Thomas, MD | Reappt. | Active | Family Medicine | Reappt. | Active | Family Medicine | Reappt. | Active | Family Medicine |
| Lutz, Peter O., MD | New Appt. | Refer & Follow | Internal Medicine | New Appt. | Refer & Follow | Internal Medicine | NA | NA | NA |
| Lyle, Cynthia S., MD | New Appt. | Consult/Assoc. | Radiology | New Appt. | Consult/Assoc. | Radiology | NA | NA | NA |
| Maertens, Paul M., MD | Reappt. | Active | Neurology | Reappt. | Active | Neurology | Reappt. | Active | Neurology |
| Manci, Elizabeth, MD | Reappt. | Active | Pathology | Reappt. | Active | Pathology | Reappt. | Active | Pathology |
| Marshall, Cara, RN | New Appt. | Allied | Internal Medicine | New Appt. | Allied | Internal Medicine | NA | NA | NA |
| Massey, Hollie M., Hearing Screener | Reappt. | Allied | Surgery | NA | NA | NA | NA | NA | NA |
| Mayer, David C., MD | Reappt. | Active | Pediatrics | Reappt. | Active | Pediatrics | NA | NA | NA |
| McGee, Gregory S., MD | Reappt. | Active | Surgery | Reappt. | Active | Surgery | NA | NA | NA |
| McVay, Karen A., CCC-SLP | NA | NA | NA | New Appt. | Allied | Surgery | New Appt. | Allied | Surgery |
| McMullan, Eddrice M., MD | Reappt. | Active | Anesthesiology | Reappt. | Active | Anesthesiology | NA | NA | NA |
| Millenbine, Courtney M., CRNP | New Appt. | Refer & Follow | Family Medicine | New Appt. | Refer & Follow | Family Medicine | NA | NA | NA |
| Miller, Kathryn A., Hearing Screener | Reappt. | Allied | Surgery | NA | NA | NA | NA | NA | NA |
| Mneimneh, Wadad S., MD | New Appt. | Active | Pathology | New Appt. | Active | Pathology | New Appt. | Active | Pathology |
| Moeller, James E., NPSYT | Reappt. | Allied | Neurosurgery | Reappt. | Allied | Neurosurgery | NA | NA | NA |
| Mosley, Tiffany F., RN | New Appt. | Allied | Pediatrics | NA | NA | NA | NA | NA | NA |
| Murphy, Patrick L., MD | NA | NA | NA | Reappt. | Consult/Assoc. | Internal Medicine | NA | NA | NA |
| Naritoku, Dean K., MD | Reappt. | Active | Neurology | Reappt. | Active | Neurology | Reappt. | Active | Neurology |
| Nicell, Donald Thomas, MD | New Appt. | Consult/Assoc. | Radiology | New Appt. | Consult/Assoc. | Radiology | NA | NA | NA |
| O'Dowd, John M., MD | NA | NA | NA | Reappt. | Courtesy | Internal Medicine | NA | NA | NA |
| O'Gorman, Ronald B., MD | Reappt. | Active | Surgery | Reappt. | Active | Surgery | NA | NA | NA |
| Outlaw, Eleysia D., MD | New Appt. | Active | Radiology | New Appt. | Active | Radiology | New Appt. | Active | Radiology |
| Park, Christopher A., MD | Reappt. | Active | Surgery | Reappt. | Active | Surgery | NA | NA | NA |
| Pearsall, Albert W., MD | Reappt. | Active | Orthopaedics | Reappt. | Active | Orthopaedics | Reappt. | Active | Orthopaedics |
| Pettaway, Jacqueline U., CRNP | Reappt. | Allied | Pediatrics | NA | NA | NA | Reappt. | Allied | Pediatrics |

**UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK**
**MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS**
**FOR BOARD OF TRUSTEE APPROVAL**
**August 2016, September 2016, and October 2016**

| NAME | USACWH | | | USAMC | | | AMBULATORY CARE | | |
|---|---|---|---|---|---|---|---|---|---|
| | Type/Stat | Category | Dept/Ser | Type/Stat | Category | Dept/Ser | Type/Stat | Category | Dept/Ser |
| Prim, Latonya C., CRNP | New Appt. | Refer & Follow | Internal Medicine | New Appt. | Refer & Follow | Internal Medicine | NA | NA | NA |
| Rachel, James Nicholas, MD | New Appt. | Courtesy | Orthopaedics | New Appt. | Courtesy | Orthopaedics | NA | NA | NA |
| Radcliff, Virginia S., MD | New Appt. | Refer & Follow | Internal Medicine | New Appt. | Refer & Follow | Internal Medicine | NA | NA | NA |
| Ready, Shannon L., RN | New Appt. | Allied | OBGYN | New Appt. | Allied | OBGYN | NA | NA | NA |
| Reed, Jason M., CRNA | Reappt. | Allied | Anesthesiology | Reappt. | Allied | Anesthesiology | NA | NA | NA |
| Revere, Cherie J., CRNP | NA | NA | NA | Reappt. | Allied | Internal Medicine | Reappt. | Allied | Internal Medicine |
| Rich, Leonard S., MD | Reappt. | Consult/Assoc. | Surgery | Reappt. | Consult/Assoc. | Surgery | NA | NA | NA |
| Roberson-Trammell, Katrina L., MD | Reappt. | Active | Pediatrics | NA | NA | NA | Reappt. | Active | Pediatrics |
| Roca, Theresa P., MD | Reappt. | Consult/Assoc. | Pediatrics | Reappt. | Consult/Assoc. | Pediatrics | NA | NA | NA |
| Rogers, Vera Renee, RN | Reappt. | Allied | OBGYN | Reappt. | Allied | OBGYN | NA | NA | NA |
| Rosenbaum, Michael, Ph.D. | Reappt. | Allied | Psychiatry | Reappt. | Allied | Psychiatry | NA | NA | NA |
| Ross, Cashee R., Hearing Screener | New Appt. | Allied | Surgery | NA | NA | NA | NA | NA | NA |
| Saden, Jenna M., Neuro Tech | New Appt. | Allied | Neurosurgery | New Appt. | Allied | Neurosurgery | NA | NA | NA |
| Sanders, Jeffery, RN | New Appt. | Allied | Internal Medicine | New Appt. | Allied | Internal Medicine | NA | NA | NA |
| Setzler, Roger M., MD | Reappt. | Courtesy | Orthopaedics | Reappt. | Courtesy | Orthopaedics | NA | NA | NA |
| Shaw, David M., MD | NA | NA | NA | Reappt. | Courtesy | Internal Medicine | NA | NA | NA |
| Shaw, Dewey P., MD | Reappt. | Active | Anesthesiology | Reappt. | Active | Anesthesiology | NA | NA | NA |
| Sindel, Lawrence J., MD | Reappt. | Active | Pediatrics | NA | NA | NA | NA | NA | NA |
| Smith, Faith A., Hearing Screener | Reappt. | Allied | Surgery | NA | NA | NA | NA | NA | NA |
| Smith, James Michael, DO | New Appt. | Refer & Follow | Family Medicine | New Appt. | Refer & Follow | Family Medicine | NA | NA | NA |
| Stella, Felicia, MD | Reappt. | Courtesy | OBGYN | NA | NA | NA | NA | NA | NA |
| Taliaferro, Jacquise L., CRNP | Reappt. | Allied | Internal Medicine | Reappt. | Allied | Internal Medicine | Reappt. | Allied | Internal Medicine |
| Taylor-Overholts, Tracey L., CRNP | NA | NA | NA | New Appt. | Allied | Emergency Med. | New Appt. | Allied | Emergency Med. |
| Thompson, Jack H., MD | Reappt. | Refer & Follow | Pediatrics | Reappt. | Refer & Follow | Pediatrics | NA | NA | NA |
| Thrasher, Michelle, CRNP | Reappt. | Allied | Pediatrics | NA | NA | NA | Reappt. | Allied | Pediatrics |
| Tran, Ann A., MD | New Appt. | Consult/Assoc. | Radiology | New Appt. | Consult/Assoc. | Radiology | NA | NA | NA |
| Val-Gallas, John, MD | Reappt. | Courtesy | OBGYN | NA | NA | NA | NA | NA | NA |
| Vidal, Rosa A., MD | Reappt. | Active | Pediatrics | Reappt. | Active | Pediatrics | Reappt. | Active | Pediatrics |
| Weaver, Yaffa K., MD | NA | NA | NA | Reappt. | Consult/Assoc. | Surgery | NA | NA | NA |
| Weinstein, Leonard S., MD | Reappt. | Refer & Follow | Surgery | Reappt. | Refer & Follow | Surgery | NA | NA | NA |
| Wong, Waikeong P., MD | New Appt. | Consult/Assoc. | Radiology | New Appt. | Consult/Assoc. | Radiology | NA | NA | NA |
| | | | | | | | | | |
| **Change Requests** | | | | | | | | | |
| Bowman, Ashleigh A., CRNP | Added Priv. | Allied | Evaluation Center | NA | NA | NA | NA | NA | NA |
| Brooks, Ronald M., MD | Deleted Priv. | Active | Surgery | Deleted Priv. | Active | Surgery | Deleted Priv. | Active | Surgery |
| Camp, Pamela R., ACNP | Added Priv. | Allied | Surgery | Added Priv. | Allied | Surgery | Added. Priv. | Allied | Surgery |
| Rice, Terri L., RN | Deleted Priv. | Allied | Surgery | Deleted Priv. | Allied | Surgery | NA | NA | NA |
| Smith, Clayton A., MD | Added Priv. | Active | Radiology | Added Priv. | Active | Radiolgoy | Added. Priv. | Active | Radiology |

# UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
## MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
## FOR BOARD OF TRUSTEE APPROVAL
## August 2016, September 2016, and October 2016

| NAME | USACWH | | | USAMC | | | AMBULATORY CARE | | |
|---|---|---|---|---|---|---|---|---|---|
| | Type/Stat | Category | Dept/Ser | Type/Stat | Category | Dept/Ser | Type/Stat | Category | Dept/Ser |
| **Retired/Resigned** | | | | | | | | | |
| **Name** | **Reason** | **Date** | **Dept.** | **Reason** | **Date** | **Dept.** | | | |
| Almeida, Jr., Oscar D., MD | Resigned | 7/18/2016 | OBGYN | Resigned | 7/18/2016 | OBGYN | | | |
| Batten, Kenneth D., MD | Resigned | 9/15/2016 | Radiology | Resigned | 9/15/2016 | Radiology | | | |
| Blanc, Beth E., Neuro Tech | Resigned | 8/26/2016 | Neurosurgery | Resigned | 8/26/2016 | Neurosurgery | | | |
| Brannan, Rodney K., Hearing Screener | Resigned | 8/2/2016 | Surgery | NA | NA | NA | | | |
| Brown, Russell, MD | Resigned | 7/29/2016 | Surgery | Resigned | 7/29/2016 | Surgery | | | |
| Bryd, Carolyn W., CCC-SLP | Resigned | 8/4/2016 | Surgery | Resigned | 8/4/2016 | Surgery | | | |
| Chastain, Emily, Hearing Screener | Resigned | 8/2/2016 | Surgery | NA | NA | NA | | | |
| Clark, Michael E., MD | Resigned | 9/4/2016 | OBGYN | NA | NA | NA | | | |
| Donald, James S., MD | Resigned | 7/22/2016 | Family Medicine | Resigned | 7/22/2016 | Family Medicine | | | |
| Drye, Sharon A., Hearing Screener | Resigned | 8/3/2016 | Surgery | NA | NA | NA | | | |
| Erickson, Crystal M., Neuro Tech | Resigned | 7/19/2016 | Neurosurgery | Resigned | 7/19/2016 | Neurosurgery | | | |
| Formwalt, David, Psy.D. | Resigned | 7/29/2016 | Psychiatry | Resigned | 7/29/2016 | Psychiatry | | | |
| Hollands, Celeste M., MD | Resigned | 9/22/2016 | Surgery | Resigned | 9/22/2016 | Surgery | | | |
| Holston, Joseph T., CCC-A | Resigned | 9/15/2016 | Surgery | Resigned | 9/15/2016 | Surgery | | | |
| Howell, IV, John B., MD | Resigned | 9/22/2016 | Internal Medicine | Resigned | 9/22/2016 | Internal Medicine | | | |
| Kinnard, Christopher M., MD | NA | NA | NA | Resigned | 7/27/2016 | Surgery | | | |
| Lewis Jr., David F., MD | Resigned | 8/31/2016 | OBGYN | Resigned | 8/31/2016 | OBGYN | | | |
| Marino, Melinda, Neuro Tech | Resigned | 7/19/2016 | Neurosurgery | Resigned | 7/19/2016 | Neurosurgery | | | |
| McBryde, Jr., Angus M., MD | Deceased | 10/4/2016 | Orthopaedics | Deceased | 10/4/2016 | Orthopaedics | | | |
| McCathran, Charles E., MD | Resigned | 9/11/2016 | OBGYN | Resigned | 9/11/2016 | OBGYN | | | |
| Persick, Peggy C., RN | Resigned | 9/15/2016 | Pediatrics | NA | NA | NA | | | |
| Pyko, Maximilian, DO | Resigned | 9/19/2016 | Radiology | Resigned | 9/19/2016 | Radiology | | | |
| Roberson, Jo Ellen, CRNM | Resigned | 7/29/2016 | OBGYN | NA | NA | NA | | | |
| Sevilla, Saez-Benito, Miriam, MD | Resigned | 7/22/2016 | Psychiatry | Resigned | 7/22/2016 | Psychiatry | | | |
| Stover, Phillip R., MD | Retired | 7/26/2016 | Pediatrics | Retired | 7/26/2016 | Pediatrics | | | |
| Taylor, Joshua T., MD | Resigned | 7/24/2016 | Surgery | Resigned | 7/24/2016 | Surgery | | | |
| Taylor, Medea T., CCC-SLP | Resigned | 9/15/2016 | Surgery | Resigned | 9/15/2016 | Surgery | | | |

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
August 2016, September 2016, and October 2016

| NAME | USACWH | | | USAMC | | | AMBULATORY CARE | | |
|---|---|---|---|---|---|---|---|---|---|
| | Type/Stat | Category | Dept/Ser | Type/Stat | Category | Dept/Ser | Type/Stat | Category | Dept/Ser |
| Toothman, Richard L., MD | Resigned | 9/26/2016 | Radiology | Resigned | 9/26/2016 | Radiology | | | |
| Vickrey, Sarah Jo, CRNP | NA | NA | NA | Resigned | 7/22/2016 | Internal Medicine | | | |
| Williams, Lucile, Psy.D. | Resigned | 8/4/2016 | Psychiatry | Resigned | 8/4/2016 | Psychiatry | | | |
| White-Spunner, Suanne, MD | Resigned | 7/13/2016 | Orthopaedics | Resigned | 7/13/2016 | Orthopaedics | | | |
| Zarzour, Robert J., MD | Resigned | 8/15/2016 | Orthopaedics | Resigned | 8/15/2016 | Orthopaedics | | | |
| Zielinski, Andrew, CRNA | Resigned | 4/15/2016 | Anesthesiology | Resigned | 4/15/2016 | Anesthesiology | | | |

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

August 2016, September 2016, and October 2016

**LEGEND:**

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

**RECOMMENDED BY:**

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

William O. Richards, M.D., Chair of Medical Executive Committee or Chair Elect
USA Medical Center

Owen Bailey
Chief Operating Officer, USA Health System

# RESOLUTION

## USA HOSPITALS MEDICAL STAFF BYLAWS AND RULES AND REGULATIONS REVISIONS OF OCTOBER 19, 2016

**WHEREAS,** revisions to USA Hospitals Medical Staff Bylaws and Rules and Regulations, approved at the October 19, 2016, Medical Staff meeting and attached hereto, are recommended for approval by the Medical Staffs and the Executive Committee of the University of South Alabama Hospitals,

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

**USA Hospitals General Medical Staff Meeting**
**Proposed Medical Staff Bylaws and Rules and Regulations Revision Descriptions**
**October 19, 2016**

## Medical Staff Bylaws

1) **3.02 The Courtesy Staff**
   Revised to reflect courtesy staff as nonvoting members of the Medical Staff
2) **6.04 Special Conditions for the Aging Practitioner (New practitioners)**
   Added new section on requirements for newly appointed practitioners at the age of 75 or greater to complete a physical and mental examination biennially for the privileges requested.
3) **12.02 Submission of Application**
   Added any misstatement in or omission on an appointment application to the medical staff could result in automatic relinquishment of appointment with no hearing or appeal. The Credentialing Committee will review practitioner's response of explanation.
4) **15.03 Automatic Suspension or Limitation**
   Added practitioners privileges summarily suspended at one hospital will automatically be suspended at all USA Health hospitals.
5) **17.03 Quorum**
   Added quorum requirement for the General Medical Staff, Department and Committee meetings.
6) **19.01 Chair of Medical Executive Committee Selection**
   Added slate of officers will be determined by a majority of votes cast by active medical staff members.
7) **22.01 Membership**
   Added description of members on the Executive Committee.
8) **29.02 Amendments**
   Added description of adopting an amendment as requiring a majority vote of active members present.

## Medical Staff Rules and Regulations

1) **3.2.2 Progress Notes**
   Added long term patients will be assessed according to hospital policy.

# UNIVERSITY OF SOUTH ALABAMA HOSPITALS
# MEDICAL STAFF MEETING MINUTES
# October 19, 2016

The meeting of the University of South Alabama Hospitals Medical Staff was held in the John Counts Room at USA Mitchell Center on Wednesday, October 19, 2016. John Marymont, MD, Vice President for Medical Affairs and Dean of the College of Medicine called the meeting to order at 7:00 p.m. A roster of attendees is available in the Medical Staff Credentials Office.

Dr. Marymont welcomed everyone, introduced new USA physicians in attendance, and gave a synopsis of Medical School activities. There were 1500 applications for the Medical School Class of 2020. Information and results were shared about the USA Diversity Recruitment and Enrichment for Admission into Medicine (DREAM) Program. He reported that the next Liaison Committee on Medical Education (LCME) accreditation visit is scheduled for 2018 with a prior one year self-study. Dr. Marymont stated that the USA Health System must invest in in safety and quality with lots of expected changes in the Academic, Clinical, and Research areas. He explained the concept of the more efficient we are, the more we can invest in ourselves.

Mr. Owen Bailey, USA Health Chief Operating Officer, shared information about the upcoming Leadership Retreat titled "Change". He introduced Alan Whaley, Chief Strategy Officer, as a member of the changing team. Mr. Bailey spoke briefly about several personnel/position changes resulting from organization restructure along with employee replacements/ retirements. He reported on several upcoming major changes, including the conversion to Unity/Cerner set for December 1, 2016 with training underway and the Chartis Strategic Planning effort comprised of three teams: Operation Performance Team; Clinical Enterprise Team; and Governance and Structure Team. The Strategic Planning teams are overseen by a steering committee chaired by President Tony Waldrop. An update was given on the progress of the Gulf Coast Regional Care Organization (GCRCO). Mr. Bailey took a moment to honor Angus McBryde, MD and expressed sympathy in his passing and acknowledged the contributions that Dr. McBryde made to the USA Health System, especially the USA Department of Orthopaedic Surgery. Information was shared about the upcoming new USA Health System branding process. Details were given about how USA Ambulatory Services will vastly change with the opening of the Strada Patient Care Center.

Mrs. Becky Tate reported that 45 to 50% of the Strada Patient Care Center building will be available for occupancy soon with the first clinics scheduled to move in on November 17, 2016. Additional clinics will move into the building in December and January. The building will also house seven academic conference rooms. Future use of the Springhill Avenue Campus will be considered in the Strategic Planning process.

Michael Finan, MD reported on activities related to the Mitchell Cancer Institute (MCI) and three new Radiation Oncology physicians that recently joined the USA Faculty. Approval was recently obtained to add a Radiation Vault to the new MCI facilities in Fairhope. MCI now has a presence in Monroe County with hopes to expand services there in the future. MCI is one of 197 oncology providers nationwide to be chosen to participate in the Oncology Care Model for patients insured through Medicare. Out of the 197 providers, only five are academic programs, with USA being one of them. MCI will be adding new specialists, developing multi-disciplinary clinics, and devising two fellowship programs by 2018 in Gynecology Oncology and Medical Oncology.

Ms. Beth Anderson, Administrator of USA Medical Center, announced that Sabrina Bessette, MD will be Medical Executive Committee Chair effective January 2017 with Elliot Carter, MD being the Chair-Elect. USA Medical Center earned the American Heart Association/American Stroke Association's Get with the Guidelines - Stroke Gold Plus Target: Stroke honor Roll Elite Plus Award. She expounded on CMS Quality Scorecard and Blue Cross Blue Shield Scorecard, their components, and related goals. USA Medical Center is a Tier 1 level hospital with the Blue Cross Blue Shield Scorecard. Ms. Anderson shared information about the USA Medical Center participating in the University Health System Consortium (UHC/Vizient) Quality Database. The ranking score is currently 64 out of 102 participating in University Health Systems. There are six (6) domains: mortality, efficiency, effectiveness, safety, patient centeredness, and equity. Information was shared about the Clinical Learning Environment Review (CLER) survey of the ACGME Resident Programs. USA Medical Center earned The Joint Commission's Gold Seal of Approval for accreditation. It was announced that a portable MRI is being installed to assist with patient need and a permanent location for an additional MRI is being researched. The new Inpatient Hospice Program will begin on November 1, 2016 with Tangela Atkinson, MD serving as the Medical Director. Inspection of the new helicopter pad is scheduled within the next two weeks. The Highly Infectious Disease Unit was inspected by the State of Alabama. Ten new exam rooms are being constructed as an add-on to the Mastin Building. Pathology Department will move to the Moorer Building to create room for four new outpatient operating room suites.

Mr. Chris Jett, Administrator of USA Children's & Women's Hospital, reported on the 3rd floor construction project in the Women's Tower. A grant was used to create a Mother/Baby Suite, which is being reserved as a Demo Suite for employees and immediate family of employees. Plans are being developed for the Evaluation Center to be completely dedicated as a Pediatric Emergency Room. OB/GYN patients will be moved to an OB/GYN assessment area. OB/GYN Department Chair Search Committee is being chaired by Dr. David Gremse. Upcoming events include: Trick or Trot, NICU Reunion, and Tree Lighting Ceremony. Mr. Jett announced that Benjamin Estrada, MD is now the Medical Executive Committee Chair with Allen Perkins, MD as the Chair-Elect.

Benjamin Estrada, MD, chair of the USA Children's & Women's Hospital Medical Executive Committee, presented the proposed revisions to the Medical Staff Bylaws/Rules and Regulation for review and approval, which was granted.

With no further business, the meeting was adjourned at 7:45 p.m.

Respectfully submitted,

Juliana Kuck

Juliana Kuck
Medical Credentialing Coordinator

# RESOLUTION

## COMMENDATION OF DR. SAMUEL J. STRADA

**WHEREAS**, Dr. Samuel Joseph Strada, dean emeritus of the University of South Alabama College of Medicine, retired this past October following more than three decades of service to the University and the USA College of Medicine, and

**WHEREAS**, Dr. Strada began his career at the USA College of Medicine in 1983 when he was recruited as chair and professor of the Department of Pharmacology, and later was named senior associate dean for the USA College of Medicine in 1994, and

**WHEREAS**, Dr. Strada served as dean for the USA College of Medicine from 2007 to 2016, and

**WHEREAS**, during his career at USA, Dr. Strada also served as acting director of the graduate program in basic medical sciences, assistant dean for admissions and acting chair of psychiatry, and

**WHEREAS**, Dr. Strada is an avid Jags supporter, serving during his career at USA as chair of the Athletics Council and as Faculty Athletics Representative from 1990-1997, and

**WHEREAS**, throughout his lengthy career at USA, Dr. Strada has made significant contributions to medical education and research in the state of Alabama, as well as the nation, and

**WHEREAS**, Dr. Strada was instrumental in the creation of the Auburn University Harrison School of Pharmacy at USA, the Office of Technology Development, the Office of Research Compliance and Assurance and the USA Technology and Research Park, and

**WHEREAS**, a scientist by training, Dr. Strada published more than 200 articles and abstracts, earning national recognition for his research on cellular signaling mechanisms, and

**WHEREAS**, Dr. Strada has received numerous awards including USA's Medical Alumni Association Distinguished Service Award, the Friend of Pharmacy Award from Auburn University's Harrison School of Pharmacy, the Distinguished Alumni Achievement Award from the University of Missouri at Kansas City, and the GoDaddy Bowl Champion of Life Award, and

**WHEREAS**, earlier in 2016, the University of South Alabama Board of Trustees honored Dr. Strada and his late wife, Judy, by naming the new clinical care building the Strada Patient Care Center,

**THEREFORE, BE IT RESOLVED,** the USA Board of Trustees gratefully acknowledges Dr. Strada for his 33 years of service and leadership to the USA College of Medicine, the University of South Alabama, and the field of academic medicine, and

**BE IT FURTHER RESOLVED** that the USA Board of Trustees, the President, and the faculty, staff and students of the University hereby express sincere appreciation to Dr. Samuel J. Strada for his many contributions and offer best wishes upon his retirement.

# UNIVERSITY OF SOUTH ALABAMA
# BOARD OF TRUSTEES

# BUDGET AND FINANCE

# UNIVERSITY OF SOUTH ALABAMA
# BOARD OF TRUSTEES

## BUDGET AND FINANCE COMMITTEE

**September 8, 2016**
**3:35 p.m.**

A meeting of the Budget and Finance Committee of the University of South Alabama Board of Trustees was duly convened by Mr. Tom Corcoran, Chair, on Thursday, September 8, 2016, at 3:35 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

| | |
|---|---|
| Members Present: | Tom Corcoran, Bryant Mixon, Sandy Stimpson and Steve Stokes. |
| Members Absent: | Arlene Mitchell and Jim Yance. |
| Other Trustees: | Scott Charlton, Steve Furr, Ron Jenkins, Bettye Maye, John Peek, Jimmy Shumock, Ken Simon and Mike Windom. |
| Administration and Others: | Terry Albano, Joe Busta, Lynne Chronister, Josh Crownover (SGA), Ken Davis, Phil Dotts and Josh McCoy (PFM), Joel Erdmann, Monica Ezell, Mike Finan, Sam Fisher (Faculty Senate), Happy Fulford, Mike Haskins, Pam Henderson, David Johnson, Traci Jones, John Marymont, Mike Mitchell, Randy Moon, John Smith, Jean Tucker, Tony Waldrop, Scott Weldon, and Kevin West and Kelly Woodford (Faculty Senate). |

The meeting came to order and the attendance roll was called. Mr. Corcoran called for adoption of the revised agenda. On motion by Sheriff Mixon, seconded by Dr. Stokes, the revised agenda was adopted unanimously. Mr. Corcoran called for ratification of the minutes of a Committee of the Whole meeting on June 2, 2016, which was held in lieu of the Budget and Finance Committee meeting due to the absence of a quorum. On motion by Sheriff Mixon, seconded by Dr. Stokes, the minutes were approved unanimously.

Mr. Corcoran called for consideration of the Budget and Finance Committee Charge. On motion by Sheriff Mixon, seconded by Dr. Stokes, the Committee voted unanimously to recommend approval of the Budget and Finance Committee Charge by the Board of Trustees.

Mr. Corcoran called upon Mr. Weldon for presentation of **ITEM 20**, the quarterly financial statements for the nine months ended June 30, 2016. Mr. Weldon took a moment to announce the promotions of Ms. Pam Henderson to Associate Vice President for Human Resources and of Mr. Randy Moon to Associate Vice President for Facilities and Management. He stated Ms. Henderson and Mr. Moon provide creative and invaluable leadership in their respective divisions. As to the financial statements, he said the results were as expected. He contrasted the University's net position of just over $15 million to that of $14 million reported last year at the same time. He said the Administration did not anticipate anything unusual to transpire during the fourth quarter that would impact the budget unless a shift in the financial markets should occur.

Mr. Corcoran asked Mr. Weldon to address **ITEM 21**, a report on the results of the refunding of the University's Series 2008 bonds. Mr. Weldon reminded the Board of its authorization in June to execute the refunding within specified parameters, such as a minimum three percent savings to the University. He reported the bonds were recently priced and would close in the coming week for a savings of 16.05 percent, or a net present value savings of just over $15 million. He added this would reduce the University's debt service requirements by approximately $950,000 annually over the next 22 years. He contrasted the 2.82 percent effective rate for the 2016 bonds to the five percent rate for the 2008 bonds and said the administrative costs for issuing the new bonds were approximately $300,000 less than in 2008, due primarily to reduced underwriters' discounts on the bonds. He added the University's credit ratings were affirmed by Moody's at A1 and by Standard and Poor's at A+. He recognized the individuals who were instrumental to the process, including Mr. Davis and Mr. Albano, and representing Public Financial Advisors, Inc., or PFM, Mr. Josh McCoy and Phil Dotts. Mr. Dotts shared insight on the factors affecting the successful outcome of the bond sale. Mr. Corcoran and Judge Simon credited the proactive efforts of USA's finance team.

Mr. Weldon explained **ITEM 22**, a resolution authorizing a request for proposals to issue variable-rate, private placement bonds for the purpose of refunding the University's Series 2006 bonds (for copies of resolutions, policies and other authorized documents, refer to the minutes of the Board of Trustees meeting held on September 9, 2016). With reference to the swaption discussion in June, he advised that, as predicted, Wells Fargo exercised their option to force USA into a swap arrangement on December 1. He stated the necessity of refunding the fixed-rate bonds with variable-rate bonds that are tied to the same index as the swap payment from Wells Fargo to the University in order for the movement of both transactions to coincide. He reminded the Committee that a similar transaction for refunding 2004 bonds was approved in 2014. He said preliminary conversations with banking institutions indicate the University can achieve a positive result and one that is budget neutral. He stated, once proposals are analyzed, a plan for the refunding and the financial implications would be presented to the Board in December. On motion by Sheriff Mixon, seconded by Mayor Stimpson, the Committee voted unanimously to recommend approval by the Board of Trustees.

Concerning **ITEM 23**, a resolution authorizing the University total budget for 2016-2017, as the Committee viewed a series of charts, Mr. Weldon noted the recommendation for a balanced budget included both the general University and USA Health components. He discussed key factors impacting the budget, such as a state appropriation increase of 2.2 percent; a tuition increase of three percent, as was approved in June; a housing rate increase of 2.1 percent; and a proposed salary increase of two percent. He emphasized that the request for a permanent salary increase for faculty and staff is one of just two since the recession began in 2008. He stated employee and employer health insurance premiums would not be increased for the first time in seven years due to the strong financial position of the USA Health Plan and the cost-saving measures implemented in previous years. He itemized the significant increases in budgeted funds and budgeted expenditures and presented a 2016-2017 budget summation estimating revenues of $898.8 million, expenditures and mandatory transfers of $896 million, and miscellaneous transfers of $2.7 million. Mr. Windom observed the worth of the raise for employees in that it would not be offset by an increase in health insurance premiums. Mr. Peek asked for clarification on the use of reserves. Mr. Weldon stated, as anticipated last year, minimal funding of under $5 million from USA Health reserves would be needed primarily for the Cerner implementation only through fiscal year 2017. Ms. Jones agreed, projecting the Cerner project would break even in fiscal year 2018 and begin to produce dividends in 2019. Mr. Peek and Mr. Weldon talked briefly about enrollment projection as a factor of budget development. Dr. Furr and Ms. Jones talked briefly about meaningful use incentives gained through USA Health's current electronic health record systems. On motion by Sheriff Mixon, seconded by Mayor Stimpson, the Committee voted unanimously to recommend approval by the Board of Trustees.

Mayor Stimpson shared brief remarks about his association with Mr. Dotts through the Business Council of Alabama and through PFM's work with the City of Mobile. He said the University of South Alabama was in good hands with Mr. Dotts' services.

There being no further business, the meeting was adjourned at 4:03 p.m.

Respectfully submitted:

E. Thomas Corcoran, Chair

# 2016 Financial Report

**University of South Alabama Board of Trustees**



UNIVERSITY OF
SOUTH ALABAMA

# Message from the PRESIDENT

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

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

As the University continues its growth, it is through a sound financial position that our priorities can be accomplished. Despite the economic challenges of the past several years, the financial position of the University of South Alabama, as demonstrated in this financial report, remains strong. This financial strength allows us to continue to serve the citizens of the state of Alabama and beyond by providing top quality academic, research, healthcare and public service programs.

In the fall of 2016, the University enjoyed enrollment growth of approximately 1.5% to a record number of 16,699 students while at the same time elevating academic standards and significantly enhancing support and resources for student advising. This increase in enrollment is a testament to the strength of our academic programs, the quality and dedication of our faculty and staff, and the spirit of our students and alumni.

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

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

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

Tony G. Waldrop, Ph.D.
President


Hope

# Message from the CHAIR PRO TEMPORE of the Board of Trustees

**Kenneth O. Simon**
Chair Pro Tempore, Board of Trustees
University of South Alabama

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

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

I am privileged to work alongside my colleagues on the Board as well as with President Waldrop and our University's dedicated and outstanding leadership team as we continue to move USA forward.

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

Kenneth O. Simon
Chair Pro Tempore, Board of Trustees
University of South Alabama

# Introduction from the VICE PRESIDENT FOR FINANCE AND ADMINISTRATION


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

I am pleased to present this annual financial report for the University of South Alabama at and for the year ended September 30, 2016. I am confident that the accompanying financial statements fairly present the financial position and results of operations of the University and its Health System. It is the responsibility of University management to ensure that these financial statements, including management's discussion and analysis and the accompanying notes to the financial statements, are complete and fairly presented in accordance with U. S. generally accepted accounting principles.

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

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


AGUARS
00
61

KPMG

# UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Basic Financial Statements

September 30, 2016

(With Independent Auditors' Report Thereon)

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

Basic Financial Statements

September 30, 2016

## Table of Contents

## Introduction

The following discussion presents an overview of the financial position and financial activities of the University of South Alabama (the University), including the University of South Alabama Health System (the Health System), a division of the University, at September 30, 2016 and 2015 and for the years then ended. This discussion has been prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

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

As more fully described in note 1 to the basic financial statements, effective July 1, 2016, all operations of the USA Health Services Foundation were transferred to the University. University net position at September 30, 2015 was restated to reflect the cumulative effect of this change in reporting entity. The University's 2016 condensed financial statements include the financial position and results of operations of USA Health Services Foundation. Such amounts are not included in the 2015 condensed financial statements.

## Financial Highlights

At September 30, 2016 and 2015, the University had total assets and deferred outflows of $1,184,911,000 and $1,114,951,000, respectively; total liabilities and deferred inflows of $966,917,000 and $919,899,000, respectively; and net position of $217,994,000 and $192,089,000, respectively. Net position increased $25,905,000 during the year ended September 30, 2016 compared to an increase of $9,239,000 for the year ended September 30, 2015.

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

### *Statement of Net Position*

The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows and net position of the University at September 30, 2016. Net position is displayed in three parts: net investment in capital assets, restricted and unrestricted. Restricted net position may either be expendable or nonexpendable and is the net position that is restricted by law or external donors. Unrestricted net position is generally designated for specific purposes, and is available for use by the University to meet current expenses for any purpose. The statement of net position, along with all of the University's basic financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

Assets included in the statement of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments, and net patient accounts receivable. Of these amounts, cash and cash equivalents, investments, and net patient accounts receivable comprise approximately 37%, 31% and 18%, respectively, of current assets at September 30, 2016. Noncurrent assets at September 30, 2016 consist primarily of capital assets, restricted cash and cash equivalents, and restricted investments.

