KPMG

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Basic Financial Statements

September 30, 2025

(With Independent Auditors' Report Thereon)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Basic Financial Statements
September 30, 2025

Table of Contents

Table of Contents
(continued)

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Management's Discussion and Analysis (Unaudited)

September 30, 2025

Introduction

The following discussion presents an overview of the financial position and financial activities of University of South Alabama (the University), including the University of South Alabama Health System (USA Health), a division of the University, at September 30, 2025 and 2024, and for the years then ended. This discussion has been prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

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

Financial Highlights

At September 30, 2025 and 2024, the University had total assets and deferred outflows of approximately $2,702,621,000 and $2,361,597,000, respectively; total liabilities and deferred inflows of approximately $1,917,024,000 and $1,676,936,000, respectively; and net position of approximately $785,597,000 and $684,661,000, respectively.

There was an overall increase in both restricted and unrestricted cash balances between 2024 and 2025 of approximately $39,424,000, or 15%, to $309,618,000. There was an increase in investment balances between 2024 and 2025 of approximately $3,256,000, or 1%, to $442,558,000 at September 30, 2025. The University experienced a decrease in patient service revenues of approximately $13,013,000, or 1%, between 2024 and 2025.

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, 2025. Net position is displayed in three parts: net investment in capital assets, restricted, and unrestricted. Restricted net position may be either expendable or nonexpendable and is the net position that is restricted by law or external donors. Unrestricted net position is generally designated by management for specific purposes and is available for use by the University to meet current expenses for any purpose. The statement of net position, along with all of the University's basic financial statements, is prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

The condensed schedules of net position at September 30, 2025 and 2024 follow (in thousands):

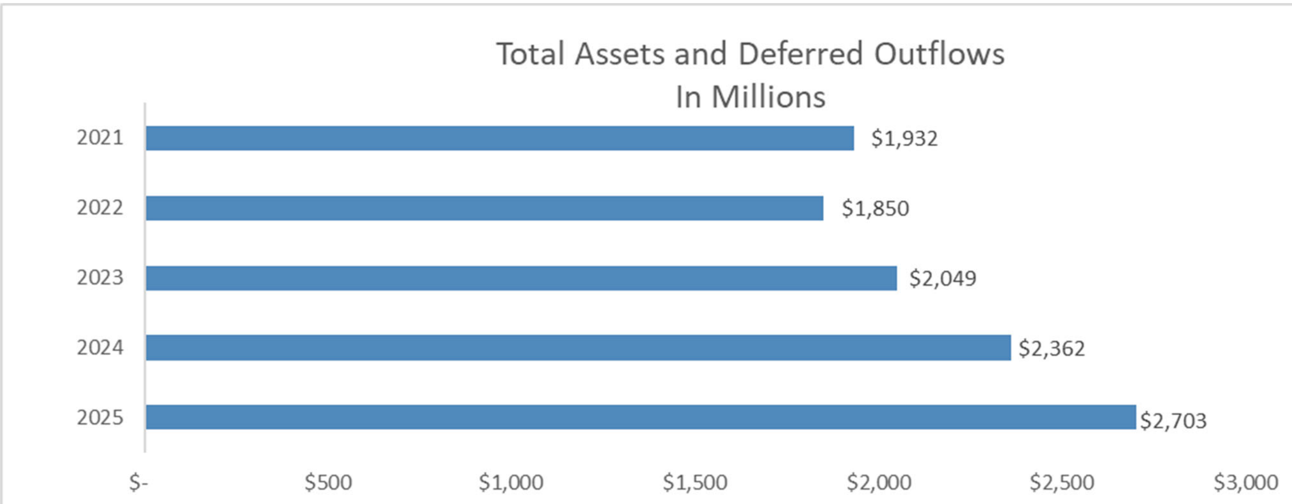
Condensed Schedules of Net Position

		2025	2024
Assets:			
Current	$	565,303	530,482
Capital assets, net		1,174,725	1,058,424
Other noncurrent		495,000	511,320
Total assets		2,235,028	2,100,226
Deferred outflows		467,593	261,371
Total assets and deferred outflows	$	2,702,621	2,361,597
Liabilities:			
Current	$	285,692	236,087
Noncurrent		1,266,509	1,032,984
Total liabilities		1,552,201	1,269,071
Deferred inflows		364,823	407,865
Total liabilities and deferred inflows	$	1,917,024	1,676,936
Net position:			
Net investment in capital assets	$	604,679	475,614
Restricted, nonexpendable		85,710	82,633
Restricted, expendable		139,482	121,306
Unrestricted (deficit)		(44,274)	5,108
Total net position	$	785,597	684,661

Assets included in the statement of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments, patient receivables, and accounts receivable, other. Of these amounts, restricted and unrestricted cash and cash equivalents, patient receivables, investments, and accounts receivable, other comprise approximately 55%, 17%, 14%, and 9% respectively, of current assets at September 30, 2025. Noncurrent assets consist primarily of restricted investments, lease receivables, and capital assets, net. The increase in total assets and deferred outflows is attributed to an increase in capital assets and deferred outflows related to other postemployment benefits.

(Continued)

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



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

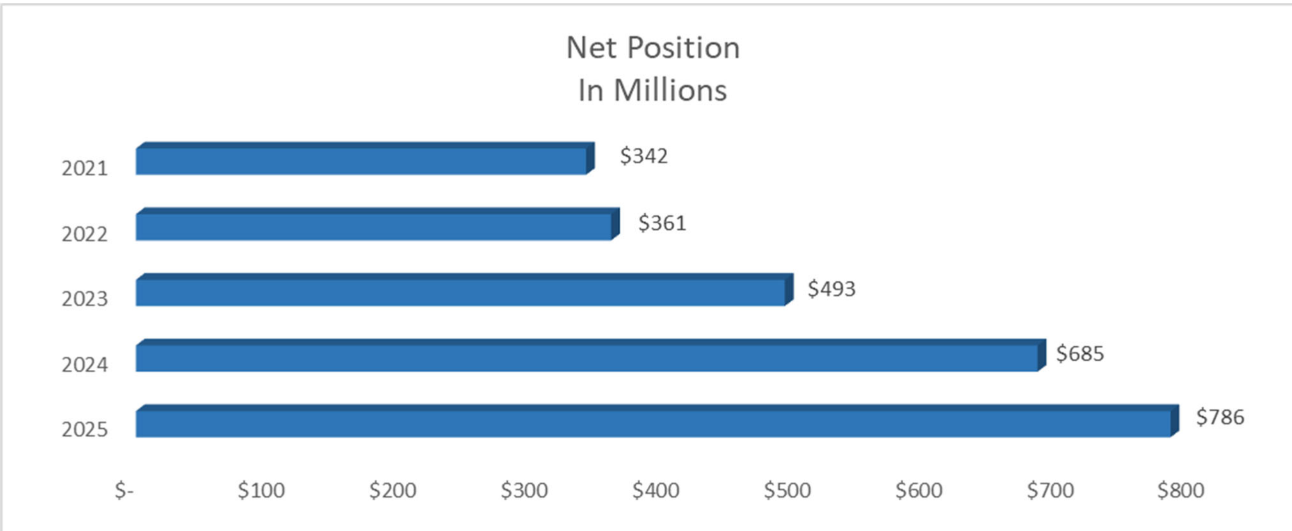
Net investment in capital assets represents the University's capital assets less accumulated depreciation and outstanding principal balances of the debt attributable to the acquisition, construction, or improvement of those assets.

Restricted nonexpendable net position consists primarily of the University's permanent endowment funds. In accordance with the policies of the University and donor agreements, 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 invested in capital assets or not subject to externally imposed stipulations. Even though these funds are not legally restricted, the majority of the University's unrestricted net position has been internally designated for various projects, all supporting the mission of the University. Unrestricted net position includes funds for various academic and research programs, auxiliary operations (including student housing and dining services), student programs, capital projects, and general operations. Also included in unrestricted net position at September 30, 2025 is the impact of the net pension liability recorded pursuant to the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions--an amendment of GASB Statement No. 27*, and the impact of the net OPEB liability recorded pursuant to the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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



Restricted net position increased by approximately $21,253,000 between September 30, 2024 and 2025, primarily due to market increases on endowment investments and gifts to the University. Unrestricted net position (deficit) decreased from approximately $5,108,000 to $(44,274,000) between September 30, 2024 and 2025 due to a large increase in net other postemployment benefits. A summary of unrestricted net position (deficit) at September 30, 2025 and 2024 is summarized as follows (in thousands):

		2025	2024
Unrestricted deficit related to net pension liability	$	(279,777)	(349,710)
Unrestricted deficit related to net OPEB liability		(396,009)	(78,808)
Unrestricted net position related to other activity		631,512	433,626
Unrestricted net position (deficit)	$	(44,274)	5,108

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total University net position are based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of this statement is to present the changes in net position resulting from operating and nonoperating revenues earned by the University, and operating and nonoperating expenses incurred by the University, as well as any other revenues, expenses, gains, and losses earned or incurred by the University.

Generally, operating revenues have the characteristics of exchange transactions and are received or accrued for providing goods and services to the various customers and constituencies of the University. These include tuition and fees (net of scholarship allowances), patient service revenues (net of provision for bad debts), most noncapital grants and contracts, revenues from auxiliary enterprises, and sales and services of educational activities. Operating expenses are those expenses paid or incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the University.