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

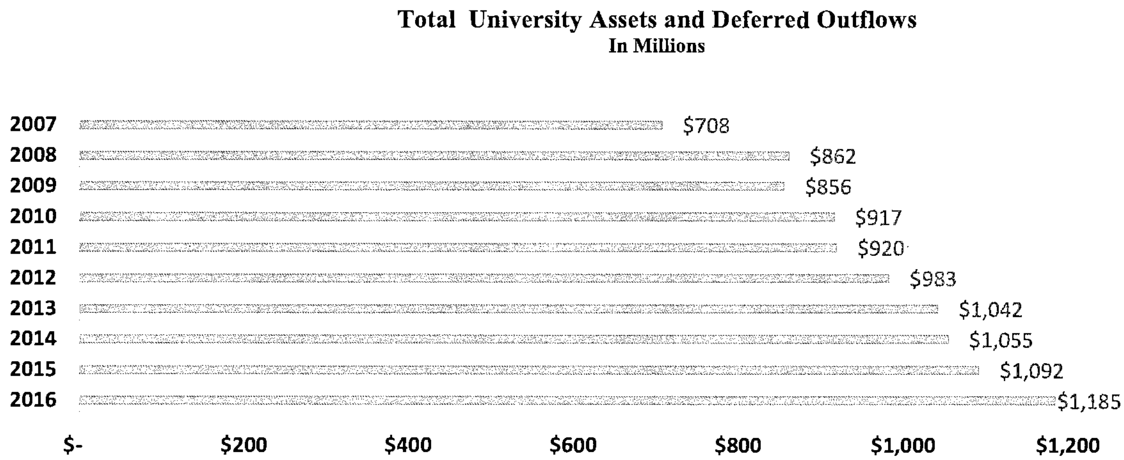
**Condensed Schedules of Net Position**

| | | 2016 | 2015 |
|---|---|---|---|
| Assets: | | | |
| Current | $ | 273,634 | 233,940 |
| Capital assets | | 653,297 | 609,630 |
| Other noncurrent | | 213,462 | 248,539 |
| Total assets | | 1,140,393 | 1,092,109 |
| Deferred outflows | | 44,518 | 22,842 |
| Total assets and deferred outflows | $ | 1,184,911 | 1,114,951 |
| Liabilities: | | | |
| Current | $ | 153,887 | 132,128 |
| Noncurrent | | 789,016 | 751,880 |
| Total liabilities | | 942,903 | 884,008 |
| Deferred inflows | | 24,014 | 35,891 |
| Total liabilities and deferred inflows | $ | 966,917 | 919,899 |
| Net position: | | | |
| Net investment in capital assets | $ | 270,127 | 246,567 |
| Restricted, nonexpendable | | 48,760 | 43,425 |
| Restricted, expendable | | 55,592 | 60,106 |
| Unrestricted | | (156,485) | (155,046) |
| Total net position | $ | 217,994 | 195,052 |



(Continued)

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




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

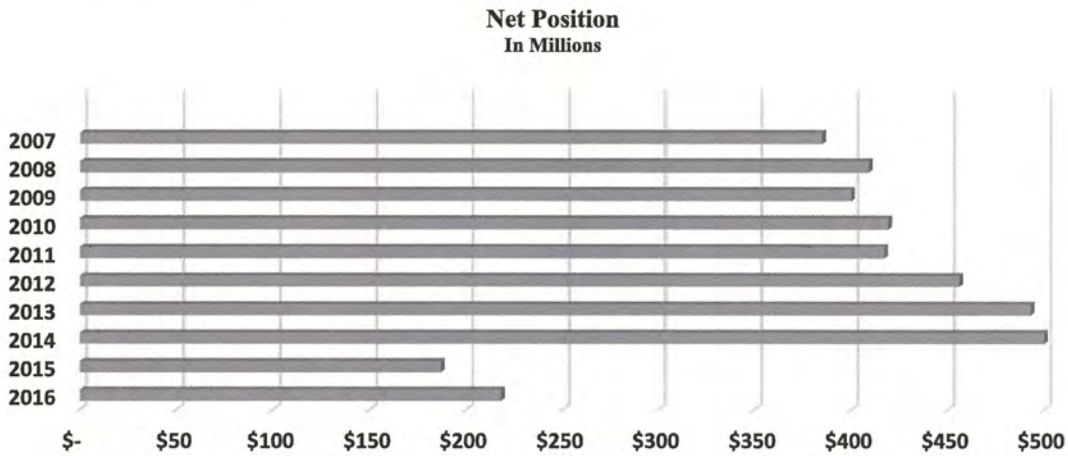
Net investment in capital assets represents the University's capital assets less accumulated depreciation and outstanding principal balances of the debt attributable to the acquisition, construction, or improvement of those assets.

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

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

Unrestricted net position represents amounts not subject to externally imposed stipulations. Even though these funds are not legally restricted, the majority of the University's unrestricted net position has been internally designated for various projects, all supporting the mission of the University. Unrestricted net position includes funds for various academic and research programs, auxiliary operations (including the bookstore, student housing and dining services), student programs, capital projects and general operations. Also included in unrestricted net position at September 30, 2016 and 2015 is the impact of the net pension liability recorded pursuant to the requirements of GASB Statement No. 68.

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




All categories of restricted net position increased by approximately 1% in fiscal year 2016, primarily due to the addition of restricted gifts to the University. Unrestricted net position decreased by $1,439,000 in fiscal year 2016 due primarily to the increase in unfunded pension liability. A summary of unrestricted net position at September 30, 2016 is summarized below:

| | |
|---|---|
| Unrestricted net position related to net pension liability | $ (329,294,000) |
| Unrestricted net position related to other activity | 172,809,000 |
| Unrestricted net position | $ (156,485,000) |

***Statement of Revenues, Expenses, and Changes in Net Position***

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

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

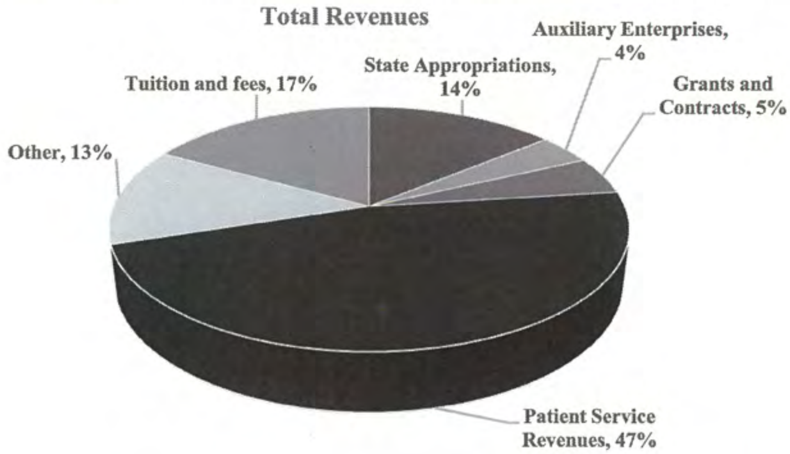
The condensed schedules of revenues, expenses, and changes in net position for the years ended September 30, 2016 and 2015 follow (in thousands):

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

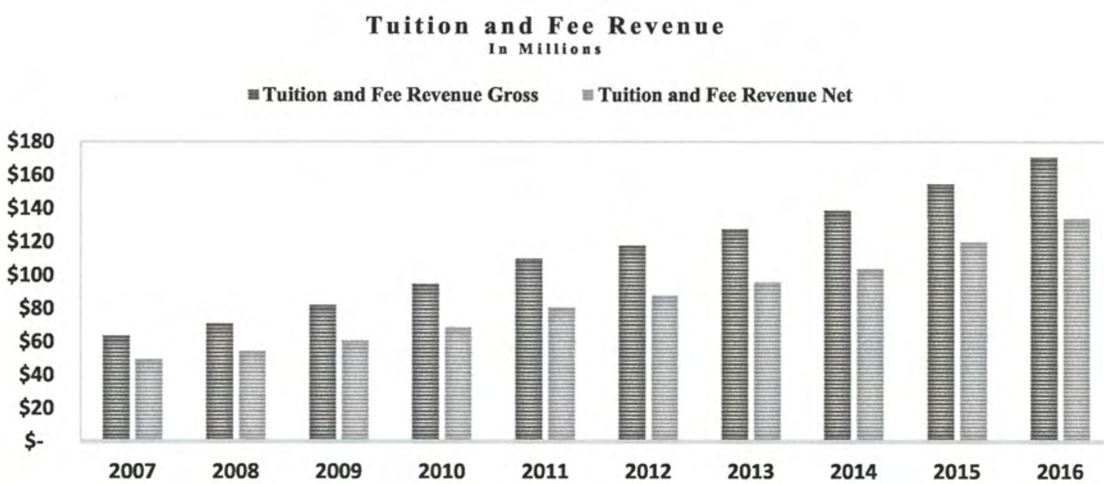
| | | 2016 | 2015 |
|---|---|---|---|
| Operating revenues: | | | |
| Tuition and fees | $ | 137,074 | 120,265 |
| Net patient service revenue | | 360,657 | 271,655 |
| Federal, state and private grants and contracts | | 38,187 | 85,756 |
| Other | | 88,943 | 78,845 |
| | | 624,861 | 556,521 |
| Operating expenses: | | | |
| Salaries and benefits | | 460,219 | 433,679 |
| Supplies and other services | | 198,518 | 169,873 |
| Other | | 65,530 | 57,476 |
| | | 724,267 | 661,028 |
| Operating loss | | (99,406) | (104,507) |
| Nonoperating revenues and expenses: | | | |
| State appropriations | | 105,024 | 103,974 |
| Investment income (loss) | | 2,631 | (10,718) |
| Other, net | | 8,135 | 13,259 |
| Net nonoperating revenues and expenses | | 115,790 | 106,515 |
| Income before capital appropriations, capital contributions, grants, and additions to endowment | | 16,384 | 2,008 |
| Capital appropriations, capital contributions, grants, and additions to endowment | | 9,521 | 7,231 |
| Increase in net position | | 25,905 | 9,239 |
| Beginning net position, before cumulative effect of change in reporting entity/ accounting principle | | 195,052 | 499,550 |
| Cumulative effect of change in reporting entity/accounting principle | | (2,963) | (313,737) |
| Beginning net position – as adjusted | | 192,089 | 185,813 |
| Ending net position | $ | 217,994 | 195,052 |

Approximately 47% and 39% of total revenues of the University were net patient service revenue in 2016 and 2015, respectively. Excluding net patient service revenue, net tuition and fees charged to students represent the largest component of total University revenues, approximately 17% of total revenues in 2016. Also in 2016 and 2015, respectively, state appropriations and grants and contracts (federal, state and private) represented approximately 19% and 15% of total revenues.

A summary of University revenues for the year ended September 30, 2016 is presented below:

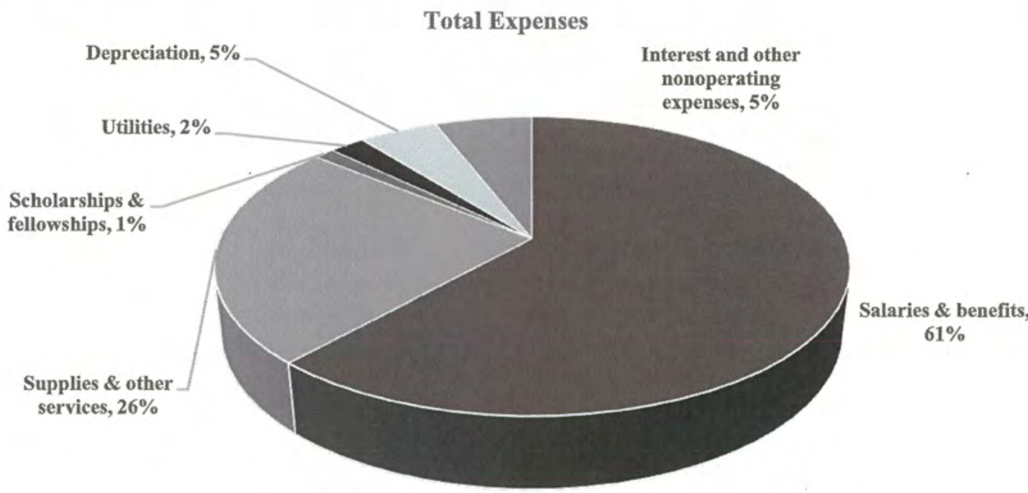



Tuition and fees have increased in each of the last ten years. These increases are due primarily to increases in tuition and fee rates charged to students and the number of enrolled students and credit hours taken by those students. Additionally, net tuition and fees as a percent of total operating revenues continue to increase, from 13% of operating revenues in 2007 to 22% in 2016. Tuition and fees, gross and net of scholarship allowances, for the past ten fiscal years are as follows:



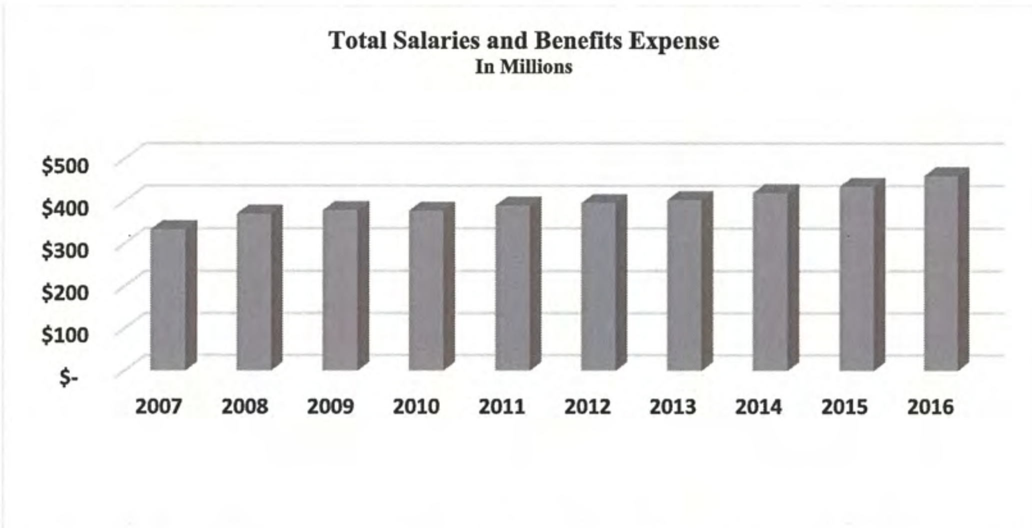
Capital contributions and grants increased from \$2,784,000 in 2015 to \$3,053,000 in 2016.

University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2016 is presented below:



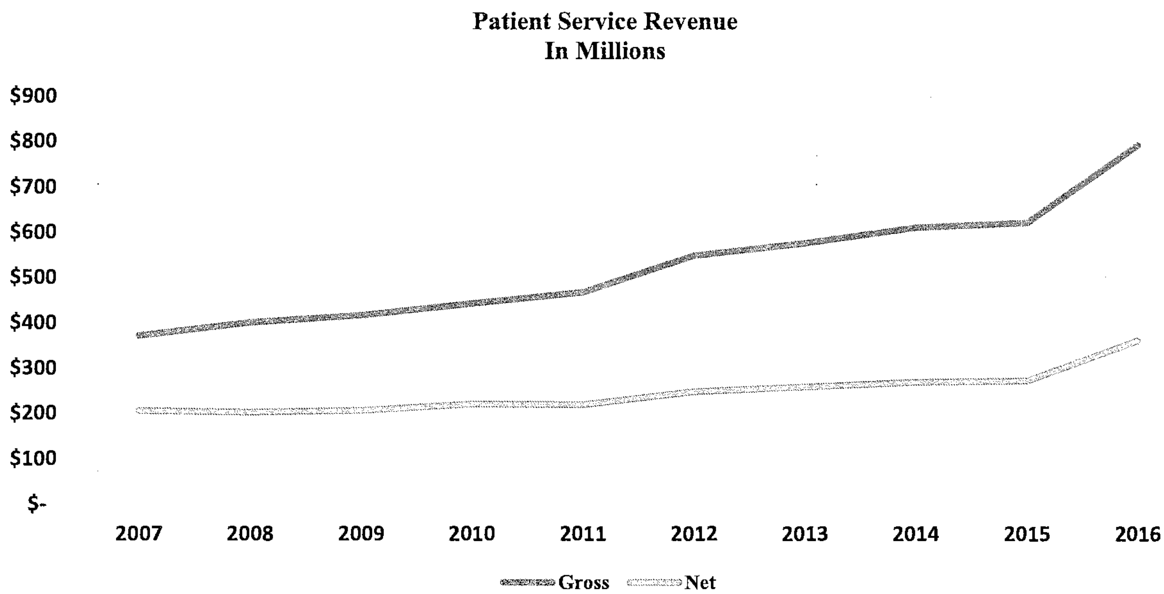

Functional classifications represent expenses categorized based on the function within the University. Such University functions include instruction, research, public service, academic support, student services, institutional support, scholarships, and operation and maintenance of plant. Expenses related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

In 2016 and 2015, approximately 64% and 62%, respectively, of the University's total operating expenses were salaries and benefits.




For the years ended September 30, 2016 and 2015, the University reported operating losses of approximately $99,406,000 and $104,507,000, respectively. Operating losses are offset partially by state appropriations, which are reported as nonoperating revenue. After adding state appropriations and other nonoperating revenues and expenses (primarily capital appropriations, capital contributions, and additions to endowment), and applying the cumulative effect of the change in reporting entity related to the transfer of the Health Services Foundation (HSF), the total change in net position was approximately $22,942,000 and $(304,498,000), for the years ended September 30, 2016 and 2015, respectively. The decrease in net position in 2015 was a result of the implementation of GASB Statement No. 68.

The Health System represents a significant portion of total University revenues. The large increase in net patient service revenue from 2015 to 2016 is due to the transfer of HSF operations to the University. Operating patient service revenues, gross and net, for the last ten fiscal years are presented below.




### *Statement of Cash Flows*

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

## Capital Assets and Debt Administration

Total capital asset additions for the University were approximately $78,688,000 in 2016. Significant construction projects that remain in progress at September 30, 2016 include a new professional medical office building, a medical office building in Fairhope, Alabama and a major upgrade of infrastructure on the University's main campus. Major projects completed and placed into service in fiscal 2016 included the Student Health Center and an addition to the Mitchell Cancer Institute. At September 30, 2016, the University had outstanding commitments of approximately $10,867,000 for various capital projects.

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

In September 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016, with a face value of $85,605,000. The proceeds from the series 2016 bonds were used to partially defease the Series 2008 bonds. The funds were deposited into escrow trust funds to provide for the subsequent repayment of the Series

2008 bonds when they are called in December 2018. Neither the assets of the escrow trust account, nor the defeased indebtedness is included in the accompanying statement of net position. The principal outstanding on all defeased bonds is $93,540,000 at September 30, 2016. The refunding resulted in net present value savings of approximately $15,016,000. The remaining undefeased portion of the Series 2008 bonds at September 30, 2016 is $5,565,000 and is included in current and noncurrent long-term debt on the accompanying statement of net position.

In order to realize debt service savings currently from future debt refunding, in January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to the counterparty and resulted in an up-front payment to the University totaling $9,328,000 in exchange for selling the counterparty the option to enter into interest rate swaps with respect to the Series 2004 and 2006 bonds. A portion of this payment was considered a borrowing and was included in the long-term debt of the University. The fair value component of the refunding associated with the swaps was considered an investment derivative and, as such, the change in the fair value component was reflected as a component of investment income (loss) in 2016 and 2015.

In December 2013, the counterparty exercised its option with respect to the 2004 swaption and forced the University into an underlying swap. The University refunded its Series 2004 bonds, and issued the 2014-A variable rate bond. As a result of the exercise of the option by the counterparty, the swaption was terminated and the borrowing arising from the Series 2004 swaption of $1,696,000 and the investment derivative of $5,213,000 were written off and an investment loss of $2,229,000 was recognized. A borrowing arising from the 2014 swap of $9,138,000 was recognized and is reported in the statement of net position at September 30, 2016.

In September 2016, the counterparty exercised its option with respect to the 2006 swaption and forced the University into an underlying swap. As a result of the exercise of the option by the counterparty, the swaption was terminated and the borrowing arising from the Series 2006 swaption of $6,939,000 and the investment derivative of $34,078,000 were written off. A borrowing arising from the 2016 swap of $41,017,000 was recognized and is reported in the statement of net position at September 30, 2016.

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

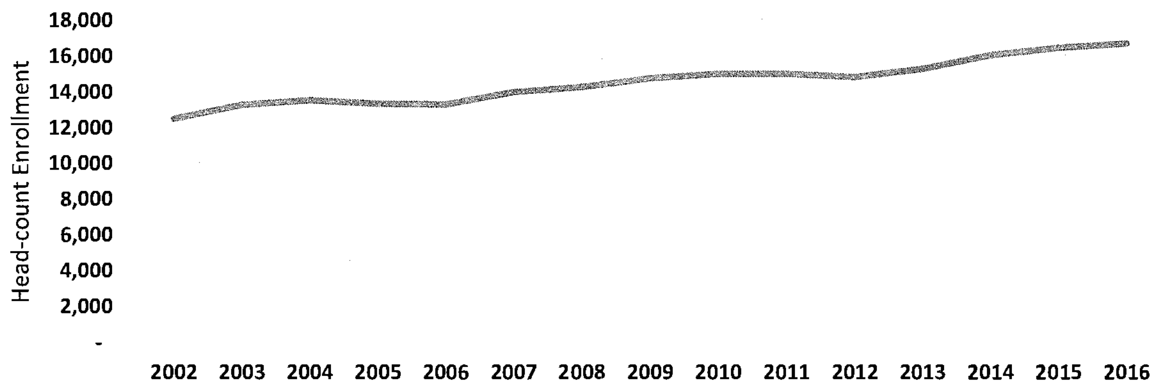


(Continued)

## Economic Outlook

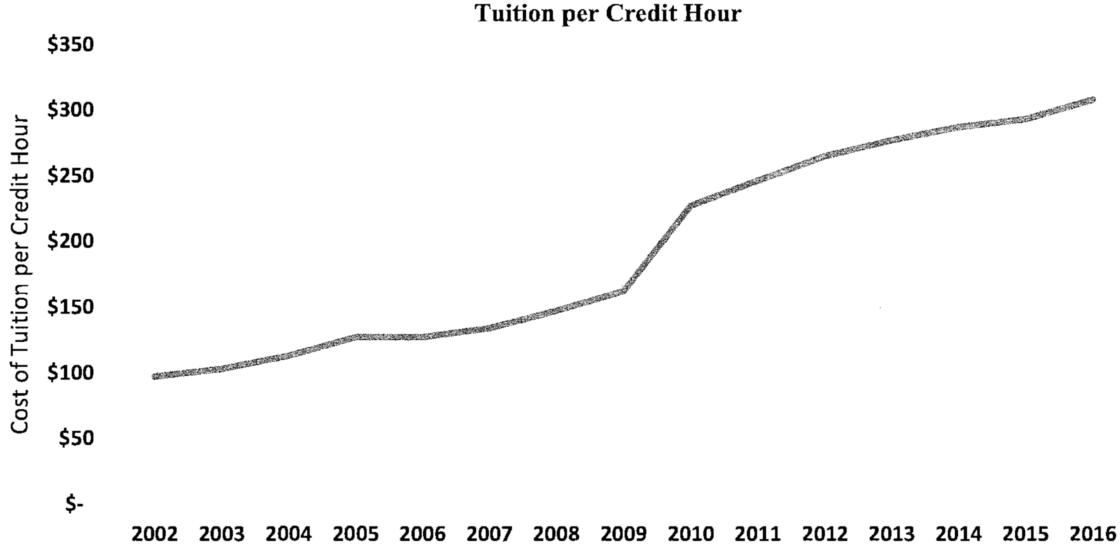
Student enrollment and tuition and fee rates have both increased over the past fifteen years. The University has experienced an increase in enrollment between 2002 and 2016, from 12,510 in 2002 to 16,699 for the 2016 Fall semester. The enrollment trend for the University between 2002 and 2016 is as follows:

**Enrollment Growth Summary**




During the same time period, in-state tuition per credit hour has increased by approximately 229%. The large increase in 2010 is the result of the University's bundling of tuition and required fees into a single per-hour charge. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. The trend of in-state tuition per credit hour between 2002 and 2016 is as follows:

**Tuition per Credit Hour**



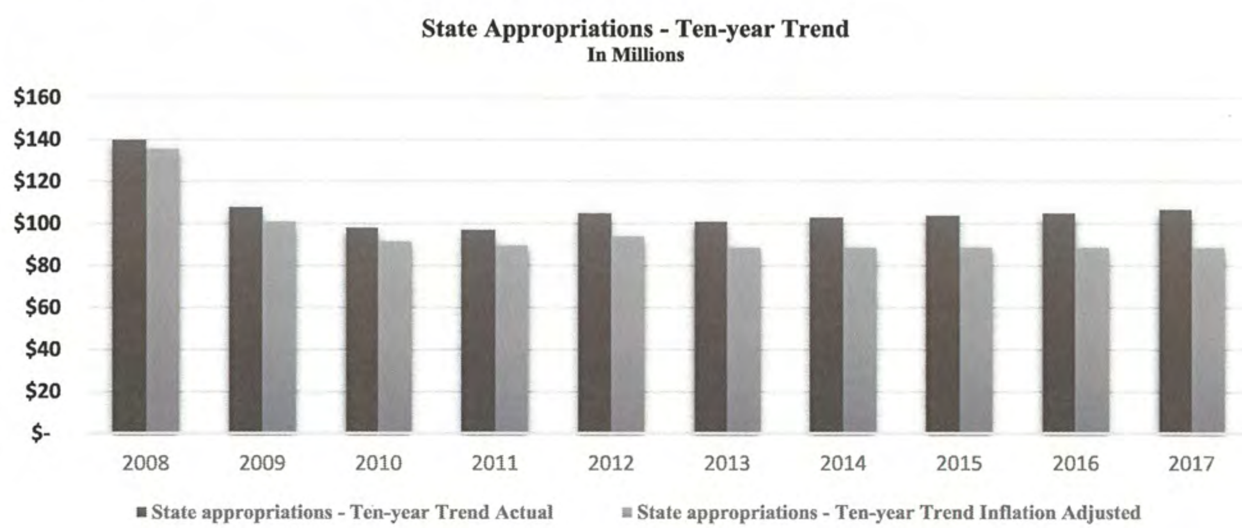
While enrollment and tuition have both increased in recent years, state appropriations prior to 2006 were relatively flat. However, in the 2006, 2007 and 2008 fiscal years, the University experienced increases of 16%, 19% and 17%, respectively, or approximately $19,349,000, $19,185,000 and $14,581,000, respectively, in its state appropriation. These increases were unusually high. For the 2009 fiscal year, the University's state appropriation decreased 13% or approximately $17,882,000. Additionally, in December 2008 the Governor of Alabama announced proration of 9%, or approximately $10,967,000; and in July 2009, the Governor announced additional proration of 2%, or approximately $2,437,000.

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

A state appropriation in the amount of approximately $105,024,000 was authorized and received for the year ended September 30, 2016.

A state appropriation in the amount of approximately $107,285,000 has been authorized for the year ending September 30, 2017. This represents a $2,261,000 increase from the fiscal 2016 appropriation received. While no announcement has been made, the University is aware that reductions in the 2017 appropriation are possible.

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



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

Other than the issues presented above, University administration is not aware of any other currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during fiscal year 2017 beyond those unknown variables having a global effect on virtually all types of business operations.

## Requests for Information

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

KPMG

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

## Independent Auditors' Report

The Board of Trustees
University of South Alabama:

### Report on the Financial Statements

We have audited the accompanying financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the 2016 consolidated financial statements of the University of South Alabama Foundation, which represents 93%, 100%, and 52%, respectively, of the 2016 assets, net assets, and revenues, gains and other support of the aggregate discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University of South Alabama Foundation, the University of South Alabama Health Services Foundation, the USA Research and Technology Corporation, the Gulf Coast Regional Care Organization, and the Professional and General Liability Trust Funds were not audited in accordance with *Government Auditing Standards*.

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

KPMG

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

### *Opinions*

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of September 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### *Emphasis of Matters*

As discussed in note 1(z) to the basic financial statements, in 2016, the University adopted Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and application*. Our opinion is not modified with respect to this matter.

As described in note 1(d), beginning in fiscal 2016, the USA Health Services Foundation met the criteria for blended component unit presentation. The cumulative effect of this change in reporting entity resulted in a decrease in net position as of October 1, 2015 of ($2,963,000).

### *Other Matters*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1-13 and the schedule of the University's proportionate share of the net pension liability and schedule of University's contributions on pages 64 and 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
November 15, 2016

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

Statement of Net Position

September 30, 2016

(In thousands)

| | | |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ | 100,155 |
| Investments | | 85,182 |
| Net patient receivable, (net of allowance for doubtful accounts of $65,829) | | 47,897 |
| Accounts receivable, affiliates | | 464 |
| Accounts receivable, other | | 20,674 |
| Notes receivable, net | | 7,108 |
| Prepaid expenses, inventories, and other | | 12,154 |
| Total current assets | | 273,634 |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | | 18,927 |
| Restricted investments | | 108,894 |
| Investments | | 81,279 |
| Accounts receivable | | 2,195 |
| Other noncurrent assets | | 2,167 |
| Capital assets, net | | 653,297 |
| Total noncurrent assets | | 866,759 |
| Total assets | | 1,140,393 |
| Deferred outflows | | 44,518 |
| Total assets and deferred outflows | | 1,184,911 |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | | 55,234 |
| Unrecognized revenue | | 62,674 |
| Deposits | | 1,627 |
| Current portion of other long-term liabilities | | 9,336 |
| Current portion of long-term debt | | 25,016 |
| Total current liabilities | | 153,887 |
| Noncurrent liabilities: | | |
| Long-term debt, less current portion | | 363,796 |
| Net pension liability | | 329,294 |
| Other long-term liabilities | | 95,926 |
| Total noncurrent liabilities | | 789,016 |
| Total liabilities | | 942,903 |
| Deferred inflows | | 24,014 |
| Total liabilities and deferred inflows | | 966,917 |
| Net position: | | |
| Net investment in capital assets | | 270,127 |
| Restricted, nonexpendable: | | |
| Scholarships | | 23,905 |
| Other | | 24,855 |
| Restricted, expendable: | | |
| Scholarships | | 13,368 |
| Other | | 42,224 |
| Unrestricted | | (156,485) |
| Total net position | $ | 217,994 |

See accompanying notes to basic financial statements.

**UNIVERSITY OF SOUTH ALABAMA FOUNDATION**
(Discretely Presented Component Unit)

Consolidated Statement of Financial Position

June 30, 2016

(In thousands)

**Assets**

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 368 |
| Investments: | | |
| Equity securities | | 120,900 |
| Timber and mineral properties | | 157,470 |
| Real estate | | 69,070 |
| Other | | 5,803 |
| Other assets | | 532 |
| Total assets | $ | 354,143 |

**Liabilities and Net Assets**

| | | |
|---|---|---|
| Liabilities: | | |
| Accounts payable | $ | 90 |
| Other liabilities | | 649 |
| Total liabilities | | 739 |
| Net assets: | | |
| Unrestricted | | 99,115 |
| Temporarily restricted | | 84,699 |
| Permanently restricted | | 169,590 |
| Total net assets | | 353,404 |
| Total liabilities and net assets | $ | 354,143 |

See accompanying notes to basic financial statements.

**USA RESEARCH AND TECHNOLOGY CORPORATION**
(Discretely Presented Component Unit)

Statement of Net Position

September 30, 2016

(In thousands)

| | | |
|---|---|---|
| Assets: | | |
| Current assets: | | |
| Unrestricted cash and cash equivalents | $ | 627 |
| Rent receivable | | 26 |
| Prepaid expenses and other current assets | | 15 |
| Total current assets | | 668 |
| Noncurrent assets: | | |
| Intangible assets, net | | 30 |
| Capital assets, net | | 22,567 |
| Total noncurrent assets | | 22,597 |
| Deferred outflows | | 3,415 |
| Total assets and deferred outflows | | 26,680 |
| Liabilities: | | |
| Current liabilities: | | |
| Deposits, other current liabilities, and accrued expenses | | 162 |
| Unrecognized rent revenue | | 390 |
| Current portion of notes payable | | 1,062 |
| Total current liabilities | | 1,614 |
| Noncurrent liabilities: | | |
| Notes payable, excluding current portion | | 20,254 |
| Interest rate swap | | 3,415 |
| Payable to University of South Alabama | | 573 |
| Total noncurrent liabilities | | 24,242 |
| Total liabilities | | 25,856 |
| Net position: | | |
| Net investment in capital assets | | 678 |
| Unrestricted | | 146 |
| Total net position | $ | 824 |

See accompanying notes to basic financial statements.

**GULF COAST REGIONAL CARE ORGANIZATION**
(Discretely Presented Component Unit)

Statement of Net Position

September 30, 2016

(In thousands)

| | | |
|---|---|---|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | $ | 741 |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | | 11 |
| Due to affiliate | | 50 |
| Total liabilities | | 61 |
| Net position: | | |
| Unrestricted | $ | 680 |

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, 2016

(In thousands)

| | | |
|---|---|---|
| Operating revenues: | | |
| Tuition and fees (net of scholarship allowances of $35,179) | $ | 137,074 |
| Net patient service revenue (net of provision for bad debts of $83,211) | | 360,657 |
| Federal grants and contracts | | 20,119 |
| State grants and contracts | | 8,663 |
| Private grants and contracts | | 9,405 |
| Auxiliary enterprises (net of scholarship allowances of $1,147) | | 28,861 |
| Other operating revenues | | 60,082 |
| Total operating revenues | | 624,861 |
| Operating expenses: | | |
| Salaries and benefits | | 460,219 |
| Supplies and other services | | 198,518 |
| Scholarships and fellowships | | 14,230 |
| Utilities | | 15,126 |
| Depreciation and amortization | | 36,174 |
| Total operating expenses | | 724,267 |
| Operating loss | | (99,406) |
| Nonoperating revenues (expenses): | | |
| State appropriations | | 105,024 |
| Investment income | | 2,631 |
| Interest expense | | (14,342) |
| Other nonoperating revenues | | 38,708 |
| Other nonoperating expenses | | (16,231) |
| Net nonoperating revenues | | 115,790 |
| Income before capital contributions, grants and additions to endowment | | 16,384 |
| Capital contributions and grants | | 3,053 |
| Additions to endowment | | 6,468 |
| Increase in net position | | 25,905 |
| Net position: | | |
| Beginning of year, before cumulative effect of change in reporting entity | | 195,052 |
| Cumulative effect of change in reporting entity (note 1 (d)) | | (2,963) |
| Beginning balance, as adjusted | | 192,089 |
| End of year | $ | 217,994 |

See accompanying notes to basic financial statements.

**UNIVERSITY OF SOUTH ALABAMA FOUNDATION**
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2016

(In thousands)

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

See accompanying notes to basic financial statements.

**USA RESEARCH AND TECHNOLOGY CORPORATION**
(Discretely Presented Component Unit)

Statement of Revenues, Expenses, and Change in Net Position

Year ended September 30, 2016

(In thousands)

| | | |
|---|---|---|
| Operating revenues | $ | 3,424 |
| Operating expenses: | | |
| Building management and operating expenses | | 1,150 |
| Depreciation and amortization | | 951 |
| Legal and administrative fees | | 185 |
| Insurance | | 27 |
| Total operating expenses | | 2,313 |
| Operating income | | 1,111 |
| Nonoperating revenues (expenses): | | |
| Investment income | | 1 |
| Interest expense | | (1,199) |
| Other | | 5 |
| Net nonoperating expenses | | (1,193) |
| Decrease in net position | | (82) |
| Net position: | | |
| Beginning of year | | 906 |
| End of year | $ | 824 |

See accompanying notes to basic financial statements.

**GULF COAST REGIONAL CARE ORGANIZATION**
(Discretely Presented Component Unit)

Statement of Revenues, Expenses, and Change in Net Position

Year ended September 30, 2016

(In thousands)

| | | |
|---|---|---|
| Operating revenues: | | |
| Contract revenues | $ | 3,586 |
| Operating expenses: | | |
| Third party administration expense | | 3,209 |
| Management company expense | | 189 |
| Other operating expense | | 199 |
| Total operating expenses | | 3,597 |
| Operating income | | (11) |
| Nonoperating revenues: | | |
| Gifts and contributions | | 594 |
| Increase in net position | | 583 |
| Net position: | | |
| Beginning of year | | 97 |
| End of year | $ | 680 |

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, 2016

(In thousands)

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts related to tuition and fees | $ | 135,642 |
| Receipts from and on behalf of patients and third-party payers | | 331,351 |
| Receipts from grants and contracts | | 56,071 |
| Receipts related to auxiliary enterprises | | 29,456 |
| Payments to suppliers and vendors | | (200,589) |
| Payments to employees and related benefits | | (444,936) |
| Payments for scholarships and fellowships | | (11,186) |
| Other operating receipts | | 51,605 |
| Net cash used in operating activities | | (52,586) |
| Cash flows from noncapital financing activities: | | |
| State appropriations | | 105,024 |
| Endowment gifts | | 6,468 |
| Agency funds received | | 646 |
| Agency funds disbursed | | (1,946) |
| Student loan program receipts | | 151,365 |
| Student loan program disbursements | | (152,855) |
| Other nonoperating revenues | | 47,401 |
| Other nonoperating expenses | | (5,347) |
| Net cash provided by noncapital financing activities | | 150,756 |
| Cash flows from capital and related financing activities: | | |
| Capital contributions and grants | | 3,052 |
| Purchases of capital assets | | (75,208) |
| Proceeds from issuance of capital debt | | 107,537 |
| Principal payments on capital debt | | (108,463) |
| Interest payments on capital debt | | (15,409) |
| Net cash used in capital and related financing activities | | (88,491) |
| Cash flows from investing activities: | | |
| Interest and dividends on investments | | 3,540 |
| Purchases of investments | | (122,288) |
| Proceeds from sales of investments | | 100,876 |
| Net cash used in investing activities | | (17,872) |
| Net decrease in cash and cash equivalents | | (8,193) |
| Cash and cash equivalents (unrestricted and restricted): | | |
| Beginning of year, as adjusted | | 127,275 |
| End of year | $ | 119,082 |



(Continued)

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

Statement of Cash Flows

Year ended September 30, 2016

(In thousands)

| | | |
|---|---|---|
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | $ | (99,406) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation and amortization expense | | 36,174 |
| Changes in assets and liabilities, net: | | |
| Student receivables | | (3,166) |
| Net patient accounts receivables | | (3,871) |
| Grants and contracts receivables | | 18,546 |
| Other receivables | | (8,936) |
| Prepaid expenses, inventories, and other | | (1,422) |
| Accounts payable and accrued liabilities | | 5,045 |
| Unrecognized revenue | | 4,450 |
| Net cash used in operating activities | $ | (52,586) |
| Noncash investing, noncapital financing, and capital and related financing transactions: | | |
| Net decrease in fair value of investments recognized as a component of investment incom( | $ | (2,025) |
| Payment for capital lease | | 3,678 |
| Additional maturity on capital appreciation on bonds payable and other borrowings recorded as interest expense | | 1,443 |
| Gifts of capital and other assets | | 2,257 |
| Capitalization of construction period interest | | 721 |
| Increase in accounts payable related to capital assets | | 2,606 |

See accompanying notes to basic financial statements.

## (1) Summary of Significant Accounting Policies

### *(a) Reporting Entity*

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

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

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

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF). This entity is not considered a component unit of the University under the provisions of GASB Statements No. 14, 39 and 61 because the University does not consider SAMSF significant enough to warrant inclusion in the University's reporting entity (see note 15 for further discussion of this entity).

GASB Statement No. 61 requires the University, as the primary government, to include in its basic financial statements, as a blended component unit, organizations that, even though they are legally separate entities, meet certain requirements as defined by GASB Statement No. 61. Based on these criteria, the University reports the Professional Liability Trust Fund, the General Liability Trust Fund, the USA HealthCare Management, LLC, and the USA Health Services Foundation (USAHSF) as blended component units. All significant transactions among the University and its blended component units have been eliminated.

***(b) USA HealthCare Management, LLC***

In June 2010, the University's Board of Trustees approved the formation of USA HealthCare Management, LLC (HCM). HCM was organized for the purpose of managing and operating on behalf of, and as agent for, substantially all of the health care clinical enterprise of the University. The University is the sole member of HCM. HCM commenced operations in October 2010 and is reported as a blended component unit (see note 18 for further discussion of, and disclosure for, this entity).

***(c) Professional Liability and General Liability Trust Funds***

The medical malpractice liability of the University is maintained and managed in its separate Professional Liability Trust Fund (the PLTF) in which the University, USAHSF, HCM and SAMSF are the only participants. In accordance with the bylaws of the PLTF, the president of the University is responsible for appointing members of the PLTF policy committee. Additionally, the general liability of the University, USAHSF, HCM, SAMSF and the Corporation is maintained and managed in its General Liability Trust Fund (the GLTF) for which the University, as defined by GASB Statement No. 18, is responsible. The PLTF and GLTF are separate legal entities which are governed by the University Board of Trustees through the University president. As such, PLTF and GLTF are reported as blended component units (see note 18 for further discussion of, and disclosure for, these entities).

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

During fiscal 2016, due to the Board's approval of governance changes and assignment of operational responsibility to the University, the USA Health Services Foundation now meets the criteria for blended component unit presentation. The cumulative effect of this change in reporting entity resulted in a decrease to the beginning balance of the University's net position in the amount of ($2,963,000). All transactions for the USA Health Services Foundation for fiscal year ended September 30, 2016 are blended in the University's financial statements.

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

The USA Foundation is a not-for-profit corporation that was organized for the purpose of promoting education, scientific research, and charitable purposes, and to assist in developing and advancing the University in furthering, improving, and expanding its properties, services, facilities, and activities. Because of the significance of the relationship between the University and the USA Foundation, the USA Foundation is considered a component unit of the University. The Board of Directors of the USA Foundation is not appointed or controlled by the University. The University receives distributions from the USA Foundation primarily for scholarship, faculty and other support. Total distributions received or accrued by the University for the year ended September 30, 2016 were $10,455,000, and are primarily included in other nonoperating revenues and capital contributions and grants in the University's statement of revenues, expenses, and changes in net position. The USA Foundation presents its financial statements in accordance with standards issued by the Financial Accounting Standards Board (FASB). The USA Foundation is reported in separate financial statements because of the difference in the financial reporting format since the USA Foundation follows FASB rather than GASB pronouncements. The USA Foundation has a June 30 fiscal year end which differs from the

University's September 30 fiscal year end. In accordance with GASB Statement No. 14, this discretely presented unit has been included with the most recent fiscal year. The accompanying consolidated statement of financial position and statement of activities and changes in net assets for the USA Foundation as of and for the year ended June 30, 2016 are discretely presented.

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

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

### *(g) Gulf Coast Regional Care Organization*

The RCO is a not-for-profit corporation that exists for the purpose of creating and operating a risk-based, community-led network to coordinate the heath care of Medicaid patients in a seven county region of southwest Alabama, one of five such regions in the state of Alabama identified by the Alabama Medicaid Agency. The RCO commenced operations in April 2015 and is currently operating a Health Home program, providing certain case management services to qualifying Medicaid beneficiaries. Effective July 1, 2017, the Alabama Medicaid Agency plans to begin full operations for all Medicaid patients throughout the state. If it elects to participate in this program, the RCO will be responsible for the care of between 50% and 100% of all Medicaid patients in the region. Because of the significance of the relationship between the University and the RCO, the RCO is considered a component unit of the University. The RCO presents its financial statements in accordance with GASB. The accompanying statements of net position and revenues, expenses and change in net position for the RCO are discretely presented. See note 20 for further discussion.

### *(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 and include repurchase agreements and money market accounts.

### *(k) Investments and Investment Income*

The University reports the fair value of investments using the three-level hierarchy established under GASB Statement No. 72, *Fair Value Measurement and Application*. The fair value of alternative investments (low-volatility multi-strategy funds of funds), do not have readily ascertainable market values and the University values these investments in accordance with valuations provided by the general partners or fund managers of the underlying partnerships or companies, typically based on net asset value (NAV) of the partnership or commingled vehicle. Because some of these investments are not readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the fair value that would have been used had a ready market for the investment existed. Investments received by gift are recorded at fair value at the date of receipt. Changes in the fair value of investments are reported in investment income (loss).

### *(l) Derivatives*

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

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

In December 2013, the counterparty, Wells Fargo, exercised its option related to the Series 2004 swaption and, as a result, the University entered into an interest rate swap. As a result of the exercise of the option, the Series 2004 swaption was terminated. In March 2014, the University entered into an interest rate swap arrangement with a counterparty. The resulting derivative is a "receive-variable, pay-fixed" interest rate swap. The University pays the counterparty a fixed semi-annual payment based on an annual rate of 4.9753% and receives on a monthly basis a variable payment of 68% of the one-month London Interbank Offered Rate (LIBOR) plus 0.25%. The notional amount of the swap will at all times match the outstanding principal amount of the Series 2014-A bond. The change in the fair value of the swap ($609,000 at September 30, 2016) is reported as a deferred inflow and derivative asset on the 2016 statement of net position since the interest rate swap is a hedging derivative. See note 10 for further discussion.

In September 2016, the counterparty, Wells Fargo, exercised its option related to the Series 2006 swaption and, as a result, the University entered into an interest rate swap. As a result of the exercise of the option, the Series 2006 swaption was terminated. The resulting derivative is a "receive-variable, pay-fixed" interest rate swap. The University pays the counterparty a fixed semi-annual payment based on an annual rate of 5% and receives on a monthly basis a variable payment of 68% of the one-month London Interbank Offered Rate (LIBOR) plus 0.25%. The change in the fair value of the swap ($637,000 at September 30, 2016) is reported as a deferred inflow and derivative asset on the 2016 statement of net position since the interest rate swap is a hedging derivative. See note 10 for further discussion.

### *(m) Accounts Receivable*

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

### *(n) Inventories*

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

### *(o) Capital Assets*

Capital assets are recorded at cost, if purchased, or at fair value at date of donation. Depreciation is provided over the estimated useful life of each class of depreciable 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.

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

The University evaluates impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. For the year ended September 30, 2016, no impairments were recorded.

### *(p) Unrecognized Revenue*

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

### *(q) Cost Sharing Multi-Employer Pension Plan*

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

### *(r) Classification of Net Position*

The University's net position is classified as follows:

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

*Restricted, nonexpendable* net position consists of endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, 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, net patient service revenue, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff. While unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees, they are available for use at the discretion of the governing board to meet current expenses for any purpose. Substantially all unrestricted net position is designated for academic and research programs and initiatives, and capital programs.

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

### *(s) Scholarship Allowances and Student Financial Aid*

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

### *(t) Donor Restricted Endowments*

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

### *(u) Classification of Revenues*

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

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

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

### *(v) Gifts and Pledges*

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

### *(w) Grants and Contracts*

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

### *(x) Net Patient Service Revenue and Electronic Health Records Incentive Program*

Net patient service revenue is reported at estimated net realizable amounts due from patients, third-party payers and others for healthcare services rendered, including estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods, as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

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



(Continued)

reporting period and that the grants will be received. The EHR reporting period for hospitals is based on the federal fiscal year, which runs from October 1 through September 30.

The Health System recognized Medicare EHR incentive revenues of $391,000 for the year ended September 30, 2016. EHR incentive revenues are included in other operating revenues in the accompanying statement of revenues, expenses and changes in net position.

### *(y) Compensated Absences*

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

### *(z) Recently Adopted Accounting Pronouncements*

In 2016, the University adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides hierarchical guidance for determining fair value measurement for assets and liabilities for financial reporting purposes and also provides guidance for required disclosure related to fair value measurements. See note 4 for a 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 are tax-exempt entities under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). Consistent with that designation, no provision for income taxes has been made in the accompanying discretely presented financial statements.

## (3) Cash

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

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

## (4) Investments

### *(a) University of South Alabama*

The investments of the University are invested pursuant to the University of South Alabama "Non-endowment Cash Pool Investment Policies," the "Endowment Fund Investment Policy," and the "Derivatives Policy" (collectively referred to as the University Investment Policies) as adopted by the Board of Trustees. The purpose of the non-endowment cash pool investment policy is to provide guidelines by which commingled funds not otherwise needed to meet daily operational cash flows can be invested to earn a maximum return, yet still maintain sufficient liquidity to meet fluctuations in the inflows and outflows of University operational funds. Further, endowment fund investment policies exist to provide earnings to fund specific projects of the endowment fund, while preserving principal. The University Investment Policies require that management apply the "prudent person" standard in the context of managing its investment portfolio.

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

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

Investments of the University, by type, at fair value, are as follows at September 30, 2016 (in thousands):

| | | |
|---|---|---|
| U.S. Treasury notes | $ | 5,167 |
| U.S. federal agency notes | | 104,895 |
| Commingled equity funds | | 91,695 |
| Commingled debt funds | | 37,439 |
| Marketable equity securities | | 7,864 |
| Real Estate | | 360 |
| Managed income alternative investments (low-volatility multi-strategy funds of funds) | | 27,935 |
| | $ | 275,355 |

At September 30, 2016, $14,852,000 of cumulative appreciation in fair value of investments of donor-restricted endowments was recognized and is included in restricted expendable net position in the accompanying statement of net position.

**Credit Risk and Concentration of Credit Risk**

**(i) Non-Endowment 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.

**(ii) Endowment Fund Investment Policy**

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

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

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

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

### Interest Rate Risk

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

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

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

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

### Mortgage-Backed Securities

The University, from time to time, invests in mortgage backed securities 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.

### Fair Value Measurement

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

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

The level in the fair value hierarchy that determines the classification of an asset or liability depends on the lowest level input that is significant to the fair value measurement. Observable inputs are derived from quoted market prices for assets or liabilities traded on an active market where there is sufficient activity to determine a readily determinable market price. Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable inputs. The University of South Alabama's assets that have unobservable inputs consist of the investment in real estate with fair value based on an independent third party appraisal performed by qualified appraisers specializing in real estate investments. Other assets included in the University's investment portfolio with unobservable inputs are the shares or units in certain partnerships or other comingled funds that do not have readily determinable fair values. For these funds, fair value is estimated using the net asset value (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 as of September 30, 2016 (in thousands):

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

| | Liability Fair value measurements at September 30, 2016 | | | |
|---|---|---|---|---|
| **Description** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Interest rate exchange agreements | $ — | 49,378 | — | 49,378 |

A rollfoward schedule of amounts for Level 3 financial instruments for the fiscal year ended September 30, 2016 is as follows:

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

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

Investments in securities consist primarily of equity securities totaling $120,900,000 at June 30, 2016.

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

| | | |
|---|---|---|
| Unrealized gains | $ | 844 |
| Realized gains | | 1,972 |
| Timber sales | | 2,685 |
| Interest and dividends | | 2,131 |
| Rents | | 627 |
| Royalties | | 74 |
| | $ | 8,333 |

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

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

| | | |
|---|---|---|
| Land and land improvements – held for investment | $ | 67,935 |
| Building and building improvements – held for investment | | 1,135 |
| | $ | 69,070 |

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

Investments at June 30, 2016, include an equity interest in a timberland management company. The company's primary assets consist of timberland. The Foundation's proportionate share of the fair value of the company is based upon the valuation from the trustee responsible for the management of the company and the timber valuation.

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

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

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

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

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

As of June 30, 2016, the USA Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of the Foundation's equity securities at June 30, 2016 are considered readily liquid. Timber and mineral properties, real estate, and other investments are generally considered illiquid.

## (5) Derivative Transactions – Swaptions

In January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds with a counterparty. This transaction was effected through the sale of two swaptions by the University to the counterparty. The transactions resulted in an up-front payment to the University totaling $9,328,000, which was recorded as a liability, in exchange for selling the counterparty the option to enter into an interest rate swap with respect to the Series 2004 and 2006 bonds in 2015 and 2016, respectively.

### *Objective of the Derivative Transaction*

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

### *Terms*

A summary of the transactions is as follows:

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

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

As further discussed in note 10, in September 2016, the counterparty exercised its option with respect to the 2006 swaption. As a result of the exercise of the option by the counterparty, the swaption was terminated, the borrowing arising from the Series 2006 swaption of $6,939,000 and the investment derivative of $34,078,000 were written off. An original borrowing arising from the 2016 swap of $41,017,000 was recognized and is reported, net of current year amortization, as long-term debt, in the amount of $40,849,000, in the statement of net position at September 30, 2016.

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

The change in the fair market value of the swaption derivative until the exercise date of September 1, 2016 is reported as a component of investment income (loss) in the statement of revenues, expenses and changes in net position. For the year ended September 30, 2016, the change in the fair value of the derivative was ($11,611,000).

## (6) Capital Assets

### *(a) University of South Alabama*

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

| | Beginning balance | Additions | Transfers | Reductions | Ending balance |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land and other | $ 22,516 | 213 | 111 | — | 22,840 |
| Construction-in-progress | 82,913 | 60,972 | (30,375) | — | 113,510 |
| | 105,429 | 61,185 | (30,264) | — | 136,350 |
| Capital assets being depreciated: | | | | | |
| Land improvements | 32,361 | 35 | 794 | — | 33,190 |
| Buildings, fixed equipment, and infrastructure | 676,831 | 4,474 | 28,751 | (408) | 709,648 |
| Other equipment | 150,661 | 8,104 | 719 | (4,128) | 155,356 |
| Equipment, net | — | 1,377 | — | — | 1,377 |
| Library materials | 63,964 | 3,513 | — | — | 67,477 |
| | 923,817 | 17,503 | 30,264 | (4,536) | 967,048 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | (19,218) | (1,309) | — | — | (20,527) |
| Buildings, fixed equipment, and infrastructure | (237,648) | (19,747) | — | 287 | (257,108) |
| Other equipment | (113,656) | (10,918) | — | 4,096 | (120,478) |
| Library materials | (49,094) | (2,894) | — | — | (51,988) |
| | (419,616) | (34,868) | — | 4,383 | (450,101) |
| Capital assets being depreciated, net | 504,201 | (17,365) | 30,264 | (153) | 516,947 |
| Capital assets, net | $ 609,630 | 43,820 | — | (153) | 653,297 |

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

### *(b) USA Research and Technology Corporation*

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

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

## (7) Noncurrent Liabilities

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

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

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

In September 2016, the University signed a six-year purchase agreement as a method of financing the purchase of certain hospital equipment for the Health System. See Note 9 for further disclosure.

In June 2016, the University entered into a variable interest rate revolving line of credit with Compass Bank to, among other reasons, fund certain capital improvements to various health care facilities for the Health System. The total amount available under the line of credit is $30,000,000 and interest on the outstanding amounts is accrued at the rate of 65 percent of the London Interbank Offered Rate (LIBOR) plus 77 basis points. The maturity date is June 10, 2018. The amount outstanding at September 30, 2016 is $50,000 and is reported in current portion of long-term debt in the current liabilities section of the statement of net position. See note 16(c) for further disclosure.

## (8) Bonds Payable

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

| | | |
|---|---|---|
| University Tuition Revenue Bonds, Series 1999 Capital Appreciation, 4.70% to 5.25%, payable November 2011 through November 2018 | $ | 21,382 |
| University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006 5.00%, payable through December 2036 | | 100,000 |
| University Facilities Revenue and Capital Improvement Bonds, Series 2008, 3.00% to 5.00%, payable through August 2018 | | 5,565 |
| University Facilities Revenue and Capital Improvement Bonds, Series 2010, 3.81%, payable through August 2030 | | 23,102 |
| University Facilities Revenue Capital Improvement Bond, Series 2012-A, 2.92% payable through August 2032 | | 21,025 |
| University Facilities Revenue Capital Improvement Bond, Series 2012-B, 2.14% payable through August 2018 | | 2,690 |
| University Facilities Revenue Capital Improvement Bond, Series 2013-A, 2.83% payable through August 2033 | | 28,261 |
| University Facilities Revenue Capital Improvement Bond, Series 2013-B, 2.83% payable through August 2033 | | 7,065 |
| University Facilities Revenue Capital Improvement Bond, Series 2013-C, 2.78% payable through August 2025 | | 8,315 |
| University Facilities Revenue Refunding Bond, Series 2014-A, variable rate payable at 68% of LIBOR plus .73%, payable through March 2024 | | 40,285 |
| University Facilities Revenue Capital Improvement Bond, Series 2015, 2.47% payable through August 2030 | | 5,250 |
| University Facilities Revenue Refunding Bonds, Series 2016, 3.00% to 5.00% payable through November 2037 | | 85,605 |
| | | 348,545 |
| Plus unamortized premium | | 20,640 |
| Less unaccreted discount | | (16) |
| Less unamortized debt issuance costs | | (1,612) |
| | $ | 367,557 |



(Continued)

Substantially all student tuition and fee and auxiliary revenues secure University bonds. Additionally, security for Series 2008 bonds includes Children's and Women's Hospital revenues in an amount not exceeding $10,000,000. Series 1999 Capital Appreciation Bonds began maturing in November 2011. Series 1999 Bonds are not redeemable prior to maturity. Series 2006 Bonds begin maturing in December 2024 and are redeemable beginning in December 2016. Series 2008 Bonds began maturing in August 2009 and are redeemable beginning in September 2018. The Series 2010 Bond began maturing in August 2011 and is redeemable beginning in February 2020. The 2012-A and 2012-B Bonds began maturing in August 2013. The 2012-A Bond is redeemable beginning in August 2021. The 2012-B Bond is redeemable at any time. The 2013-A, 2013-B and 2013-C Bonds began maturing in August 2014 and are redeemable beginning in June 2023. The Series 2014-A bond began maturing in March 2015 and is redeemable at any time. The Series 2015 bond began maturing in August 2015 and is redeemable beginning in June 2020. The Series 2016 bonds will begin maturing in November 2018 and are redeemable in November 2026.

In September 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016, with a face value of $85,605,000. The proceeds from the series 2016 bonds were used to partially defease the Series 2008 bonds. The funds were deposited into escrow trust funds to provide for the subsequent repayment of the Series 2008 bonds when they are called in December 2018. Neither the asset of the escrow trust account, nor the defeased indebtedness is included in the accompanying statement of net position. The principal outstanding on all defeased bonds is $93,540,000 at September 30, 2016. The remaining undefeased portion of the Series 2008 bonds at September 30, 2016 is $5,565,000 and is included in current and noncurrent long-term debt on the accompanying statement of net position.

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

Approximately $2,551,000 of proceeds from the issuance of the Series 2012 Bond remained unspent at September 30, 2016 and is included in restricted cash and cash equivalents in the 2016 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

Approximately $1,638,000 of proceeds from the issuance of the Series 2013-A Bond remained unspent at September 30, 2016 and is included in restricted cash and cash equivalents in the 2016 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

Approximately $1,452,000 of proceeds from the issuance of the Series 2015 Bonds remained unspent at September 30, 2016 and is included in restricted cash and cash equivalents in the 2016 statement of net position. These funds are restricted for capital purposes as outlined in the indenture.

The University is subject to arbitrage restrictions on its bonded indebtedness prescribed by the U. S. Internal Revenue Service. As such, amounts are accrued as needed in the University's basic financial statements for any expected arbitrage liabilities. At September 30, 2016, no amounts were due or recorded in the financial statements.

The University is subject to restrictive covenants related to its bonds payable. At September 30, 2016, management believes the University was in compliance with such financial covenants.

### Debt Service on Long-Term Obligations

Total debt service (which includes bonds and notes payable) by fiscal year is as follows as of September 30, 2016 (in thousands):

| | Debt service on note and bonds | | | |
|---|---|---|---|---|
| | **Principal** | **Interest** | **Additional maturity** | **Total** |
| 2017 | $ 20,661 | 10,868 | (782) | 30,747 |
| 2018 | 17,524 | 12,024 | (427) | 29,121 |
| 2019 | 16,076 | 11,667 | (49) | 27,694 |
| 2020 | 15,077 | 11,355 | — | 26,432 |
| 2021 | 15,745 | 11,012 | — | 26,757 |
| 2022-2026 | 83,056 | 48,933 | — | 131,989 |
| 2027-2031 | 85,258 | 32,805 | — | 118,063 |
| 2032-2036 | 77,085 | 13,968 | — | 91,053 |
| 2037-2038 | 22,805 | 667 | — | 23,472 |
| Subtotal | 353,287 | $ 153,299 | (1,258) | 505,328 |
| Plus (less): | | | | |
| Additional maturity | (1,258) | | | |
| Unamortized bond premium | 20,640 | | | |
| Unaccreted bond discount | (16) | | | |
| Unamortized debt extinguishment costs | (1,612) | | | |
| Total | $ 371,041 | | | |

The principal amount of debt service due on bonds at September 30, 2016 includes $1,099,000 representing additional maturity value on Series 1999 Capital Appreciation Bonds. These bonds mature through 2019. Although this additional maturity is presented as principal on the debt service schedule above, it is also recognized as interest expense on an annual basis in the University's basic financial statements as it accretes.

### *(a) USA Research and Technology Corporation*

#### Notes Payable

Notes payable consisted of the following at September 30, 2016 (in thousands):

| | |
|---|---|
| Wells Fargo, promissory note, one-month LIBOR plus 0.85% (1.377% at September 30, 2016) payable through 2028 | $ 13,034 |
| PNC Bank promissory note, 4.50%, payable through 2021 | 8,282 |
| | $ 21,316 |

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

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

In connection with each note, the University entered into an agreement with the lender providing that for any year in which the Corporation's debt service coverage ratio is less than 1 to 1, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to 1 to 1. The debt service coverage ratio is calculated by dividing the sum of unrestricted cash and cash equivalents at the beginning of the year (reduced by current year capital assets additions) and current year change in net position (determined without depreciation, amortization, and interest expense) by current year debt service. For fiscal 2016 the Corporation's debt service coverage ratio was 1.24 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2016.

**Debt Service on Long-Term Obligations**

At September 30, 2016, total debt service by fiscal year is as follows (in thousands):

| | Debt service on note and loan | | |
|---|---|---|---|
| | **Principal** | **Interest** | **Total** |
| 2017 | $ 1,062 | 1,151 | 2,213 |
| 2018 | 1,119 | 1,094 | 2,213 |
| 2019 | 1,194 | 1,020 | 2,214 |
| 2020 | 1,264 | 949 | 2,213 |
| 2021 | 8,111 | 670 | 8,781 |
| 2022–2026 | 6,084 | 1,773 | 7,857 |
| 2027–2028 | 2,482 | 137 | 2,619 |
| Total | $ 21,316 | 6,794 | 28,110 |

**Derivative Transaction**

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

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

The swap will terminate on May 1, 2028, when the loan matures. The notional amount of the swap will at all times match the outstanding principal amount of the loan. Under the swap, the Corporation pays the counterparty a fixed payment of 6.10% and receives a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the loan bears interest at the one-month LIBOR rate plus .85%. The Corporation paid $651,955 under the interest rate swap agreement for the year ended September 30, 2016, which is reflected as an increase in interest expense.

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

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

***Risks Associated with this Transaction***

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

*Credit risk.* As of September 30, 2016, the Corporation was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivative becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa1 by Moody's and AA- by S&P as of September 30, 2016.

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

*Derivative payments and hedged debt.* As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of September 30, 2016, debt service requirements by fiscal year of the variable rate debt and net derivative payments, assuming current interest rates remain the same in the future, are as follows (in thousands):

| | Variable rate loan | | Interest rate | |
|---|---|---|---|---|
| | **Principal** | **Interest** | **swap, net** | **Total** |
| 2017 | $ 787 | 177 | 607 | 1,571 |
| 2018 | 832 | 167 | 573 | 1,572 |
| 2019 | 893 | 153 | 525 | 1,571 |
| 2020 | 949 | 141 | 482 | 1,572 |
| 2021 | 1,008 | 127 | 436 | 1,571 |
| 2022–2026 | 6,083 | 400 | 1,373 | 7,856 |
| 2027–2028 | 2,482 | 31 | 106 | 2,619 |
| Total | $ 13,034 | 1,196 | 4,102 | 18,332 |

## (9) Capital Lease Obligation

In April 2015, the University signed a seven-year purchase agreement as a method of financing the purchase of certain computer software and hardware for the USA Health System. In July 2015, the University also signed a second seven-year purchase agreement as a method of financing additional laboratory software and hardware for the USA Health System. In September 2016, the University signed a six-year purchase agreement as a method of financing the purchase of certain hospital equipment for the USA Health System.

Future minimum capital lease payments at September 30, 2016, are as follows (in thousands).

| | |
|---|---|
| Year ending September 30: | |
| 2017 | $ 4,177 |
| 2018 | 3,402 |
| 2019 | 3,402 |
| 2020 | 3,402 |
| 2021 | 3,402 |
| Thereafter | 1,833 |
| | 19,618 |
| Less amounts representing interest | (1,847) |
| Net minimum lease payments | $ 17,771 |

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

## (10) Derivative Transaction – Interest Rate Swaps

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

In September 2016, Wells Fargo exercised its option with respect to the synthetic advance refunding of the Series 2006 bonds to enter into an interest rate swap agreement with the University with an effective date of September 1, 2016. The resulting derivative is a "receive-variable, pay-fixed" interest rate swap. It is management's intention to redeem the Series 2006 bonds with the proceeds from bonds to be issued in December 2016.

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

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

The 2016 swap will terminate in December 2036, when the 2006 bond matures. The notional amount of the swap will at all times match the outstanding principal amount of the bond. Under the swap, the University pays the counterparty a fixed semi-annual payment based on an annual rate of 5% and receives on a monthly basis a variable payment of 68% of the one-month London Interbank Offered Rate (LIBOR) plus 0.25%.

*Fair value.* The 2014 interest rate swap had a negative fair value of approximately $(9,138,000) at its inception. This amount, net of any amortization, is reported as a borrowing arising from the 2014 interest rate swap as long-term-debt in the amount of $6,854,000 in the 2016 statement of net position. The change in the fair value of the swap, $609,000, at September 30, 2016, is reported as a deferred inflow and derivative asset on the statement of net position since the interest rate swap is a hedging derivative instrument.

The 2016 interest rate swap had a negative fair value of approximately $(41,017,000) at its inception. This amount, net of any amortization, is reported as a borrowing arising from the 2016 interest rate swap as long-term-debt in the amount of $40,849,000 in the 2016 statement of net position. The change in the fair value of the swap, $637,000, at September 30, 2016, is reported as a deferred inflow and derivative asset on the statement of net position since the interest rate swap is a hedging derivative instrument.

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

***Risks Associated with this Transaction***

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

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

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

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

| | | Variable rate loan | | Interest rate | |
|---|---|---|---|---|---|
| | | Principal | Interest | swap, net | Total |
| 2017 | $ | 615 | 476 | 1,704 | 2,795 |
| 2018 | | 640 | 513 | 1,634 | 2,787 |
| 2019 | | 665 | 522 | 1,589 | 2,776 |
| 2020 | | 6,925 | 493 | 1,411 | 8,829 |
| 2021 | | 7,280 | 410 | 1,106 | 8,796 |
| 2022–2024 | | 24,160 | 585 | 1,436 | 26,181 |
| Total | $ | 40,285 | 2,999 | 8,880 | 52,164 |

Management expects to enter into a debt refunding for the 2006 bonds in December 2016. Anticipated debt service requirements for the 2016 interest rate swap by fiscal year are as follows (in thousands):

| | Variable rate loan | | Interest rate | |
|---|---|---|---|---|
| | Principal | Interest | swap, net | Total |
| 2017 | $ — | 895 | 1,957 | 2,852 |
| 2018 | — | 1,307 | 4,163 | 5,470 |
| 2019 | — | 1,387 | 4,083 | 5,470 |
| 2020 | — | 1,485 | 3,985 | 5,470 |
| 2021 | — | 1,575 | 3,895 | 5,470 |
| 2022–2036 | 100,000 | 19,146 | 36,505 | 155,651 |
| Total | $ 100,000 | 25,795 | 54,588 | 180,383 |

## (11) Net Patient Service Revenue

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

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

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

During fiscal year 2016, USA Medical Center received a final settled 2012 cost report. The USA Medical Center amended its 2013 cost report and it is still not audited or settled and we have received no status update on the report. The 2014 cost report was amended in December 2015. The 2015 cost report was initially filed in February 2016 and amended in August 2016. Both the 2014 and 2015 cost reports are in the audit process. The 2016 cost report was filed in February 2016.

During fiscal year 2016, USA Children's & Women's Hospital's 2012 cost report was reopened and resettled. The 2013 cost report was settled in October 2015 and re-opened in August 2016 per our request. The 2013, 2014 and 2015 cost reports are in the audit process.

Revenue from the Medicare program accounted for approximately 18% of the Health System's net patient service revenue for the year ended September 30, 2016.

***Blue Cross*** – Inpatient services rendered to Blue Cross subscribers are paid at a prospectively determined per diem rate. Outpatient services are reimbursed under a cost reimbursement methodology. For outpatient services, the Health System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Health System and audits thereof by Blue Cross. The 2014 Blue Cross settlement for USA Children's & Women's Hospital was filed and reserved in 2015. It was repaid in installments during 2016. The 2015 Cost Finding was prepared and filed in 2016 with the anticipated settlement being fully reserved. As of September 30, 2016, the 2015 Cost Finding was not completed by BCBS. For 2016, the BCBS Retro Reserve is estimated to be a payable and reserved in the Retro Settlement Account. The Blue Cross 2015 retroactive settlement for USA Medical Center was filed in 2016 and a settlement was received in October 2016. For 2016, the BCBS Retro Reserve is estimated to be a payable and reserved in the Retro Settlement Account. Revenue from the Blue Cross program accounted for approximately 28% of the Health System's net patient service revenue for the year ended September 30, 2016.

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

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

Revenue from the Medicaid program accounted for approximately 26% of the Health System's net patient service revenue for the year ended September 30, 2016.

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

The composition of net patient service revenue for the year ended September 30, 2016 follows (in thousands):

| | | |
|---|---|---|
| Gross patient service revenue | $ | 791,625 |
| Less provision for contractual and other adjustments | | (347,757) |
| Less provision for bad debts | | (83,211) |
| | $ | 360,657 |

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately $5,638,000 in net patient service revenue for the year ended September 30, 2016.

## (12) Defined Benefit Cost Sharing Pension Plan

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

### *Plan description*

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

### *Benefits provided*

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

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

### *Contributions*

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

of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

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

Participating employers' contractually required contribution rates were 11.71% of annual pay for Tier 1 members and 11.08% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were $22,691,000 for the year ended September 30, 2016.

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

At September 30, 2016, the University reported a liability of $329,294,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014. The University's proportion of the collective net pension liability was based on the employer's shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2015, the University's proportion was 3.185471%, which was a decrease of 0.136877% from its proportion measured as of September 30, 2014.

For the year ended September 30, 2016, the University recognized pension expense of approximately $20,116,000. At September 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred outflows of resources | Deferred inflows of resources |
|---|---|---|
| Net difference between projected and actual earnings on pension plan investments | $ 21,827,000 | — |
| Difference between expected and actual experience | — | 1,806,000 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | — | 20,962,000 |
| Employer contributions subsequent to measurement date | 22,691,000 | — |
| | $ 44,518,000 | 22,768,000 |

Approximately $22,691,000 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | | |
|---|---|---|
| Year ending September 30, | | |
| 2017 | $ | (1,987,000) |
| 2018 | | (1,987,000) |
| 2019 | | (1,987,000) |
| 2020 | | 5,596,000 |
| 2021 | | (576,000) |
| | $ | (941,000) |

***Actuarial assumptions***

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

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

*Net of pension plan investment expense

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

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

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

* Includes assumed rate of inflation of 2.50%

***Discount Rate***

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

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

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

| | 1% Decrease (0.07)% | Current Rate (8.00)% | 1% Increase (9.00)% |
|---|---|---|---|
| University's proportionate share of collective net pension liability | $ 435,633,000 | $ 329,294,000 | $ 239,104,000 |

***Pension plan fiduciary net position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2015. The auditors' report dated October 4, 2016 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, 2015 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

## (13) Other Employee Benefits

### *(a) Other Pension Plans*

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

All employees of HCM working at least half time are eligible to participate in a defined contribution pension plan. Under this plan, contributions by eligible employees are matched equally by HCM up to a maximum of 5% of current annual pay. HCM and the employees contributed $3,900,000 in 2016 representing 1,425 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.

### *(b) Compensated Absences*

Regular University employees accumulate vacation and sick leave and hospital and clinical employees accumulate paid time off. These are subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon separation of employment, employees who were hired before January 1, 2012 are paid all unused accrued vacation at their regular rate of pay up to a maximum of two times their annual accumulation rate. Employees hired after January 1, 2012 are not eligible for payment of unused accrued vacation or PTO hours upon separation of employment. The accompanying statement of net position includes accruals for vacation pay and paid time off of approximately $15,158,000 at September 30, 2016. The current portion of the accrual is included in accounts payable and accrued liabilities and the noncurrent portion is included in other long term liabilities in the accompanying basic financial statements. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

### *(c) Other Postretirement Employee Benefits*

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

## (14) Risk Management

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

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

The University and HCM participate in a self-insured health plan, administered by an unaffiliated entity. Administrative fees paid by the University for such services were approximately $2,019,000 in 2016. Contributions by the University and its employees, together with earnings thereon, are used to pay liabilities arising from healthcare claims. It is the opinion of University administration that plan assets are sufficient to meet future plan obligations.

The changes in the total self-insurance liabilities for the year ended September 30, 2016 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

| | | |
|---|---|---|
| Balance, beginning of year | $ | 23,130 |
| Liabilities incurred and other additions | | 79,226 |
| Claims, administrative fees paid and other reductions | | (62,775) |
| Balance, end of year | $ | 39,581 |

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



(Continued)

## (15) Other Related Party

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

## (16) Commitments and Contingencies

### *(a) Grants and Contracts*

At September 30, 2016, the University had been awarded approximately $25,411,000, in grants and contracts for which resources had not been received and for which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements as the eligibility requirements of the award have not been met. Advances include amounts received from grant and contract sponsors which have not been earned under the terms of the agreements and, therefore, have not yet been included in revenues in the accompanying basic financial statements. Federal awards are subject to audit by Federal agencies. The University's management believes any adjustment from such audits will not be material.

### *(b) Letters of Credit*

In connection with the Health System's participation in the State of Alabama Medicaid Program, the University has established a $77,000 irrevocable standby letter of credit with Wells Fargo. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds were advanced under this letter during the year ended September 30, 2016.

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

### *(c) Lines of Credit*

In March 2015, the University entered into a variable interest rate revolving line of credit with Compass Bank to, among other reasons, fund the acquisition of certain real property by the Health System. The total amount available under the line of credit is $5,000,000 and interest on the outstanding amounts accrue at the rate of the London Interbank Offered Rate (LIBOR) plus 1.00% with a maturity date of April 15, 2017. The amount outstanding at September 30, 2016 is $3,434,000 and is reported as debt in the current liabilities section of the statement of net position as of September 30, 2016.

In March 2016, the University entered into a variable interest rate revolving line of credit with Compass Bank to fund certain capital improvements of the Health System. The total amount available under the line of credit is $30,000,000 and interest on the outstanding amounts accrue at the rate of sixty-five percent of the London Interbank Offered Rate (LIBOR) plus seventy-seven basis points with a maturity date of June 10, 2018. The amount outstanding at September 30, 2016 is $50,000 and is reported as debt in the current liabilities section of the statement of net position as of September 30, 2016.

### *(d) HCM Commitment*

In September 2016, HCM entered into a commitment to the RCO. This letter commits HCM to contribute cash or other assets to the RCO only upon the execution of a contract between the RCO and the Alabama Medicaid Agency to provide medical services to Medicaid patients on a capitated basis. The amount of the commitment is $6,644,000. As of September 30, 2016, no amounts have been paid to the RCO.

### *(e) Federal Program Review*

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

### *(f) 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.

### *(g) Rent Supplement Agreements*

The University has entered into two irrevocable rent supplement agreements with the Corporation and a financial institution. The agreements require that, in the event the Corporation fails to maintain a debt service coverage ratio of one to one with respect to all of its outstanding indebtedness, the University will pay to the Corporation any and all rent amounts necessary to cause the Corporation's net operating income to be equal to the Corporation's annual debt service obligations (see note 8). As of September 30, 2016, no amounts were payable pursuant to these agreements.



(Continued)

### *(h) USA Research and Technology Corporation Leases*

The Corporation leases space in Building I to three tenants under operating leases. One lease has a 5-year initial term expiring in October 2018 with two 5-year renewal options. Another lease has a 10-year initial term expiring in May 2021, an option to cancel at the end of 6 years, and two 5-year renewal options. The third lease has a 67-month initial term expiring in December 2018 with no renewal options.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. These leases have terms varying from month-to-month to ten years.

The Corporation leases from the University the third floor of a campus building. Located on that floor is the Coastal Innovation Hub (the Hub), a technology incubator, which currently houses three tenants with month-to-month leases.

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

Space under lease to the University was 40,345 square feet at September 30, 2016.