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

The condensed schedules of revenues, expenses, and changes in net position for the year ended September 30, 2025 and 2024 follow (in thousands):

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

	2025	2024
Operating revenues:		
Tuition and fees, net	$ 130,842	135,733
Patient service revenues, net	913,243	926,256
Federal, state, and private grants and contracts	60,776	63,915
Auxiiliary, net and other	134,467	106,387
	1,239,328	1,232,291
Operating expenses:		
Salaries and benefits	817,747	739,331
Supplies and other services	506,789	461,047
Other	135,134	139,699
	1,459,670	1,340,077
Operating loss	(220,342)	(107,786)

(continued on next page)

Condensed Schedules of Revenues, Expenses, and Changes in Net Position (continued)

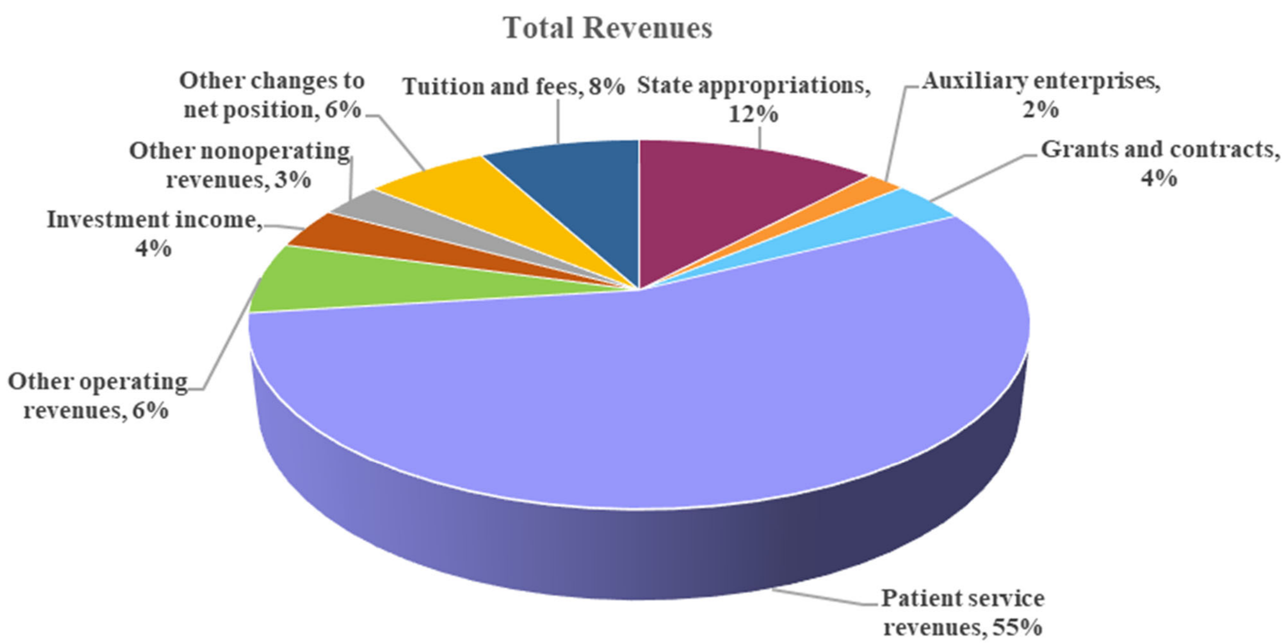
Nonoperating revenues (expenses):			
State appropriations	$	197,448	187,908
Net investment income		59,728	83,382
Other, net		(14,206)	(18,269)
Net nonoperating revenues		242,970	253,021
Income before capital appropriations, capital contributions and capital grants, and additions to endowment		22,628	145,235
Capital appropriations, capital contributions and grants, and capital additions to endowment		101,076	46,187
Increase in net position		123,704	191,422
Beginning net position		684,661	493,239
Cumulative effect of change in accounting principle and change to or within the financial reporting entity		(22,768)	—
Beginning balance, as adjusted		661,893	493,239
Ending net position	$	785,597	684,661

In 2025, the University adopted the provisions of GASB Statement No. 101, *Compensated Absences*, which requires the University to recognize a liability for leave that has not been used if it is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means, as well as any leave that has been used but not yet paid or settled through noncash means. The adoption of the provisions of GASB Statement No. 101 resulted in an increase to current portion of other long-term liabilities of approximately $3,145,000 and other long-term liabilities, less current portion of approximately $21,046,000. In accordance with GASB Statement No. 100, *Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62,* beginning unrestricted net position was restated by approximately ($24,191,000) for the impact related to the adoption of GASB Statement No. 101. See note 13 for further discussion.

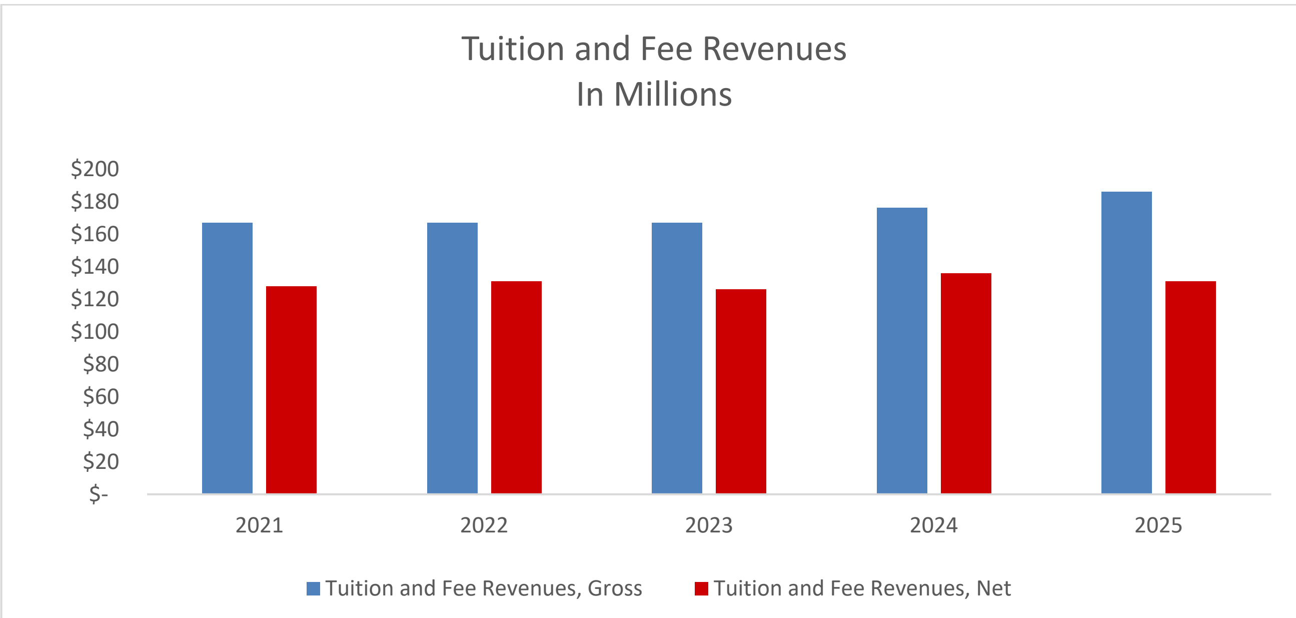
Prior to 2025, the Jaguar Athletic Fund (JAF) and the USA Foundation for Research and Commercialization (FRAC) were not presented in the University's financial statements because they were not considered significant enough to warrant inclusion in the University's reporting entity. In 2025, the University determined both JAF and FRAC would be included in the University's reporting entity going forward resulting in the University recognizing a change to or within the financial reporting entity by restating beginning unrestricted net position by approximately $1,423,000 in accordance with GASB Statement No. 100, *Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62*.

For the year ended September 30, 2025, approximately 55% of total revenues of the University were patient service revenues, net. Excluding patient service revenues, tuition and fees charged to students and state appropriations represent the largest component of total University revenues, approximately 8% and 12% of total revenues in 2025, respectively.

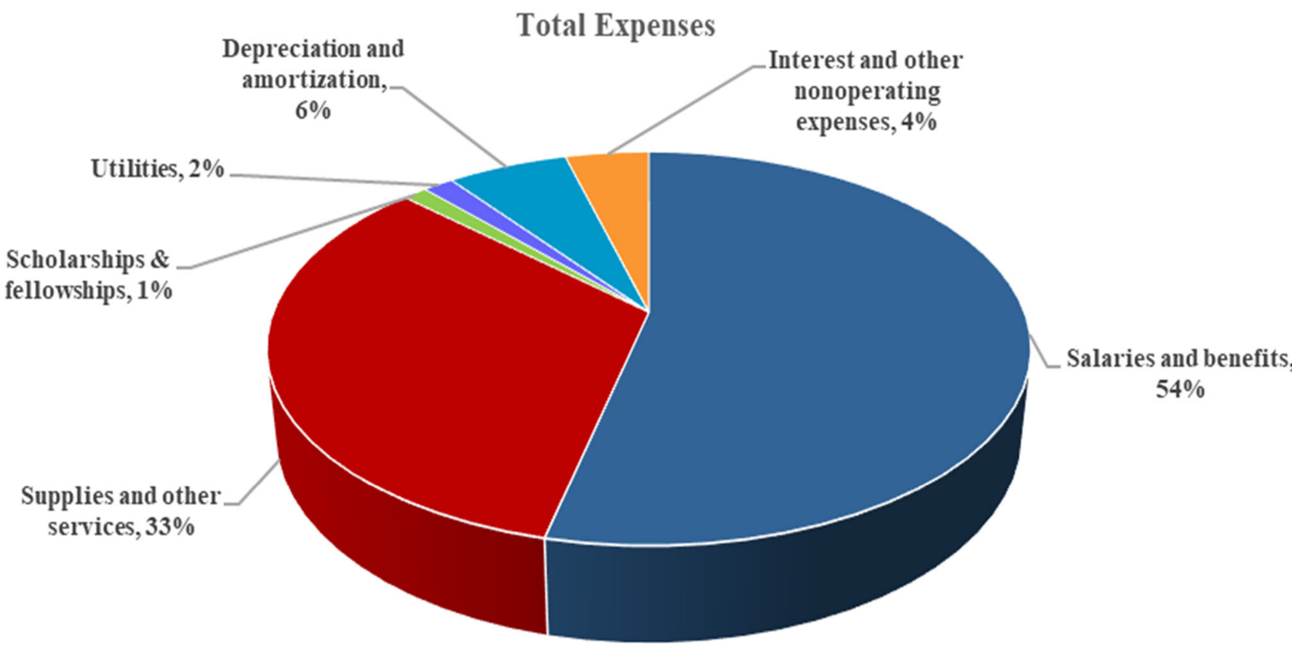
A summary of University revenues for the year ended September 30, 2025 is presented as follows:



Net tuition revenues have generally remained steady in recent years. Tuition and fees, gross and net of scholarship allowances, for the past five fiscal years are as follows:

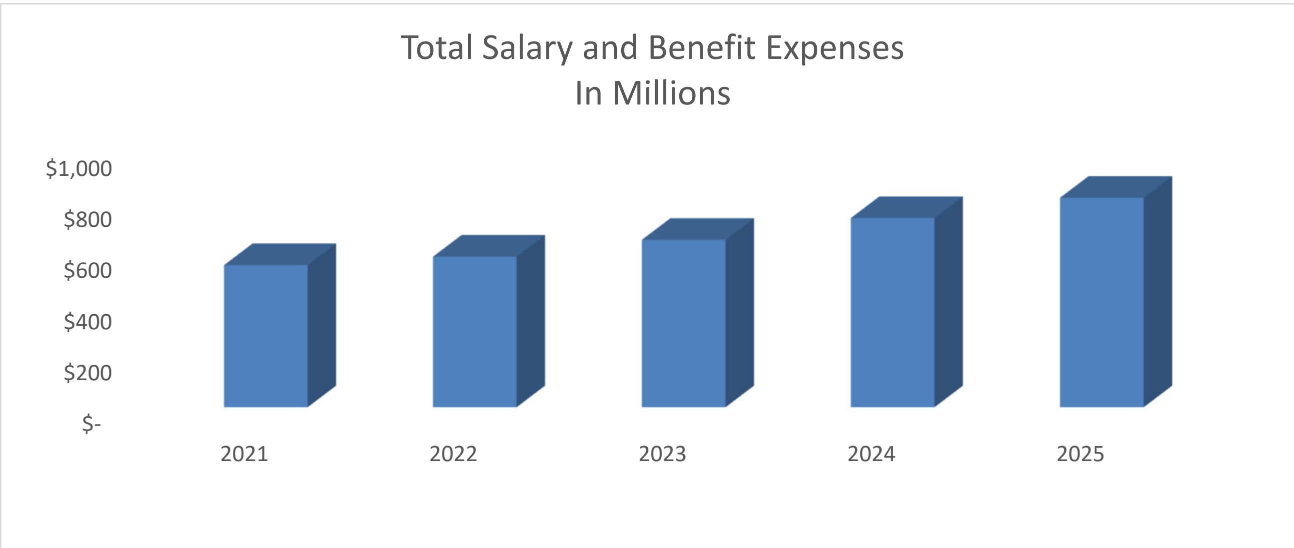


University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2025 is presented as follows:



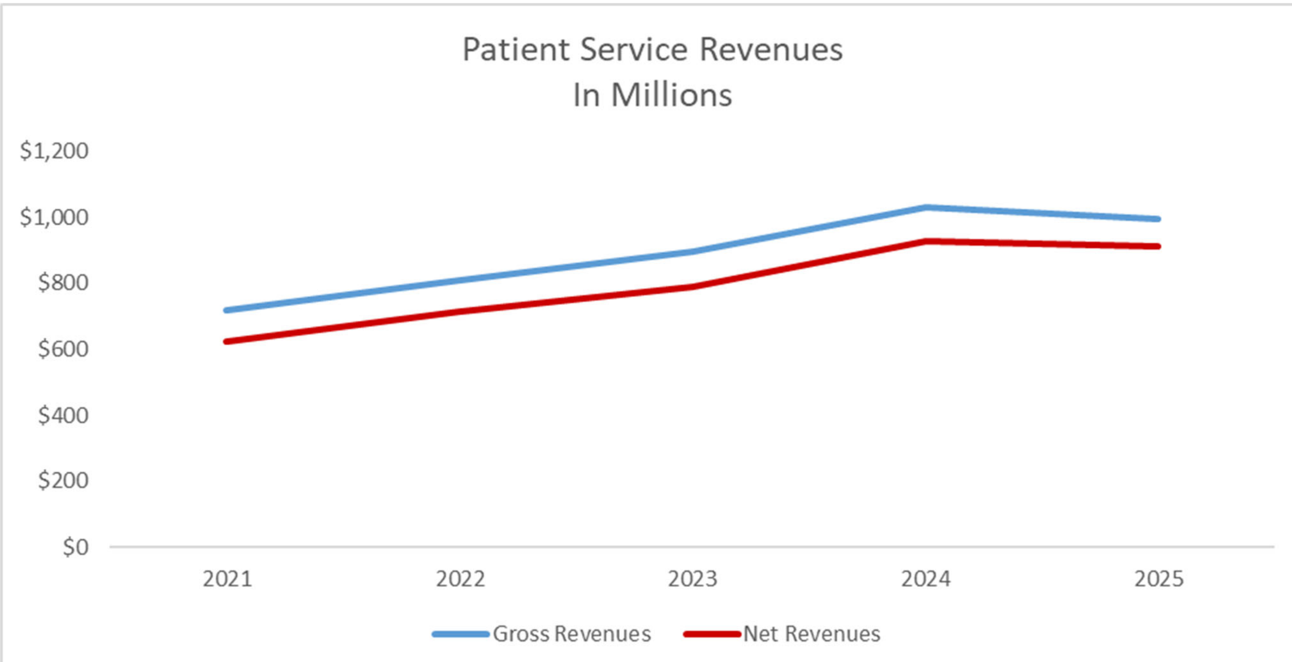
Functional classifications represent expenses categorized based on the function within the University. Such University functions include instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, and scholarships. Expenses related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

For the year ended September 30, 2025, approximately 54% of the University's total expenses were salaries and benefits.



For the year ended September 30, 2025, the University reported an operating loss of approximately $220,342,000. The operating loss is offset by state appropriations, which, as mentioned earlier, are reported as nonoperating revenues. After considering all nonoperating revenues and expenses, including capital appropriations, capital contributions and grants, and additions to the endowment, the total increase in net position was approximately $123,704,000 for the year ended September 30, 2025.

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



Statement of Cash Flows

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

Capital Assets and Debt Administration

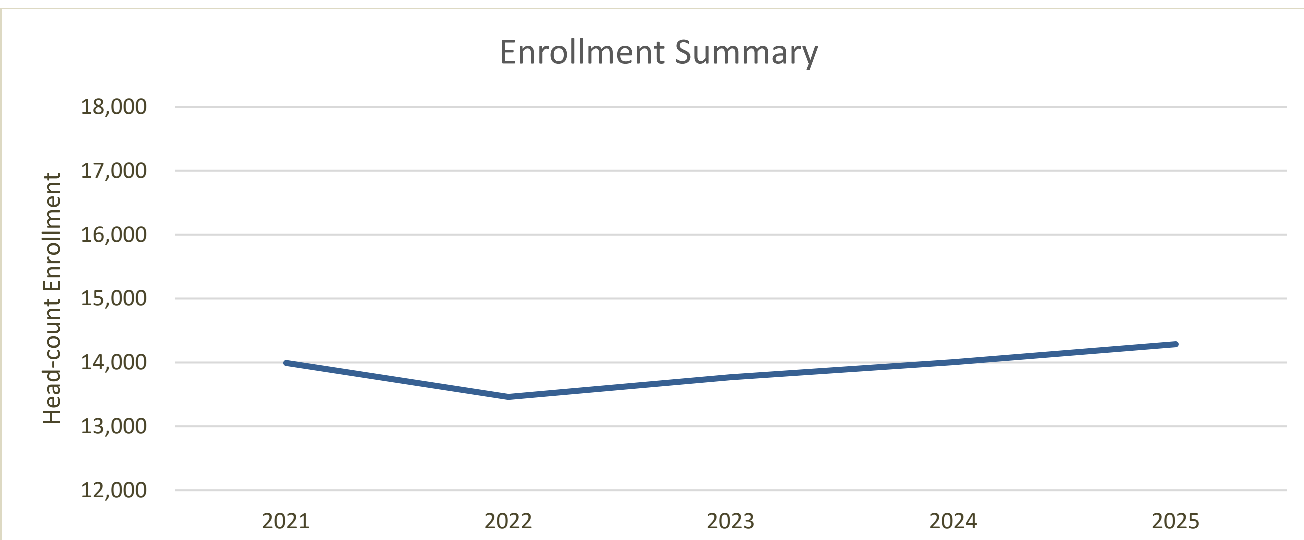
Total capital asset additions for the University were approximately $210,780,000 for the year ended September 30, 2025. Significant construction projects that remain in progress as of September 30, 2025 include the new Whiddon College of Medicine Building and related utility improvements, USA Health MRI vault renovation, Science Laboratory Building renovation, Traditions renovation, Jaguar Marching Band Building, Providence Medical Office Park renovation, the new Generator for University Hospital, and the Humanities Building reroof and elevator modernization. Major projects completed and placed into service in fiscal year 2025 include: the Children's and Women's Hospital Pediatric Emergency Department expansion, Children's and Women's Tower renovation, Providence Hospital IT system migration, University Hospital's Hybrid Operating Room renovation, and the Stanky Field turf replacement. At September 30, 2025, the University had outstanding commitments of approximately $129,920,000 for various capital projects. Additional information regarding the University's capital assets is included in note 5.

The University's credit rating is A1 (Stable) as rated by Moody's Investors Service and A+ (Stable) as rated by Standard and Poor's Global Ratings. Moody's Investors Services revised the University's outlook from negative to stable and affirmed its A1 issuer and revenue bond ratings in June 2024. Standard and Poor's Global Ratings affirmed the University's current rating in June 2024. Additional information regarding the University's debt is included in note 8.

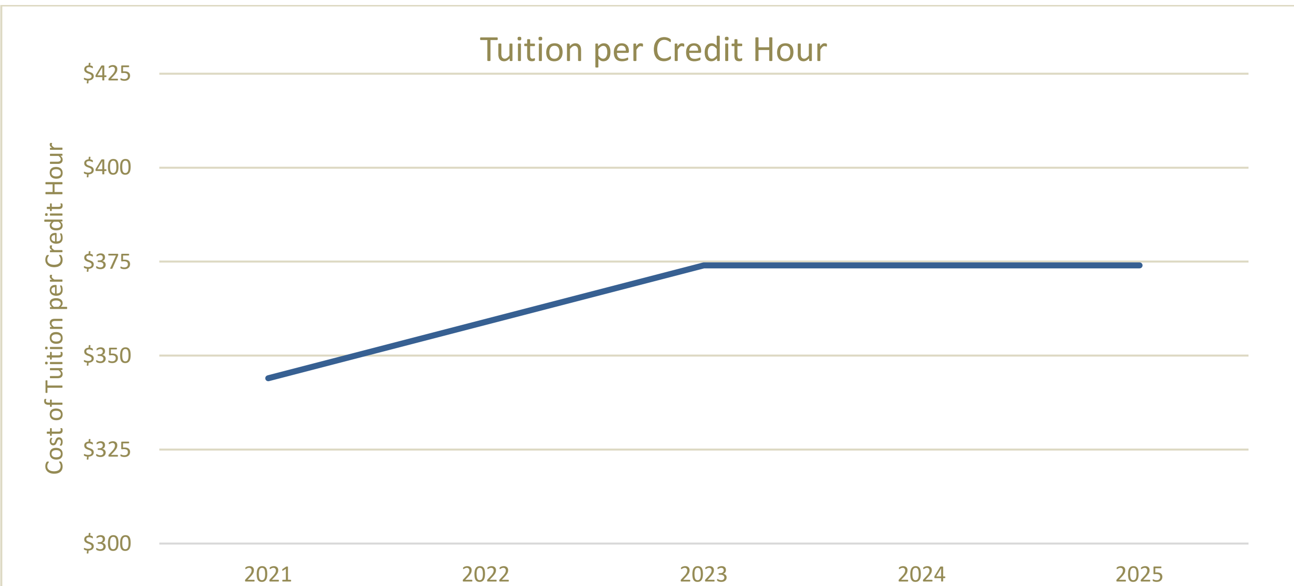
Economic Outlook

While tuition and fee rates per credit hour have increased over the past five years, there were declines in enrollment from Fall 2021 to 2022. The University experienced an increase in enrollment of approximately 2% annually each year beginning with 2022 through 2025. The rise in enrollment for Fall 2025 is due to the largest freshman class on record along with increased retention of upperclassmen.