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

The Corporation, as lessor, had three ground leases in place at September 30, 2016. One lease is for a 40-year initial term expiring in October 2046 with 20-year, and 15-year renewal options. The second lease is for a 30-year initial term expiring in October 2036 with four 5-year renewal options. The third lease has a 38.5-year initial term expiring in September 2046 with 20-year and 15-year renewal options.

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

| | | |
|---|---|---|
| 2017 | $ | 1,912 |
| 2018 | | 1,497 |
| 2019 | | 887 |
| 2020 | | 472 |
| 2021 | | 263 |
| 2022–2047 | | 5,739 |
| Total | $ | 10,770 |

## (17) Functional Expense Information

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

| | | |
|---|---|---|
| Instruction | $ | 112,521 |
| Research | | 25,229 |
| Public service | | 3,209 |
| Academic support | | 21,465 |
| Student services | | 32,920 |
| Institutional support | | 22,464 |
| Operation and maintenance of plant | | 35,184 |
| Scholarships | | 13,106 |
| Hospital | | 397,353 |
| Auxiliary enterprises | | 24,643 |
| Depreciation and amortization | | 36,174 |
| | $ | 724,268 |

## (18) Blended Component Units

As more fully described in notes 1(b) and 1(c), the HCM, HSF, PLTF and GLTF are considered component units pursuant to the provisions of GASB Statement No. 61. In accordance with that statement, the HCM, HSF, 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, 2016 is presented below (in thousands):

| | | |
|---|---|---|
| Current assets | $ | 15,292 |
| Noncurrent assets | | 56,041 |
| Total assets | | 71,333 |
| Noncurrent liabilities | | 70,286 |
| Net position | $ | 1,047 |
| Operating revenues | $ | 212,376 |
| Operating expenses | | (216,869) |
| Operating income | | (4,493) |
| Nonoperating revenues | | 3,007 |
| Change in net position | $ | (1,486) |

## (19) Recently Issued Accounting Pronouncements

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

The effect of the implementation of GASB Statements Nos. 75, 80, 81 and 82 on the University has not yet been determined.

Statement Nos. 77, 78, and 79 will not have an impact on the University's financial statements.

## (20) Subsequent Events

In November 2016, the board of the RCO approved a resolution to cease its active pursuit of full regional care organization certification from Alabama Medicaid Agency (the Agency) along with its efforts to enter into an at-risk contract with the Agency to provide regional care organization services to Medicaid beneficiaries. The RCO will continue to consider the possibility of pursuing full regional care organization status of entering into an at risk contract with the agency in the future should that become a viable option.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

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

Teachers' Retirement Plan of Alabama

September 30, 2016

| | | 2016 | 2015 |
|---|---|---|---|
| University's proportion of the net pension liability | | 3.185471% | 3.322348% |
| University's proportionate share of the net pension liability | $ | 329,294,000 | 297,734,000 |
| University's covered-employee payroll | | 198,378,000 | 201,858,000 |
| University's proportionate share of the net pension liability as a percentage of its covered-employee payroll | | 165.99% | 147.50% |
| Plan fiduciary net position as a percentage of the total pension liability | | 67.51% | 71.01% |

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

See accompanying independent auditors' report.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

Schedule of University's Contributions (Unaudited)

Teachers' Retirement Plan of Alabama

September 30, 2016

| | | 2016 | 2015 |
|---|---|---|---|
| Contractually required contribution | $ | 23,405,000 | 23,524,000 |
| Contributions in relation to the contractually required contribution | | 23,405,000 | 23,524,000 |
| Contribution deficiency (excess) | $ | — | — |
| University's covered-employee payroll | $ | 198,378,000 | 201,858,000 |
| Contributions as a percentage of covered-employee payroll | | 11.80% | 11.65% |

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

See accompanying independent auditors' report.

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

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

### *(a) Actuarial assumptions*

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

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

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2015, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of the fiscal year 2012.

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

### *(b) Discount Rate*

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

# RESOLUTION

## AWARD OF GENERAL CONTRACTOR FOR RESIDENTIAL BUILDING

**WHEREAS,** the University of South Alabama has a growing enrollment, and

**WHEREAS,** the quality of student life is strongly enhanced by excellent residential facilities, and

**WHEREAS,** the recruitment of students is strongly enhanced by high-quality residential facilities, and

**WHEREAS,** the number of students seeking residence on campus has grown significantly over the past several years, and

**WHEREAS,** the target date for a new residence hall is the fall of 2018, and

**WHEREAS,** the University of South Alabama Board of Trustees approved the architectural firm for this project on September 4, 2015, and

**WHEREAS,** a request for bids for a general contractor for the project was issued and received and opened on November 15, 2016, and

**WHEREAS,** the University received bids from six qualified bidders, and

**WHEREAS,** the construction firm of Don Gordon Construction, Inc., was the lowest bidder, with a total bid construction price of $18,103,000.00, and

**WHEREAS,** the construction will be funded with room rent revenue,

**THEREFORE, BE IT RESOLVED** that the Board of Trustees of the University of South Alabama hereby awards the construction contract for its new residence hall to Don Gordon Construction, Inc.

UNIVERSITY OF SOUTH ALABAMA

RECD
Office of the President

University of South Alabama

TO: Tony Waldrop, President

FROM: John Smith, Executive Vice President

DATE: November 18, 2016

RE: CONSTRUCTION OF NEW RESIDENCE HALL FOR FALL 2018

For the past two years, The Department of Housing has had a waiting list of students wanting to live on campus and has leased up to 100 beds from The Grove to accommodate the demand for housing. Dr. Chris Vinet, Assistant Vice President for Auxiliary Services, has recommended that we construct another residence hall to accommodate this increased demand. This new residence hall will be approximately 375 beds and is double occupancy with private bathrooms and will be located next to the last residence hall we constructed.

I have reviewed with Dr. Vinet the financial feasibility of constructing a new residence hall and believe the revenue and demand for student housing will be sufficient to fund construction and operation of the facility. Therefore, I recommend to you that the attached resolution concerning construction of a new residence hall be submitted to the Board of Trustees for approval.

Please let me know if I can provide you with additional information concerning this recommendation.

OFFICE OF EXECUTIVE VICE PRESIDENT
AD 130 | 307 University Boulevard, N. | Mobile, Alabama 36688-0002
TEL: (251) 460-6171 | southalabama.edu

# RESOLUTION

## CONSTRUCTION OF A COVERED PRACTICE FACILITY

**WHEREAS,** the athletics program at the University of South Alabama (USA) has a proud history of excellence in competition and academics in 17 NCAA Division I programs, and

**WHEREAS,** USA strives to provide athletics facilities which enhance student success, and

**WHEREAS,** the weather in Mobile has a high frequency of lightning and heavy rain which prohibits outdoor practice for the teams, and

**WHEREAS,** construction of a covered practice facility offers the opportunity to provide uninterrupted practice and training sessions for programs and student-athletes and will enhance their competitive ability and the recruitment of prospective student-athletes, and

**WHEREAS,** the construction drawings, technical specifications, and other requisite documentation are being completed and bid packages for construction of the building will be sent to contractors as soon as practicable, with a bid date set for the requisite time after package distribution, and

**WHEREAS,** the new covered practice facility will be funded entirely with revenues generated by the Athletics Department, and

**WHEREAS,** this facility could, when scheduling permits, be used by other departments and student organizations,

**NOW, THEREFORE, BE IT RESOLVED** that the Board of Trustees of the University of South Alabama hereby authorizes the USA President to award to and execute contract(s) for this construction project with the successful lowest responsible bidder(s) consistent with the applicable laws and within the budgetary constraints of the University.

SOUTH ALABAMA JAGUARS™

*Department of Athletics*

11/17/16

TO: Tony Waldrop – President

FROM: Joel Erdmann – Director of Athletics

RE: Jaguar Training Facility

---

The purpose of this memorandum is to recommend the construction of a covered practice/training facility. The facility will be approximately 450' long by 210' wide and 65' high at its interior peak. It will be open air in nature with a synthetic turf surface. The primary purpose for the facility is to allow for practice during inclement weather.

The facility's primary user will be the football program but it will also be available for reasonable use by all sport programs and other University entities. The cost of the facility is estimated at $8 million. I am confident we can manage annual payments of approximately $600,000 a year over twenty years and would make all attempts to pay off the debt faster than the twenty years. The $600,000 per year would come from $300,000 in repurposing existing operational funds (cutting back in various areas) with the additional $300,000 from football-related external revenue.

UNIVERSITY OF SOUTH ALABAMA

# MEMORANDUM

Finance and Administration

**Date:**
November 14, 2016

**To:**
President
Tony G. Waldrop

TGW

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

**Subject:**
Agenda Item for December 2, 2016, Board of Trustees Meeting
Authorization to lease Linear Accelerator for MCI

Attached is a resolution for consideration by the Budget and Finance Committee concerning the lease of the Linear Accelerator for MCI. The Lease amount is $2,089,689 with monthly payments of approximately $37,000 for 5 years. The lease will be provided by Regions Bank at a rate of 1.88%. This resolution provides authorization to execute any necessary documents to issue the lease.

With your consent, this item will be presented to the Budget and Finance Committee and the Board of Trustees for final approval. Further, I recommend the adoption of the resolution by the Board of Trustees.

Attachment

# RESOLUTION

## SECURED EQUIPMENT FINANCING AGREEMENT FOR A LINEAR ACCELERATOR

**WHEREAS**, the Board of Trustees ("Board") has determined that it is necessary, wise, and in the public interest that the University acquire a linear accelerator ("Linear Accelerator") for use in the Mitchell Cancer Institute or other parts of the University's hospital activities and, in connection therewith, obtain financing to cover the price thereof, and

**WHEREAS**, based on proposals from financial institutions to loan funds to the University to acquire the Linear Accelerator, the University has determined that the proposal offered by Regions Bank, as reflected in the Financing Agreement described below, provides the lowest rate of interest and the best overall financing terms to the University, and

**WHEREAS**, the obligation of the University to repay funds made available under the Financing Agreement shall be a general obligation of the University secured by a foreclosable first lien security interest in the Linear Accelerator, and

**WHEREAS**, the Board hereby seeks to authorize and direct the President of the University and the Vice President for Finance and Administration to execute the Financing Agreement, the counterparty to which shall be Regions Capital Advantage, Inc., or another subsidiary of Regions Bank, the bill of sale described in the Financing Agreement, and such other documents, instruments, debt instruments, certificates, directives, and agreements as shall be necessary or desirable in connection with the Financing Agreement and to evidence the University's general obligation pledge to repay amounts made available to obtain the Linear Accelerator under the Financing Agreement and the lender's first lien foreclosable security interest in the Linear Accelerator,

**NOW, THEREFORE, BE IT RESOLVED** that the Board does hereby authorize and direct the President of the University and the Vice President for Finance and Administration to execute and deliver, for and in the name and behalf of the University, a Secured Equipment Financing Agreement ("Financing Agreement") in substantially the form presented to the meeting at which this resolution is adopted and which is attached as Exhibit I hereto (which form is hereby adopted in all respects as if set out in full in this resolution), a Funding Agreement ("Funding Agreement") in substantially the form presented to the meeting at which this resolution is adopted and which is attached as Exhibit II hereto (which form is hereby adopted in all respects as if set out in full in this resolution) respecting the deposit of proceeds to be made available to the University to acquire the Linear Accelerator from December 7, 2016, until such date as the Linear Accelerator is actually purchased and acquired, and a bill of sale as described in the Financing Agreement respecting the foreclosable first lien security interest in the Linear Accelerator ("Bill of Sale"), and, further, does hereby authorize the Secretary of the Board to affix the seal of the University to the Financing Agreement, the Funding Agreement, and to the Bill of Sale and attest the same, and

**FURTHER RESOLVED** that the payment obligations of the University under the Financing Agreement shall be a general obligation of the University secured by a foreclosable first lien security interest in the Financing Agreement, and the Board does hereby authorize and direct the President of the University and the Vice President for Finance and Administration to sign a promissory note or other debt instrument ("Debt Instrument") evidencing the general obligation pledge of the University to repay amounts owed under the Financing Agreement and the Secretary of the Board to attest any such instrument and affix the seal of the University to the same, and

**FURTHER RESOLVED** that the Board does hereby authorize and direct the President of the University, the Vice President for Finance and Administration, and the Secretary of the Board to execute and seal such other agreements, certifications, instruments, notices, directions, UCC financing statements, and documents as shall be necessary or desirable in connection with the Financing Agreement and the transactions contemplated thereby and, further, in connection with the Funding Agreement, any Debt Instrument and the foreclosable first lien security interest in the Linear Accelerator granted by the University to secure its obligations under the Financing Agreement.

**EXHIBIT I**

**FORM OF FINANCING AGREEMENT**

## SECURED EQUIPMENT FINANCING AGREEMENT

This **SECURED EQUIPMENT FINANCING AGREEMENT** ("Agreement") is made the 7th day of December, 2016 among the **UNIVERSITY OF SOUTH ALABAMA**, with its principal office at 307 University Boulevard North in Mobile, Alabama, as borrower and user (the "User"), and **REGIONS CAPITAL ADVANTAGE, INC.**, as lender and owner (the "Lender").

## RECITALS

Pursuant to Chapter 16A of Title 41 of the Code of Alabama 1975, as amended, Lender and User have executed and delivered this Agreement as an "alternative financing contract" (as defined in Section 41-16A-3(a) of the Code of Alabama 1975) for the purposes of financing the acquisition of a linear accelerator on an installment-sale basis for User on the terms and provisions hereof.

User has found and determined that the linear accelerator which is the subject of this Agreement is essential, necessary, useful and appropriate for the lawful purposes of User and in connection with User's hospital operations.

NOW THEREFORE, for and in consideration of the premises, and the mutual covenants and agreements herein contained, Lender and User hereby covenant, agree and bind themselves as follows:

## AGREEMENT

**Section 1. Declaration of Intent; Delivery and Acceptance of Items in Schedule.**

A. User has applied to Lender for financing for User's acquisition of the items of equipment listed in Schedule No. 1 (the "Schedule") to this Agreement (hereinafter referred to collectively as "Equipment") and individually as "Item," "Items," or "Items of Equipment"), subject to the terms and conditions in this Agreement and such Schedule.

B. Lender will cause to be tendered to User, at User's expense, each Item listed in the Schedule at the location indicated in that Schedule. User will inspect each Item, and either accept or reject delivery. User's failure to give Lender written notice of rejection within five (5) Business Days after delivery or, if earlier, User's written acknowledgment that it has inspected the Item and accepts delivery thereof shall constitute User's acknowledgment that: (i) each Item is of the size, design, capacity, specification and manufacture selected by User; (ii) User is satisfied that such Item is suitable for its purpose and such Item is fit for its intended use; (iii) User does not consider Lender to be a manufacturer of such Items or a dealer therein; (iv) User waives any and all defenses which it may have against Lender arising from the Item including, but not limited to, the operation, delivery or condition; and (v) User accepts such Items AS IS, WHERE IS AND WITH WAIVER OF ALL WARRANTIES AS TO LENDER AS SET FORTH HEREIN. User will, where required by Lender, sign a Certificate of Acceptance acknowledging acceptance of delivery, the form of which is attached to this Agreement.

C. This Agreement covers the Equipment listed in the Schedule, which Schedule is attached to and made a part of this Agreement upon its execution. The term "Agreement" refers to this Secured Equipment Financing Agreement and the Schedule.

D. As used herein, "Business Day" shall mean any day other than a Saturday, a Sunday, or any day on which Lender is closed for business, and the "State" shall mean the State of Alabama.

E. USER ACKNOWLEDGES AND AGREES THAT FOR PURPOSES OF ARTICLE 2A OF THE UCC (AS HEREINAFTER DEFINED) THIS AGREEMENT IS A FINANCE LEASE AND LENDER IS NOT AN AGENT OF ANY MANUFACTURER, SUPPLIER, CONTRACTOR OR WARRANTY PROVIDER (AS HEREINAFTER DEFINED). THE USER ACKNOWLEDGES AND AGREES THAT USER HAS SELECTED AND CAUSED THE PURCHASE OF THE EQUIPMENT AND HAS SELECTED EACH SUPPLIER AND WARRANTY PROVIDER AND USER EXPRESSLY DISCLAIMS ANY RELIANCE UPON THE LENDER WITH RESPECT THERETO. THE USER AGREES THAT IT IS ENTITLED UNDER ARTICLE 2A OF THE UCC TO ALL WARRANTIES AND OTHER RIGHTS PROVIDED TO USER BY WARRANTY PROVIDERS WITH RESPECT TO THE EQUIPMENT AND TO CONTACT SUCH WARRANTY PROVIDERS FOR AN ACCURATE AND COMPLETE STATEMENT OF ANY SUCH EXPRESS WARRANTIES AND OTHER RIGHTS AND ANY DISCLAIMERS OR LIMITATIONS OF SUCH RIGHTS OR OF REMEDIES.

The term "UCC" means Title 7 of the Code of Alabama 1975.

The term "Warranty Provider" means any person who provides a warranty (express or implied) with respect to the Equipment.

LENDER AND USER INTEND AND AGREE THAT THE RIGHT TO POSSESSION AND USE OF THE EQUIPMENT IS HEREBY TRANSFERRED FROM LENDER TO USER.

FOR PURPOSES OF ARTICLE 2A OF THE UCC, THE USER HEREBY APPROVES THE CONTRACTS BY WHICH THE LENDER ACQUIRED THE RIGHT TO POSSESSION AND USE OF THE EQUIPMENT AND ACKNOWLEDGES RECEIPT OF A COPY THEREOF.

F. ANYTHING HEREIN TO THE CONTRARY NOTWITHSTANDING, LENDER AND USER ACKNOWLEDGE AND AGREE THAT THIS AGREEMENT DOES NOT CONSTITUTE "DEBT," "INDEBTEDNESS" OR OTHERWISE A TRANSACTION PROHIBITED UNDER THE CONSTITUTION OF THE LAWS OF THE STATE, IT BEING THE INTENTION OF THE PARTIES THAT THIS AGREEMENT CREATES A VALID ADVANCE OF FUNDS BY LENDER FOR THE BENEFIT OF USER SOLELY FOR THE PURPOSE OF PURCHASING THE EQUIPMENT, SECURED BY A FIRST PRIORITY PURCHASE MONEY SECURITY INTEREST IN THE EQUIPMENT.

**Section 2. Agreement Term and Payments.**

A. The term of this Agreement with respect to any Item shall commence on the date specified in the Schedule listing said Item and shall end on the last day of the fiscal year of User and, unless this Agreement is terminated in accordance with the provisions of Section 21 of this Agreement, this Agreement will automatically be renewed for each succeeding one year period set forth in the applicable Schedule through the maximum term specified in such Schedule.

B. Subject to and as provided in Section 21 hereof, User shall pay to Lender payments ("Payments") for each Item in the amount and at the times specified in the Schedule. The Payments include principal and interest as indicated in the Schedule. User hereby grants to Lender a first priority purchase money security interest in all items of Equipment to secure User's obligations hereunder.

C. In the event any Payments or other amount payable hereunder shall not be paid when due and shall remain unpaid for ten (10) days thereafter, User shall pay to Lender the amount due with interest from the due date at the Overdue Rate stated in the Schedule.

D. All payments provided for in this Agreement to be made to Lender shall be made to Lender at the address indicated herein or at such other place as Lender shall specify in writing to the User.

E. The Payments and other amounts payable by User hereunder shall continue to be payable in all events unless the obligations to pay the same shall be terminated pursuant to the express provisions of this Agreement. User shall not be entitled to any abatement or set-off of Payments and other charges payable hereunder by User or withholding thereof from Lender or any reduction thereof, for any reason, nor, except as otherwise expressly provided herein, shall this Agreement terminate, or the respective obligations of Lender or User be affected for any reason.

F. The President and the Vice President for Finance and Administration of the User are authorized and directed to pay the Payments, when and as the same becomes due and payable in accordance with the terms hereof.

**Section 3. Selection; Representation, Warranty and Disclaimer of Warranties.**

A. User acknowledges and represents that it has made the selection of the Equipment based on its own judgment and expressly disclaims any reliance upon statements made by or on behalf of Lender.

B. Lender warrants to User that, so long as User shall not be in default of any of the provisions of the this Agreement (including the Schedule), neither Lender nor any assignee or secured party of Lender will disturb User's quiet and peaceful possession of the Equipment and User's unrestricted use thereof for its intended purpose. LENDER MAKES NO OTHER WARRANTY, EXPRESS OR IMPLIED, AS TO ANY MATTER WHATSOEVER, INCLUDING, WITHOUT LIMITATION, TITLE TO OR THE VALUE, DESIGN OR CONDITION OF THE EQUIPMENT, ITS MERCHANTABILITY OR ITS FITNESS OR CAPACITY OR DURABILITY FOR ITS ORDINARY USE OR ANY PARTICULAR PURPOSE, THE QUALITY OF MATERIAL OR WORKMANSHIP OF THE EQUIPMENT OR CONFORMITY OF THE EQUIPMENT TO THE PROVISIONS AND SPECIFICATIONS OF ANY PURCHASE ORDER OR ORDERS RELATING THERETO OR ITS COMPLIANCE WITH, OR SATISFACTION OF, THE REQUIREMENTS OF ANY LAW, RULE OR CONTRACT AND, AS TO LENDER, USER WILL ACCEPT THE EQUIPMENT "AS IS." Lender shall not be liable, to any extent whatever, for the selection, quality, condition, merchantability, suitability, fitness, operation or performance of the Equipment. Without limiting the generality of the foregoing, Lender shall not be liable to User for any liability, claim, loss, damage or expense of any kind or nature (including strict liability in tort) caused, directly or indirectly, by the Equipment or any inadequacy thereof for any purpose, or any deficiency or defect therein, or the use or maintenance thereof, or any repairs, servicing or adjustments thereto, or any delay in providing or failure to provide any part thereof, or any interruption or loss of service or use thereof, or any loss of business, or any damage whatsoever and howsoever caused, except for any such loss or damage caused by the willful acts of Lender, or its agents, representatives and assigns.

C. **USER ACKNOWLEDGES AND AGREES THAT THE EQUIPMENT IS OF A SIZE, DESIGN AND CAPACITY SELECTED BY USER AND THAT LENDER HAS NOT MADE, AND DOES NOT HEREBY MAKE, ANY REPRESENTATION, WARRANTY, OR COVENANT, EXPRESS OR IMPLIED, WITH RESPECT TO ANY MATTER, INCLUDING WITHOUT LIMITATION, THE VALUE, MERCHANTABILITY, CONDITION, QUALITY, DURABILITY, DESIGN, CONSTRUCTION, OPERATION, FITNESS FOR USE OR SUITABILITY OF THE EQUIPMENT IN ANY RESPECT WHATSOEVER OR IN CONNECTION WITH OR FOR THE PURPOSES AND USES OF USER, OR ANY OTHER REPRESENTATION, WARRANTY OR COVENANT OF ANY KIND OR CHARACTER, EXPRESS OR IMPLIED, WITH RESPECT THERETO, AND LENDER SHALL NOT BE**

**OBLIGATED OR LIABLE FOR ACTUAL, INCIDENTAL, CONSEQUENTIAL, PUNITIVE, OR OTHER DAMAGES OF OR TO USER OR ANY OTHER PERSON OR ENTITY ARISING OUT OF OR IN CONNECTION WITH THE USE OR PERFORMANCE OF THE EQUIPMENT AND THE MAINTENANCE THEREOF OR FOR THE SUITABILITY THEREOF FOR THE PURPOSES OF THE USER.**

D. Lender hereby appoints User as Lender's agent and hereby authorizes User, at User's expense, to assert for Lender's account, during the term of this Agreement, all of Lender's rights, if any, under any manufacturer's, vendor's or dealer's warranty on the Equipment to the extent permitted by law and agreement, and Lender agrees to cooperate with User in asserting any such rights; provided, however, that User shall, to the extent and limits permitted by applicable law, indemnify and hold harmless Lender for and against any and all claims, and all costs, expenses, damages, losses and liabilities incurred or suffered by Lender in connection therewith, as a result of, or incident to, any action by User in connection therewith or pursuant to the above authorization. Any amount received by Lender as payment under any warranty pursuant to the above authorization shall be applied to restore the Equipment to as good condition as it was or should have been (but for defects giving rise to such payment under warranty) when delivered to User hereunder, ordinary wear and tear excepted, with the balance of such amount, if any, to be paid over by User. LENDER MAKES NO PATENT, LICENSING OR TRADEMARK WARRANTIES OF ANY KIND WHATSOEVER. UNDER NO CIRCUMSTANCES SHALL LENDER BE LIABLE FOR ANY SPECIAL, INDIRECT, OR CONSEQUENTIAL DAMAGES.

E. User represents and warrants that: (i) User is a duly constituted, organized and validly existing public corporation under the laws of the State and is authorized to purchase personal property and to sell or lease or otherwise dispose of personal property; (ii) User has full power, authority, and legal right to execute, deliver and perform the agreements on its part contained in this Agreement; (iii) the person or persons executing this Agreement on behalf of User have been duly authorized under the laws of the State and a duly adopted resolution of User's governing body is in full force and effect on the date hereof to execute this Agreement on behalf of User and to obligate User hereunder; (iv) User has taken all necessary steps or complied with all procedures required for the authorization and execution of this Agreement; (v) all payments which are to be made hereunder will be paid out of funds which are legally available for such purpose; (vi) User, by entering into this Agreement, does not violate any law binding on User or contravene any indenture, credit agreement, or any other agreement under which User is a party or by which it is bound; (vii) this Agreement constitutes a legal, valid and binding obligation of User, enforceable in accordance with its terms; (viii) there are no pending or threatened actions or proceedings before any court, administrative agency or other tribunal or body or judgments which may materially adversely affect User's financial condition or operations; (ix) the Equipment is personal property and is not now nor will it become either real property or a fixture or inventory; (x) the use of the Equipment is essential, necessary, useful, and appropriate to the lawful purposes of User and in the discharge of its duties as a governmental body; (xi) the execution of this Agreement does not constitute a default in any other agreement of User; (xii) User will not directly or indirectly create, incur, assume or suffer to exist, any mortgage, security interest, pledge, lien, charge, encumbrance or claim on or with respect to the Equipment, title thereto or any interest therein, except the respective rights of Lender and User under this Agreement and further excepting any mortgage, security interest, pledge, lien or encumbrance granted by Lender; (xiii) the Equipment is of size, design, capacity and manufacture selected by User and will be suitable for User's purposes; (xiv) User will cause to be done, executed, acknowledged and delivered all such further acts, instruments, conveyances and assurances as Lender shall require for accomplishing the purposes of this

Agreement; (xv) User, upon delivery of the Equipment under this Agreement, shall cause said Equipment to be duly registered, and at all times thereafter to remain duly registered, in the name of Lender, or at Lender's request shall furnish to Lender such information as may be required to enable Lender to make application for such registration, and shall promptly furnish to Lender such information as may be required to enable Lender to timely file any reports required to be filed by it under this Agreement with any governmental authority; (xvi) User has complied with insurance provisions of Section 8; (xvi) User will execute or file any reports or tax forms required by State or Federal authorities; (xvii) User shall comply with all applicable lawsexcept for matters being contested in good faith by appropriate proceedings diligently pursued; (xviii) User and its governing body reasonably believe that User shall have sufficient available funds during each fiscal year through the maximum term specified in the Schedule to elect to appropriate monies to make the Payments hereunder; and (xix) all actions of the governing body of the User and its members concerning this Agreement have been taken in accordance with the laws of the State.

**Section 4. Taxes; Covenants Regarding Federal Tax Exemption.**

A. USER WILL PAY PROMPTLY AS AND WHEN DUE, AND WILL TO THE EXTENT AND LIMITS PERMITTED BY APPLICABLE LAW INDEMNIFY AND HOLD LENDER HARMLESS FROM, ALL SALES, USE, PERSONAL PROPERTY, LEASING, LEASING USE, STAMP, INTANGIBLES OR OTHER TAXES, LEVIES, IMPOSTS, DUTIES, CHARGES, FEES OR WITHHOLDINGS OF ANY NATURE (TOGETHER WITH ANY PENALTIES, FINES OR INTEREST THEREON) IMPOSED AGAINST LENDER, USER OR THE EQUIPMENT BY ANY FEDERAL, STATE, LOCAL OR FOREIGN GOVERNMENT OR TAXING AUTHORITY UPON OR WITH RESPECT TO THE EQUIPMENT OR UPON THE PURCHASE, OWNERSHIP, DELIVERY, LEASING, POSSESSION, USE, OPERATION, RETURN OR OTHER DISPOSITION THEREOF, OR UPON THE PAYMENTS, RECEIPTS OR EARNINGS ARISING THEREFROM, OR UPON OR WITH RESPECT TO THIS AGREEMENT (EXCLUDING, HOWEVER, FEDERAL, STATE AND LOCAL TAXES ON, OR MEASURED BY, THE NET INCOME OF LENDER); PROVIDED, HOWEVER, TO THE EXTENT ONLY THAT ANY SUCH TAX, LEVY, IMPOST, DUTY, CHARGE, OR WITHHOLDING IS BEING CONTESTED BY USER IN GOOD FAITH AND BY APPROPRIATE PROCEEDINGS, STAYING PAYMENT (BUT ONLY SO LONG AS LENDER REASONABLY DETERMINES THAT SAME DOES NOT ADVERSELY AFFECT LENDER'S INTEREST IN THE EQUIPMENT OR THIS AGREEMENT), USER MAY WITHHOLD PROMPT PAYMENT BUT SHALL INDEMNIFY AND HOLD LENDER HARMLESS THEREFROM TO THE EXTENT AND LIMITS PERMITTED BY APPLICABLE LAW. Nothing herein contained shall be deemed to impose any liability to pay taxes, assessments or charges where none is imposed by law. In case any report or return is required to be made with respect to any obligation of User under this Section or arising out of this Section, User will either make such report or return and send a copy of such report or return to Lender, or will notify Lender of such requirement and make such report or return in such manner as shall be satisfactory to Lender. Lender agrees to cooperate fully with User in the preparation of any such reports or returns.

B. User represents, warrants and covenants that: User shall not take any action or refrain from taking any action (nor shall it cause or, to the best of its ability, allow any other party to do so) which act or failure to act would adversely affect the exclusion from gross income for federal income tax purposes of the interest portion of the Payments hereunder. User will not allow any investment of the proceeds or other funds which would result in the obligations under this Agreement being characterized as "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended ("Code"). User shall take all actions required under the Code necessary to preserve the exclusion from gross income for federal income tax purposes of the interest portion of the Payments hereunder including without limitation the calculation and payment of any rebate and the timely filing of any and all informational or other returns, all prepared and filed at User's sole cost and expense.

**Section 5. Title; Use, Maintenance; Identification Marking.**

A. User shall hold legal title to the Equipment, subject to (1) a first priority purchase money security interest in favor of Lender, which User hereby grants to Lender and agrees to maintain and defend by all actions at law or by equity, whether or not specified herein; and (2) Lender's rights hereunder, including the right to take possession of the Equipment, or any item thereof, free and clear of any interest of User as provided herein, including, without limitation, following an event of default hereunder or return due to non-appropriation under Section 21 hereof.

B. User will exercise due care in the use, operation, and maintenance of the Equipment and will use, operate and maintain the Equipment only in the careful, proper and normal manner and for its intended use and in accordance with manufacturer's specifications, and will not use, operate or maintain the Equipment improperly, carelessly, or in violation of any specification, instruction or warranty of manufacturer or vendor or any applicable law, ordinance or regulation, or for a purpose or in a manner contrary to the normal operation or need of the User.

C. After the expiration of the manufacturer's or vendor's warranty period applicable to the Equipment, User shall provide for the service, repair, and maintenance of the Equipment at its own expense as to keep the Equipment in at least as good condition, repair and working order as when accepted hereunder, ordinary wear and tear excepted. Any maintenance/service agreement entered into by the User shall provide for preventive and remedial maintenance which will include the replacement of any and all portions of the Equipment which may from time to time become worn out or rendered unfit for use due to the normal operation of the Equipment. All such replaced parts and accessories (and any other parts or accessories added to or attached to the Equipment which are not readily removable without damage or diminution in operation or value of the Equipment) shall be free and clear of liens and encumbrances and rights of others and, when substituted or integrated into the Equipment, said parts shall become a part thereof and shall be covered by the terms of this Agreement to the same extent as the Equipment originally acquired hereunder.

D. To the extent permitted by law, User agrees to place such markings, plates, or other identification on Items of Equipment showing Lender's interest therein as Lender may from time to time request, provided such identification markings, furnished by Lender, are placed so as not to interfere with the usefulness of the said Equipment. Except as above provided, User will not allow the name of any person, association or corporation to be placed on the Equipment as a designation that might be interpreted as a claim of ownership or lien. To the extent and limits permitted by applicable law, User shall indemnify Lender and any third party dealing with Lender against any liability, loss or expense incurred by Lender or such third party dealing with Lender as a result of any act or omission of User which is inconsistent with the provisions of this paragraph D of Section 5.

**Section 6. <u>Inspection.</u>**

Upon the request of Lender, User shall advise Lender as to the location of each Item of Equipment and, after not less than two (2) Business Days' prior written notice from Lender, make the Equipment and User's records pertaining thereto available to Lender or Lender's agent for inspection at the place where the Equipment is ordinarily located; provided, such access shall in no way interfere with the operations of User at the location of the Equipment and such access may be limited by User to ensure that Lender, and agents of Lender, are not given access to confidential information or information (patient information or otherwise) that is subject to limitations on disclosure by any law or regulation.

**Section 7. <u>Loss or Destruction.</u>**

A. User shall bear the risk of loss with respect to any damage, destruction, loss, theft, or governmental taking of any Item, whether partial or complete and whether or not through any default or neglect of User. Except as provided in this Section 7, no such event shall relieve User of its obligation to pay Payments hereunder. In the event any Item of Equipment shall be lost, stolen, destroyed, damaged beyond repair, subject to governmental taking, or permanently rendered unfit or unavailable for use for any reason whatsoever (an "Event of Loss"), User shall promptly, but in any event within ten (10) Business Days of the Event of Loss, give written notification to Lender of said loss and of the facts pertaining thereto, in which notification User shall elect either (1) to replace such Item of Equipment at User's own cost, or (2) to pay Lender the Collateral Value (as hercinafter defined) of such Item.

B. Should User elect to replace such Item, the replacement Item shall be free and clear of all liens, encumbrances and rights of others, and shall be in as good condition and shall have a value and utility determined by Lender to bc at least equal to the replaced Item, as if such Item were in the condition and repair required to be maintained by the terms hereof. And such replacement Items shall immediately become subject to this Agreement (and be subject to Lender security interest hereunder), and shall be deemed part of the Equipment for all purposes hereof, to the same extent as the property originally comprising the Equipment; whereupon Lender shall transfer to User, without recourse or warranty, all of Lender's right, title and interest in such replaced Item. In the event User elects to replace such Item of Equipment, User's obligation to pay Payments as set forth in this Agreement shall remain unchanged. User further agrees to execute such reasonable documents and instruments as reasonably deemed necessary by Lender to include such replacement Items in this Agreement. Notwithstanding the foregoing, User shall not have the right to replace any such Item of Equipment unless Lender is satisfied, in its sole discretion, that it has received a first priority purchase money security interest in such replacement Item.

C. Should User not replace such Item of Equipment, then User shall pay to Lender, on the next payment date set forth in the Schedule for such Item following such Event of Loss, the Collateral Value of such Item or Items, which upon such payment no other amounts shall be owed by User to Lender under this Agreement, it being the understanding of the parties that such payment shall fully discharge and extinguish the indebtedness owed by User to Lender under this Agreement. As used herein, "<u>Collateral Value</u>" shall mean that portion of the Loan Balance as of such date indicated on the Debt Amortization Chart attached as Exhibit B to the Schedule , together with interest on such portion from the immediately preceding Payments payment date to the date of payment at the Interest Rate specified in the Schedule. Lender shall deliver to User a copy of its calculations in determining the amount of such payment.

## Section 8. Insurance.

At its own expense, User shall maintain insurance on each Item of Equipment for an amount not less than the greater of the unpaid Payments hereunder with respect to such Item or the replacement value thereof or the actual value of such Item, and shall maintain adequate comprehensive general public liability and property damage insurance with respect to each Item, said insurance to be in an amount not less than the amount specified in the Schedule applicable to said Item attached to this Agreement and, in any event, in an amount sufficient to provide full coverage against all loss and liability. All such insurance shall name Lender as an additional interest. Certificates or other evidence satisfactory to Lender showing the existence of such insurance, the terms and conditions of the policy, and payment of the premium therefor shall be delivered to Lender prior to execution of the Schedule and periodically prior to each expiration of such insurance. In the event User shall fail to obtain or maintain insurance in accordance with the provisions of this Section 8, Lender shall have the right to obtain such insurance as Lender deems necessary, and User shall be obligated to, and shall upon demand, reimburse Lender for the payment of all premiums therefor together with interest computed from the date of Lender's payment at the interest rate specified in the Schedule. If any insurance proceeds are received with respect to an occurrence which does not constitute an Event of Loss under Section 7 of this Agreement, or if User elects to replace the Item or Items so lost or destroyed under the provision of Section 7 of this Agreement, then the proceeds will be applied in payment for repairs and replacement property required pursuant to Sections 5 and 7 of this Agreement, or to reimburse User for having made such payments.