The enrollment trend for the University between 2021 and 2025 is as follows:

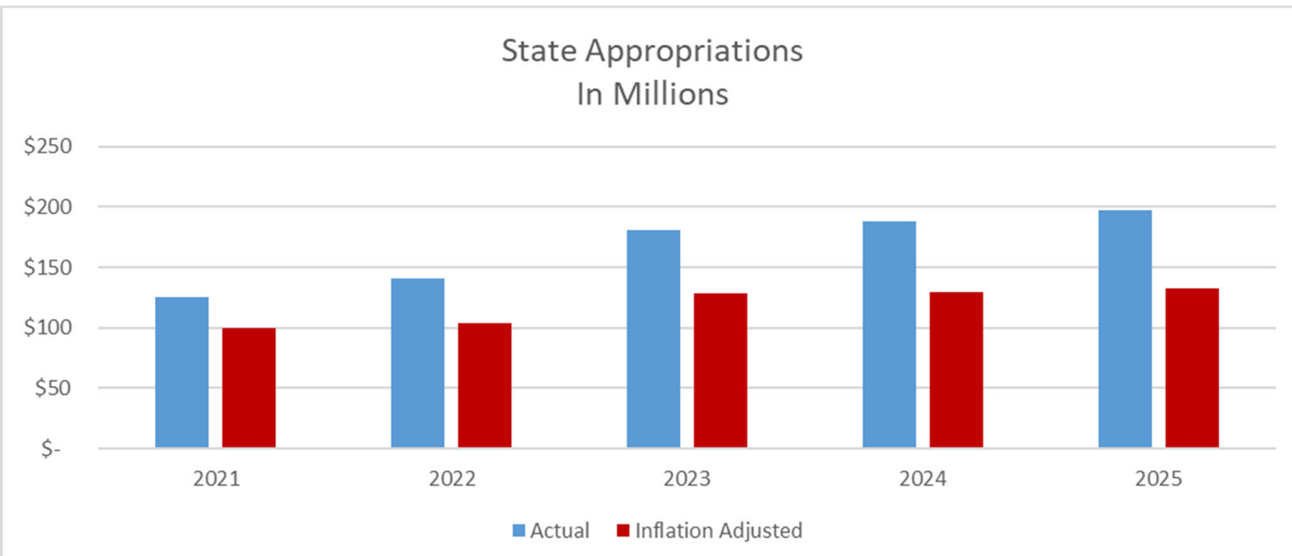


From 2021 to 2025, in-state tuition per credit hour for in-person classes increased by approximately 9%, with no increase from 2023 to 2025. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. Web tuition has decreased slightly during that period. The trend of in-state tuition per credit hour between 2021 and 2025 is as follows:



A state appropriation in the amount of approximately $161,458,000 and $150,375,000 was authorized for the years ended September 30, 2025 and 2024, respectively. Additional supplemental appropriations of approximately $35,990,000 and $37,533,000 were received in 2025 and 2024 for advancement and technology, capital project improvements, certain academic and healthcare initiatives, and equipment. A state appropriation in the amount of approximately $171,210,000, representing an increase of approximately 6%, has been authorized for the year ending September 30, 2026. While no announcement has been made, the University is aware that reductions in the 2026 appropriation are possible.

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



In addition to state appropriations, the University is subject to declines in general economic and political conditions in the United States and, specifically, the State of Alabama. Weakening of the economy, as well as changes in federal and state funding policies, could potentially have a negative impact on the University's enrollment, extramural funding, endowment performance, and healthcare 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 Kristen Roberts; Vice President of Finance; University of South Alabama Administration Building Suite 353, Mobile, Alabama 36688. These basic financial statements can be obtained from our website at https://www.southalabama.edu/departments/financialaffairs/businessoffice/statements.html.

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

Independent Auditors' Report

The Board of Trustees
University of South Alabama:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of University of South Alabama (the University), as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University, as of September 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

We did not audit the financial statements of University of South Alabama Foundation, which represent 67% and 10%, respectively, of the assets and revenues, gains and other support of the aggregate discretely presented component units of the University as of September 30, 2025 and for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for University of South Alabama Foundation, is based solely on the report of the other auditors.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

KPMG LLP, a Delaware limited liability partnership and a member firm of
the KPMG global organization of independent member firms affiliated with
KPMG International Limited, a private English company limited by guarantee.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2025 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
December 22, 2025

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

Statement of Net Position

September 30, 2025

(In thousands)

Current assets:		
Cash and cash equivalents	$	279,929
Restricted cash and cash equivalents		29,689
Investments		81,618
Patient receivables (net of allowance for doubtful accounts of $67,577)		95,876
Accounts receivable, other		50,638
Notes receivable, net		1,005
Prepaid expenses, inventories, and other		20,180
Lease receivable, current portion		6,368
Total current assets		565,303
Noncurrent assets:		
Restricted investments		291,266
Investments		69,674
Other noncurrent assets and accounts receivable		36,719
Lease receivable, less current portion		97,341
Capital assets, net		1,174,725
Total noncurrent assets		1,669,725
Total assets		2,235,028
Deferred outflows		467,593
Total assets and deferred outflows		2,702,621
Current liabilities:		
Accounts payable and accrued liabilities		148,898
Unrecognized revenues		67,781
Deposits		2,152
Current portion of other long-term liabilities		12,576
Current portion lease and subscription obligations		27,755
Current portion of long-term debt		26,530
Total current liabilities		285,692
Noncurrent liabilities:		
Long-term debt, less current portion		454,994
Lease and subscription obligations, less current portion		54,291
Net pension liability		279,777
Net other postemployment benefits liability		396,009
Other long-term liabilities, less current portion		81,438
Total noncurrent liabilities		1,266,509
Total liabilities		1,552,201
Deferred inflows		364,823
Total liabilities and deferred inflows		1,917,024
Net position:		
Net investment in capital assets		604,679
Restricted, nonexpendable:		
Scholarships		51,035
Other		34,675
Restricted, expendable:		
Scholarships		51,071
Other		88,411
Unrestricted deficit		(44,274)
Total net position	$	785,597

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, 2025

(In thousands)

Operating revenues:		
Tuition and fees (net of scholarship allowances of $54,801)	$	130,842
Patient service revenues (net of provision for bad debts of $82,650)		913,243
Federal grants and contracts		33,245
State grants and contracts		12,744
Private grants and contracts		14,787
Auxiliary enterprises (net of scholarship allowances of $1,695)		31,345
Other operating revenues		103,122
Total operating revenues		1,239,328
Operating expenses:		
Salaries and benefits		817,747
Supplies and other services		506,789
Scholarships and fellowships		18,909
Utilities		23,406
Depreciation and amortization		92,819
Total operating expenses		1,459,670
Operating loss		(220,342)
Nonoperating revenues (expenses):		
State appropriations		197,448
Net investment income		59,728
Interest expense		(21,008)
Other nonoperating revenues		50,261
Other nonoperating expenses		(43,459)
Net nonoperating revenues		242,970
Income before capital appropriations, capital contributions and grants, and additions to endowment		22,628
Other changes in net position		
Capital appropriations		22,349
Capital contributions and grants		73,327
Additions to endowment		5,400
Total other changes in net position		101,076
Increase in net position		123,704
Net position:		
Beginning of year		684,661
Cumulative effect of change in accounting principle and change to or within the financial reporting entity (note 1 (jj))		(22,768)
Beginning balance, as adjusted		661,893
End of year	$	785,597

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, 2025

(In thousands)

Cash flows from operating activities:	
Receipts related to tuition and fees	$ 134,411
Receipts from and on behalf of patients and third-party payers	911,531
Receipts from grants and contracts	47,002
Receipts related to auxiliary enterprises	32,757
Payments to suppliers and vendors	(507,301)
Payments to employees and related benefits	(798,666)
Payments for scholarships and fellowships	(18,909)
Other operating receipts	113,182
Net cash used in operating activities	(85,993)
Cash flows from noncapital financing activities:	
State appropriations	197,468
Endowment gifts	5,400
Agency funds received	823
Agency funds disbursed	(689)
Student loan program disbursements	(146,611)
Student loan program receipts	146,828
Other nonoperating revenues	54,881
Other nonoperating expenses	(46,093)
Net cash provided by noncapital financing activities	212,007
Cash flows from capital and related financing activities:	
Capital contributions and grants	73,327
Purchases of capital assets	(148,487)
Proceeds from sales of capital assets	131
Principal payments on capital debt	(54,196)
Interest payments on capital debt	(21,191)
Proceeds from principal and interest payments on financing leases	12,053
Net cash used in capital and related financing activities	(138,363)
Cash flows from investing activities:	
Interest and dividends on investments	17,685
Purchases of investments	(157,717)
Proceeds from sales of investments	191,805
Net cash provided by investing activities	51,773
Net increase in cash and cash equivalents	39,424
Cash and cash equivalents (unrestricted and restricted):	
Beginning of year	270,194
End of year	$ 309,618

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

Statement of Cash Flows

Year Ended September 30, 2025

(In thousands)

Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(220,342)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization		92,819
Changes in assets and liabilities, net:		
Student receivables		609
Net patient receivables		(3,774)
Grants and contracts receivables		(8,536)
Other receivables		(190,825)
Prepaid expenses, inventories, and other		692
Accounts payable, accrued liabilities and other liabilities		244,253
Unrecognized revenues		(889)
Net cash used in operating activities	$	(85,993)
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and cash equivalents classified as current assets	$	279,929
Restricted cash and cash equivalents classified as current assets		29,689
Total cash and cash equivalents	$	309,618
Noncash investing, noncapital financing, and capital and related financing transactions:		
Net increase in fair value of investments recognized as a component of net investment income	$	28,375
Payments on behalf of the University by the Alabama Public School and College Authority reducing purchases of capital assets		22,349
Net increase in lease and subscription obligations		29,969
Increase in accounts payable related to capital projects		6,761
Loss on disposals of capital assets		(277)

See accompanying notes to basic financial statements.

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

Consolidated Statement of Financial Position

June 30, 2025

(In thousands)

Assets		
Cash and cash equivalents	$	1,147
Investments:		
Equity securities		276,295
Timber and mineral properties		179,692
Real estate		6,436
Other		5,822
Other assets		470
Total assets	$	469,862
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$	100
Other liabilities		888
Total liabilities	$	988
Net assets:		
Without donor restrictions		60,408
With donor restrictions		408,466
Total net assets		468,874
Total liabilities and net assets	$	469,862

See accompanying notes to basic financial statements.