## Section 9. Indemnification and Expenses.

User shall, to the extent and limits permitted by applicable law, defend, indemnify and save harmless Lender or any assignee or transferee of Lender and their respective agents and servants from and against any claim, cause of action, damage, liability, cost, fee or expense (including reasonable attorney fees, paralegal fees, and costs in connection therewith) which may be incurred in any manner by or for the account of any of them (i) arising out of, connected with or resulting from, this Agreement; (ii) relating to the Equipment or any part thereof including without limitation the manufacture, construction, selection, purchase, delivery, installation, ownership, use or return of the Equipment or as a result of the use, maintenance, repair, replacement, operation or the condition thereof (whether defects are patent, latent or discoverable by Lender or by User); (iii) by reason of User's failure or refusal to accept the Equipment "AS IS" when delivered to User; (iv) by reason or as the result of any act or omission of User or its agent or employee; (v) as a result of claims for patent or trademark infringements; (vi) based on any event which results in any claim for negligence or strict liability in tort; or (vii) based on any personal injury, or death, or damage to property, caused by the Equipment, or caused by or resulting from its use, maintenance, repair, replacement, operation or condition. This Section 9 shall be effective from the date an Item of Equipment is ordered, though not yet accepted by User, and though the rental term of this Agreement has not yet commenced, and shall remain in effect with respect to any one or more Items of Equipment insofar as it relates to an event which occurred prior to the return of the Equipment to Lender. In addition to the foregoing and notwithstanding any contrary provision hereof, this Section 9 (and all other "hold harmless and indemnity" provisions of this Agreement) shall remain in effect as to actions or claims accruing or arising during the term hereof, even though all Payments shall have been fully paid and satisfied, until a date which is four (4) years following the payment of the last said Payments; provided, however, that any such claims shall be payable only from User's available funds. User agrees to give Lender prompt notice of any such claim, cause of action, action or liability. Lender agrees to give User prompt notice of any such claim, cause of action or liability. Subject to the above, Lender agrees to cooperate with User in any defense or other action which User is by this Section obligated to undertake but only at User's sole cost and expense.

**Section 10.** **Transfer and Assignment.**

A. Subject to the requirements set forth herein, Lender may assign or otherwise transfer all or any portion of its security interest in any Item of Equipment; provided, Lender shall first notify User in writing of such transfer.

B. Subject to the requirements set forth herein, Lender may at any time, transfer, assign or grant a security interest in this Agreement or any Payments or other sums due or to become due hereunder, and in such event Lender's transferee or assignee shall have all of Lender's rights, powers, privileges and remedies hereunder; provided, Lender shall first notify User in writing of such transfer, assignment or grant.

C. Any such assignee shall have all of the rights of Lender with respect to such interests assigned under this Agreement, including the right to reassign such interest though subject to the notification requirements set forth in A. and B. immediately above and elsewhere in this Agreement. Upon written notification by Lender, the User shall make all Payments and other payments when due under this Agreement to the party and at the address designated in such notice, without offset or deduction whatsoever. Notwithstanding anything herein to the contrary, no assignment of the right to receive Payments with respect to this Agreement shall be effective unless Lender or any assignee of Lender, as appropriate, shall, at Lender's or assignee's expense, as appropriate, provide written notice of such assignment to the User. The User shall keep an accurate record of all such assignments in a form complying with Section 146 of the Code and the regulations promulgated thereunder. The User shall deem and treat the person in whose name any interest in this Agreement shall be recorded (as provided above) as the absolute owner of such interest for the purpose of receiving Payments relating to such interest. Any such assignment or encumbrance shall be of Lender's interest only and shall be wholly subordinate and inferior to User's rights hereunder. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of Lender and the User and their respective successors and permitted assignees.

D. During the term of this Agreement, User shall not sell any Item of Equipment or assign its rights or interest hereunder without the prior written consent of Lender, which consent shall be in the sole and absolute discretion of Lender; provided, however, that as a condition precedent to requesting such consent, User shall provide Lender with an opinion of counsel acceptable to Lender that such sale or assignment will not adversely affect the exclusion of the interest portion of the Payments hereunder from gross income for federal income tax purposes; provided, further, that no such sale or assignment shall relieve User of its obligations hereunder.

**Section 11.** **Events of Default and Remedies.**

A. The following events shall constitute Events of Default: (i) User shall fail to timely make any payments of any amount (including any of the Payments) hereunder when due; (ii) User shall fail to perform or observe any other covenant, condition, or agreement to be performed or observed by it under this Agreement; (iii) any material representation or warranty made by User in or pursuant to this Agreement (including the Schedule), or in any amendment to this Agreement, shall prove to be incorrect at any time in any material respect; (iv) User shall become insolvent or bankrupt or make any assignment of the benefit of creditors or consent to the appointment of a trustee or a receiver; or a trustee or a receiver shall be appointed for User or for a substantial part of its property without its consent and shall not be dismissed within a period of sixty (60) days; or bankruptcy, reorganization or insolvency proceedings shall be instituted by or against User and, if instituted against User, shall not be dismissed for a period of sixty (60) days; (v) judgments aggregating more than One Thousand and no/100 ($1,000) Dollars shall be entered against User and shall not be satisfied or appealed from and execution thereon stayed within the time provided by law for taking appeals; or (vi) if any Item of

Equipment or a substantial part of User's property shall become subject to a judicial lien not released by bond or otherwise;.

B. Upon occurrence of the Event of Default specified in Section 11A(i) which continues unremedied for ten (10) days after written notice from Lender to correct such Event of Default or upon occurrence of the Event of Default specified in Section 11A(ii), 11A(iii), 11A(v) or 11A(vi) which continues unremedied for forty-five (45) days after written notice from Lender to correct such Event of Default; or upon the occurrence of any Event of Default specified in Section 11A(iv), Lender may, at its option: (i) proceed, by appropriate court action or actions, to enforce performance by User of the applicable covenants of this Agreement or to recover damages for the breach thereof (solely as provided below), which damages shall be payable solely from User's lawfully available funds; (ii) do any or all of the following, each of which shall be construed as cumulative, and no one of them as exclusive of the others:

(1) Without further notice to User terminate this Agreement whereupon all rights of User to the use of the Equipment shall absolutely cease and terminate and within ten Business Days after termination, User will fully comply with all provisions of Section 21C hereof;

(2) Whether or not this Agreement is terminated, foreclose the security interest in the Equipment hereby created and, upon reasonable notice to User, take possession of any or all of the Equipment, wherever situated or wherever the same may be found, for such purpose in or upon any premises without liability for so doing, and after giving ten days' notice by publication in some newspaper published in Mobile County of the time, place and terms of sale, sell or otherwise dispose of the Equipment, or any portion or part thereof, in front of the courthouse door of said County or at any other place deemed by Lender to be appropriate and reasonably conducive to an advantageous sale, such sale to be a public outcry to the highest bidder for cash, for the account of User, holding User liable for the difference between (i) the purchase price, rent and other amounts paid by the purchaser or such other person pursuant to such sale or other disposition and (ii) the entire unpaid Payments for the then current annual term of the Agreement, whether such term be the original term, a renewal term, or extension of an existing term, plus interest at the rate specified in the Schedule and other amounts payable by User under and pursuant to this Agreement;

(3) By written notice to User declare the unpaid principal balance of the Payments due under this Agreement during the then current fiscal year, plus interest thereon (the "Accelerated Interest Component") at the Overdue Rate specified in the Schedule from the date of such notice (not to exceed in any event the maximum rate of interest permitted by law), to be immediately due and payable and which Lender may proceed by attachment, suit or otherwise to collect from User's available funds during such fiscal year, but that in no event results in a payment from User that, combined with proceeds from the foreclosure of the Equipment paid to Lender pursuant to item (2) immediately above, exceeds the then total outstanding principal amount of Payments under this Agreement plus the Accelerated Interest Component;

(4) Exercise any other right, remedy, election or recourse provided for in this Agreement or which may be available to Lender under the Alabama Uniform Commercial Code or any other applicable law.

C. Moneys received by Lender from a sale or other disposition permitted by Section 11B(2) hereof shall be the absolute property of Lender and User shall have no right thereto, nor shall User be entitled to any credit in the event of a deficiency (with respect to the then current fiscal year) in the Payments received by Lender for the Equipment. In the event that moneys received by Lender exceed all Payments payable hereunder (which, in case of a non-appropriation of funds by User as provided for in Section 21 hereof, shall include the entire unpaid Payments for the maximum term of this Agreement, whether the then current annual term be the original term, a renewal term, or extension of an existing term, plus interest thereon at the Overdue Rate specified in the Schedule, not to exceed in any event the maximum rate of interest permitted by law), Lender shall pay such surplus to User. To accomplish the foregoing, User hereby irrevocably appoints Lender as the agent and attorney-in-fact of User to enter upon and sell or lease the Equipment as provided herein.

D. User shall in any event remain fully liable for reasonable damages as are provided by law and for all costs and expenses incurred by Lender on account of such default, including, but not limited to, all court costs and reasonable attorneys' fees, expenses for storing Equipment, and expenses in connection with locating another user, in each case, payable solely from User's lawfully available funds. No waiver by Lender of any breach of any obligation of this Agreement shall be construed to be a waiver of the obligation itself or of any subsequent breach of the same obligation or of a breach of any obligation. The acceptance by Lender of payment by User of any Payments or the delay or omission to exercise any right or remedy upon occurrence of any breach by User shall not constitute a waiver of such breach, regardless of Lender's knowledge thereof. The acceptance and deposit by Lender of any check or instrument, regardless of any endorsements or statements thereon or in any letter or transmittal from User, shall not constitute an accord and satisfaction.

E. THE REMEDIES IN THIS AGREEMENT PROVIDED IN FAVOR OF LENDER SHALL NOT BE DEEMED EXCLUSIVE BUT SHALL BE CUMULATIVE AND SHALL BE IN ADDITION TO ALL OTHER REMEDIES IN ITS FAVOR AT LAW OR IN EQUITY. USER HEREBY WAIVES ANY AND ALL EXISTING OR FUTURE CLAIMS OF ANY RIGHT TO ASSERT ANY OFF-SET OR CLAIM WHICH MAY BE ASSERTED BY USER ON ITS BEHALF IN CONNECTION WITH THE AGREEMENT OR THE EQUIPMENT.

**Section 12. Lender's Right to Perform for User.**

If User fails to make payments required by this Agreement or fails to perform or comply with any of its agreements contained herein, Lender may itself, at its sole option (but shall not be required to), make payment or perform or comply with such agreements. The amount of the reasonable expenses of Lender incurred in connection with such payment or performance shall be payable by User to Lender upon demand together with interest at the rate stated in the Schedule from the date of the expense to the date of payment by User to Lender, in each case, payable solely from User's available funds.

**Section 13. Further Assurances; Financial Information.**

User will promptly and duly execute and deliver to Lender such further documents, instruments, assurances and financing statements and take such further action as Lender may from time to time reasonably request in order to carry out the intent and purpose of this Agreement and to establish and protect the rights and remedies created or intended to be created in favor of Lender. User shall deliver to Lender its annual audited financial statements within fifteen (15) Business Days after User's receipt of the same for each fiscal year of User while this Agreement is in effect.

**Section 14. Notices.**

All notices required under the terms and provisions hereof shall be in writing, and any such notice shall become effective when deposited in the United States mail, with proper postage, prepaid, addressed to Lender or User at the address shown on the signature page hereof or at such other address as such party shall from time to time designate for itself in writing to the other party.

**Section 15. Applicable Law and Severability.**

This Agreement shall be governed by the laws of the State, including all matters of construction, validity and performance. Any provision of this Agreement determined to be illegal, prohibited or unenforceable in any jurisdiction by a competent court shall, as to such jurisdiction, be ineffective to the extent of such illegality, prohibition or unenforceability without invalidating the remaining provisions; provided, however, that to the extent that the provisions of any such applicable law can be waived, they are hereby waived by User.

**Section 16. Modification of Agreement.**

No term or provision of this Agreement may be changed, waived, discharged or terminated except by a written agreement signed by the affected party.

**Section 17. Time of Essence.**

TIME IS OF THE ESSENCE WITH RESPECT TO THIS AGREEMENT.

**Section 18. Appointment of Agent of Lender.**

Lender shall have the right, at any time during the term of this Agreement, to appoint any party selected by it to act as agent or trustee for Lender hereunder.

**Section 19. Headings; Terms.**

A. Captions or headings in this Agreement shall not define or limit any of the terms hereof.

B. Any interest rate specified herein or in the Schedule shall be construed as the lesser of such specified rate or the highest rate permitted by applicable law.

C. Any reference herein to a "full" or "maximum" Agreement Term shall be the term including all renewals or extensions not to exceed the shorter or the useful life of any item of Equipment or the longest term permitted by applicable law to preserve the legality of this Agreement.

**Section 20. Effective Date.**

This Agreement shall not be effective until it has been signed and accepted by Lender.

**Section 21. Non-Appropriation of Funds.**

A. All Payments due by User hereunder for each fiscal year this Agreement is in effect shall be payable solely out of the current funds or current revenues of User ("User's Available Funds"). NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, THE PAYMENTS DUE HEREUNDER ARE TO BE MADE ONLY AFTER AN APPROPRIATION BY THE GOVERNING BODY OF USER IS LAWFULLY MADE THEREFOR FROM THE CURRENT FUNDS OR CURRENT REVENUES OF THE USER AND NEITHER THE USER, NOR THE STATE, NOR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF SHALL BE

OBLIGATED TO MAKE ANY APPROPRIATION FOR ANY SUMS DUE HEREUNDER FROM AD VALOREM OR OTHER TAXES AND NEITHER THE FULL FAITH AND CREDIT OF THE USER, NOR THE STATE, NOR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF IS PLEDGED FOR PAYMENT OF SUCH SUMS DUE HEREUNDER AND THE CONTRACTUAL OBLIGATION HEREUNDER TO REQUEST AN APPROPRIATION TO PAY SAME DOES NOT CONSTITUTE AN INDEBTEDNESS OF THE USER, THE STATE, OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL, STATUTORY OR CHARTER PROVISION OR LIMITATION. User shall cause its chief financial officer to include all Payments due hereunder in its proposed annual budget and to request the governing body of User to appropriate in each fiscal year from User's Available Funds an amount necessary to pay the Payments due in such fiscal year and to identify same in a line item for such purpose in the budget as enacted. During the term of this Agreement User will furnish to Lender copies of each proposed budget of User within twenty (20) days after it is filed and of each final budget of User within twenty (20) days after it is printed. Anything in this Agreement notwithstanding, Lender agrees that this Agreement and all of User's obligations to make the Payments are subject to, and can be terminated by User upon the happening of, a non-appropriation of funds as described in paragraph B of Section 21 hereof.

B. If User has not appropriated funds in a line item identified for such purpose for its next succeeding fiscal year to continue the payment of Payments hereunder, or has not otherwise agreed to continue payment of Payments hereunder, this Agreement, without further act, shall terminate at the end of User's then current fiscal year and User shall not be obligated to make any Payments beyond the end of User's then current fiscal year except for obligations hereunder accruing prior to such termination which survive termination hereof.

C. In the event of termination of this Agreement due to conditions stated in Paragraph B of this Section 21 (and Section 11B(1)) User shall: (i) deliver, at User's expense, all of the Equipment to an address within the continental United States as designated by Lender; (ii) certify that the Equipment is not encumbered in any way whatsoever (other than encumbrances created by Lender and by this Agreement); (iii) furnish, at User's expense, a certification by the manufacturer's authorized service representative of each Item of Equipment that each Item is in good working condition and is acceptable to be placed under a maintenance contract, if and to the extent that Lender reasonably determines that same is readily available; and (iv) furnish a Bill of Sale (with warranties as to title), Uniform Commercial Code records search, and such other documentation as is reasonably requested by Lender to establish transfer to Lender of good and marketable title to the Equipment, free and clear of any liens or claims by third parties, such documentation to be satisfactory to Lender.

D. For a period of two (2) years after the end of the fiscal year in which this Agreement is so terminated for lack of appropriated funds pursuant to Paragraph B of this Section 21, User shall not purchase, lease, rent or otherwise acquire equipment performing functions similar to those performed by the Equipment under this Agreement, nor will User acquire the use of such equipment through any other party, agency or entity including but not limited to those affiliated with or hired by User. User consents to the enforcement of this provision in the courts by injunctive relief or otherwise, and expressly waives any immunity, now or hereafter existing, against suit by Lender, its transferee or assignee for its enforcement.

E. As long as this Agreement shall be in effect, the User will use the Equipment for the intended purpose thereof, as medical equipment, to the maximum extent of the capacity of the Equipment and the User will not acquire, lease, use or contract with any person to provide, any facilities or equipment, other than the Equipment, as a linear accelerator for the User's Mitchell Cancer Institute; provided, however, notwithstanding the foregoing, if the User shall determine that the need for a linear accelerator at the User's Mitchell Cancer Institute exceeds the maximum capacity of the Equipment plus the maximum capacity of all other linear accelerators then owned, leased or used by the User, then the User may, without violating the covenants contained in this Section 21E, acquire, lease, use or contract with any person to provide, new or additional linear accelerators (the "Additional Equipment") to the extent necessary to perform the functions which cannot be performed by the Equipment and subject to the covenant and agreement by the User. Should the need for a linear accelerator at the Mitchell Cancer Institute diminish after the acquisition of such Additional Equipment, the User shall correspondingly decrease the use of such Additional Equipment in favor of the use of the Equipment to the maximum extent thereof. Until such time as the Equipment shall be and remain fully utilized, the User shall not enter into any lease or rental agreement or service contract or renew any existing lease or rental agreement or service contract for, or otherwise acquire any interest in, any medical equipment to be used for the same purpose for which the Equipment is capable of being used.

F. In the event that User does not appropriate funds and this Agreement is to be terminated as provided in Paragraph B of this Section 21, User shall promptly notify Lender in writing, specifying the amount, if any, which User has appropriated for purposes of paying Payments, or which is otherwise available for such purpose in User's fiscal budget for the succeeding year. Lender shall have the option, exercisable within 10 business days after its receipt of such notice (but in no event after the beginning of the next fiscal year of User) to restructure this Agreement by (i) reducing the Payments to an amount which will not exceed funds appropriated by User for such purpose and (ii) increasing the repayment term of this Agreement for an additional period of time necessary to allow an orderly amortization of the balance due plus any additional charges associated with such restructuring. Paragraph D of this Section 21 and this Paragraph E shall be null and void if found by a court of competent jurisdiction to cause this Agreement to exceed the User's authority.

**Section 22.** **<u>Termination.</u>**

Should User desire to terminate this Agreement, User may do so only by paying to Lender the outstanding principal balance plus accrued interest at the interest rate stated in the Schedule to the date of termination, whereupon Lender shall release all of its security interest in the Equipment and this Agreement shall terminate.

**Section 23.** **<u>Service, Waiver of Jury Trial</u>.**

(A) THE USER HEREBY (A) COVENANTS AND AGREES NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY A JURY, AND (B) WAIVES ANY RIGHT TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS SEPARATELY GIVEN, KNOWINGLY AND VOLUNTARILY, BY USER, AND THIS WAIVER IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A JURY TRIAL WOULD OTHERWISE ACCRUE. LENDER IS HEREBY AUTHORIZED AND REQUESTED TO SUBMIT THIS FINANCING AND LEASE AGREEMENT FOR RESOLUTION, SO AS TO SERVE AS CONCLUSIVE EVIDENCE OF USER'S WAIVER OF THE RIGHT TO JURY TRIAL. FURTHER, USER HEREBY CERTIFIES THAT NO REPRESENTATIVE OR AGENT OF LENDER (INCLUDING LENDER'S COUNSEL) HAS REPRESENTED, EXPRESSLY OR OTHERWISE, TO USER THAT LENDER SHALL NOT SEEK TO ENFORCE THIS WAIVER OF RIGHT TO JURY TRIAL PROVISION.

(B) SERVICE OF PROCESS IN ANY ACTION SHALL BE DULY SERVED IF MAILED BY REGISTERED MAIL, POSTAGE PREPAID, TO USER AT ITS ADDRESS OR IF SERVED BY ANY OTHER MEANS PERMITTED BY APPLICABLE LAW.

**Section 24. Role of Lender; Debarment**

(a) Lender and its representatives are not registered municipal advisors and do not provide advice to municipal entities or obligated persons with respect to municipal financial products or the issuance of municipal securities (including regarding the structure, timing, terms and similar matters concerning municipal financial products or municipal securities issuances) or engage in the solicitation of municipal entities or obligated persons for the provision by non-affiliated persons of municipal advisory services and/or investment advisory services. With respect to this agreement and any other information, materials or communications provided by Lender: (a) Lender and its representatives are not recommending an action to any municipal entity or obligated person; (b) Lender and its representatives are not acting as an advisor to any municipal entity or obligated person and do not owe a fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934 to any municipal entity or obligated person with respect to such agreement, information, materials or communications; (c) Lender and its representatives are acting for their own interests; and (d) User has been informed that User should discuss this agreement and any such other information, materials or communications with any and all internal and external advisors and experts that User deems appropriate before acting on this agreement or any such other information, materials or communications.

(b) Lender covenants that, to its knowledge, neither it, nor any of its employees, agents, or trustees, are currently under investigation by any local, state or federal government agency for false claims, fraud or abuse, nor have of the above been sanctioned by a state, local, or federal government agency or excluded from participating in state, local, or federal government payor programs, including but not limited to Medicare or Medicaid programs, and that no exclusion proceedings are pending. Lender agrees to notify User immediately in writing in the event any proceedings, inquiries and/or disciplinary action is commenced against it, its employees, agents, or trustees.

IN WITNESS WHEREOF, User and Lender have each caused this Agreement to be executed in its name, under seal, and the same attested, by officers thereof duly authorized thereunto, as of the date and year first above written.

**UNIVERSITY OF SOUTH ALABAMA**

By ______________________________
President

S E A L

Address of User:

307 University Boulevard North
Mobile, Alabama 36608

**REGIONS CAPITAL ADVANTAGE, INC.**

By______________________________

Its______________________________

Address of Lender:

1900 5th Avenue North
Suite 2400
Birmingham, Alabama 35203

**SCHEDULE NO. 1**
**TO SECURED EQUIPMENT FINANCING AGREEMENT**

This Schedule is hereby integrated into and made a part of the Secured Equipment Financing Agreement ("Agreement") between the signatories hereof dated December 7, 2016. Pursuant to the Agreement, Lender has advanced for the benefit of the User the purchase price of certain items of equipment listed below (hereinafter referred to collectively as the "Equipment") and individually as an "Item" or "Items of Equipment") and the User has granted, and hereby grants, to Lender a first priority purchase money security interest therein, to secure the User's obligation to repay such advance, with interest, subject always to Section 21 of the Agreement and the provisions of the Agreement and this Schedule. The terms and conditions of the Agreement govern, except where contrary to the specified terms of this Schedule.

A) Description of Equipment with Serial Numbers:

See Exhibit A attached hereto.

B) Possession of the above Items may not be transferred, and such Items may not be sold or leased to a third party by User, without prior written permission of Lender.

C) Term of Agreement: The full term of this Agreement shall be a period of 70 consecutive months. consisting of an initial term of December 7, 2016 through September 30, 2017, followed by five consecutive renewal terms of one year each coincident with each fiscal year of the User, described as follows:

| Annual Terms | Calendar Period |
|---|---|
| Initial Term | December 7, 2016 to September 30, 2017 |
| First Renewal Term | October 1, 2017 to September 30, 2018 |
| Second Renewal Term | October 1, 2018 to September 30, 2019 |
| Third Renewal Term | October 1, 2019 to September 30, 2020 |
| Fourth Renewal Term | October 1, 2020 to September 30, 2021 |
| Fifth Renewal Term | October 1, 2021 to September 30, 2022 |

Except as otherwise provided in the Agreement, as long as User continues to make the Payments herein when due and is not otherwise in default, the Agreement as to the Equipment (and the User's obligation to make payments hereunder) shall be automatically renewed at the end of the initial term, and at the end of each renewal term thereafter, for the then next succeeding renewal term upon the same terms and conditions as stated in the Agreement.

D) Payments: User shall pay to Lender principal and interest as follows: on November 7, 2017 and continuing on the 7th day of each month thereafter, until and including ___________, or until this Agreement is terminated in accordance with its terms, the principal amount set forth on Exhibit B hereto, plus interest accrued to each such principal payment date, such amount to be applied first to the payment of the interest component of the payments under this Agreement on each such date of payment and then to the reduction of the outstanding principal component of the payments under this Agreement.

The User may, on any date, without penalty, pay in advance the entire unpaid principal amount of the Payments, or any portion thereof, by paying to the Lender the principal amount to be prepaid, plus interest accrued on such principal amount to the date of such prepayment.

E) Equipment Location: The Equipment shall be located at ____________, in the City of Mobile, County of Mobile, State of Alabama (the "Location"), which Location is owned by the User.

F) The respective principal and interest components of the Payments are set forth on Exhibit B to this Schedule.

Interest Rate: The interest components of the Payments shall be calculated at the rate of 1.88% per annum computed on the basis of an assumed year of 360 days (comprised of 12 months of 30 days each) on a daily accrual basis; provided that, if the Internal Revenue Service makes a final determination that interest on Payments under this Agreement is includable in gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and User shall have been given a reasonable period of time not to exceed two years to contest the same in good faith (the "Appeal Period"), then Payments of principal hereunder will bear interest at a rate of 2.97% (the "Taxable Rate") from the date such interest must be included in gross income of Lender, whereupon the User will reimburse the Lender the difference between (a) the Taxable Rate, and (b) the interest already paid at the rate of 1.88%, along with all costs, expenses, penalties, and reasonable attorneys' fees incurred by the Lender as a result of such determination, within thirty days after the Appeal Period. The obligation to pay such additional interest shall survive the payment of the principal hereunder.

OVERDUE RATE: 5.00%. These rates apply to this Schedule only.

G) Insurance: The minimum amount of insurance required under the terms of the Agreement shall be as follows:

Physical Damage: User shall purchase and maintain physical damage insurance coverage with a deductible of no more than $5,000.00 naming Lender as Loss Payee.

The foregoing amounts of insurance are minimum amounts only, User expressly agreeing that in any event the insurance shall at all times be in an amount which shall be sufficient to provide full coverage against all loss and liability. Unless otherwise expressly specified herein, the hereinabove described insurance shall expressly cover all the hereinabove described Equipment.

H) Legal Opinion: User will furnish Lender, at User's expense, a legal opinion, in form and substance satisfactory to Lender, substantially in the form of Exhibit C hereto.

I) User acknowledges, confirms and consents to Lender's executing a disclaimer in substantially the same form as follows:

"ALL WARRANTIES, IF ANY, BY A MANUFACTURER OR SUPPLIER OTHER THAN DEALER ARE THEIRS, NOT DEALER'S, AND ONLY SUCH MANUFACTURER OR OTHER SUPPLIER SHALL BE LIABLE FOR PERFORMANCE UNDER SUCH WARRANTIES, UNLESS DEALER FURNISHED BUYER WITH A SEPARATE WRITTEN WARRANTY OR SERVICE CONTRACT MADE BY DEALER ON ITS OWN BEHALF, DEALER HEREBY DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING ANY IMPLIED WARRANTIES OR MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE: (A) ON ALL GOODS AND SERVICES SOLD BY DEALER, AND (B) ON ALL USED VEHICLES WHICH ARE HEREBY SOLD AS IS - NOT EXPRESSLY WARRANTED OR GUARANTEED."

J) Other Terms:

A late charge of $100 shall be due and payable with respect to any Payment which is made more than 10 days after the date on which the same is due.

IN WITNESS WHEREOF, User and Lender have each caused this Schedule to be executed in its name, under seal, and the same attested, by officers thereof duly authorized thereunto, as of the date and year first above written.

**UNIVERSITY OF SOUTH ALABAMA**

By ______________________________
President

SEAL

Address of User:

307 University Boulevard North
Mobile, Alabama 36608

**REGIONS CAPITAL ADVANTAGE, INC.**

By______________________________

Its______________________________

Address of Lender:

1900 5th Avenue North
Suite 2400
Birmingham, Alabama 35203

## CERTIFICATE OF ACCEPTANCE

The University of South Alabama (User), having entered into a Secured Equipment Finance Agreement (the "Agreement") dated December 7, 2016, with Regions Capital Advantage, Inc. (Lender), does hereby certify to Lender, on this the 7th day of December, 2016, as to the equipment set forth herein (the "Equipment") that:

A. The User has inspected the Equipment and hereby accepts the Equipment for all purposes under the Agreement.

B. The Equipment is of a size, design, and capacity selected by User, is in good condition, and has been satisfactorily delivered.

C. The User is satisfied that the Equipment is suitable for User's purposes and responsibly selected the vendor, manufacturer or supplier of the Equipment.

D. User does not consider Lender to be a manufacturer of the Equipment nor a dealer in property of the kind of the Equipment.

E. The User waives any defenses which it may have now or in the future against Lender arising from the Equipment, its operation, delivery, condition, defects, installations, or any other matter concerning the Equipment.

F. The User accepts the Equipment AS IS, WHERE IS and acknowledges Lender's disclaimer of warranties contained in Section 3 of the Agreement.

G. The User has no agreement regarding the Equipment with any vendor, manufacturer, broker, repair service, landlord or other party (excluding Lender) except as listed here:

Electra, Inc.

Lender is not bound by any representation, warranty or agreement made by any other party.

H. The User acknowledges and confirms that the Agreement is in full force and effect and is the legal, valid and binding obligation of the User enforceable against the User in accordance with its terms and that no default or Event of Default under the Agreement exists on the date hereof. The User hereby makes and republishes all of its representations [and warranties] under the Agreement and acknowledges that it has no defenses or claims against Lender under the Agreement on the date hereof.

I. Equipment Description: See Exhibit A hereto ________________.

______________________________________________________________
______________________________________________________________
______________________________________________________________
______________________________________________________________.

J. The User authorizes Lender to pay $2,089,689.75 for the previously described Equipment upon receipt of an original invoice from the vendor or manufacturer.

UNIVERSITY OF SOUTH ALABAMA

By_______________________________________
President

**EXHIBIT A**

Description of Equipment with Serial Numbers

A Linear Accelerator with the serial number _____________ and software relating thereto.

**EXHIBIT B**

Amortization Chart

# EXHIBIT C

Legal Opinion

December 7, 2016

University of South Alabama
Mobile, Alabama

Regions Capital Advantage, Inc.
Birmingham, Alabama

Re: **$2,089,689.75 Secured Equipment Financing Agreement of even date by The University of South Alabama and Regions Capital Advantage, Inc.**

Ladies and Gentlemen:

We have acted as bond counsel to the University of South Alabama (the "User") in connection with the execution and delivery of the above-referenced Secured Equipment Financing Agreement (the "Agreement") by the University and Regions Capital Advantage, Inc. (the "Lender") pursuant to Chapter 16A of Title 41 of the Code of Alabama 1975 (the "Enabling Law") and other applicable provisions of Alabama law for the purpose of financing the acquisition and purchase of a linear accelerator (the "Equipment") for the User on the terms and provisions contained in the Agreement. Capitalized terms used herein without definition shall have the respective meanings assigned thereto in the Agreement.

In rendering this opinion, we have (a) examined a certified copy of the Agreement, the Tax Compliance Agreement and Certificate (the "Non-Arbitrage Agreement") by the User with respect to the Agreement and the Equipment, and such other certificates, proceedings, proofs and documents, and made such studies of matters of law, as we have deemed necessary, (b) relied, without independent investigation or inquiry, upon (1) the representations and covenants made in the Agreement and (2) statements set forth in the Non-Arbitrage Agreement and in certificates of certain public officials and officers of the User and the Lender, and other certificates, proceedings, proofs and papers considered by us to be pertinent, and (c) assumed (1) continuing compliance with the covenants in the Agreement and Non-Arbitrage Agreement respecting federal tax matters, and (2) the resolution of the Board of Trustees of the User was duly adopted.

We have made no examination of the title of the User to the Equipment and accordingly express no opinion with respect thereto, except that the User has adequate corporate power to acquire, own, operate and dispose of the Equipment and any part thereof.

The opinions expressed herein are limited to the laws of the State of Alabama and the federal laws of the United States of America.

Based on the foregoing, and subject to the below qualifications, we are of the opinion, as of the date hereof and under existing law, that:

(1) The User has corporate power and authority under the Enabling Law to execute, deliver and perform the Agreement.

(2) The User has duly authorized, executed and delivered the Agreement and the Agreement constitutes the legal, valid and binding obligation of the User and is enforceable against the User in accordance with the terms thereof.

(3) The interest portion of the Payments under the Agreement is exempt from State of Alabama income taxation.

(4) The interest portion of the Payments under the Agreement is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted however that for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the User comply with all requirements of the 1986that must be satisfied subsequent to the delivery of the Agreement in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The User has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the interest portion of the Payments under the Agreement to be included in gross income for federal income tax purposes retroactive to the date of delivery of the Agreement.

The rights of the Lender and the enforceability of the Agreement are subject to and may be limited by (a) bankruptcy, insolvency, reorganization, moratorium, sovereign immunity, or other similar laws affecting the enforcement of creditors' rights and (b) the exercise of judicial discretion (whether in a proceeding in equity or at law) and (c) the valid exercise of the constitutional powers of the United States of America and the sovereign and police powers of the State of Alabama.

We express no opinion with respect to the tax treatment of any owner of the Agreement or any interest therein under any provision or section of the Code other than the aforesaid Sections 103 as a result of the receipt of interest under the Agreement.

No assurances can be given that federal legislation will not be introduced and enacted which could adversely affect the exclusion of the interest portion of the Payments under the Agreement from gross income for federal income taxation or the tax treatment of certain owners of the Agreement or the interest portion as a result of the receipt of the interest portion of the Payments under the Agreement. It should be noted that ownership of the Agreement may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Agreement. Bond counsel does not express any opinion regarding such collateral tax consequences. Prospective owners of the Agreement should consult their tax advisors regarding collateral federal income tax consequences.

The Lender has acknowledged that our engagement as bond counsel did not include services relating to the compilation, verification or furnishing to the Lender of information regarding the merits and risks of the Agreement. The Lender has represented to us that the Lender has had full and free access to all books, records and audits of the User, and that the Lender has been provided with and has evaluated such financial and general information respecting the User and the Agreement as the Lender has deemed necessary to enable the Lender to make an informed decision with respect to the purchase of an interest in the Agreement, and that Lender has relied upon its counsel, Maynard Cooper & Gale, P.C., for legal advice.

The Lender has also represented to us that the Lender is acquiring the Agreement for its own account as evidence of a privately placed and negotiated loan and not with a present view to the resale or distribution thereof or of any interest therein. The Lender has represented that the Lender will not sell, transfer or otherwise distribute the Agreement or any interest therein in violation of any applicable Federal or state securities laws.

The opinion is (a) limited to matters stated herein and no opinion may be inferred beyond the matters expressly stated, (b) given as of the date hereof and with the express understanding that we have no obligation to advise you or any of your successors or assigns of any changes in law or fact subsequent to the date hereof, even though such changes may affect the opinions expressed herein, (c) rendered to you solely in connection with the subject transactions and may not be relied upon by you or by any other person for any other purpose, and (d) rendered as an expression of our professional judgment as to the legal issues explicitly addressed herein, by the rendering of which we do not become an insurer or guarantor of that expression of professional judgment or of the outcome of any legal dispute that may arise with respect to any of the matters herein contained.

Faithfully yours,

**EXHIBIT II**

**FORM OF FUNDING AGREEMENT**

**FUNDING AGREEMENT**

THIS AGREEMENT is made and entered into this 7th day of December, 2016, by and among **Regions Capital Advantage, Inc.**, a Tennessee corporation, as Lender ("Lender"), the **University of South Alabama,** as User ("User"), and **Regions Bank,** as Funding Agent ("Funding Agent").

**W I T N E S S E T H:**

WHEREAS, Lender and User are parties to that certain Secured Equipment Financing Agreement dated of even date herewith (the "Financing Agreement"), a copy of which is attached hereto as Exhibit "A" and made a part hereof; and

WHEREAS, in connection with the Financing Agreement, Lender has agreed to purchase Equipment, as defined therein and as selected by User, and to lease such Equipment to User pursuant to the terms specified therein; and

WHEREAS, User has agreed to select the vendors, related services, and Equipment to be purchased by Lender, and to lease the same from Lender pursuant to the terms of the Financing Agreement; and

WHEREAS both Lender and User desire the Funding Agent to act as such hereunder.

NOW, THEREFORE, in consideration of the premises which shall be deemed an integral part of this Agreement and not as mere recitals thereto, and in consideration of the mutual agreements and covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound thereby, agree as follows:

1. Deposits.

(a) Within five business days of the date of this Agreement, Lender shall deposit or cause to be deposited with Funding Agent the amount of $2,089,689.75 for the purpose of funding the purchase of the Equipment as provided in the Financing Agreement, and for such other purposes as stated herein.

(b) User represents that the amount provided for in subparagraph (a) above is sufficient to purchase the Equipment. It is the intention of the Lender and the User to complete such purchase pursuant to purchase orders issued by Lender for the goods and Equipment selected by, delivered to, and accepted by User. In the event the initial deposit provided for in subparagraph (a) above is inadequate to complete the purchase of the Equipment as provided for in the Financing Agreement, then User shall deposit or cause to be deposited with Funding Agent an amount sufficient to complete such purchase. The amounts payable by User are to be payable solely from User's available funds, as described in the Financing Agreement.

(c) In the event the initial deposit provided for in subparagraph (a) above is greater than the amount required to complete the purchase of the Equipment after the completion of the purchase of the Equipment as evidenced by the Acceptance Certificate hereinafter defined, Funding Agent shall pay the balance of the deposited funds to Lender, who shall apply monthly such balance or the remaining portions thereof to the first principal portion of the monthly amounts due from User pursuant to the Financing Agreement, until the balance of such deposited funds are depleted fully.