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

Consolidated Statement of Activities and Changes in Net Assets

Year Ended June 30, 2025

(In thousands)

		Without donor restrictions	With donor restrictions	Total
Revenues, gains, losses, and other support:				
Net realized and unrealized gains on investments	$	4,680	28,509	33,189
Rents, royalties, and timber sales		3,372	163	3,535
Interest and dividends		1,195	2,112	3,307
Gifts		—	113	113
Interfund interest		(840)	840	—
Other income		37	—	37
Net assets released from program restrictions		15,981	(15,981)	—
Total revenues, gains, losses, and other support		24,425	15,756	40,181
Expenditures:				
Program services:				
Faculty support		3,735	—	3,735
Scholarships		1,259	—	1,259
Other academic programs		13,323	—	13,323
Total program service expenditures		18,317	—	18,317
Management and general		3,098	—	3,098
Other investment expense		1,191	—	1,191
Depreciation and depletion expense		3,244	—	3,244
Total expenditures		25,850	—	25,850
Change in net assets		(1,425)	15,756	14,331
Net assets – beginning of year		61,833	392,710	454,543
Net assets – end of year	$	60,408	408,466	468,874

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION

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

Statement of Net Position

September 30, 2025

(In thousands)

Assets:		
Current assets:		
Cash and cash equivalents	$	1,987
Lease receivable, current portion		3,273
Prepaid expenses and other current assets		112
Accrued interest receivable		59
Total current assets		5,431
Noncurrent assets:		
Capital assets, net		16,811
Lease receivable, less current portion		11,964
Total noncurrent assets		28,775
Deferred outflows		322
Total assets and deferred outflows		34,528
Liabilities:		
Current liabilities:		
Deposits, other current liabilities, and accrued expenses		328
Unrecognized rent revenue		295
Notes payable, current portion		1,101
Total current liabilities		1,724
Noncurrent liabilities:		
Notes payable, less current portion		14,805
Total noncurrent liabilities		14,805
Deferred inflows		14,477
Total liabilities and deferred inflows	$	31,006
Net position:		
Net investment in capital assets	$	1,353
Unrestricted		2,169
Total net position	$	3,522

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION

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

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended September 30, 2025

(In thousands)

Operating revenues	$	3,659
Operating expenses:		
Building management and operating expenses		1,269
Depreciation and amortization		1,224
Legal and administrative fees		413
Insurance		95
Total operating expenses		3,001
Operating income		658
Nonoperating revenues (expenses):		
Interest expense		(773)
Interest income		72
Other		434
Net nonoperating expenses		(267)
Increase in net position		391
Net position:		
Beginning of year		3,131
End of year	$	3,522

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY

(A Component Unit of the University of South Alabama)

Statement of Net Position

September 30, 2025

(In thousands)

Current assets:		
Cash and cash equivalents	$	222
Restricted cash and cash equivalents		437
Patient receivables (net of allowance for doubtful accounts of $27,315)		33,172
Accounts receivable, other		3,714
Inventories		2,314
Lease receivable, current portion		977
Other current assets		1,108
Total current assets		41,944
Noncurrent assets:		
Capital assets, net		134,741
Investments		406
Lease receivable, less current portion		3,387
Total noncurrent assets		138,534
Total assets	$	180,478
Current liabilities:		
Accounts payable and accrued liabilities	$	30,043
Accrued salaries and wages		6,647
Long-term debt, current portion		236
Lease and subscription obligations, current portion		6,998
Other current liabilities		1,944
Total current liabilities		45,868
Noncurrent liabilities:		
Long-term debt, less current portion		21,242
Lease and subscription obligations, less current portion		97,238
Other noncurrent liabilities		2,382
Total noncurrent liabilities		120,862
Deferred inflows		4,020
Total liabilities and deferred inflows	$	170,750
Net position:		
Net investment in capital assets	$	9,019
Restricted		437
Unrestricted		272
Total net position	$	9,728

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY

(A Component Unit of the University of South Alabama)

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended September 30, 2025

(In thousands)

Operating revenues:	
Patient service revenues (net of provision for bad debts of $25,952)	$ 277,115
Other operating revenues	32,017
Total operating revenues	309,132
Operating expenses:	
Salaries and benefits	164,506
Building and equipment expenses	20,063
Medical and surgical supplies	93,700
Other expenses	74,738
Depreciation and amortization	10,301
Total operating expenses	363,308
Operating loss	(54,176)
Nonoperating revenues (expenses):	
Investment loss	(264)
Support from University of South Alabama	42,396
Interest expense	(5,748)
Other nonoperating revenues	40
Other nonoperating expenses	(40)
Total nonoperating revenues, net	36,384
Decrease in net position	(17,792)
Net position at beginning of period	28,878
Cumulative effect of change in accounting principle (note 1 (i))	(1,358)
Beginning balance, as adjusted	27,520
Net position at end of year	$ 9,728

See accompanying notes to basic financial statements.

PROVIDENCE FOUNDATION

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

Statement of Financial Position

June 30, 2025

(In thousands)

Assets		
Cash and cash equivalents	$	4,731
Investments		5,779
Capital assets, net		98
Total assets	$	10,608
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other accrued expenses	$	29
Total liabilities		29
Net assets:		
Without donor restrictions		9,617
With donor restrictions		962
Total net assets		10,579
Total liabilities and net assets	$	10,608

See accompanying notes to basic financial statements.

PROVIDENCE FOUNDATION
(A Component Unit of the University of South Alabama)

Statement of Activities

For the Year Ended June 30, 2025

(In thousands)

	Without donor restrictions	With donor restrictions	Total
Revenues and other support:			
Contributions of cash and other financial assets	$ 5	131	136
Contributed nonfinancial assets	278	—	278
Net investment income	706	1	707
Net assets released from program restrictions	177	(177)	—
Total revenues and other support	1,166	(45)	1,121
Expenditures:			
Direct program services:			
Program services	177	—	177
Total program services	177	—	177
Supporting services:			
General and administrative	328	—	328
Fundraising	6	—	6
Total supporting services	334	—	334
Total expenditures	511	—	511
Change in net assets	655	(45)	610
Net assets at beginning of year	8,962	1,007	9,969
Net assets at end of year	$ 9,617	962	10,579

See accompanying notes to the financial statements.

GULF COAST TOTALCARE
(Discretely Presented Component Unit of the University of South Alabama)

Statement of Net Position

September 30, 2025

(In thousands)

Current assets:		
Cash and cash equivalents	$	494
Certificate of deposit - restricted		250
Accounts receivable		727
Prepaid expenses		2
Total current assets		1,473
Total assets		1,473
Current liabilities:		
Accounts payable		787
Total liabilities		787
Net position:		
Restricted		250
Unrestricted		436
Total net position	$	686

See accompanying notes to basic financial statements.

GULF COAST TOTALCARE

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

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended September 30, 2025

(In thousands)

Operating revenues:		
Contract service revenue	$	9,114
Total operating revenues		9,114
Operating expenses:		
Third-party administrative fees		8,277
Management fees		734
Other		53
Total operating expenses		9,064
Operating income		50
Nonoperating revenues:		
Interest income		4
Total nonoperating revenues		4
Increase in net position		54
Net position:		
Beginning of year		632
End of year	$	686

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

On May 3, 1963, the Governor of Alabama signed enabling legislation creating the University of South Alabama (the University). The accompanying basic financial statements present the financial position and activities of the University, which is a component unit of the State of Alabama.

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

GASB Statement No. 61 amended GASB Statements No. 14 and No. 39 and provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. Such criteria include the appointment of a voting majority of the board of the organization, the ability to impose the will of the primary government on the organization, and the financial benefits/burden between the primary government and the potential component unit. The statement also clarifies reporting and disclosure requirements for those organizations. Based on these criteria as of September 30, 2025, the University reports University of South Alabama Foundation (USA Foundation), USA Research and Technology Corporation (the Corporation), the University of South Alabama Health Care Authority (HCA), Providence Foundation, and Gulf Coast TotalCare (Gulf Coast) as discretely presented component units. Gulf Coast was disclosed as a related party prior to fiscal year 2025, however, beginning with fiscal year 2025, Gulf Coast is discretely presented as a component unit due to meeting the criteria of GASB Statement No. 61, which amended GASB Statements No. 14 and No. 39. The University became the sole corporate member of the Providence Foundation in December 2024, and as a result, the Providence Foundation is discretely presented as a component unit due to meeting the criteria of GASB Statement No. 61, which amended GASB Statements No. 14 and No. 39. Each of these entities issue separate audited financial statements, which can be obtained by contacting Kristen Roberts, Vice President for Finance, University of South Alabama Administration Building, Suite 353, Mobile, Alabama 36688.

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

Commercialization (FRAC); USA Health Physician Billing Services, LLC; USA Health Hospital Billing Services, LLC; USA Health Anesthesia Billing Services, LLC; USA Health Reference Lab Billing Services, LLC; USA Health MCI Business Services, LLC; USA Health Children's and Women's Provider Based Clinics, LLC; Providence Medical Network IPA, LLC (Providence IPA); USA Health Rehabilitation Services, LLC; and USA Health Community Providers, LLC as blended component units.

Prior to fiscal year 2025, the Jaguar Athletic Fund (JAF) and the USA Foundation for Research and Commercialization (FRAC) were not presented in the University's financial statements because they were not considered significant enough to warrant inclusion in the University's reporting entity. In fiscal year 2025, the University determined both JAF and FRAC would be included in the University's reporting entity as blended component units going forward resulting in the University recognizing a change to or within the financial reporting entity by restating beginning unrestricted net position by approximately $1,423,000 in accordance with GASB Statement No. 100, *Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62*.

All significant transactions between the University and its blended component units have been eliminated.

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF) and the USA Presidential 1963 Fund. These entities are considered component units of the University under the provisions of GASB Statement Nos. 14, 39, 61, and 80. However, these entities are not presented in the accompanying basic financial statements as the University does not consider them significant enough to warrant inclusion in the University's reporting entity.

In October 2023, through the acquisition of Ascension Providence, the University obtained joint ownership of HighProv, LLC, and Providence Home Medical Services, LLC. HighProv, LLC and Providence Home Medical Services, LLC are currently included in investments in the basic financial statements in accordance with GASB Statement No. 14.

(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, payroll activities related to the healthcare 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.

(c) Professional Liability and General Liability Trust Funds

The medical malpractice liability of the University is maintained and managed in its separate PLTF in which the University, HCM, SAMSF, and HCA are the only participants. In accordance with the bylaws of the PLTF, the president of the University is responsible for appointing members of the PLTF policy committee. Additionally, the general liability of the University is maintained and managed in its separate GLTF for which the University, HCM, SAMSF, the Corporation, and HCA are the only participants. 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.

(d) Jaguar Athletic Fund

Jaguar Athletic Fund (JAF) is a not-for-profit corporation that was organized for the purpose of providing support for the athletic programs and student-athletes at the University. JAF is a legally separate entity whose officers and directors are approved by the University's Board of Trustees. JAF is reported as a blended component unit.

(e) USA Jaguar Realty, LLC

Jaguar Realty, LLC (Jaguar Realty) was formed in July 2020 for the purpose of providing students a unique professional opportunity to complete their pre-real estate license education at the University and gain real estate sales experience. The University's Board of Trustees functions as the governing board of Jaguar Realty. As of September 30, 2025, Jaguar Realty has had no financial activity. If Jaguar Realty had activity, it would be reported as a blended component unit.

(f) Providence Medical Network IPA, LLC

Through the Ascension Providence acquisition in October 2023, the University became the sole member of the Providence Medical Network IPA, LLC (Providence IPA). The Providence IPA is a legally separate entity reported as a blended component unit and operates as an independent physician association. Revenues of approximately $6,866,000, excluding significant transactions between the University and the IPA, are included within other operating revenues on the statement of revenues, expenses, and changes in net position. Expenses of approximately $6,866,000, excluding significant transactions between the University and the IPA, are included within supplies and other services on the statement of revenues, expenses, and changes in net position. The Providence IPA has a calendar year-end, which differs from the University's September 30 year-end. In accordance with GASB Statement No. 14 and Statement No. 61, the University has included the Providence IPA's financial statements as of and for the year ended December 31, 2024 in the University's financial statements as of and for the year ended September 30, 2025.

(g) USA Foundation for Research and Commercialization

USA Foundation for Research and Commercialization (FRAC) is a not-for-profit corporation that was organized for the purpose of providing support to the University to foster research and educational initiatives for both students and faculty. FRAC is a legally separate entity whose officers and directors are approved by the University's Board of Trustees. FRAC has one wholly owned subsidiary, NovALtech, LLC. FRAC is reported as a blended component unit.

(h) USA Health Billing Limited Liability Companies

Over the last few years, the University formed the USA Health Physician Billing Services, LLC; USA Health Hospital Billing Services, LLC; USA Health Anesthesia Billing Services, LLC; USA Health Reference Lab Billing Services, LLC; USA Health MCI Business Services, LLC; USA Health Children's and Women's Provider Based Clinics, LLC; USA Health Community Providers, LLC; and USA Health Rehabilitation Services LLC as limited liability companies, whereby the University is the sole member. These companies were created to assist with the complex patient and insurance billing of USA Health, a division of the University that includes two hospitals, a free-standing emergency department, a cancer treatment center, and various health clinics. Based on GASB requirements, the University, as the primary government, includes these limited liability companies as blended component units. All significant transactions between the University and its blended component units have been eliminated.

(i) University of South Alabama Health Care Authority

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

HCA is the sole member of the following companies: Mobile Heart USA, LLC; USA Health HCA Industrial Medicine Clinic, LLC; USA Health IPA, LLC; USA Health Daphne Family Practice, LLC; USA Mobile County ASC; USA Health HCA Providence Hospital, LLC; and USA Health Providence Retail Pharmacy, LLC. These companies were created to assist with the complex patient and insurance billings within HCA. Based on the criteria listed above, GASB requires HCA, as the primary government, to include each of these limited liability companies as blended component units. All significant transactions among HCA and its blended component units have been eliminated.

During fiscal year 2023, HCA obtained a 51% equity interest in USA BC ASC Holdco, LLC (USA BC ASC Holdco). USA BC ASC Holdco's primary purpose is to invest in ambulatory surgery centers (ASCs) and promote health and wellness to the area. Surgery Center Holdings, Inc. owns the remaining 49%. USA BC ASC Holdco owns 51% of USA Baldwin County ASC, LLC (USA BC ASC), which is a limited liability company that was formed to develop, own, and operate the ASC on the USA Health Mapp Family Campus. The remaining 49% of USA BC ASC is owned by individual physician investors. USA BC ASC Holdco has a calendar year-end, which differs from HCA's September 30 year-end. HCA's capital account balance is presented on the September 30, 2025 statement of net position as a noncurrent investment.

In August 2020, HCA formed USA Health IPA, LLC (the IPA), a limited liability company of which HCA is the sole member. The IPA was formed to operate an independent physician association, which began in August 2021. The IPA has a calendar year-end, which differs from HCA's September 30 year-end. In accordance with GASB Statement No. 14 and GASB Statement No. 61, HCA has included the IPA's financial statements for the year ended December 31, 2024 in HCA's financial statements as of September 30, 2025. Exclusive of transactions between HCA and the IPA totaling approximately $737,000, IPA revenues and expenses of approximately $6,110,000 and $6,110,000, respectively, are included within the statement of revenues, expenses, and changes in net position. For the year ended September 30, 2025, the IPA has paid approximately $814,000 in claims to HCA.

During fiscal year 2022, HCA obtained an equity interest in a multimember limited liability company, USA Fairhope Physician Investors, LLC (FPI). FPI was initially considered as a component unit under the provisions of GASB Statement Nos. 14 and 61. Amendment 1 to the initial agreement was executed during fiscal year 2023, removing HCA's control of the entity and ability to impose its will on the entity. The change resulted in HCA's relationship with FPI shifting from a component unit to an investment in a joint venture. FPI has a calendar year-end, which differs from HCA's September 30 year-end. HCA's capital account balance is presented on the September 30, 2025 statement of net position as a noncurrent investment.

Since inception, HCA's operations have been partially funded by the University, with total support amounting to approximately $42,396,000 for the year ended September 30, 2025. This support is reported in nonoperating expenses on the University's statement of revenues, expenses, and changes in net position. Due to the significance of the relationship between the University and HCA, HCA is considered a component unit of the University. The accompanying statement of net position and statement of revenues, expenses, and changes in net position for HCA as of and for the year ended September 30, 2025 are discretely presented.

(j) University of South Alabama Foundation

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. The USA Foundation has two wholly owned subsidiaries, Knollwood Development, Inc. and Shubuta Timber Services, Inc. Because of the significance of the relationship between the University and USA Foundation, USA Foundation is considered a component unit of the University. The Board of Directors of USA Foundation is not appointed or controlled by the University. The University receives distributions from USA Foundation primarily for scholarship, faculty, and other support. Total distributions received or accrued by the University for the year ended September 30, 2025 were approximately $14,820,000 and are included primarily in other nonoperating revenues and capital contributions and grants in the University's statement of revenues, expenses, and changes in net position. USA Foundation presents its financial statements in accordance with standards issued by the Financial Accounting Standards Board (FASB). USA Foundation is reported in separate financial statements because of the difference in the financial reporting framework since USA Foundation follows FASB rather than GASB. USA Foundation has a June 30 fiscal year-end, which differs from the University's September 30 fiscal year-end. In accordance with GASB Statement No. 14 and GASB Statement No. 61, the University has included USA Foundation's statements as of and for the year ended June 30, 2025 in the University's financial statements as of and for the year ended September 30, 2025. The accompanying consolidated statement of financial position and consolidated statement of activities and changes in net assets for USA Foundation as of and for the year ended June 30, 2025 are discretely presented.

(k) USA Research and Technology Corporation

In June 2002, the University's Board of Trustees approved the formation of the 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. Due to the significance of the relationship between the University and the Corporation, the Corporation is considered a component unit of the University. The Corporation presents its financial statements in accordance with GASB. The accompanying statement of net position and statement of revenues, expenses, and changes in net position for the Corporation as of and for the year ended September 30, 2025 are discretely presented.

During the year ended September 30, 2025, the Corporation engaged in several transactions with the University. The University was charged approximately $1,493,000 during the year ended

September 30,2025, for rental space as described in note 6. The University provides certain administrative, property management, utilities, and other support services to the Corporation, for which the University charged approximately $550,000 for such services during the year ended September 30, 2025. These charges are reflected in the Corporation's building management and operating expenses as well as legal and administrative fees on the statement of revenues, expenses, and changes in net position.

(l) Providence Foundation

The University became the sole corporate member of the Providence Foundation in December 2024. The Providence Foundation is a not-for-profit corporation whose purpose is to further promote, support and engage in any charitable, scientific, and educational activities established by the University. Total distributions received or accrued by the University for the year ended September 30, 2025 were approximately $666,000 and are included primarily in other nonoperating revenues and capital contributions and grants in the University's statement of revenues, expenses, and changes in net position. Providence Foundation presents its financial statements in accordance with standards issued by the FASB. Providence Foundation is reported in separate financial statements because of the difference in the financial reporting framework since Providence Foundation follows FASB rather than GASB. Providence 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, GASB Statement No. 61 and GASB Statement No. 100, the University has included Providence Foundation's statements for the year ended June 30, 2025 in the University's financial statements as of September 30, 2025. The accompanying statement of financial position and statement of activities for the Providence Foundation as of and for the year ended June 30, 2025 are discretely presented.

(m) Gulf Coast TotalCare

Gulf Coast TotalCare (GCTC) is an Alabama not-for-profit corporation created for the purpose of operating a community-led network to coordinate the healthcare of Medicaid patients in Southwest Alabama. HCM is the sole corporate member of GCTC and appoints the Board of Directors. Based on GASB Statement No. 14, as amended by Statement No. 39, GCTC is a discretely presented component unit of HCM, which is a component unit of the University. GCTC presents its financial statements in accordance with GASB. The accompanying statement of net position and statement of revenues, expenses, and changes in net position for GCTC as of and for the year ended September 30, 2025 are discretely presented.

GCTC is wholly owned by HCM. GCTC contracted with HCM to provide management and administrative services for $0.50 per recipient member per month. For the year ended September 30, 2025, GCTC remitted management fees to HCM totaling approximately $734,000. HCM makes contributions to GCTC based on cash flow needs. For the year ended September 30, 2025, HCM made no cash contributions to GCTC.

(n) 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 Government*s, 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.

(o) 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.

(p) Cash and Cash Equivalents (including restricted amounts)

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

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

(r) Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of employer contributions to the Teachers' Retirement System of Alabama and the Public Education Employees Health Insurance Plan subsequent to the plan's measurement dates, changes in proportion and differences between employer contributions and proportionate share of contributions related to the Other Post-Employment Benefits (OPEB) plan, changes in actuarial and other assumptions related to the pension plan, the difference between the consideration provided and the net position acquired for South Coast Real Estate Venture, LLC through the Ascension Providence acquisition, and the loss on the defeasement of certain bond series.