(d) Subject to the terms and conditions of this Agreement, legal and equitable rights to all deposited funds shall remain in Lender. Funding Agent shall hold, safeguard, administer, and disburse the deposited funds in accordance with the provisions hereof.

2. Term. The term of this Agreement shall commence on the date hereof and shall continue thereafter until the disbursement of the entire deposited funds held by Funding Agent as provided herein.

3. Disbursement of Deposited Fund.

Funding Agent hereby covenants and agrees to disburse the deposited funds, with interest accrued thereon, if any, in accordance with this Agreement, unless otherwise specifically instructed in writing by Lender and User jointly.

4. Status and Actions of Funding Agent. The acceptance by the Funding Agent of its duties hereunder is subject to the following terms and conditions, which all parties hereto agree shall govern and control with respect to the right, duties and liabilities of the Funding Agent:

(a) Funding Agent has a business relationship with Lender. Both are owned by a single holding company. Because of this relationship, use of Funding Agent in this capacity may provide Lender a financial or other benefit.

(b) Funding Agent acts hereunder as a depositary. Funding Agent shall not be responsible or liable in any manner for the sufficiency, correctness, genuineness, validity or sufficiency of any of the executed agreements, documents or other items or for any claim or action by any person, firm, corporation or trustee concerning the right or power of any depositor to make any transfer or the validity of the transfer of any part of the deposited amount to the Funding Agent;

(c) Funding Agent shall be entitled to act upon, without any independent duty to investigate, any certificate, statement, notice, demand, request, consent, waiver, receipt, agreement or other instrument whatever, not only in reliance upon its due execution and the validity and effectiveness of its provisions, but also as to the accuracy and completeness of any information therein contained, which Funding Agent shall in good faith believe to be genuine and to have been signed or presented by a proper person or persons, and shall be protected in so acting.

(d) Funding Agent shall be entitled to request and receive from any party hereto such documents in addition to those provided for herein as Funding Agent may deem necessary to resolve any questions of fact involved in the provisions hereof.

(e) Funding Agent is authorized to and may, at the joint expense of Lender and User, consult counsel of its choice in respect to any dispute or conflict, or in respect to the construction of any of the provisions hereof, or in respect to any question relating to its duties or responsibilities under this Agreement, and shall incur no liability and shall be fully protected for any action taken or omitted in good faith on advice of such counsel.

(f) Funding Agent may, but shall be under no obligation to, advance any of its own funds in connection with the maintenance or administration of this Agreement, to institute or defend any action, suit or legal proceeding in connection herewith, or to take any other action likely to involve Funding Agent in expense. To the extent permitted by applicable law, the Lender and User shall indemnify the Funding Agent and hold it harmless against the cost and expense (including without limitation, attorney's fees and expenses) of any such defense or action.

(g) If deemed appropriate by Funding Agent, Funding Agent shall be entitled to demand and receive jointly from Lender and User such funds as Funding Agent shall deem necessary to institute the interpleader actions described herein.

(h) Funding Agent is not a party to and is not bound by any agreement between any one or more of the parties hereto, except this Funding Agreement, unless otherwise expressly stated herein. Funding Agent shall not be bound by any amendment to this Agreement or by any other agreement between Lender and User unless Funding Agent shall have executed such amendment or agreement;

(i) Funding Agent shall have only such duties and responsibilities as are expressly set forth in this Agreement, being purely ministerial in nature, and it shall have no responsibility in respect to any of the deposited funds other than faithfully to follow the instructions herein contained.

(j) Funding Agent may resign and be discharged from its duties hereunder at any time by giving notice of such resignation to Lender and User specifying a date when such resignation shall take effect (which date shall be no fewer than fifteen (15) days after the date of delivery of such notice). Upon receipt of such notice, the Lender shall appoint a successor funding agent, such successor to become Funding Agent hereunder upon the resignation date specified in the subject notice, at which time the resigning Funding Agent shall transfer the balance of the deposited funds to the successor Funding Agent, together with a statement detailing the history of all deposits, earnings, and disbursements. Any funding agent which shall succeed Funding Agent shall be a person or entity possessing trust powers in the State of Alabama; and

(k) Funding Agent shall not be held liable for any error of judgment, or for any act done or step taken or omitted by it in good faith, or for any mistake of fact or law, or for anything that it may do or refrain from doing in connection herewith. Funding Agent shall be indemnified and held harmless, jointly and severally, by Lender and User against any and all claims, costs, expenses, damages and other liabilities incurred by it hereunder, including attorneys' fees and costs, whether or not litigation is commenced, except for those resulting from its own willful misconduct or gross negligence.

The provisions of this Section 4 shall survive the termination of this Agreement.

5. <u>Instructions to Funding Agent</u>.

(a) Use of Deposited Funds. Deposited funds shall be used for the purpose of funding the purchase of the Equipment as provided in the Financing Agreement, and for such other purposes as stated herein.

(b) Investment of Deposited Funds. The Funding Agent shall invest the deposited funds, at the written instruction of User, in United States Treasury Bills, or Government Agency obligations, any fund secured by United States Treasury Bills, money market funds, or other interest-bearing or non-interest bearing bank accounts (including without limitation interest-bearing or non-interest bearing bank accounts of Regions Bank), with any remainder being deposited and maintained in an interest-bearing or non-interest bearing demand account with the Funding Agent (as directed by the User), until disbursement of the entire deposited funds. Earnings, if any, on the deposited funds will be added to the deposit and shall become a part thereof. Income and expenses of the deposited funds will be taxed and reported in accordance with applicable income tax laws. The Funding Agent will pay from the deposited funds tax liabilities, if any, payable by the Funding Agent relative to the deposited funds.

(c) Acceptance, Acceptance Certificate and Notices of Rejection. User will inspect each Item, and either accept or reject delivery. User shall inform Lender, Funding Agent, and the vendor of the rejected goods of User's rejection of any Item, by providing a written notice of rejection to the Lender, Funding Agent and such vendor following the delivery or rendering of the rejected goods. User's acceptance after having such right of inspection shall constitute User's acknowledgement that: (i) each Item is of the size, design, capacity, specification and manufacture selected by User; (ii) User is satisfied that such Item is suitable for its purpose and such Item is fit for its intended use; (iii) User does not consider Lender to be a manufacturer of such Items or a dealer therein; (iv) User does not consider Funding Agent to be a manufacturer of such Items or a dealer therein; (v) User waives any and all defenses which it may have against Lender or Funding Agent arising from the Item including, but not limited to, the operation, delivery, or condition; and (vi) User accepts said Equipment **AS IS, WHERE IS AND WITH**

**WAIVER OF ALL WARRANTIES AS TO LENDER AND FUNDING AGENT AS SET FORTH IN THE MASTER FINANCING AGREEMENT.** User will sign a Certificate of Acceptance, the form of which is attached to the Financing Agreement (the "Acceptance Certificate"), acknowledging acceptance of delivery and certifying that the items are being deployed in conformity with this Agreement and the Financing Agreement.

(d) Payment of Vendors. Upon receiving Acceptance Certificate, as defined in subparagraph (c) above, Funding Agent shall pay from the available deposited funds the providers of the Equipment pursuant to the terms and conditions specified in the Purchase Orders, unless otherwise mutually directed in writing by Lender and User jointly. User shall, to the extent and limits permitted by applicable law, indemnify and hold harmless Funding Agent and Lender for and against any and all claims, and all costs, fees, charges, expenses, damages, interest charges, claims, losses and liabilities in connection with or arising out of payment of invoices following the receipt of Acceptance Certificates as provided herein. Funding Agent shall provide to Lender and to User copies of documentation evidencing each payment by Funding Agent.

(e) Other Payments. Any fees, charges and expenses shall be paid directly by User and not from deposited funds unless otherwise directed to Funding Agent in writing by the Lender and User. Funding Agent shall provide to Lender and to User copies of documentation evidencing each payment, if any, by Funding Agent made pursuant to this subsection (e).

(f) Statement of Account. Funding Agent shall provide statements to Lender and to User, no less frequently than once each calendar quarter, accounting for the deposits and disbursements of deposited funds.

(g) For purposes of subparagraphs (c) through (f) above, Purchase Orders, notices of rejection, Acceptance Certificates, evidence of payments, and statements sent to Lender shall be sent to the attention of:

Bo Buckner
Regions Capital Advantage, Inc.
1900 5th Avenue North, 24th Floor
Birmingham, Alabama 35203

or such other person as Lender may designate in writing from time to time.

For purposes of subparagraphs (c) and (d) above, Purchase Orders, notices of rejection, and Certificates of Acceptance sent to Funding Agent shall be sent to the attention of:

Regions Bank
1900 5th Avenue North
Birmingham, Alabama 35203

or such other person as Funding Agent may designate in writing from time to time.

For purposes of subparagraphs (e) through (g) above, evidence of payments and statements sent to User shall be sent to the attention of:

University of South Alabama
Attn: Vice President for Finance and Administration
307 University Boulevard North
Mobile, Alabama 36608

With a copy to:

Terry Albano
Investment Manager
University of South Alabama
307 University Blvd.
Administrative Bldg. Suite 170
Mobile, AL 36688

or such other person as User may designate in writing from time to time.

6. Interpleader Action Authorized. In the event of disagreement about the interpretation of this Agreement, or about the rights and obligations or the propriety of any action contemplated by the Funding Agent hereunder or upon the occurrence of the events described in Section 4(j) above, Funding Agent may, at its sole discretion, file an action in interpleader. To the extent permitted by applicable law, the Lender and User shall indemnify the Funding Agent, jointly and severally, for all costs, including reasonable attorney's fees, in connection with the aforesaid interpleader action.

7. Default.

(a) In the event User defaults in the performance of any of the terms of this Agreement or there is a default under the Financing Agreement, Lender, shall, in a writing delivered to Funding Agent and User, notify Funding Agent and User of such default. With respect to each such default, User shall have such time as provided for in the Financing Agreement after the receipt of the aforesaid notice of default to cure same (or cause the same to be cured) and, in a writing acknowledged by Lender and delivered to Funding Agent, notify Funding Agent of the cure of such default. If a default by User hereunder is not cured by User within the applicable curative period as specified above and more particularly described in the Financing Agreement, Funding Agent shall deliver the deposited funds to Lender within five (5) days after the expiration of the aforesaid curative period.

(b) In the event that there is a dispute between Lender and User as to the existence of a default by User in the performance of any of the terms of this Agreement or the Financing Agreement, or as to whether a default by User has been cured as herein provided, Funding Agent shall, in its sole discretion, exercise one of the following options:

(1) continue to hold the deposited funds pending resolution of such dispute between Lender and User; or

(2) commence an interpleader action and deliver the deposited funds and any other assets, if any, being held by Funding Agent into the clerk of the court and be released from all obligations and liabilities created by this Agreement with respect to the deposited funds so delivered to the court.

8. Taxes. User agrees to pay for any and all applicable taxes that may be imposed on Funding Agent, excluding federal, state and local taxes imposed on, or measured by, the net income of Funding Agent, as a result of the services provided for herein.

9. Notices. All notices required or desired to be given hereunder shall be deemed sufficient if delivered personally or by certified mail, return receipt requested, and addressed as follows:

Bo Buckner
Regions Capital Advantage, Inc.
1900 5th Avenue North, 24th Floor
Birmingham, Alabama 35203

Regions Bank
1900 5th Avenue North
Birmingham, Alabama 35203

University of South Alabama
Attn: Vice President for Finance and Administration
307 University Boulevard North
Mobile, Alabama 36608

Terry Albano
Investment Manager
University of South Alabama
307 University Blvd.
Administrative Bldg. Suite 170
Mobile, AL 36688

or to such other address as the party for which such notice is intended shall have previously indicated by notice to the other parties hereto similarly given. In addition to the foregoing, a party may give notice by electronic mail provided however such notice shall not be deem received until the addressee confirms in writing such receipt either by electronic reply or by written response otherwise delivered in accordance with these notice procedures.

10. Attorneys' Fees. User shall pay for all reasonable legal fees and out-of-pocket expenses of counsel to Lender arising out of any subsequent modification of this Agreement.

11. Rules of Construction.

11.1 Entire Agreement. This Agreement, including all exhibits and schedules hereto as referenced herein, constitutes the entire agreement between the parties hereto pertaining to the subject matters hereof, and supersedes all negotiations, preliminary agreements, and all prior and contemporaneous discussions and understandings of the parties in connection with the subject matters hereof, provided, however, that nothing herein shall be deemed to affect adversely Lender's rights, powers and privileges as provided in the Financing Agreement. Except as otherwise herein provided, no covenant, representation or condition not expressed in this Agreement, or in an amendment hereto made and executed in accordance with the provisions of subsection 12.2 of this section, shall be binding upon the parties hereto or shall affect or be effective to interpret, change or restrict the provisions of this Agreement.

11.2 Amendments. No change, modification or termination of any of the terms, provisions, or conditions of this Agreement shall be effective unless made in writing and signed or initialed by all parties hereto.

11.3 Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of Alabama.

11.4 Separability. If any section or provision of this Agreement or the application of such section or provision is held invalid, the remainder of the Agreement and the application of such section or provision to persons or circumstances, other than those with respect to which it is held invalid, shall not be affected thereby.

11.5 Headings and Captions. The titles or captions of sections contained in this Agreement are provided for convenience of reference only and shall not be considered a part hereof for purposes of interpreting or applying this Agreement; and, therefore, such titles or captions do not define, limit, extend, explain, or describe the scope or extent of this Agreement or any of its terms provisions, representations, warranties, conditions, etc., in any manner or way whatsoever.

11.6 Gender and Number. All pronouns and variations thereof shall be deemed to refer to the masculine, feminine or neuter and to the singular or plural as the identity of the person or entity or persons or entities may require.

11.7 Binding Effect on Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

11.8 Continuance of Agreement. The rights, responsibilities and duties of the parties hereto and the representations, warranties, covenants and agreements herein contained shall survive the Closing and the execution hereof, shall continue to bind the parties hereto, and shall continue in full force and effect until each and every obligation of the parties hereto, pursuant to this Agreement and any document or agreement incorporated herein by reference, shall have been fully performed.

11.9 Remedies. All remedies shall be cumulative and not alternative.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above-written.

**User: University of South Alabama**

By: ______________________________
Title: Vice President for Finance and Administration

STATE OF ALABAMA )
:
COUNTY OF MOBILE )

The foregoing instrument was acknowledged before me this ____ day of _______, _____ ________________________ (Name), the _____________________ (Title) of User on behalf of User.

(SEAL)

______________________________
Notary Public

My Commission expires:____________

**Lender: Regions Capital Advantage, Inc.**

By: ______________________________

Title: _____________________________

STATE OF ALABAMA )
:
COUNTY OF JEFFERSON )

The foregoing instrument was acknowledged before me this ____ day of ________________, ______ by ______________________________________________ of Regions Capital Advantage, Inc., a corporation, on behalf of Lender.

________________________________
Notary Public
(SEAL) My Commission expires:_____________

**Regions Bank, as Funding Agent**

By: ______________________________
**DRAFT**

Title: **DRAFT**

STATE OF ALABAMA )

COUNTY OF JEFFERSON )

The foregoing instrument was acknowledged before me this ____ day of ____________, 2016, by ___________________, the __________________ of Funding Agent, on behalf of Funding Agent.

__________________________________
Notary Public
(SEAL) My Commission expires:______________

**EXHIBIT B**

FORM OF DISBURSEMENT REQUEST

**Date:** ______________________________

1. The amount of the requested disbursement:______________________________

2. The method of disbursement:

☐ Official Check (made payable to: ______________________________)

Mailed to: ______________________________

☐ _____ Bank Account Transfer to Acct #: ______________________________

Acct name: ______________________________

☐ Wire Transfer Bank Name: ______________________________ ABA#: ______________

Credit Acct Name: ______________________________

Credit Acct #: ______________________________

Special Instructions: ______________________________

3. A brief description of the purpose of the payment: ______________________________

______________________________________________________________

4. The undersigned certifies as follows:

(1) Payment of the disbursement for the purpose requested will not cause the undersigned to be in violation of any of its representations, warranties or covenants under the ______________________________ dated ______________ (the "Contract") including, but not limited to its covenants in the Contract.

(2) The amounts requested to be disbursed were properly incurred in connection with the acquisition of the Equipment and were not subject of any previous request for disbursement.

(3) The Equipment for which the disbursement is requested has been finally **accepted** by the Borrower.

5. Attached hereto are the following: Bills, receipts, invoices, or other documents evidencing the amounts and purposes for which the disbursement is requested.

| | |
|---|---|
| **University of South Alabama (User)** | **Regions Capital Advantage, Inc.** |
| **By:** ______________________ | **By:** ______________________ |
| ______________________ (Title) | ______________________ (Title) |
| **Original Loan Amount: $2,089,689.75** | ______________________ (Date) |

UNIVERSITY OF SOUTH ALABAMA

# MEMORANDUM

Finance and Administration

**Date:**
November 14, 2016

**To:**
President
Tony G. Waldrop

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

**Subject:**
Agenda Item for December 2, 2016, Board of Trustees Meeting
Authorization to issue the 2016 B, C, D Bonds

Attached is a resolution for consideration by the Budget and Finance Committee concerning the University's 2006 swaption and the related sale of bonds that will refund the existing 2006 bonds. This resolution will inform the Board of Trustees the name of the winning bidder for the bonds and will provide authorization to execute any necessary documents for the issuance of the bonds.

This transaction refinances existing debt and will not impact the budget.

With your consent, this item will be presented to the Budget and Finance Committee and the Board of Trustees for final approval. Further, I recommend the adoption of the resolution by the Board of Trustees.

Attachment

**A RESOLUTION AUTHORIZING THE ISSUANCE OF THE**
**$20,000,000 UNIVERSITY FACILITIES REVENUE REFUNDING BOND, SERIES 2016-B**
**$35,000,000 UNIVERSITY FACILITIES REVENUE REFUNDING BOND, SERIES 2016-C**
**$45,000,000 UNIVERSITY FACILITIES REVENUE REFUNDING BOND, SERIES 2016-D**

**BE IT RESOLVED** by the Board of Trustees (herein called the "Board") of the **UNIVERSITY OF SOUTH ALABAMA** (herein called the "University") as follows:

**Section 1. (a) Findings.** The Board has determined and hereby finds and declares that the following facts are true and correct:

(1) The University has heretofore issued its $100,000,000 original principal amount University Tuition Refunding and Capital Improvement Bonds, Series 2006, dated December 1, 2006, presently outstanding in the aggregate principal amount of $100,000,000 (the "Series 2006 Bonds") and maturing on June 1 of the following years and in the following amounts:

| Year | Principal Amount Maturing |
|---|---|
| 2024 | $5,600,000 |
| 2025 | 5,885,000 |
| 2026 | 6,190,000 |
| 2027 | 6,505,000 |
| 2028 | 6,840,000 |
| 2029 | 7,190,000 |
| 2030 | 7,560,000 |
| 2031 | 7,945,000 |
| 2032 | 8,355,000 |
| 2033 | 8,785,000 |
| 2034 | 9,235,000 |
| 2035 | 9,705,000 |
| 2036 | 10,205,000 |

(2) The University has determined it is necessary, wise and in the best interest of the Institution and the public to redeem and retire the Series 2006 Bonds on December 9, 2016, and at its meeting on September 15, 2016, adopted a resolution (herein called the "Call Resolution") calling the Series 2006 Bonds for redemption and payment on December 9, 2016, notice of which such call was delivered by the Trustee to the holders of the Series 2006 Bonds on November 9, 2016.

(3) The University has undertaken a competitive bidding process for loans to refinance the Series 2006 Bonds, and in connection therewith received bids on November 1, 2016, from various financial institutions including BBVA

Compass Bank, Iberia Bank, Raymond James, Regions Bank, JPMorgan, Wells Fargo, Deutsche Bank, and STI Institutional & Government, Inc. (SunTrust Bank).

(4) The Vice President for Finance and Administration of the University has reported that the bid submitted by STI Institutional & Government, Inc., (herein called "SunTrust Bank") presents the lowest proposed rate of interest and cost of funds to the University for the refinancing of the Series 2006 Bonds and, accordingly, is the recommended winning bid.

(5) It is necessary, advisable, and in the best interest of the University to accept the bid of SunTrust Bank and sell and deliver to SunTrust Bank the University's $20,000,000 University Facilities Revenue Refunding Bond, Series 2016-B (herein called the "Series 2016-B Bond"), $35,000,000 University Facilities Revenue Refunding Bond, Series 2016-C (herein called the "Series 2016-C Bond"), and $45,000,000 University Facilities Revenue Refunding Bond, Series 2016-D (herein called the "Series 2016-D Bond" and, together with the Series 2016-B Bond and the Series 2016-C Bond, the "Series 2016 Bonds") to pay the principal portion of the redemption price of the Series 2006 Bonds.

**(b) Series 2016 Bonds to be Issued as Additional Bonds Under the Indenture; Special Findings Under Section 8.2(b) of the Indenture**. The Series 2016 Bonds shall be issued as additional parity bonds under Article VIII of the Indenture hereinafter referred to. In accordance with the provisions of Section 8.2(b) of the Indenture, the Board hereby finds and declares as follows:

(1) the University is not now in default under the Indenture, and no such default is imminent;

(2) the Series 2016-B Bond shall be designated Series 2016-B, the Series 2016-C Bond shall be designated Series 2016-C, and the Series 2016-D Bond shall be designated Series 2016-D;

(3) SunTrust Bank is the person or entity to whom the Series 2016 Bonds are to be delivered;

(4) the Series 2016 Bonds are to be issued by sale in accordance with Section 6 hereof;

(5) the sale price of the Series 2016-B Bond shall be the initial par amount thereof ($20,000,000), the sale price of the Series 2016-C Bond shall be the initial par amount thereof ($35,000,000), and the sale price of the Series 2016-D Bond shall be the initial par amount thereof ($45,000,000);

(6) (a) the only bonds that have previously been issued by the University under the Indenture are its (i) $31,680,000 original principal amount University Tuition Revenue Refunding and Capital Improvement Bonds, Series 1996, dated February 15, 1996 (herein called the "Series 1996 Bonds"), which were issued under and pursuant to the Trust Indenture dated as of February 15, 1996, further described in Section 2 hereof, (ii) $7,055,000 original principal amount University Tuition Revenue Refunding Bonds, Series 1996B, dated October 15, 1996 (herein called the "Series 1996B Bonds"), which were issued under and pursuant to the First Supplemental Trust Indenture dated as of October 15, 1996, (iii) $40,130,000.70 original principal amount University Tuition Revenue Bonds, Series 1999, dated March 1, 1999 (herein called the "Series 1999 Bonds"), which were issued under and pursuant to the Second Supplemental Trust Indenture dated as of October 15, 1999, (iv) $51,080,000 original principal amount Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, dated March 15, 2004 (herein called the "Series 2004 Bonds"), which were issued under and pursuant to the Fourth Supplemental Trust Indenture dated March 15, 2004, (v) $100,000,000 original principal amount University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, dated December 1, 2006 (herein called the "Series 2006 Bonds"), which were issued under and pursuant to the Fifth Supplemental Trust Indenture dated as of December 1, 2006, (vi) $112,885,000 original principal amount University Facilities Revenue Capital Improvement Bonds, Series 2008, dated September 1, 2008 (herein called the "Series 2008 Bonds"), which were issued under and pursuant to the Sixth Supplemental University Facilities Revenue Trust Indenture dated as of September 1, 2008, (vii) $29,750,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2010, dated June 16, 2010 (herein called the "Series 2010 Bond"), which was issued under and pursuant to the Seventh Supplemental University Facilities Revenue Trust Indenture dated as of June 16, 2010, (viii) $25,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-A, dated January 4, 2012 (herein called the "Series 2012-A Bond"), which was issued under and pursuant to an Eighth Supplemental University Facilities Revenue Trust Indenture dated as of January 4, 2012 (herein called the "Eighth Supplemental Indenture"), (ix) $7,740,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-B, dated January 4, 2012 (herein called the "Series 2012-B Bond"), which was issued under and pursuant to the Eighth Supplemental Indenture, (x) $32,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-A, dated June 28, 2013 (herein called the "Series 2013-A Bond"), which was issued under and pursuant to the Ninth Supplemental University Facilities Revenue Trust Indenture dated June 28, 2013 (herein called the "Ninth Supplemental Indenture"), (xi) $8,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-B, dated June 28, 2013 (herein called the "Series 2013-B Bond"), which was issued under and pursuant to the Ninth Supplemental Indenture, (xii) $10,000,000 original principal amount University Facilities

Revenue Capital Improvement Bond, Series 2013-C, dated June 28, 2013 (herein called the "Series 2013-C Bond"), which was issued under and pursuant to the Ninth Supplemental Indenture, (xiii) $41,245,000 original principal amount University Facilities Revenue Refunding Bond, Series 2014-A, dated March 14, 2014 (herein called the "Series 2014-A Bond"), which was issued under and pursuant to the Tenth Supplemental University Facilities Revenue Trust Indenture dated March 14, 2014, (xiv) $6,000,000 University Facilities Revenue Capital Improvement Bond, Series 2015, dated June 15, 2015 (herein called the "Series 2015 Bond"), which was issued under and pursuant to the Eleventh Supplemental University Facilities Revenue Trust Indenture dated June 15, 2015, and (xv) $85,605,000 University Facilities Refunding Revenue Bonds, Series 2016, dated September 14, 2016 (herein called the "Series 2016 Bonds" and, together with the Series 1999 Bonds, the Series 2010 Bond, the Series 2012-A Bond, the Series 2012-B Bond, the Series 2013-A Bond, the Series 2013-B Bond, the Series 2013-C Bond, the Series 2014-A Bond, and the Series 2015 Bond, the "Outstanding Bonds"), which was issued under and pursuant to the Twelfth Supplemental University Facilities Revenue Trust Indenture dated as of March 14, 2014; and (b) in Article VIII of the Indenture, the University has reserved the right to issue additional bonds, secured by a pledge of the Pledged Revenues on a parity with the Outstanding Bonds and with such additional bonds as shall have thereafter been issued thereunder, upon compliance with the applicable provisions of said Article VIII;

(7) the Outstanding Bonds are the only bonds heretofore issued under the Indenture that are at this time and upon issuance of the Series 2016 Bonds outstanding under the Indenture; and

(8) the Series 2016 Bonds will be issued for the purposes described in Section 8 hereof.

The Trustee is hereby requested to authenticate and deliver the Series 2016 Bonds to SunTrust Bank.

**Section 2. Authorization of the Series 2016 Bonds**. For the purposes specified in Section 1 of this resolution, the University does hereby sell to SunTrust Bank the University's (i) University Facilities Revenue Refunding Bond, Series 2016-B, dated December 7, 2016, in a principal amount of $20,000,000, (ii) University Facilities Revenue Refunding Bond, Series 2016-C, dated December 7, 2016, in a principal amount of $35,000,000, and (iii) University Facilities Revenue Refunding Bond, Series 2016-D, dated December 7, 2016, in a principal amount of $45,000,000, under the terms, conditions and provisions set out in an Thirteenth Supplemental University Facilities Revenue Trust Indenture dated December 7, 2016, between the University and The Bank of New York Mellon Trust Company, N.A., as trustee (herein called the "Trustee"), which is supplemental to the University Facilities Revenue Trust Indenture between the University and the Trustee dated as of February 15, 1996 (the said Trust Indenture, as heretofore supplemented and amended and as further supplemented and amended by the said

Thirteenth Supplemental University Facilities Revenue Trust Indenture, herein called the "Indenture"). All the provisions of the Indenture respecting the Series 2016 Bonds are hereby adopted as a part of this resolution as fully as if set out at length herein.

**Section 3. Source of Payment of the Series 2016 Bonds**. The principal of and the interest on the Series 2016 Bonds shall be payable solely from the Pledged Revenues as defined in the Indenture. Nothing contained in this resolution, in the Series 2016 Bonds or in the Indenture shall be deemed to impose any obligation on the University to pay the principal of or the interest on the Series 2016 Bonds except from and to the extent of the Pledged Revenues. The Series 2016 Bonds shall not represent or constitute obligations of any nature whatsoever of the State of Alabama (the "State") and shall not be payable out of moneys appropriated to the University by the State. The agreements, covenants and representations contained in this resolution, in the Series 2016 Bonds and in the Indenture do not and shall never constitute or give rise to any personal or pecuniary liability or charge against the general credit of the University, and in the event of a breach of any such agreement, covenant or representation, no personal or pecuniary liability or charge payable directly or indirectly from the general revenues of the University shall arise therefrom. Neither the Series 2016 Bonds nor the pledge or any agreement contained in the Indenture or in this resolution shall be or constitute an obligation of any nature whatsoever of the State, and neither the Series 2016 Bonds nor any obligations arising from the aforesaid pledge or agreements shall be payable out of any moneys appropriated to the University by the State. Nothing contained in this section shall, however, relieve the University from the observance and performance of the several covenants and agreements on its part herein contained and contained in the Indenture.

**Section 4. Series 2016 Bonds Payable at Par.** With respect to each of the Series 2016 Bonds, all remittances of principal of and interest on such bond to the holder thereof shall be made at par without any deduction for exchange or other cost, fees or expenses. The bank at which the Series 2016 Bonds shall at any time be payable shall be considered by acceptance of its duties under the Indenture to have agreed that it will make or cause to be made remittances of principal of and interest on the Series 2016 Bonds, out of the moneys provided for that purpose, in bankable funds at par without any deduction for exchange or other cost, fees or expenses. The University will pay to such bank all reasonable charges made and expenses incurred by it in making such remittances in bankable funds at par.

**Section 5. Authorization of Thirteenth Supplemental University Facilities Revenue Trust Indenture**. The Board does hereby authorize and direct the President of the University to execute and deliver, for and in the name and behalf of the University, to The Bank of New York Mellon Trust Company, N.A., as Trustee under the aforesaid Indenture, a Thirteenth Supplemental University Facilities Revenue Trust Indenture dated December 7, 2016, in substantially the form presented to the meeting at which this resolution is adopted and attached as Exhibit I to the minutes of said meeting (which form is hereby adopted in all respects as if set out in full in this resolution), and does hereby authorize and direct the Secretary of the Board to affix to the Thirteenth Supplemental University Facilities Revenue Trust Indenture the corporate seal of the University and to attest the same.

**Section 6. Sale of the Series 2016 Bonds.** The University does hereby sell to SunTrust Bank (i) the Series 2016-B Bond at and for a price equal to the initial principal amount of such bond ($20,000,000), (ii) the Series 2016-C Bond at and for a price equal to the initial principal amount of such bond ($35,000,000), and (iii) the Series 2016-D Bond at and for a price equal to the initial principal amount of such bond ($45,000,000). With respect to each of the Series 2016 Bonds, such bond shall bear such date, shall mature in annual installments at such times and in such manner, shall bear such rate of interest, shall be payable at such place, shall be in such denomination, and shall be in such form and contain such provisions as are set out in the Thirteenth Supplemental University Facilities Revenue Trust Indenture authorized in Section 5 above.

**Section 7. Execution and Delivery of the Series 2016 Bonds.** The Board does hereby authorize the President of the University to execute the Series 2016 Bonds, in the name and on behalf of the University, by manually signing each said bond, and does hereby authorize the Secretary of the Board to cause the corporate seal of the University to be imprinted or impressed on each of the Series 2016 Bonds and to attest the same by signing the Series 2016 Bonds, and the President of the University is hereby authorized to deliver the Series 2016 Bonds, subsequent to their execution as provided herein and in the Indenture, to the Trustee under the Indenture, and to direct the Trustee to authenticate the Series 2016 Bonds and to deliver them to SunTrust Bank (as purchaser thereof).

**Section 8. Application of Proceeds.** The entire proceeds derived from the sale of the Series 2016 Bonds shall be remitted directly to the Trustee for deposit into the Bond Fund created under the Indenture for payment of the redemption price of the Series 2006 Bonds on December 9, 2016 (the "Redemption Date"). The University shall also remit and pay to the Trustee such amounts as shall be necessary to cover accrued interest on the Series 2006 Bonds to the Redemption Date and any other amounts necessary to cause sufficient funds to be on deposit in the said Bond Fund immediately upon issuance of the Series 2016 Bonds to redeem and pay the Series 2006 Bonds on the Redemption Date.

**Section 9. Call of Series 2006 Bonds for Redemption.** (a) The Board does hereby ratify and affirm the Call Resolution, a copy of which is attached as Exhibit II to the minutes of the meeting at which this resolution is adopted, and the actions of the Trustee in causing notice of the call of the Series 2006 Bonds for payment on the Redemption Date to be delivered to the holders of the Series 2006 Bonds. If, for whatever reason, the Series 2016 Bonds are not issued and delivered on December 7, 2016, the President of the University and the Vice President for Finance and Administration are each hereby authorized and directed to direct the Trustee on behalf of the University to rescind the Call Resolution.

(b) In the event that for any reason whatsoever the Call Resolution is rescinded as aforesaid, the Board does hereby find and declare that the University does elect to redeem and pay, and does hereby call for redemption and payment, the Series 2006 Bonds on such date as is 30 days following receipt by the University of funds sufficient to pay the redemption price of the Series 2006 Bonds (such date, the "Alternate Redemption Date"), the redemption of the Series 2006 Bonds to be effected at and for a redemption price equal to 100% of the principal amount thereof plus accrued interest to the date set for redemption, and the Trustee is hereby authorized and directed to cause written notice of such redemption and payment of the Series 2006 Bonds to be given in the manner and at the times and to the persons required pursuant to the Indenture, and to take all such other actions as shall be necessary or desirable in order to cause the Series 2006 Bonds to be redeemed and paid on such Alternate Redemption Date.

**Section 10. Resolution Constitutes Contract; Severability**. The provisions of this resolution shall constitute a contract between the University and the holders of the Series 2016 Bonds. The various provisions of this resolution are hereby declared to be severable. In the event any provision hereof shall be held invalid by a court of competent jurisdiction, such invalidity shall not affect any other portion of this resolution.

**Section 11. General Authorization**. The President of the University, the Vice President for Finance and Administration of the University, and the Secretary of the Board are hereby authorized to execute such further agreements, certifications, instruments or other documents, and to take such other actions as any of them may deem appropriate or necessary, for the consummation of the transactions covered by this resolution and to the end that the Series 2016 Bonds may be executed, issued and delivered, and the Series 2006 Bonds redeemed and retired on the Redemption Date or, if applicable pursuant to Section 9(b) hereof, the Alternate Redemption Date.

# EXHIBIT I

## FORM OF THIRTEENTH SUPPLEMENTAL UNIVERSITY FACILITIES TRUST INDENTURE

# THIRTEENTH SUPPLEMENTAL UNIVERSITY FACILITIES REVENUE TRUST INDENTURE

*between*

**UNIVERSITY OF SOUTH ALABAMA**

*and*

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.**

Dated December 7, 2016

**THIRTEENTH SUPPLEMENTAL UNIVERSITY FACILITIES REVENUE TRUST INDENTURE** between the **UNIVERSITY OF SOUTH ALABAMA**, a public body corporate under the laws of the State of Alabama (herein called the "University"), and **THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.** (as successor Trustee to AmSouth Bank of Alabama and being herein called the "Trustee"), a national banking association in its capacity as Trustee under the Trust Indenture of the University dated as of February 15, 1996, as heretofore supplemented and amended (herein called the "Indenture").

## RECITALS

The University makes the following findings as a basis for the undertakings herein contained:

(a) Pursuant to the provisions of the Indenture, the University has issued and sold its (i) $31,680,000 original principal amount of University Tuition Revenue Refunding and Capital Improvement Bonds, Series 1996, dated February 15, 1996, which are no longer outstanding, (ii) $7,055,000 original principal amount University Tuition Revenue Refunding Bonds, Series 1996B, dated October 15, 1996, which are no longer outstanding, (iii) $40,130,000.70 original principal amount University Tuition Revenue Bonds, Series 1999, dated March 1, 1999 (the "Series 1999 Bonds"), (iv) $51,080,000 original principal amount Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, dated March 15, 2004, which are no longer outstanding, (v) $100,000,000 original principal amount University Tuition Refunding and Capital Improvement Bonds, Series 2006, dated December 1, 2006 (the "Series 2006 Bonds"), which will no longer be outstanding upon issuance of the Series 2016 Bonds herein authorized, (vi) $112,885,000 original principal amount University Facilities Revenue Capital Improvement Bonds, Series 2008, dated September 1, 2008, which are no longer outstanding, (vii) $29,750,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2010, dated June 16, 2010 (the "Series 2010 Bond"), (viii) $25,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-A, dated January 4, 2012 (the "Series 2012-A Bond"), (ix) $7,740,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-B, dated January 4, 2012 (the "Series 2012-B Bond"), (x) $32,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-A, dated June 28, 2013 (the "Series 2013-A Bond"), (xi) $8,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-B, dated June 28, 2013 (the "Series 2013-B Bond"), (xii) $10,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-C, dated June 28, 2013 (the "Series 2013-C Bond"), (xiii) $41,245,000 original principal amount University Facilities Revenue Refunding Bond, Series 2014-A, dated March 14, 2014 (the "Series 2014-A Bond"), (xiv) $6,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2015, dated June 15, 2015 (the "Series 2015 Bond"), and (xv) $85,605,000 original principal amount University Facilities Revenue Refunding Bonds, Series 2016, dated September 14, 2016 (the "Series 2016-A Bonds").

(b) In Article VIII of the Indenture, the University has reserved the right to issue Additional Bonds, secured by a pledge of the Pledged Revenues on a parity with all Additional Bonds outstanding under the Indenture, including the Series 1999 Bonds, the Series 2010 Bond, the Series 2012-A Bond, the Series 2012-B Bond, the Series 2013-A Bond, the Series 2013-B Bond, the Series 2013-C Bond, the Series 2014-A Bond, the Series 2015 Bond, and the Series 2016-A Bonds (collectively, the "Outstanding Bonds"), and with such Additional Bonds as shall hereafter be issued upon compliance with the applicable provisions of said Article VIII.