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

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

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

(t) Accounts Receivable

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

(u) Lease Receivable

Lease receivable and current portion thereof on the statement of net position represents the University's contractual right to receive cash in exchange for the right to use an asset for a specific amount of time. Lease receivables are recognized at the commencement date based on the present value of lease payments to be received over the lease term discounted using an appropriate incremental borrowing rate. The commencement date is either when the lessee takes possession of the asset or, in the case of real estate leases, when the landlord makes the building or office space available for use. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain the lessee will exercise that option. Interest revenue is recognized as a component of the lease payments received and is included in other nonoperating revenues on the statement of revenues, expenses, and changes in net position.

(v) Inventories

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

(w) Capital Assets

Capital expenditures with a cost of $5,000 or more are capitalized at cost, if purchased, or, if donated, at fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable assets using the straight-line method. Major aggregate capital asset purchases, including renewals and renovations, are capitalized. Purchases for multiple items of minor equipment are evaluated to see if they are part of a single overall transaction, have a single objective, and meet or exceed the established aggregate threshold of $75,000. If a purchase of minor equipment meets the aggregate guidelines and has a useful life of two or more years, it is capitalized at cost once all items are received and placed into use. 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	10 to 100 years
Fixed equipment	10 to 20 years
Land improvements	8 to 20 years
Library materials	10 years
Other equipment	3 to 15 years

Certain buildings are componentized for depreciation purposes.

Lease and subscriptions are included in capital assets as right-of-use assets on the statement of net position. Right-of-use assets represent the University's right to use an underlying asset for the specified term and are comprised of leased equipment, buildings, office space, and subscription-based information technology arrangements. Lease and subscription right-of-use assets are recognized at the commencement date based on the present value of the payments over the agreement term discounted using the lessor interest rate or an appropriate incremental borrowing rate. The commencement date is either when the University takes possession of the asset or when the asset becomes available for use. Amortization of right-of-use assets is recognized on a straight-line basis over the agreement term or useful life of the asset, whichever is shorter.

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, 2025, no impairments were identified.

(x) Unrecognized Revenues

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

(y) Cost Sharing Multiple-Employer Pension Plan

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

(z) Postemployment Benefits Other Than Pensions (OPEB)

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

(aa) Classification of Net Position

The University's net position is classified as follows:

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

Restricted, nonexpendable net position consists of endowment and similar type funds for which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted, expendable net position includes resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted net position represents resources derived from student tuition and fees, state appropriations, patient service revenues, sales and services of educational activities, and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff. While unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees, they are available for use at the discretion of the governing board to meet current expenses for any purpose.

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

(bb) Scholarship Allowances and Student Financial Aid

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

(cc) Donor-Restricted Endowments

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

(dd) Classification of Revenues

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

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

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

(ee) Gifts and Pledges

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

(ff) 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.

(gg) Patient Service Revenues

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

(hh) Compensated Absences

The University accrues leave for employees that has not been used if it is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means, as well as any leave that has been used but not yet paid or settled through noncash means. The accrual is based on historical leave usage, is inclusive of salary-related payments that are a function of the salary to be paid, and is measured using employee pay rates as of the date of the financial statements.

(ii) Recently Adopted Accounting Pronouncements

In fiscal year 2025, the University adopted the provisions of GASB Statement No. 101, *Compensated Absences*, which requires the University to recognize a liability for leave that has not been used if it is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means, as well as any leave that has been used but not yet paid or settled through noncash means. The adoption of the provisions of GASB Statement No. 101 resulted in an increase to current portion of other long-term liabilities of approximately $3,145,000 and other long-term liabilities, less current portion of approximately $21,046,000. In accordance with GASB Statement No. 100, *Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62,* beginning unrestricted net position was restated by approximately ($24,191,000) for the impact related to the adoption of GASB Statement No. 101. See note 6 and 13 for further discussion.

In addition, the University adopted the provisions of GASB Statement No. 102, *Certain Risk Disclosures*. The objective of this statement is to establish reporting requirements for certain concentrations and constraints that may negatively impact operations or the ability to meet outstanding obligations. There was no significant impact to the University's basic financial statements in the adoption of this pronouncement.

A summary of the adjustments to beginning net position related to the adoption of GASB Statement No. 101 and changes to or within the financial reporting entity as of September 30, 2025 are as follows (in thousands):

		September 30, 2025 as previously reported	Effect of adoption of GASB 101	Change to or within the financial reporting entity	September 30, 2025 as adjusted and restated
Net position	$	684,661	(24,191)	1,423	661,893

(2) Income Taxes

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

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

(3) Cash and Cash Equivalents

Pursuant to the Security for Alabama Funds Enhancement Act, funds on deposit may be placed in an institution designated as a qualified public depository (QPD) by the State of Alabama. QPD institutions pledge securities to a statewide collateral pool administered by the State Treasurer's office. Such financial institutions contribute to this collateral pool in amounts proportionate to the total amount of public fund deposits at their respective institutions. The securities are held at the Federal Reserve Bank and are designated for the State of Alabama. Additional collateral was not required for University funds on deposit with QPD institutions. At September 30, 2025, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately $19.2 billion. The University had cash and cash equivalents, including restricted cash and cash equivalents, in the pool of approximately $194,632,000 at September 30, 2025.

At September 30, 2025, restricted cash and cash equivalents consist of approximately $12,440,000 related to unspent bond cash, $1,492,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, $8,367,000 related to restricted donations related to certain capital projects, $7,122,000 related to endowment funds, $248,000 related to the Providence IPA, and $20,000 related to security deposits.

(4) Investments

(a) University of South Alabama

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

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

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

The University holds a 50% equity interest in Providence Home Medical Services, LLC (Home Medical), a multimember limited liability company that was formed to own and operate a durable medical equipment provider. The University's capital account balance in Home Medical is considered an investment in a joint venture, pursuant to GASB Statements Nos. 14 and 61. The University's capital account balance is approximately $410,000 for the year ended September 30, 2025 and is presented on the statement of net position as a noncurrent investment.

The University holds a 35% equity interest in HighProv, LLC (HighProv), a multimember limited liability company formed to construct, own, and operate a hotel facility. For the year ended September 30, 2025, the University's capital account balance is approximately $711,000 and is presented on the statement of net position as a noncurrent investment.

Investments and restricted investments of the University, by type, at fair value at September 30, 2025 (in thousands) are as follows:

Commodity Mutual Fund/ETF	$	2,384
Common Stock		21,462
Corporate Bonds		11,225
Domestic Equity Mutual Fund/ETF		133,103
Fixed Income Fund of Funds		22,297
Fixed Income Mutual Fund/ETF		37,592
Global Equity Mutual Fund/ETF		798
Hedge Fund - Fund of Funds		43,597
International Equity Fund of Funds		12,908
International Equity Mutual Fund/ETF		30,967
Joint Ventures		1,121
Private Credit		16,331
Private Equity		18,898
Private REIT		4,592
Public REIT		68
Real Estate		8,479
U.S. Government Agency Securities		55,937
U.S. Treasury Securities		20,799
	$	442,558

At September 30, 2025, restricted investments consist of endowment funds and funds held in the PLTF and GLTF to pay insurance liability claims.

At September 30, 2025, $12,461,000 of cumulative increase in fair value of investments of donor-restricted endowments was recognized and is included in restricted expendable net position in the accompanying statement of net position.

The University invests in several private equity and private credit funds. At September 30, 2025, the University had outstanding capital commitments to those funds of approximately $19,039,000.

(i) Credit Risk and Concentration of Credit Risk

Non-Endowment Cash Pool Investment Policy

The objective of the long-term fund is to maximize total return (capital appreciation and income) while managing the risk of significant principal decline.

The University Non-Endowment Long-Term Investment Policy requires that not more than 20% of the long-term fund's assets be allocated to any single actively managed fund and no more than 45% of the long-term fund's assets be allocated to a single fund of funds or multi-manager fund.

Endowment Fund Investment Policy

The objective of the endowment fund is to maximize total return (capital appreciation and income) while managing the risk of significant principal decline.

The University Endowment Fund Investment Policy requires that not more than 10% of the endowment fund's assets be allocated to any single actively managed fund, no more than 35% of the endowment fund's assets be allocated to a single fund of funds or multi-manager fund, and no more than 45% of the endowment fund's assets be allocated to a single investment firm.

The University's exposure to credit risk and concentration of credit risk at September 30, 2025 is as follows:

	Credit rating	Percentage of total investments
Corporate Bonds	Various	2.5 %
Fixed Income Fund of Funds	Various	5.0
Fixed Income Mutual Fund/ETF	Various	8.5
U.S. Government Agency Securities	Aa1	12.6
U.S. Treasury Securities	Aa1	4.7

(ii) Interest Rate Risk

At September 30, 2025, the maturity dates of the University's fixed income investments are as follows (in thousands):

		Years to maturity			
	Fair value	Less than 1	1–5	6–10	More than 10
Corporate Bonds	$ 11,225	345	7,281	2,889	710
Fixed Income Fund of Funds	22,297	—	—	22,297	—
Fixed Income Mutual Fund/ETF	37,592	—	281	37,311	—
U.S. Government Agency Securities	55,937	12,865	37,728	167	5,177
U.S. Treasury Securities	20,799	3,754	11,218	5,827	—
	$ 147,850	16,964	56,508	68,491	5,887

Commingled fixed income funds are classified based on the weighted average maturity of the individual investment instruments within each fund.

The University's Investment Policies do not specifically address the length to maturity on investments that the University must follow; however, they do require that the maturity range of investments be consistent with the liquidity requirements of the University.

(iii) Custodial Credit Risk

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

(iv) Mortgage-Backed Securities

The University, from time to time, invests in mortgage-backed securities such as the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), and other government sponsored enterprises of the United States government. The University invests in these securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

(v) Fair Value Measurement

Fair value measurements represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The University measures and records its investments using fair value measurement guidelines established by GASB Statement No. 72. These guidelines prioritize the inputs of valuation techniques used to measure fair value are 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 level in the fair value hierarchy that determines the classification of an asset or liability depends on the lowest-level input that is significant to the fair value measurement. Observable inputs are derived from quoted market prices for assets or liabilities traded on an active market where there is sufficient activity to determine a readily determinable market price. Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable inputs. The University's assets that have unobservable inputs consist of the investment in real estate, with fair value based on an independent third-party appraisal performed by qualified appraisers specializing in real estate investments, and of investments in private capital, with fair value determined by the investment managers and primarily utilizes management assumptions and best estimates after considering internal and external factors. Other assets included in the University's investment portfolio with unobservable inputs are the shares or units in certain partnerships or other commingled funds that do not have readily determinable fair values. For these funds, fair value is estimated using the NAV reported by the investment managers as a practical expedient to fair value. Such investments have not been categorized within the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of net position.