(c) The University has determined it is necessary, wise and in the best interest of the University to redeem and retire all of the Series 2006 Bonds, and has determined to obtain a loan in the amount of $100,000,000 from STI Institutional & Government, Inc. (the "Purchaser") to pay the costs of redeeming and retiring the Series 2006 Bonds.

(d) As evidence of the University's obligation to repay the loan from the Purchaser, the University desires to issue Additional Bonds in the principal amounts of $20,000,000, $35,000,000, and $45,000,000.

(e) Upon the deposit by the University with the Trustee of funds sufficient to timely pay the redemption price of the Series 2006 Bonds, and the satisfaction of certain other conditions described in Section 14.1 of the Indenture (all of which the University intends to satisfy contemporaneously with the issuance of the Series 2016 Bonds hereinafter defined and authorized), the Series 2006 Bonds will no longer be deemed outstanding under the Indenture.

(f) The University has duly adopted a resolution calling the Series 2006 Bonds for redemption and payment on December 9, 2016 and a resolution authorizing the issuance of such aforesaid Additional Bonds, and this Thirteenth Supplemental University Facilities Revenue Trust Indenture is being executed in order to specify the details with respect to such Additional Bonds.

(g) This Thirteenth Supplemental University Facilities Revenue Trust Indenture is being executed to provide for the issuance of the Series 2016-B Bond, the Series 2016-C Bond, and the Series 2016-D Bond as Additional Bonds under the Indenture.

**Additional Definitions**

The following definitions are in addition to those contained in the Indenture:

**"Determination of Taxability"** shall mean, for each of the Series 2016 Bonds, a determination that interest on such Series 2016 Bond is includable for federal income tax purposes in the gross income (as defined in Section 61 of the Internal Revenue Code of 1986, as amended, or any successor provision thereto) of the registered owner or any former registered owner of such Series 2016 Bond upon the first to occur of the following, but if and only if such occurrence is the result of an action or failure to act on the part of the University:

(a) the date on which the University is advised in writing by the Commissioner or any District Director of the Internal Revenue Service that, based upon any filings of the University, or upon any review or audit of the University, the interest on such Series 2016 Bond is includable in the gross income of each registered owner or former registered owner thereof;

(b) the date on which the University receives notice from the registered owner or any former registered owner of such Series 2016 Bond in writing that the registered owner or former registered owner of such Series 2016 Bond has received from the Internal Revenue Service a statutory notice of deficiency or similar notice which asserts in effect that the interest on such Series 2016 Bond is includable in the gross income of the registered owner or former registered owner of such Series 2016 Bond;

(c) the date on which the University is advised in writing by the Commissioner or any District Director of the Internal Revenue Service or otherwise receives notice that there has been issued a public or private ruling of the Internal Revenue Service or a technical advice memorandum issued by the national office of the Internal Revenue Service that the interest on such Series 2016 Bond is includable for federal income tax purposes in the gross income of the registered owner or former registered owner of such Series 2016 Bond; or

(d) the date on which the University is advised in writing that a final determination, from which no further right of appeal exists, has been made by a court of competent jurisdiction in the United States of America that the interest on such Series 2016 Bond is includable in the gross income of the registered owner or former registered owner of such Series 2016 Bond;

provided, however, (i) interest on such Series 2016 Bond shall not be deemed includable for federal income tax purposes in the gross income of a registered owner or former registered owner of such Series 2016 Bond because interest is includable in the calculation of income for purposes of an alternative minimum tax or any other type of taxation other than regular federal tax imposed on income, and (ii) no Determination of Taxability shall occur under subparagraph (a), (b) or (c) of this definition unless the University has been afforded the opportunity, at the expense of the University, to contest any such conclusion and/or assessment. The University shall be deemed to have been afforded the opportunity to contest if it shall have been permitted to commence and maintain any action in the name of the registered owner or any former registered owner of such Series 2016 Bond to judgment and through any appeals therefrom or other proceedings related thereto.

"**Interest Payment Date**" means, for each of the Series 2016 Bonds, January 3, 2017, and the first day of each month thereafter while such Series 2016 Bond is outstanding.

"**LIBOR Base Rate**" means the London Interbank Offered Rate for U.S. dollars for a term of 30 days which appears on Bloomberg Professional screen BBAM (or any generally recognized successor method or means of publication) as of 11:00 A.M., London time, one (1) London business day prior to the day on which the rate will become effective.

"**Purchaser**" shall mean STI Institutional & Government, Inc., and its successors and permitted assigns or transferees.

"**Series 2016 Bonds**" means the Series 2016-B Bond, the Series 2016-C Bond, and the Series 2016-D Bond.

"**Series 2016-B Bond**" means the $20,000,000 University Facilities Revenue Refunding Bond, Series 2016-B, dated December 7, 2016.

"**Series 2016-C Bond**" means the $35,000,000 University Facilities Revenue Refunding Bond, Series 2016-C, dated December 7, 2016.

"**Series 2016-D Bond**" means the $45,000,000 University Facilities Revenue Refunding Bond, Series 2016-D, dated December 7, 2016.

**NOW, THEREFORE, THIS THIRTEENTH SUPPLEMENTAL UNIVERSITY FACILITIES REVENUE TRUST INDENTURE**

**W I T N E S S E T H:**

It is hereby agreed among the University, the Trustee and its successors in trust under the Indenture and the holders at any time of the Series 2016 Bonds and the Outstanding Bonds each with each of the others, as follows:

## ARTICLE I
## SERIES 2016-B BOND

**Section 1.1 Description of the Series 2016-B Bond.** (a) **Authorization and General Description.** There is hereby authorized to be issued and delivered by the University under the Indenture one University Facilities Revenue Refunding Bond, Series 2016-B, dated December 7, 2016, in the principal amount of $20,000,000. Principal installments of the Series 2016-B Bond shall mature and become payable on December 1 in the following years and amounts:

| Year | Maturing Principal Installment |
|---|---|
| 2024 | $1,120,000 |
| 2025 | 1,177,000 |
| 2026 | 1,238,000 |
| 2027 | 1,301,000 |
| 2028 | 1,368,000 |
| 2029 | 1,438,000 |
| 2030 | 1,512,000 |
| 2031 | 1,589,000 |
| 2032 | 1,671,000 |
| 2033 | 1,757,000 |
| 2034 | 1,847,000 |
| 2035 | 1,941,000 |

2036 2,041,000

subject, however, to the right of the holder of the Series 2016-B Bond to cause principal installments maturing after December 1, 2021 to become earlier due and payable pursuant to the timely exercise of the 2016-B Put Right as set forth in paragraph (b) immediately below.

(b) **Optional Put Right**. The holder of the Series 2016-B Bond shall have the right (the "2016-B Put Right") to elect, not less than 210 days prior to any December 1, commencing December 1, 2021, for all principal installments of the Series 2016-B Bond scheduled to mature after such December 1 to mature and become due and payable on such December 1. Any such election must be delivered in writing to the University pursuant to the form attached as Exhibit A-1 hereto (with a copy delivered to the Trustee) and shall be deemed delivered on the date received by the University.

(c) **Computation of Interest**. The Series 2016-B Bond shall bear interest from its December 7, 2016 date at a rate subject to change from time to time based on changes in an independent index, which is the LIBOR Base Rate (the "2016-B Index"). The 2016-B Index is not necessarily the lowest rate charged by the 2016-B Purchaser on its loans or bonds purchased by the 2016-B Purchaser. If the 2016-B Index becomes unavailable during the term of the Series 2016-B Bond, the 2016-B Purchaser will designate a substitute 2016-B Index (as further described in this paragraph below) after providing reasonable written notice of the same to the University and the Trustee. The 2016-B Purchaser will promptly notify the University and the Trustee in writing of the current 2016-B Index rate upon each determination thereof. The rate will initially become effective on December 7, 2016 (the date of the Series 2016-B Bond as shown on the face thereof). Thereafter, the rate will change weekly on each Thursday (each a "2016-B Reset Date"), as described below. If for any reason the London Interbank Offer Rate is not available, the "LIBOR Base Rate" shall mean the rate per annum which banks charge each other in a market comparable to England's Eurodollar market on short-term money in U.S. dollars for an amount substantially equivalent to the principal amount due under the Series 2016-B Bond, as determined at 11:00 A.M., London time, one (1) London business day prior to the day on which the rate will become effective. The 2016-B Purchaser's determination of such interest rate shall be conclusive, absent manifest error. The University understands that the 2016-B Purchaser may make loans or acquire bonds based on other rates as well.

Interest on the unpaid principal balance of the Series 2016-B Bond will be calculated using a rate of sixty-eight percent (68%) of the 2016-B Index on each 2016-B Reset Date plus 72 basis points (0.72%) or, following a Determination of Taxability, the 2016-B Index on each 2016-B Reset Date plus 107 basis points (1.07%) (the "2016-B Weekly Interest Rate"), and will be calculated using the weighted average of the 2016-B Weekly Interest Rates from, and including, the next preceding Interest Payment Date (defined below) to, but excluding, the applicable Interest Payment Date. Interest shall be computed on the basis of a 365- or 366-day year, as applicable, based on the actual number of days elapsed, and shall be payable in arrears on January 3, 2017, and on each Interest Payment Date thereafter until the Series 2016-B Bond shall have been fully paid. At least two Business Days prior to each Interest Payment Date, the 2016-B Purchaser shall notify the University and the Trustee in writing of the amount of interest computed by such purchaser to be owed on such Interest Payment Date.

(d) **Interest Payment Dates.** In the event an Interest Payment Date is not a Business Day (as defined in the Indenture), the principal or interest due on such date shall be payable on the then next succeeding Business Day.

**Section 1.2 Optional Redemption.** The University shall have the right to redeem and retire the Series 2016-B Bond, in whole or in part (but if in part, in multiples of $250.00 with those installments of principal to be redeemed to be selected by the University at its discretion) without penalty or premium at anytime and from time to time on or after December 7, 2017 upon not less than 10 days' prior written notice to the holder of the Series 2016-B Bond (with a copy to the Trustee), at and for a price equal to 100% of the principal of the Series 2016-B Bond to be redeemed plus accrued interest to the date set for redemption.

**Section 1.3 Method of Payment; Final Payment; Other.** Principal installments of the Series 2016-B Bond shall be payable when due at the designated corporate trust office of the Trustee in the City of Birmingham, Alabama, and without presentment of the Series 2016-B Bond. Interest on the Series 2016-B Bond shall be payable by check or draft mailed or otherwise delivered by the Trustee to the 2016-B Purchaser at its address as it appears on the registry books of the Trustee pertaining to the registration of the Series 2016-B Bond. All installments of principal of and interest on the Series 2016-B Bond shall bear interest after the respective maturities of such principal and interest until paid or until moneys sufficient for payment thereof shall have been deposited for that purpose with the Trustee, whichever first occurs, at the rate of interest borne by the Series 2016-B Bond.

**Section 1.4 Form of Series 2016-B Bond.** The Series 2016-B Bond and the Trustee's Authentication Certificate shall be in substantially the following forms, respectively, with such insertions, omissions and other variations as may be necessary to conform to the provisions hereof:

**THIS SERIES 2016-B BOND MAY BE TRANSFERRED ONLY TO AN "ACCREDITED INVESTOR" OR TO A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN THE SECURITIES AND EXCHANGE ACT OF 1933 AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER AND ONLY UPON COMPLIANCE WITH APPLICABLE STATE AND FEDERAL SECURITIES LAWS AND WITH THE INDENTURE REFERRED TO HEREIN.**

**UNITED STATES OF AMERICA**

**STATE OF ALABAMA**

**UNIVERSITY OF SOUTH ALABAMA**
**University Facilities Revenue Refunding Bond**
**Series 2016-B**

For value received, the **UNIVERSITY OF SOUTH ALABAMA**, a public body corporate under the laws of the State of Alabama (herein called the "University"), will pay, solely from the sources hereinafter referred to, to **STI INSTITUTIONAL & GOVERNMENT, INC.** (together with its successors and permitted assigns and transferees, the "2016-B

Purchaser"), the principal sum of **TWENTY MILLION DOLLARS ($20,000,000)**, in annual installments at the times, in the amounts and as set forth below.

Principal installments hereof shall mature and become payable on December 1 in the following years and amounts:

| Year | Maturing Principal Installment |
|---|---|
| 2024 | $1,120,000 |
| 2025 | 1,177,000 |
| 2026 | 1,238,000 |
| 2027 | 1,301,000 |
| 2028 | 1,368,000 |
| 2029 | 1,438,000 |
| 2030 | 1,512,000 |
| 2031 | 1,589,000 |
| 2032 | 1,671,000 |
| 2033 | 1,757,000 |
| 2034 | 1,847,000 |
| 2035 | 1,941,000 |
| 2036 | 2,041,000 |

subject, however, to the right of the holder of the Series 2016-B Bond to cause principal installments maturing after December 1, 2021 to become earlier due and payable pursuant to the timely exercise of the 2016-B Put Right as set forth immediately below.

The holder of this bond shall have the right (the "2016-B Put Right") to elect, not less than 210 days prior to any December 1, commencing December 1, 2021, to cause all principal installments of this bond scheduled to mature after such December 1 to mature and become due and payable on such December 1. Any such election must be delivered in writing to the University pursuant to the form attached as Exhibit A-1 to the Thirteenth Supplemental University Facilities Revenue Trust Indenture dated December 7, 2016 between the University and the Trustee hereinafter described (with a copy delivered to the said Trustee), and shall be deemed delivered on the date received by the University.

This bond shall bear interest from its December 7, 2016 date at a rate subject to change from time to time based on changes in an independent index, which is the LIBOR Base Rate (the "2016-B Index"). The 2016-B Index is not necessarily the lowest rate charged by the 2016-B Purchaser on its loans or bonds purchased by the 2016-B Purchaser. If the 2016-B Index becomes unavailable during the term of this bond, the 2016-B Purchaser will designate a substitute 2016-B Index (as further described in this paragraph below) after providing reasonable written notice of the same to the University and the Trustee. The 2016-B Purchaser will promptly notify the University and the Trustee in writing of the current 2016-B Index rate upon each determination thereof. The rate will initially become effective on December 7, 2016 (the date of this bond). Thereafter, the rate will change weekly on each Thursday (each a "2016-B Reset Date"), as described below. As used herein, "LIBOR Base Rate" means the London Interbank Offer Rate for U.S. dollars for a term of 30 days which appears on Bloomberg Professional screen BBAM (or any generally recognized successor method or means of publication) as of 11:00 A.M., London time, one (1) London business day prior to the day on which the rate will become effective; provided, if for any reason the London Interbank Offer Rate is not available, the "LIBOR Base Rate" shall mean the rate per annum which banks charge each other in a market comparable to England's Eurodollar market on short-term money in U.S. dollars for an amount substantially equivalent to the principal amount due under this bond, as determined at 11:00 A.M., London time, one (1) London business day prior to the day on which the rate will become effective. The 2016-B Purchaser's determination of such interest rate shall be conclusive, absent manifest error. The University understands that the 2016-B Purchaser may make loans or acquire bonds based on other rates as well.

Interest on the unpaid principal balance of this bond will be calculated using a rate of 68 percent (68%) of the 2016-B Index on each 2016-B Reset Date plus 72 basis points (0.72%) or, following a Determination of Taxability, the 2016-B Index on each 2016-B Reset Date plus 107 basis points (1.07%) (the "2016-B Weekly Interest Rate"), and will be calculated using the weighted average of the 2016-B Weekly Interest Rates from, and including, the next preceding Interest Payment Date (defined below) to, but excluding, the applicable Interest Payment Date. At least two Business Days prior to each Interest Payment Date, the holder hereof shall notify the University and the Trustee in writing of the amount of interest computed by such holder to be owed on such Interest Payment Date.

Interest shall be computed on the basis of a 365- or 366-day year, as applicable, based on the actual number of days elapsed, and shall be payable in arrears on January 3, 2017, and monthly thereafter, on the 1st day of each month while this bond is outstanding (each such date, an "Interest Payment Date") until this bond shall have been fully paid.

Principal and interest on this bond are payable by check or draft mailed by the Trustee to the 2016-B Purchaser on the applicable Interest Payment Date and at the address of the 2016-B Purchaser shown on the registry books of the Trustee pertaining to this bond as of the close of business on the 15th day immediately preceding the date of such payment; provided, if an Interest Payment Date is not a Business Day, the interest or principal due on such date shall be payable on the next succeeding Business Day. Principal on this bond shall be paid without presentment of this instrument.

Principal and interest payments that are due with respect to this bond and that are made by check or draft shall be deemed timely made if such check or draft is mailed by the Trustee on or before the due date of such principal or interest. Both the principal of and the interest on this bond shall bear interest after their respective maturities until paid or until moneys sufficient for payment thereof have been deposited with the Trustee at the per annum rate stated above. The Indenture provides that all payments by the University or the Trustee to the 2016-B Purchaser at the address for the 2016-B Purchaser shown on the registry books of the Trustee shall to the extent thereof fully discharge and satisfy all liability for the same. Any permitted transferee of this bond takes it subject to all payments of principal and interest in fact made with respect hereto.

This bond is herein entitled "University Facilities Revenue Refunding Bond, Series 2016-B" and has been issued under a University Facilities Revenue Trust Indenture dated as of February 15, 1996, as heretofore supplemented and amended and as further supplemented and amended by a Thirteenth Supplemental University Facilities Revenue Trust Indenture dated

December 7, 2016 (the said Trust Indenture, as so supplemented and amended, being herein called the "Indenture"), between the University and The Bank of New York Mellon Trust Company, N.A. (herein called the "Trustee"). The principal of and the interest on this bond are payable solely out of and are secured by a lien upon and pledge of (a) certain fees from students levied by the University, (b) the gross revenues derived from certain auxiliary enterprises services furnished by the University, including, food services, housing, college stores, dining, concessions and other similar services, as such revenues are shown as a separate item on the audited financial statements of the University, and (c) an amount not exceeding $10,000,000 in any fiscal year of the University of the gross revenues derived from that certain hospital facility owned and operated by the University and known as USA Children's and Women's Hospital (herein called the "Pledged Revenues"), and shall not be payable from any other funds or revenues, on a parity of lien with (1) the University's (a) $40,130,000.70 original principal amount University Tuition Revenue Bonds, Series 1999, dated March 1, 1999, (b) $29,750,000 University Facilities Revenue Capital Improvement Bond, Series 2010, dated June 16, 2010, (c) $25,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-A, dated January 4, 2012, (d) $7,740,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-B, dated January 4, 2012, (e) $32,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-A, dated June 28, 2013, (f) $8,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-B, dated June 28, 2013, (g) $10,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-C, dated June 28, 2013, (h) $41,245,000 original principal amount University Facilities Revenue Refunding Bond, Series 2014-A, dated March 14, 2014, (i) $6,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2015, dated June 15, 2015, (j) $85,605,000 original principal amount University Facilities Revenue Refunding Bonds, Series 2016, dated September 14, 2016, (k) $35,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-C, dated December 7, 2016, and (l) $45,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-D, dated December 7, 2016, and (2) any Additional Bonds hereafter issued pursuant to Article VIII of the Indenture.

Reference is hereby made to the Indenture for a description of the nature and extent of the security afforded thereby, the rights and duties of the University and the Trustee with respect thereto, the rights of the 2016-B Purchaser of this bond and the terms and conditions on which additional series of bonds may be issued on a parity of lien with this bond. The Indenture provides, inter alia, (a) that in the event of default by the University in the manner and for the time therein provided, the Trustee may declare the principal of and the interest accrued on this bond immediately due and payable, whereupon the same shall thereupon become immediately due and payable and the Trustee shall be entitled to pursue the remedies provided in the Indenture, (b) that the holder of this bond shall have no right to enforce the provisions of the Indenture except as provided therein and then only for the equal and pro rata benefit of the holders of all the Bonds, and (c) that if this bond shall not be presented for payment when due (whether by maturity or otherwise) and if funds sufficient for such payment shall have been made available to the Trustee therefore, all liability of the University to the holder of such bond and all rights of such holder against the University under such bond or under the Indenture shall cease and terminate and that the sole right of such holder shall thereafter be against the said funds so made available, which the Trustee is required to set aside and hold, subject to any applicable escheat or other similar law, for the benefit of such holder. The Indenture also provides that the University and the Trustee, with the written consent of the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding under the Indenture, may at any time and from time to time amend the Indenture or any indenture supplemental thereto, provided that no such amendment shall (1) without the consent of the holder of each Bond affected, reduce the principal of, the rate of interest on any Bond, or (2) without the consent of the holders of all the Bonds then outstanding under the Indenture, extend the maturity of any installment of principal or interest on any of the Bonds, make any change in the schedule of required sinking fund or other similar payments with respect to any series of the Bonds, create a lien or charge on the Pledged Revenues ranking prior to or (except in connection with the issuance of additional parity bonds under the Indenture) on a parity with the lien or charge thereon contained in the Indenture, effect a preference or priority of any Bond over any other Bond or reduce the aggregate principal amount of Bonds the holders of which are required to consent to any such amendment.

The principal of this bond shall be subject to redemption and payment by the University, at the option of the University, as a whole or in part without penalty or premium, at any time and from time to time on or after December 7, 2017 (but, if in part, in multiples of $250.00 with those installments of principal to be redeemed to be selected by the University at its discretion), upon not less than 10 days' prior written notice to the holder hereof (with a copy to the Trustee), at and for a redemption price equal to 100% of the principal hereof to be redeemed plus accrued interest to the date fixed for redemption.

This bond is not a general obligation of the University, and the covenants and representations herein contained or contained in the Indenture do not and shall never constitute a personal or pecuniary liability or charge against the general credit of the University. This bond is not an obligation or debt of the State of Alabama nor are the faith and credit of said state pledged for payment thereof, and neither the principal of nor interest on this bond is payable out of any moneys provided for or appropriated to the University by the State of Alabama.

It is hereby certified that all conditions, actions and things required by the Constitution and laws of Alabama to exist, be performed and happen precedent to or in the issuance of this bond do exist, have been performed and have happened in due and legal form.

The Trustee shall not be required so to transfer or exchange this bond during the period of fifteen days next preceding any interest payment date with respect thereto.

Execution by the Trustee of its authentication certificate hereon is essential to the validity hereof and is conclusive of the due issue hereof under the Indenture.

**IN WITNESS WHEREOF**, the University has caused this bond to be executed in its name and behalf with the signature of its President, has caused its corporate seal to be hereunto impressed, has caused this bond to be attested by the signature of the Secretary of its Board of Trustees, and has caused this bond to be dated December 7, 2016.

**UNIVERSITY OF SOUTH ALABAMA**

By: ________________________________
President

University of South Alabama

[SEAL]

Attest:

_______________________________
Secretary of the
Board of Trustees

**Form of Trustee's Authentication Certificate**

Date of Authentication and Registration:

The within bond is one of those described in the within-mentioned Trust Indenture.

**THE BANK OF NEW YORK MELLON**
**TRUST COMPANY, N.A.,**
Trustee

By: _______________________________
Its Authorized Officer

**Section 1.5 Execution and Delivery of the Series 2016-B Bond.** The Series 2016-B Bond shall be forthwith executed and delivered to the Trustee and shall be authenticated and delivered by the Trustee from time to time upon receipt by the Trustee of an order signed on behalf of the University by its President, requesting such authentication and delivery and designating the person or persons to receive the same or any part thereof.

**Section 1.6 Application of Proceeds from the Sale of the Series 2016-B Bond.** The University shall cause the entire proceeds from the sale of the Series 2016-B Bond to be deposited into the Bond Fund under the Indenture to be used by the Trustee, together with other amounts to be put on deposit in the Bond Fund on or before December 7, 2016, to pay the redemption price of the Series 2006 Bonds on December 9, 2016.

## ARTICLE II
## SERIES 2016-C BOND

**Section 2.1 Description of the Series 2016-C Bond.** (a) **Authorization and General Description.** There is hereby authorized to be issued and delivered by the University under the Indenture one University Facilities Revenue Refunding Bond, Series 2016-C, dated December 7, 2016, in the principal amount of $35,000,000. Principal installments of the Series 2016-C Bond shall mature and become payable on December 1 in the following years and amounts:

| Year | Maturing Principal Installment |
|---|---|
| 2024 | $1,960,000 |
| 2025 | 2,059,750 |

| | |
|---|---|
| 2026 | 2,166,500 |
| 2027 | 2,276,750 |
| 2028 | 2,394,000 |
| 2029 | 2,516,500 |
| 2030 | 2,646,000 |
| 2031 | 2,780,750 |
| 2032 | 2,924,250 |
| 2033 | 3,074,750 |
| 2034 | 3,232,250 |
| 2035 | 3,396,750 |
| 2036 | 3,571,750 |

subject, however, to the right of the holder of the Series 2016-C Bond to cause principal installments maturing after December 1, 2023 to become earlier due and payable pursuant to the timely exercise of the 2016-C Put Right as set forth in paragraph (b) immediately below.

(b) **Optional Put Right**. The holder of the Series 2016-C Bond shall have the right (the "2016-C Put Right") to elect, not less than 210 days prior to any December 1, commencing December 1, 2023, for all principal installments of the Series 2016-C Bond scheduled to mature after such December 1 to mature and become due and payable on such December 1. Any such election must be delivered in writing to the University pursuant to the form attached as Exhibit A-2 hereto (with a copy delivered to the Trustee) and shall be deemed delivered on the date received by the University.

(c) **Computation of Interest**. The Series 2016-C Bond shall bear interest from its December 7, 2016 date at a rate subject to change from time to time based on changes in an independent index, which is the LIBOR Base Rate (the "2016-C Index"). The 2016-C Index is not necessarily the lowest rate charged by the 2016-C Purchaser on its loans or bonds purchased by the 2016-C Purchaser. If the 2016-C Index becomes unavailable during the term of the Series 2016-C Bond, the 2016-C Purchaser will designate a substitute 2016-C Index (as further described in this paragraph below) after providing reasonable written notice of the same to the University and the Trustee. The 2016-C Purchaser will promptly notify the University and the Trustee in writing of the current 2016-C Index rate upon each determination thereof. The rate will initially become effective on December 7, 2016 (the date of the Series 2016-C Bond as shown on the face thereof). Thereafter, the rate will change weekly on each Thursday (each a "2016-C Reset Date"), as described below. If for any reason the London Interbank Offer Rate is not available, the "LIBOR Base Rate" shall mean the rate per annum which banks charge each other in a market comparable to England's Eurodollar market on short-term money in U.S. dollars for an amount substantially equivalent to the principal amount due under the Series 2016-C Bond, as determined at 11:00 A.M., London time, one (1) London business day prior to the day on which the rate will become effective. The 2016-C Purchaser's determination of such interest rate shall be conclusive, absent manifest error. The University understands that the 2016-C Purchaser may make loans or acquire bonds based on other rates as well.

Interest on the unpaid principal balance of the Series 2016-C Bond will be calculated using a rate of sixty-eight percent (68%) of the 2016-C Index on each 2016-C Reset Date plus 77 basis points (0.77%) or, following a Determination of Taxability, the 2016-C Index on each

2016-C Reset Date plus 114 basis points (1.14%) (the "2016-C Weekly Interest Rate"), and will be calculated using the weighted average of the 2016-C Weekly Interest Rates from, and including, the next preceding Interest Payment Date (defined below) to, but excluding, the applicable Interest Payment Date. Interest shall be computed on the basis of a 365- or 366-day year, as applicable, based on the actual number of days elapsed, and shall be payable in arrears on January 3, 2017, and on each Interest Payment Date thereafter until the Series 2016-C Bond shall have been fully paid. At least two Business Days prior to each Interest Payment Date, the 2016-C Purchaser shall notify the University and the Trustee in writing of the amount of interest computed by such purchaser to be owed on such Interest Payment Date.

(d) **Interest Payment Dates**. In the event an Interest Payment Date is not a Business Day (as defined in the Indenture), the principal or interest due on such date shall be payable on the then next succeeding Business Day.

**Section 2.2 Optional Redemption.** The University shall have the right to redeem and retire the Series 2016-C Bond, in whole or in part (but if in part, in multiples of $250.00 with those installments of principal to be redeemed to be selected by the University at its discretion) without penalty or premium at anytime and from time to time on or after December 7, 2017 upon not less than 10 days' prior written notice to the holder of the Series 2016-C Bond (with a copy to the Trustee), at and for a price equal to 100% of the principal of the Series 2016-C Bond to be redeemed plus accrued interest to the date set for redemption.

**Section 2.3 Method of Payment; Final Payment; Other.** Principal installments of the Series 2016-C Bond shall be payable when due at the designated corporate trust office of the Trustee in the City of Birmingham, Alabama, and without presentment of the Series 2016-C Bond. Interest on the Series 2016-C Bond shall be payable by check or draft mailed or otherwise delivered by the Trustee to the 2016-C Purchaser at its address as it appears on the registry books of the Trustee pertaining to the registration of the Series 2016-C Bond. All installments of principal of and interest on the Series 2016-C Bond shall bear interest after the respective maturities of such principal and interest until paid or until moneys sufficient for payment thereof shall have been deposited for that purpose with the Trustee, whichever first occurs, at the rate of interest borne by the Series 2016-C Bond.

**Section 2.4 Form of Series 2016-C Bond.** The Series 2016-C Bond and the Trustee's Authentication Certificate shall be in substantially the following forms, respectively, with such insertions, omissions and other variations as may be necessary to conform to the provisions hereof:

**THIS SERIES 2016-C BOND MAY BE TRANSFERRED ONLY TO AN "ACCREDITED INVESTOR" OR TO A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN THE SECURITIES AND EXCHANGE ACT OF 1933 AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER AND ONLY UPON COMPLIANCE WITH APPLICABLE STATE AND FEDERAL SECURITIES LAWS AND WITH THE INDENTURE REFERRED TO HEREIN.**

**UNITED STATES OF AMERICA**

**STATE OF ALABAMA**

**UNIVERSITY OF SOUTH ALABAMA**
**University Facilities Revenue Refunding Bond**
**Series 2016-C**

For value received, the **UNIVERSITY OF SOUTH ALABAMA**, a public body corporate under the laws of the State of Alabama (herein called the "University"), will pay, solely from the sources hereinafter referred to, to **STI INSTITUTIONAL & GOVERNMENT, INC.** (together with its successors and permitted assigns and transferees, the "2016-C Purchaser"), the principal sum of **THIRTY FIVE MILLION DOLLARS ($35,000,000)**, in annual installments at the times, in the amounts and as set forth below.

Principal installments hereof shall mature and become payable on December 1 in the following years and amounts:

| Year | Maturing Principal Installment |
|---|---|
| 2024 | $1,960,000 |
| 2025 | 2,059,750 |
| 2026 | 2,166,500 |
| 2027 | 2,276,750 |
| 2028 | 2,394,000 |
| 2029 | 2,516,500 |
| 2030 | 2,646,000 |
| 2031 | 2,780,750 |
| 2032 | 2,924,250 |
| 2033 | 3,074,750 |
| 2034 | 3,232,250 |
| 2035 | 3,396,750 |
| 2036 | 3,571,750 |

subject, however, to the right of the holder of the Series 2016-C Bond to cause principal installments maturing after December 1, 2023 to become earlier due and payable pursuant to the timely exercise of the 2016-C Put Right as set forth immediately below.

The holder of this bond shall have the right (the "2016-C Put Right") to elect, not less than 210 days prior to any December 1, commencing December 1, 2023, to cause all principal installments of this bond scheduled to mature after such December 1 to mature and become due and payable on such December 1. Any such election must be delivered in writing to the University pursuant to the form attached as Exhibit A-2 to the Thirteenth Supplemental University Facilities Revenue Trust Indenture dated December 7, 2016 between the University and the Trustee hereinafter described (with a copy delivered to the said Trustee), and shall be deemed delivered on the date received by the University.

This bond shall bear interest from its December 7, 2016 date at a rate subject to change from time to time based on changes in an independent index, which is the LIBOR Base Rate (the "2016-C Index"). The 2016-C Index is not necessarily the lowest rate charged by the 2016-C

Purchaser on its loans or bonds purchased by the 2016-C Purchaser. If the 2016-C Index becomes unavailable during the term of this bond, the 2016-C Purchaser will designate a substitute 2016-C Index (as further described in this paragraph below) after providing reasonable written notice of the same to the University and the Trustee. The 2016-C Purchaser will promptly notify the University and the Trustee in writing of the current 2016-C Index rate upon each determination thereof. The rate will initially become effective on December 7, 2016 (the date of this bond). Thereafter, the rate will change weekly on each Thursday (each a "2016-C Reset Date"), as described below. As used herein, "LIBOR Base Rate" means the London Interbank Offer Rate for U.S. dollars for a term of 30 days which appears on Bloomberg Professional screen BBAM (or any generally recognized successor method or means of publication) as of 11:00 A.M., London time, one (1) London business day prior to the day on which the rate will become effective; provided, if for any reason the London Interbank Offer Rate is not available, the "LIBOR Base Rate" shall mean the rate per annum which banks charge each other in a market comparable to England's Eurodollar market on short-term money in U.S. dollars for an amount substantially equivalent to the principal amount due under this bond, as determined at 11:00 A.M., London time, one (1) London business day prior to the day on which the rate will become effective. The 2016-C Purchaser's determination of such interest rate shall be conclusive, absent manifest error. The University understands that the 2016-C Purchaser may make loans or acquire bonds based on other rates as well.

Interest on the unpaid principal balance of this bond will be calculated using a rate of sixty-eight percent (68%) of the 2016-C Index on each 2016-C Reset Date plus 77 basis points (0.77%) or, following a Determination of Taxability, the 2016-C Index on each 2016-C Reset Date plus 114 basis points (1.14%) (the "2016-C Weekly Interest Rate"), and will be calculated using the weighted average of the 2016-C Weekly Interest Rates from, and including, the next preceding Interest Payment Date (defined below) to, but excluding, the applicable Interest Payment Date. At least two Business Days prior to each Interest Payment Date, the holder hereof shall notify the University and the Trustee in writing of the amount of interest computed by such holder to be owed on such Interest Payment Date.

Interest shall be computed on the basis of a 365- or 366-day year, as applicable, based on the actual number of days elapsed, and shall be payable in arrears on January 3, 2017, and monthly thereafter, on the 1st day of each month while this bond is outstanding (each such date, an "Interest Payment Date") until this bond shall have been fully paid.

Principal and interest on this bond are payable by check or draft mailed by the Trustee to the 2016-C Purchaser on the applicable Interest Payment Date and at the address of the 2016-C Purchaser shown on the registry books of the Trustee pertaining to this bond as of the close of business on the 15th day immediately preceding the date of such payment; provided, if an Interest Payment Date is not a Business Day, the interest or principal due on such date shall be payable on the next succeeding Business Day. Principal on this bond shall be paid without presentment of this instrument.

Principal and interest payments that are due with respect to this bond and that are made by check or draft shall be deemed timely made if such check or draft is mailed by the Trustee on or before the due date of such principal or interest. Both the principal of and the interest on this bond shall bear interest after their respective maturities until paid or until moneys sufficient for payment thereof have been deposited with the Trustee at the per annum rate stated above. The Indenture provides that all payments by the University or the Trustee to the 2016-C Purchaser at the address for the 2016-C Purchaser shown on the registry books of the Trustee shall to the extent thereof fully discharge and satisfy all liability for the same. Any permitted transferee of this bond takes it subject to all payments of principal and interest in fact made with respect hereto.

This bond is herein entitled "University Facilities Revenue Refunding Bond, Series 2016-C" and has been issued under a University Facilities Revenue Trust Indenture dated as of February 15, 1996, as heretofore supplemented and amended and as further supplemented and amended by a Thirteenth Supplemental University Facilities Revenue Trust Indenture dated December 7, 2016 (the said Trust Indenture, as so supplemented and amended, being herein called the "Indenture"), between the University and The Bank of New York Mellon Trust Company, N.A. (herein called the "Trustee"). The principal of and the interest on this bond are payable solely out of and are secured by a lien upon and pledge of (a) certain fees from students levied by the University, (b) the gross revenues derived from certain auxiliary enterprises services furnished by the University, including, food services, housing, college stores, dining, concessions and other similar services, as such revenues are shown as a separate item on the audited financial statements of the University, and (c) an amount not exceeding $10,000,000 in any fiscal year of the University of the gross revenues derived from that certain hospital facility owned and operated by the University and known as USA Children's and Women's Hospital (herein called the "Pledged Revenues"), and shall not be payable from any other funds or revenues, on a parity of lien with (1) the University's (a) $40,130,000.70 original principal amount University Tuition Revenue Bonds, Series 1999, dated March 1, 1999, (b) $29,750,000 University Facilities Revenue Capital Improvement Bond, Series 2010, dated June 16, 2010, (c) $25,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-A, dated January 4, 2012, (d) $7,740,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-B, dated January 4, 2012, (e) $32,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-A, dated June 28, 2013, (f) $8,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-B, dated June 28, 2013, (g) $10,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-C, dated June 28, 2013, (h) $41,245,000 original principal amount University Facilities Revenue Refunding Bond, Series 2014-A, dated March 14, 2014, (i) $6,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2015, dated June 15, 2015, (j) $85,605,000 original principal amount University Facilities Revenue Refunding Bonds, Series 2016, dated September 14, 2016, (k) $20,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-B, dated December 7, 2016, and (l) $45,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-D, dated December 7, 2016, and (2) any Additional Bonds hereafter issued pursuant to Article VIII of the Indenture.

Reference is hereby made to the Indenture for a description of the nature and extent of the security afforded thereby, the rights and duties of the University and the Trustee with respect thereto, the rights of the 2016-C Purchaser of this bond and the terms and conditions on which additional series of bonds may be issued on a parity of lien with this bond. The Indenture provides, inter alia, (a) that in the event of default by the University in the manner and for the time therein provided, the Trustee may declare the principal of and the interest accrued on this bond immediately due and payable, whereupon the same shall thereupon become immediately due and payable and the Trustee shall be entitled to pursue the remedies provided in the Indenture, (b) that the holder of this bond shall have no right to enforce the provisions of the Indenture except as provided therein and then only for the equal and pro rata benefit of the holders of all the Bonds, and (c) that if this bond shall not be presented for payment when due (whether by maturity or otherwise) and if funds sufficient for such payment shall have been made available to the Trustee therefore, all liability of the University to the holder of such bond and all rights of such holder against the University under such bond or under the Indenture shall cease and terminate and that the sole right of such holder shall thereafter be against the said funds so made available, which the Trustee is required to set aside and hold, subject to any applicable escheat or other similar law, for the benefit of such holder. The Indenture also provides that the University and the Trustee, with the written consent of the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding under the Indenture, may at any time and from time to time amend the Indenture or any indenture supplemental thereto, provided that no such amendment shall (1) without the consent of the holder of each Bond affected, reduce the principal of, the rate of interest on any Bond, or (2) without the consent of the holders of all the Bonds then outstanding under the Indenture, extend the maturity of any installment of principal or interest on any of the Bonds, make any change in the schedule of required sinking fund or other similar payments with respect to any series of the Bonds, create a lien or charge on the Pledged Revenues ranking prior to or (except in connection with the issuance of additional parity bonds under the Indenture) on a parity with the lien or charge thereon contained in the Indenture, effect a preference or priority of any Bond over any other Bond or reduce the aggregate principal amount of Bonds the holders of which are required to consent to any such amendment.

The principal of this bond shall be subject to redemption and payment by the University, at the option of the University, as a whole or in part without penalty or premium, at any time and from time to time on or after December 7, 2017 (but, if in part, in multiples of $250.00 with those installments of principal to be redeemed to be selected by the University at its discretion), upon not less than 10 days' prior written notice to the holder hereof (with a copy to the Trustee), at and for a redemption price equal to 100% of the principal hereof to be redeemed plus accrued interest to the date fixed for redemption.

This bond is not a general obligation of the University, and the covenants and representations herein contained or contained in the Indenture do not and shall never constitute a personal or pecuniary liability or charge against the general credit of the University. This bond is not an obligation or debt of the State of Alabama nor are the faith and credit of said state pledged for payment thereof, and neither the principal of nor interest on this bond is payable out of any moneys provided for or appropriated to the University by the State of Alabama.

It is hereby certified that all conditions, actions and things required by the Constitution and laws of Alabama to exist, be performed and happen precedent to or in the issuance of this bond do exist, have been performed and have happened in due and legal form.

The Trustee shall not be required so to transfer or exchange this bond during the period of fifteen days next preceding any interest payment date with respect thereto.

Execution by the Trustee of its authentication certificate hereon is essential to the validity hereof and is conclusive of the due issue hereof under the Indenture.

**IN WITNESS WHEREOF**, the University has caused this bond to be executed in its name and behalf with the signature of its President, has caused its corporate seal to be hereunto impressed, has caused this bond to be attested by the signature of the Secretary of its Board of Trustees, and has caused this bond to be dated December 7, 2016.

**UNIVERSITY OF SOUTH ALABAMA**

By: ______________________________
President
University of South Alabama

[ S E A L ]

Attest:

______________________________
Secretary of the
Board of Trustees

**Form of Trustee's Authentication Certificate**

Date of Authentication and Registration:

The within bond is one of those described in the within-mentioned Trust Indenture.

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,**
Trustee

By: ______________________________
Its Authorized Officer

**Section 2.5 Execution and Delivery of the Series 2016-C Bond.** The Series 2016-C Bond shall be forthwith executed and delivered to the Trustee and shall be authenticated and delivered by the Trustee from time to time upon receipt by the Trustee of an order signed on behalf of the University by its President, requesting such authentication and delivery and designating the person or persons to receive the same or any part thereof.

**Section 2.6 Application of Proceeds from the Sale of the Series 2016-C Bond.** The University shall cause the entire proceeds from the sale of the Series 2016-C Bond to be deposited into the Bond Fund under the Indenture to be used by the Trustee, together with other amounts to be put on deposit in the Bond Fund on or before December 7, 2016, to pay the redemption price of the Series 2006 Bonds on December 9, 2016.

## ARTICLE III
## SERIES 2016-D BOND

**Section 3.1 Description of the Series 2016-D Bond.** (a) **Authorization and General**

**Description.** There is hereby authorized to be issued and delivered by the University under the Indenture one University Facilities Revenue Refunding Bond, Series 2016-D, dated December 7, 2016, in the principal amount of $45,000,000. Principal installments of the Series 2016-D Bond shall mature and become payable on December 1 in the following years and amounts:

| Year | Maturing Principal Installment |
|---|---|
| 2024 | $2,520,000 |
| 2025 | 2,648,250 |
| 2026 | 2,785,500 |
| 2027 | 2,927,250 |
| 2028 | 3,078,000 |
| 2029 | 3,235,500 |
| 2030 | 3,402,000 |
| 2031 | 3,575,250 |
| 2032 | 3,759,750 |
| 2033 | 3,953,250 |
| 2034 | 4,155,750 |
| 2035 | 4,367,250 |
| 2036 | 4,592,250 |

subject, however, to the right of the holder of the Series 2016-D Bond to cause principal installments maturing after December 1, 2026 to become earlier due and payable pursuant to the timely exercise of the 2016-D Put Right as set forth in paragraph (b) immediately below.

(b) **Optional Put Right.** The holder of the Series 2016-D Bond shall have the right (the "2016-D Put Right") to elect, not less than 210 days prior to any December 1, commencing December 1, 2026, for all principal installments of the Series 2016-D Bond scheduled to mature after such December 1 to mature and become due and payable on such December 1. Any such election must be delivered in writing to the University pursuant to the form attached as Exhibit A-3 hereto (with a copy delivered to the Trustee) and shall be deemed delivered on the date received by the University.

(c) **Computation of Interest.** The Series 2016-D Bond shall bear interest from its December 7, 2016 date at a rate subject to change from time to time based on changes in an independent index, which is the LIBOR Base Rate (the "2016-D Index"). The 2016-D Index is not necessarily the lowest rate charged by the 2016-D Purchaser on its loans or bonds purchased by the 2016-D Purchaser. If the 2016-D Index becomes unavailable during the term of the Series 2016-D Bond, the 2016-D Purchaser will designate a substitute 2016-D Index (as further described in this paragraph below) after providing reasonable written notice of the same to the University and the Trustee. The 2016-D Purchaser will promptly notify the University and the Trustee in writing of the current 2016-D Index rate upon each determination thereof. The rate will initially become effective on December 7, 2016 (the date of the Series 2016-D Bond as shown on the face thereof). Thereafter, the rate will change weekly on each Thursday (each a "2016-D Reset Date"), as described below. If for any reason the London Interbank Offer Rate is not available, the "LIBOR Base Rate" shall mean the rate per annum which banks charge each other in a market comparable to England's Eurodollar market on short-term money in U.S. dollars for an amount substantially equivalent to the principal amount due under the Series 2016-

D Bond, as determined at 11:00 A.M., London time, one (1) London business day prior to the day on which the rate will become effective. The 2016-D Purchaser's determination of such interest rate shall be conclusive, absent manifest error. The University understands that the 2016-D Purchaser may make loans or acquire bonds based on other rates as well.

Interest on the unpaid principal balance of the Series 2016-D Bond will be calculated using a rate of sixty-eight percent (68%) of the 2016-D Index on each 2016-D Reset Date plus 83 basis points (0.83%) or, following a Determination of Taxability, the 2016-D Index on each 2016-D Reset Date plus 122 basis points (1.22%) (the "2016-D Weekly Interest Rate"), and will be calculated using the weighted average of the 2016-D Weekly Interest Rates from, and including, the next preceding Interest Payment Date (defined below) to, but excluding, the applicable Interest Payment Date. Interest shall be computed on the basis of a 365- or 366-day year, as applicable, based on the actual number of days elapsed, and shall be payable in arrears on January 3, 2017, and on each Interest Payment Date thereafter until the Series 2016-D Bond shall have been fully paid. At least two Business Days prior to each Interest Payment Date, the 2016-D Purchaser shall notify the University and the Trustee in writing of the amount of interest computed by such purchaser to be owed on such Interest Payment Date.

(d) **Interest Payment Dates**. In the event an Interest Payment Date is not a Business Day (as defined in the Indenture), the principal or interest due on such date shall be payable on the then next succeeding Business Day.

**Section 3.2 Optional Redemption.** The University shall have the right to redeem and retire the Series 2016-D Bond, in whole or in part (but if in part, in multiples of $250.00 with those installments of principal to be redeemed to be selected by the University at its discretion) without penalty or premium at anytime and from time to time on or after December 7, 2017 upon not less than 10 days' prior written notice to the holder of the Series 2016-D Bond (with a copy to the Trustee), at and for a price equal to 100% of the principal of the Series 2016-D Bond to be redeemed plus accrued interest to the date set for redemption.

**Section 3.3 Method of Payment; Final Payment; Other.** Principal installments of the Series 2016-D Bond shall be payable when due at the designated corporate trust office of the Trustee in the City of Birmingham, Alabama, and without presentment of the Series 2016-D Bond. Interest on the Series 2016-D Bond shall be payable by check or draft mailed or otherwise delivered by the Trustee to the 2016-D Purchaser at its address as it appears on the registry books of the Trustee pertaining to the registration of the Series 2016-D Bond. All installments of principal of and interest on the Series 2016-D Bond shall bear interest after the respective maturities of such principal and interest until paid or until moneys sufficient for payment thereof shall have been deposited for that purpose with the Trustee, whichever first occurs, at the rate of interest borne by the Series 2016-D Bond.

**Section 3.4 Form of Series 2016-D Bond.** The Series 2016-D Bond and the Trustee's Authentication Certificate shall be in substantially the following forms, respectively, with such insertions, omissions and other variations as may be necessary to conform to the provisions hereof:

**THIS SERIES 2016-D BOND MAY BE TRANSFERRED ONLY TO AN "ACCREDITED INVESTOR" OR TO A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN**

**THE SECURITIES AND EXCHANGE ACT OF 1933 AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER AND ONLY UPON COMPLIANCE WITH APPLICABLE STATE AND FEDERAL SECURITIES LAWS AND WITH THE INDENTURE REFERRED TO HEREIN.**

**UNITED STATES OF AMERICA**

**STATE OF ALABAMA**

**UNIVERSITY OF SOUTH ALABAMA**
**University Facilities Revenue Refunding Bond**
**Series 2016-D**

For value received, the **UNIVERSITY OF SOUTH ALABAMA**, a public body corporate under the laws of the State of Alabama (herein called the "University"), will pay, solely from the sources hereinafter referred to, to **STI INSTITUTIONAL & GOVERNMENT, INC.** (together with its successors and permitted assigns and transferees, the "2016-D Purchaser"), the principal sum of **FORTY FIVE MILLION DOLLARS ($45,000,000)**, in annual installments at the times, in the amounts and as set forth below.

Principal installments hereof shall mature and become payable on December 1 in the following years and amounts:

| Year | Maturing Principal Installment |
|---|---|
| 2024 | $2,520,000 |
| 2025 | 2,648,250 |
| 2026 | 2,785,500 |
| 2027 | 2,927,250 |
| 2028 | 3,078,000 |
| 2029 | 3,235,500 |
| 2030 | 3,402,000 |
| 2031 | 3,575,250 |
| 2032 | 3,759,750 |
| 2033 | 3,953,250 |
| 2034 | 4,155,750 |
| 2035 | 4,367,250 |
| 2036 | 4,592,250 |

subject, however, to the right of the holder of the Series 2016-D Bond to cause principal installments maturing after December 1, 2026 to become earlier due and payable pursuant to the timely exercise of the 2016-D Put Right as set forth immediately below.

The holder of this bond shall have the right (the "2016-D Put Right") to elect, not less than 210 days prior to any December 1, commencing December 1, 2026, to cause all principal installments of this bond scheduled to mature after such December 1 to mature and become due and payable on such December 1. Any such election must be delivered in writing to the

University pursuant to the form attached as Exhibit A-3 to the Thirteenth Supplemental University Facilities Revenue Trust Indenture dated December 7, 2016 between the University and the Trustee hereinafter described (with a copy delivered to the said Trustee), and shall be deemed delivered on the date received by the University.

This bond shall bear interest from its December 7, 2016 date at a rate subject to change from time to time based on changes in an independent index, which is the LIBOR Base Rate (the "2016-D Index"). The 2016-D Index is not necessarily the lowest rate charged by the 2016-D Purchaser on its loans or bonds purchased by the 2016-D Purchaser. If the 2016-D Index becomes unavailable during the term of this bond, the 2016-D Purchaser will designate a substitute 2016-D Index (as further described in this paragraph below) after providing reasonable written notice of the same to the University and the Trustee. The 2016-D Purchaser will promptly notify the University and the Trustee in writing of the current 2016-D Index rate upon each determination thereof. The rate will initially become effective on December 7, 2016 (the date of this bond). Thereafter, the rate will change weekly on each Thursday (each a "2016-D Reset Date"), as described below. As used herein, "LIBOR Base Rate" means the London Interbank Offer Rate for U.S. dollars for a term of 30 days which appears on Bloomberg Professional screen BBAM (or any generally recognized successor method or means of publication) as of 11:00 A.M., London time, one (1) London business day prior to the day on which the rate will become effective; provided, if for any reason the London Interbank Offer Rate is not available, the "LIBOR Base Rate" shall mean the rate per annum which banks charge each other in a market comparable to England's Eurodollar market on short-term money in U.S. dollars for an amount substantially equivalent to the principal amount due under this bond, as determined at 11:00 A.M., London time, one (1) London business day prior to the day on which the rate will become effective. The 2016-D Purchaser's determination of such interest rate shall be conclusive, absent manifest error. The University understands that the 2016-D Purchaser may make loans or acquire bonds based on other rates as well.

Interest on the unpaid principal balance of this bond will be calculated using a rate of sixty-eight percent (68%) of the 2016-D Index on each 2016-D Reset Date plus 83 basis points (0.83%) or, following a Determination of Taxability, the 2016-D Index on each 2016-D Reset Date plus 122 basis points (1.22%) (the "2016-B Weekly Interest Rate"), and will be calculated using the weighted average of the 2016-D Weekly Interest Rates from, and including, the next preceding Interest Payment Date (defined below) to, but excluding, the applicable Interest Payment Date. At least two Business Days prior to each Interest Payment Date, the holder hereof shall notify the University and the Trustee in writing of the amount of interest computed by such holder to be owed on such Interest Payment Date.

Interest shall be computed on the basis of a 365- or 366-day year, as applicable, based on the actual number of days elapsed, and shall be payable in arrears on January 3, 2017, and monthly thereafter, on the 1st day of each month while this bond is outstanding (each such date, an "Interest Payment Date") until this bond shall have been fully paid.

Principal and interest on this bond are payable by check or draft mailed by the Trustee to the 2016-D Purchaser on the applicable Interest Payment Date and at the address of the 2016-D Purchaser shown on the registry books of the Trustee pertaining to this bond as of the close of business on the 15th day immediately preceding the date of such payment; provided, if an Interest Payment Date is not a Business Day, the interest or principal due on such date shall be payable on the next succeeding Business Day. Principal on this bond shall be paid without presentment of this instrument.

Principal and interest payments that are due with respect to this bond and that are made by check or draft shall be deemed timely made if such check or draft is mailed by the Trustee on or before the due date of such principal or interest. Both the principal of and the interest on this bond shall bear interest after their respective maturities until paid or until moneys sufficient for payment thereof have been deposited with the Trustee at the per annum rate stated above. The Indenture provides that all payments by the University or the Trustee to the 2016-D Purchaser at the address for the 2016-D Purchaser shown on the registry books of the Trustee shall to the extent thereof fully discharge and satisfy all liability for the same. Any permitted transferee of this bond takes it subject to all payments of principal and interest in fact made with respect hereto.

This bond is herein entitled "University Facilities Revenue Refunding Bond, Series 2016-D" and has been issued under a University Facilities Revenue Trust Indenture dated as of February 15, 1996, as heretofore supplemented and amended and as further supplemented and amended by a Thirteenth Supplemental University Facilities Revenue Trust Indenture dated December 7, 2016 (the said Trust Indenture, as so supplemented and amended, being herein called the "Indenture"), between the University and The Bank of New York Mellon Trust Company, N.A. (herein called the "Trustee"). The principal of and the interest on this bond are payable solely out of and are secured by a lien upon and pledge of (a) certain fees from students levied by the University, (b) the gross revenues derived from certain auxiliary enterprises services furnished by the University, including, food services, housing, college stores, dining, concessions and other similar services, as such revenues are shown as a separate item on the audited financial statements of the University, and (c) an amount not exceeding $10,000,000 in any fiscal year of the University of the gross revenues derived from that certain hospital facility owned and operated by the University and known as USA Children's and Women's Hospital (herein called the "Pledged Revenues"), and shall not be payable from any other funds or revenues, on a parity of lien with (1) the University's (a) $40,130,000.70 original principal amount University Tuition Revenue Bonds, Series 1999, dated March 1, 1999, (b) $29,750,000 University Facilities Revenue Capital Improvement Bond, Series 2010, dated June 16, 2010, (c) $25,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-A, dated January 4, 2012, (d) $7,740,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2012-B, dated January 4, 2012, (e) $32,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-A, dated June 28, 2013, (f) $8,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-B, dated June 28, 2013, (g) $10,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2013-C, dated June 28, 2013, (h) $41,245,000 original principal amount University Facilities Revenue Refunding Bond, Series 2014-A, dated March 14, 2014, (i) $6,000,000 original principal amount University Facilities Revenue Capital Improvement Bond, Series 2015, dated June 15, 2015, (j) $85,605,000 original principal amount University Facilities Revenue Refunding Bonds, Series 2016, dated September 14, 2016, (k) $20,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-B, dated December 7, 2016, and (l) $35,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-C, dated December 7, 2016, and (2) any Additional Bonds hereafter issued pursuant to Article VIII of the Indenture.

Reference is hereby made to the Indenture for a description of the nature and extent of the security afforded thereby, the rights and duties of the University and the Trustee with respect thereto, the rights of the 2016-D Purchaser of this bond and the terms and conditions on which additional series of bonds may be issued on a parity of lien with this bond. The Indenture provides, inter alia, (a) that in the event of default by the University in the manner and for the time therein provided, the Trustee may declare the principal of and the interest accrued on this bond immediately due and payable, whereupon the same shall thereupon become immediately due and payable and the Trustee shall be entitled to pursue the remedies provided in the Indenture, (b) that the holder of this bond shall have no right to enforce the provisions of the Indenture except as provided therein and then only for the equal and pro rata benefit of the holders of all the Bonds, and (c) that if this bond shall not be presented for payment when due (whether by maturity or otherwise) and if funds sufficient for such payment shall have been made available to the Trustee therefore, all liability of the University to the holder of such bond and all rights of such holder against the University under such bond or under the Indenture shall cease and terminate and that the sole right of such holder shall thereafter be against the said funds so made available, which the Trustee is required to set aside and hold, subject to any applicable escheat or other similar law, for the benefit of such holder. The Indenture also provides that the University and the Trustee, with the written consent of the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding under the Indenture, may at any time and from time to time amend the Indenture or any indenture supplemental thereto, provided that no such amendment shall (1) without the consent of the holder of each Bond affected, reduce the principal of, the rate of interest on any Bond, or (2) without the consent of the holders of all the Bonds then outstanding under the Indenture, extend the maturity of any installment of principal or interest on any of the Bonds, make any change in the schedule of required sinking fund or other similar payments with respect to any series of the Bonds, create a lien or charge on the Pledged Revenues ranking prior to or (except in connection with the issuance of additional parity bonds under the Indenture) on a parity with the lien or charge thereon contained in the Indenture, effect a preference or priority of any Bond over any other Bond or reduce the aggregate principal amount of Bonds the holders of which are required to consent to any such amendment.

The principal of this bond shall be subject to redemption and payment by the University, at the option of the University, as a whole or in part without penalty or premium, at any time and from time to time on or after December 7, 2017 (but, if in part, in multiples of $250.00 with those installments of principal to be redeemed to be selected by the University at its discretion), upon not less than 10 days' prior written notice to the holder hereof (with a copy to the Trustee), at and for a redemption price equal to 100% of the principal hereof to be redeemed plus accrued interest to the date fixed for redemption.

This bond is not a general obligation of the University, and the covenants and representations herein contained or contained in the Indenture do not and shall never constitute a personal or pecuniary liability or charge against the general credit of the University. This bond is not an obligation or debt of the State of Alabama nor are the faith and credit of said state pledged for payment thereof, and neither the principal of nor interest on this bond is payable out of any moneys provided for or appropriated to the University by the State of Alabama.

It is hereby certified that all conditions, actions and things required by the Constitution and laws of Alabama to exist, be performed and happen precedent to or in the issuance of this bond do exist, have been performed and have happened in due and legal form.

The Trustee shall not be required so to transfer or exchange this bond during the period of fifteen days next preceding any interest payment date with respect thereto.

Execution by the Trustee of its authentication certificate hereon is essential to the validity hereof and is conclusive of the due issue hereof under the Indenture.

**IN WITNESS WHEREOF**, the University has caused this bond to be executed in its name and behalf with the signature of its President, has caused its corporate seal to be hereunto impressed, has caused this bond to be attested by the signature of the Secretary of its Board of Trustees, and has caused this bond to be dated December 7, 2016.

**UNIVERSITY OF SOUTH ALABAMA**

By: ______________________________
President
University of South Alabama

[ S E A L ]

Attest:

______________________________
Secretary of the
Board of Trustees

**Form of Trustee's Authentication Certificate**

Date of Authentication and Registration:

The within bond is one of those described in the within-mentioned Trust Indenture.

**THE BANK OF NEW YORK MELLON**
**TRUST COMPANY, N.A.,**
Trustee

By: ______________________________
Its Authorized Officer

**Section 3.5 Execution and Delivery of the Series 2016-D Bond.** The Series 2016-D Bond shall be forthwith executed and delivered to the Trustee and shall be authenticated and delivered by the Trustee from time to time upon receipt by the Trustee of an order signed on behalf of the University by its President, requesting such authentication and delivery and designating the person or persons to receive the same or any part thereof.

**Section 3.6 Application of Proceeds from the Sale of the Series 2016-D Bond.** The University shall cause the entire proceeds from the sale of the Series 2016-D Bond to be deposited into the Bond Fund under the Indenture to be used by the Trustee, together with other amounts to be put on deposit in the Bond Fund on or before December 7, 2016, to pay the redemption price of the Series 2006 Bonds on December 9, 2016.

## ARTICLE IV
## CONCERNING THE CODE

**Section 4.1 Concerning the Code.** (a) **General.** The University recognizes that the Code imposes certain conditions to the exemption from federal income taxation of interest income on the Series 2016 Bonds. Accordingly, the University agrees that it will continually comply with all requirements imposed by the Code as a condition to the exemption from federal income taxation of the interest income on the Series 2016 Bonds. With respect to any question arising under this Section 4.1, the University may rely upon an opinion of nationally recognized bond counsel acceptable to it.

(b) **Series 2016 Bonds not to be "Private Activity Bonds"**. The University will not apply the proceeds of the Series 2016 Bonds in any manner that would cause the Series 2016 Bonds to be "private activity bonds" within the meaning of Section 141(a) of the Code.

(c) **Concerning the Arbitrage Provisions of the Code**. The University agrees that it will comply with all provisions of the Code necessary to preclude the Series 2016 Bonds being considered "arbitrage bonds" within the meaning of Section 148 of the Code.

(d) **Provisions Respecting Registration of Series 2016 Bonds to Comply with Provisions of Code**. The University and the Trustee recognize that the provisions of the Code require that the Series 2016 Bonds be in "registered form" and that, in general, the Series 2016 Bonds must be registered as to both principal and interest and any transfer of the Series 2016 Bonds must be effected only by the surrender of the old bond and either by the reissuance of the old bond to a new Holder or the issuance of a new bond to a new Holder. The Trustee may conclusively rely upon an opinion of nationally recognized bond counsel with respect to any question which may arise pertaining to the transfer, exchange or reissuance of any of the Series 2016 Bonds.

## ARTICLE V
## CONCERNING PLEDGED REVENUES; CONFIRMATION OF INDENTURE, AS SUPPLEMENTED; OTHER

**Section 5.1 Confirmation of Indenture.** All the terms, covenants and conditions of the Indenture, as supplemented hereby, are hereby in all respects ratified and confirmed, and the Indenture as so supplemented shall continue in full force and effect. In addition, each of the Trustee and the University confirms that the Trustee shall have no duties, express or implied, respecting the proceeds of the Series 2016 Bonds during any time when the Trustee is not the depository of such amounts or respecting any other construction funds established under the Indenture for which the Trustee is not the depository.

**Section 5.2 Confirmation of Pledges.** The provisions of the Indenture, wherein the Pledged Revenues are pledged for payment of all Bonds issued under the Indenture, are hereby ratified and confirmed.

**Section 5.3 Construction of Thirteenth Supplemental University Facilities Revenue Trust Indenture.** No provisions of this Thirteenth Supplemental University Facilities Revenue Trust Indenture shall be construed to limit or restrict, either expressly or impliedly, the obligations of the University contained in the Indenture or the powers of the Trustee thereunder, nor shall the provisions of this Thirteenth Supplemental University Facilities Revenue Trust Indenture be construed in any manner inconsistent with the provisions of the Indenture or in any manner that would adversely affect the interest of the Purchaser as holder of the Series 2016 Bonds.

**Section 5.4 Authorized Denominations.** Each of the Series 2016 Bonds may have principal installments maturing in denominations of any amount.

**Section 5.5 Severability.** In the event that any provision hereof shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

**Section 5.6 Special Reporting Covenants.** For each of the Series 2016 Bonds, the University shall provide the holder thereof the following:

(i) Audited financial statements of the University within 150 days following the close of each fiscal year of the University, commencing with the fiscal year ending September 30, 2017;

(ii) quarterly financial statements of the University within 90 days following the close of each fiscal quarter of the University, commencing with the fiscal quarter ending December 31, 2016; and

(iii) the annual budget for the University by October 31 of each year, commencing October 31, 2017.

**Section 5.7 Communications; No Advisory or Fiduciary Relationship.** (a) The University hereby authorizes and consents to communications by the Purchaser with the Trustee with regard to the Series 2016 Bonds including, without limitation, notices of amounts due, interest rate computations and interest amounts.

(b) In connection with all aspects of each transaction contemplated hereunder (including in connection with any amendment, waiver or other modification hereof or of the Series 2016 Bonds or any other document delivered in connection herewith), the University acknowledges and agrees, that: (1) (i) the University has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, (ii) the University is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the Series 2016 Bonds, (iii) the Purchaser is not acting as a municipal advisor or financial advisor to the University, and (iv) the Purchaser has no fiduciary duty pursuant to Section 15B of the Securities Exchange Act to the University with respect to the transactions contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Purchaser has provided other services or is currently providing other services to the University on other matters); (2) (i) the Purchaser is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary, for the University, or any other person, and (ii) the Purchaser has no obligation to the University, with respect to the transactions contemplated hereby except those obligations expressly set forth herein; and (3) the Purchaser may be engaged in a broad range of transactions that involve interests that differ from those of the University, and the Purchaser has no obligation to disclose any of such interests to the University. To the fullest extent permitted by law, the University hereby waives and releases any claims that it may have against the Purchaser with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transactions contemplated hereby. If the University would like a municipal advisor in this transaction that has legal fiduciary duties to the University, the University is free to engage a municipal advisor to serve in that capacity. The Series 2016 Bonds are being acquired pursuant to and in reliance upon the bank exemption and/or the institutional buyer exemption provided under the municipal advisor rules of the Securities and Exchange Commission, Rule 15Ba1-1 et seq., to the extent that such rules apply to the transactions contemplated hereunder or in the Series 2016 Bonds.

**Section 5.8 Severability**. In the event that any provision hereof shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

**Section 5.9 No Broker Confirmations.** The University agrees that broker confirmations of investments in connection with the Series 2016 Bonds are not required to be issued by the Trustee for each month in which a monthly statement is rendered by the Trustee.

**Section 5.10 Electronic Communications.** The Trustee shall have the right to accept and act upon directions or instructions given by the University and delivered using Electronic Means (defined below); provided, however, that the University shall provide to the Trustee an incumbency certificate listing Authorized Officers with the authority to provide such directions or instructions (each an "Authorized Officer") and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. If the University elects to give the Trustee directions or instructions using Electronic Means and the Trustee in its discretion elects to act upon such directions or instructions, the Trustees' understanding of such directions or instructions shall be deemed controlling. The University understands and agrees that the Trustee cannot determine the identity of the actual sender of such directions or instructions and that the Trustee shall conclusively presume that directions or instructions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The University shall be responsible for ensuring that only Authorized Officers transmit such directions or instructions to the Trustee and that all Authorized Officers treat applicable user and authorization codes, passwords and/or authentication keys as confidential and with extreme care. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such directions or instructions notwithstanding such directions or instructions conflict or are inconsistent with a subsequent written direction or written instruction. The University agrees: (i) to assume all risks arising out of the use of Electronic Means to submit directions or instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized directions or instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting directions or instructions to the Trustee and that there may be more secure methods of transmitting directions or instructions; (iii) that the security procedures (if any) to be followed in connection with its transmission of directions or instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures. "Electronic Means" shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys, or another method or system specified by the Trustee as available for use in connection with its services hereunder.

**IN WITNESS WHEREOF,** the University has caused this Thirteenth Supplemental University Facilities Revenue Trust Indenture to be executed in its name and behalf by the Acting President of the University, has caused its corporate seal to be hereunto affixed, and has caused this Thirteenth Supplemental University Facilities Revenue Trust Indenture to be attested by the Secretary of its Board of Trustees, and the Trustee has caused this Thirteenth Supplemental University Facilities Revenue Trust Indenture to be executed in its name and behalf, has caused its corporate seal to be hereunto affixed and has caused this Thirteenth Supplemental University Facilities Revenue Trust Indenture to be attested, all by its duly authorized officers, and the University and the Trustee have caused this Thirteenth Supplemental University Facilities Revenue Trust Indenture to be so executed in several counterparts, each of which shall be deemed an original, and have caused this Thirteenth Supplemental University Facilities Revenue Trust Indenture to be dated December 7, 2016.

**UNIVERSITY OF SOUTH ALABAMA**

By: ________________________________
President

[ S E A L ]

Attest:

________________________________
Secretary of the Board of Trustees

**THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.**

By: ________________________________

Its: ________________________________

[ S E A L ]

Attest:

Its: ________________________________

Exhibit A-1

Form of Put Notice
Series 2016-B Bond

The undersigned, as holder of the $20,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-B, dated December 7, 2016, does hereby elect in accordance with the provisions of Section 1.1(b) of that certain Thirteenth Supplemental University Facilities Revenue Trust Indenture dated December 7, 2016 between the University of South Alabama and The Bank of New York Mellon Trust Company, N.A., for all principal installments of the Series 2016-B Bond to become due and payable on December ___, 20___ (such date being not earlier than December 1, 2021 and a date that is not less than 210 days from the date of receipt by the University of this notice).

Dated this ___ day of ____, 20__.

______________________________

By:______________________________

Its:______________________________

Exhibit A-2

Form of Put Notice
Series 2016-B Bond

The undersigned, as holder of the $35,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-C, dated December 7, 2016, does hereby elect in accordance with the provisions of Section 2.1(b) of that certain Thirteenth Supplemental University Facilities Revenue Trust Indenture dated December 7, 2016 between the University of South Alabama and The Bank of New York Mellon Trust Company, N.A., for all principal installments of the Series 2016-C Bond to become due and payable on December ___, 20___ (such date being not earlier than December 1, 2023 and a date that is not less than 210 days from the date of receipt by the University of this notice).

Dated this ___ day of ____, 20__.

______________________________

By:____________________________

Its:____________________________

Exhibit A-3

Form of Put Notice
Series 2016-D Bond

The undersigned, as holder of the $45,000,000 original principal amount University Facilities Revenue Refunding Bond, Series 2016-D, dated December 7, 2016, does hereby elect in accordance with the provisions of Section 3.1(b) of that certain Thirteenth Supplemental University Facilities Revenue Trust Indenture dated December 7, 2016 between the University of South Alabama and The Bank of New York Mellon Trust Company, N.A., for all principal installments of the Series 2016-D Bond to become due and payable on December ___, 20___ (such date being not earlier than December 1, 2026 and a date that is not less than 210 days from the date of receipt by the University of this notice).

Dated this ___ day of ____, 20__.

______________________________

By:______________________________

Its:______________________________

STATE OF ALABAMA )
:
COUNTY OF MOBILE )

I, ________________________________, a Notary Public in and for said county in said state, hereby certify that Dr. Tony Waldrop, whose name as President of the **UNIVERSITY OF SOUTH ALABAMA,** a public body corporate under the laws of Alabama, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, he, as such officer and with full authority, executed the same voluntarily for and as the act of said public corporation.

GIVEN under my hand and official seal of office, this 7th day of December, 2016.

________________________________
Notary Public

[NOTARIAL SEAL]

STATE OF ALABAMA )
:
COUNTY OF JEFFERSON )

I, ________________________, a Notary Public in and for said county in said state, hereby certify that Stuart Statham, whose name as Vice President of **THE BANK OF NEW YORK MELLON TRUST COMPANY, N. A.**, in its capacity as Trustee under that certain Trust Indenture dated as of February 15, 1996, between it and the University of South Alabama, as supplemented and amended, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the within instrument, as such officer and with full authority, executed the same voluntarily for and as the act of said bank, in its capacity as trustee as aforesaid.

GIVEN under my hand and official seal of office, this 7th day of December, 2016.

______________________________
Notary Public

[NOTARIAL SEAL]

# EXHIBIT II

## <u>CALL RESOLUTION</u>

# RESOLUTION

## EXPLORE FEASIBILITY OF SELLING REFUNDING BONDS THROUGH A COMPETITIVE PROCESS

**WHEREAS**, pursuant to that certain University Facilities Revenue Trust Indenture between the University of South Alabama (the "University") and The Bank of New York Mellon Trust Company, N.A., as successor trustee thereunder (the "Trustee"), as heretofore supplemented and amended (the "Indenture"), the University has heretofore issued its $100,000,000 University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, dated December 1, 2006 (the "Series 2006 Bonds"), all of which are presently outstanding, and

**WHEREAS**, the Series 2006 Bonds bear interest at fixed rates and may be redeemed and prepaid by the University anytime on or after December 1, 2016, and

**WHEREAS**, on January 2, 2008, the University entered a transaction (the "Swaption Transaction") with Wells Fargo Bank National Association (formerly known as "Wachovia Bank, National Association") ("Wells Fargo"), and

**WHEREAS**, as contemplated by the Swaption Transaction, it will be necessary for the University to refinance the 2006 Bonds with one or more series of limited obligation variable rate bonds of the University containing the same current outstanding principal amortization schedule as the Series 2006 Bonds (collectively, the "Refunding Bonds"), and

**WHEREAS**, it is necessary, desirable, and in the best interest of the University that the University explore the feasibility of selling the Refunding Bonds to one or more financial institutions through a competitive process, and, further, that the University call for redemption and payment on December 9, 2016, the Series 2006 Bonds,

**NOW, THEREFORE, BE IT RESOLVED**, the President of the University and the Vice President for Finance and Administration are hereby authorized and directed to explore the feasibility of selling the Refunding Bonds to one or more financial institutions through a competitive process; provided, that the Refunding Bonds shall be subject to approval and authorization by the Board of Trustees, and

**BE IT FURTHER RESOLVED** that the University does hereby elect to redeem and pay, and does hereby call for redemption and payment, on December 9, 2016 (the "Redemption Date"), the Series 2006 Bonds, the redemption of the Series 2006 Bonds to be effected at and for a redemption price equal to 100% of the principal amount thereof plus accrued interest to the Redemption Date, and

**FURTHER RESOLVED,** the Trustee is hereby authorized and directed to cause written notice of the redemption and payment of the Series 2006 Bonds to be given in the manner and at the times and to the persons required pursuant to the Indenture, and to take all such other actions as shall be necessary or desirable in order to cause the Series 2006 Bonds to be redeemed and paid on the Redemption Date, provided such redemption notice shall be conditioned upon the closing of the Refunding Bonds and the availability of funds sufficient to pay the redemption price of the Series 2006 Bonds by the Redemption Date and, further, subject to revocation by the Trustee if such conditions have not occurred by the Redemption Date, and

**FINALLY, BE IT RESOLVED** that the President of the University and the Vice President for Finance and Administration are hereby authorized and directed to take or cause to be taken, in the name and on behalf of the University, all of the actions that may be necessary or desirable to effect the redemption and payment of the Series 2006 Bonds on the Redemption Date as aforesaid including, without limitation, to direct the Trustee on the proper disposition of all funds on deposit in the funds and accounts established pursuant to the Indenture and referable to the Series 2006 Bonds. The President of the University and the Vice President for Finance and Administration are further authorized and directed to execute and deliver such notices, directions, consents, agreements, certificates, instruments or other documents as shall be necessary or desirable to effectuate the transactions contemplated by this resolution.