The following tables summarize the fair value measurements for all investment assets and liabilities carried at fair value at September 30, 2025 (in thousands):

	Asset fair value measurements			
Description	Level 1	Level 2	Level 3	Total
Commodity Mutual Fund/ETF	$ 2,384			2,384
Common Stock	21,462			21,462
Corporate Bonds		11,225		11,225
Domestic Equity Mutual Fund/ETF	133,103			133,103
Fixed Income Mutual Fund/ETF	37,592			37,592
Global Equity Mutual Fund/ETF	798			798
International Equity Mutual Fund/ETF	30,967			30,967
Joint Ventures			1,121	1,121
Private Credit	1	221	325	547
Public REIT	68			68
Real Estate			8,479	8,479
U.S. Government Agency Securities		55,937		55,937
U.S. Treasury Securities	20,799			20,799
Total investments at fair value	$ 247,174	67,383	9,925	324,482
Investments measured at NAV:				
Fixed Income Fund of Funds				22,297
Hedge Fund - Fund of Funds				43,597
International Equity Fund of Funds				12,908
Private Credit				15,784
Private Equity				18,898
Private REIT				4,592
Total investments				$ 442,558

A roll-forward schedule for Level 3 financial instruments for the year ended September 30, 2025 is as follows (in thousands):

Beginning balance	$ 37,288
Purchases	116
Net realized/unrealized gains	382
Sales	—
Transfers	(27,861)
Ending balance	$ 9,925

(b) Health Care Authority

HCA holds a 2.5% equity interest in USA Fairhope Physician Investors LLC (FPI), a multimember limited liability company that was formed to invest in the entity that developed and is now leasing an ambulatory surgical center. HCA's capital account balance is approximately ($12,000) for the year ended September 30, 2025 and is presented on the statement of net position as an investment.

HCA holds a 51% equity interest in USA BC ASC Holdco, LLC (USA BC ASC Holdco), a multimember limited liability company formed to invest in USA Baldwin County ASC, LLC (USA BC ASC), a limited liability company formed to develop, own, and operate the Ambulatory Surgery Center on the USA Health Mapp Family Campus. For the year ended September 30, 2025, HCA's capital account balance is approximately $418,000 and is presented on the statement of net position as an investment.

(c) University of South Alabama Foundation

Investments in securities consist primarily of equity securities totaling $276,295,000 at June 30, 2025.

Investment gains was composed of the following for the year ended June 30, 2025 (in thousands):

Unrealized gains	$	16,278
Realized gains		16,911
Net realized and unrealized gains on investments		33,189
Timber sales		2,689
Rents		758
Royalties		88
Rents, royalties, and timber sales		3,535
Interest and dividends		3,307
Total investment income	$	40,031

Investments consisted of participation in the Foundation's pooled investment funds. Investment related expenses in the amount of $1,191,000 are included in USA Foundation's management and general expenses in the accompanying consolidated statement of activities and changes in net assets for the year ended June 30, 2025.

Real estate at June 30, 2025 consisted of the following property held (in thousands):

Land and land improvements – held for investment	$	5,361
Building and building improvements – held for investment		1,075
	$	6,436

(Continued)

Timber and mineral properties are stated at fair value. Depletion of mineral properties is recognized over the remaining producing lives of the properties based on total estimated production and current-period production. Depletion of timber properties is recognized on a specific identification basis as timber rights are sold or on a unit basis for sales made on that basis. Reforestation costs consisting of site preparation and planting of seedlings are capitalized.

Investments at June 30, 2025 include an equity interest in a timberland management company. The company's primary assets consist of timberland. USA Foundation's proportionate share of the fair value of the company is based upon the valuation from the trustee responsible for the management of the company and the timber valuation.

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

USA Foundation's investment assets at June 30, 2025 are summarized, based on the criteria of ASC 820, as follows (in thousands):

Description	Level 1	Level 2	Level 3	Total
Equity securities	$ 163,451	—	—	163,451
Timber and mineral properties	—	—	179,692	179,692
Real estate	—	—	6,436	6,436
Other investments	—	—	5,822	5,822
	$ 163,451	—	191,950	355,401
Investment in Commonfund measured at NAV				112,844
				$ 468,245

A roll-forward schedule for Level 3 financial instruments for the fiscal year ended June 30, 2025 is as follows (in thousands):

Description		Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	$	178,218	6,375	5,815	190,408
Net realized and unrealized gains (losses)		4,195	80	7	4,282
Reforestation		477	—	—	477
Purchase of building improvements		—	14	—	14
Depreciation/depletion		(3,198)	(33)	—	(3,231)
Ending balance	$	179,692	6,436	5,822	191,950

As of June 30, 2025, USA Foundation has no outstanding commitments to purchase securities or other investments.

As part of USA Foundation’s liquidity management, the Foundation structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Cash withdrawals from the Foundation’s managed investments coincide with the Foundation’s spending obligations, but may be adjusted higher or lower based on the timing of when investment income is received and expenditures become due. In addition to financial assets available within one year, the Foundation receives investment income from timber sales, rents and royalties, and interest and dividends that are used to meet the Foundation’s general expenditures within one year. The Foundation believes it has sufficient assets to meet its obligations.

(d) Providence Foundation

The following table presents the financial assets subject to fair value measurement by valuation hierarchy level as of June 30, 2025:

		Level 1
Commingled Fixed Income Funds	$	1,777
Commingled Equity Funds		720
Marketable Equity Securities		3,207
Public REITs		75
Total recurring fair value measurements	$	5,779

(5) Capital Assets

(a) University of South Alabama

A summary of the University's capital asset activity for the year ended September 30, 2025 is as follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated or amortized:					
Land and other	$ 45,270	3,458	53	(83)	48,698
Certificate of need	225	—	—	—	225
Intangible assets	1,207	—	—	—	1,207
Construction in progress	102,282	126,577	(56,331)	—	172,528
	148,984	130,035	(56,278)	(83)	222,658
Capital assets being depreciated or amortized:					
Land improvements	84,049	3,171	272	—	87,492
Lease commissions	—	57	—	—	57
Buildings, fixed equipment, and infrastructure	1,156,274	22,134	43,524	(4,613)	1,217,319
Other equipment	260,611	20,765	12,482	(3,803)	290,055
Library materials	101,608	3,476	—	—	105,084
Right-of-use assets	125,953	31,142	—	(11,449)	145,646
	1,728,495	80,745	56,278	(19,865)	1,845,653
Less accumulated depreciation and amortization for:					
Land improvements	(41,369)	(4,268)	—	—	(45,637)
Lease commissions	—	(10)	—	—	(10)
Buildings, fixed equipment, and infrastructure	(452,874)	(34,742)	—	4,611	(483,005)
Other equipment	(204,114)	(16,409)	—	3,528	(216,995)
Library materials	(79,719)	(4,105)	—	—	(83,824)
Right-of-use assets	(40,979)	(33,228)	—	10,092	(64,115)
	(819,055)	(92,762)	—	18,231	(893,586)
Capital assets being depreciated, net	909,440	(12,017)	56,278	(1,634)	952,067
Capital assets, net	$ 1,058,424	118,018	—	(1,717)	1,174,725

A summary of the University's net right-of-use assets, which are included in capital assets on the statement of net position, activity categorized by classification for the year ended September 30, 2025 are as follows (in thousands):

Right-of-use assets:		
Buildings	$	8,497
Equipment		45,876
Office space		13,727
Software		77,546
		145,646
Less accumulated amortization for right-of-use assets:		
Buildings		(4,172)
Equipment		(14,423)
Office space		(6,872)
Software		(38,648)
		(64,115)
Right-of-use assets, net	$	81,531

Depreciation and amortization of capital assets for the year ended September 30, 2025 was approximately $92,762,000 for the University. In addition, the University amortizes bond costs of issuance that is included in other noncurrent assets and accounts receivable on the statement of net position. For the year ended September 30, 2025, amortization of bond costs of issuance was approximately $57,000 resulting in total depreciation and amortization of approximately $92,819,000. See note 8 for additional details regarding bonds.

At September 30, 2025, the University had commitments of approximately $129,920,000 related to various capital projects.

For the year ended September 30, 2025, the University received approximately $22,349,000 in capital grants from the Alabama Public School and College Authority for the site preparation and construction of the new College of Medicine facility, and this amount is included in capital appropriations on the statement of revenues, expenses, and changes in net position.

(b) USA Research and Technology Corporation

Changes in capital assets for the year ended September 30, 2025 are as follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated or amortized:					
Land	$ 223	—	—	—	223
Construction in progress	—	128	—	—	128
	223	128	—	—	351
Capital assets being depreciated or amortized:					
Land improvements	1,985	—	—	—	1,985
Buildings	28,872	132	—	—	29,004
Tenant improvements	3,233	390	—	—	3,623
Other equipment	421	—	—	—	421
Computer software	56	—	—	—	56
Lease commissions	456	18	—	(153)	321
Right-of-use assets	3	—	—	—	3
	35,026	540	—	(153)	35,413
Less accumulated depreciation or amortization for:					
Land improvements	(1,810)	(21)	—	—	(1,831)
Buildings	(13,304)	(803)	—	—	(14,107)
Tenant improvements	(2,017)	(339)	—	—	(2,356)
Other equipment	(373)	(9)	—	—	(382)
Computer software	(40)	(13)	—	—	(53)
Lease commissions	(336)	(38)	—	153	(221)
Right-of-use assets	(2)	(1)	—	—	(3)
	(17,882)	(1,224)	—	153	(18,953)
Capital assets being depreciated or amortized, net	17,144	(684)	—	—	16,460
Capital assets, net	$ 17,367	(556)	—	—	16,811

Depreciation and amortization expense totaled approximately $1,224,000 for the year ended September 30, 2025.

Construction in progress totaled approximately $128,000 as of September 30, 2025 and includes architecture and planning fees for a potential new building, and improvements to tenant suites in Buildings I, II, and III. At September 30, 2025, the Corporation had no outstanding commitments.

(c) Health Care Authority

A summary of HCA's capital assets activity for the year ended September 30, 2025 is as follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated or amortized:					
Construction in progress	$ 57	—	(57)	—	—
Works of art	1	—	—	—	1
	58	—	(57)	—	1
Capital assets being depreciated or amortized:					
Buildings	33,049	9	—	—	33,058
Leasehold improvements	5,388	23	53	—	5,464
Equipment	4,171	29	4	(64)	4,140
Computer software	139	—	—	—	139
Right-of-use assets	124,491	6,770	—	(14,026)	117,235
	167,238	6,831	57	(14,090)	160,036
Less accumulated depreciation or amortization for:					
Buildings	(2,293)	(1,250)	—	—	(3,543)
Leasehold improvements	(1,134)	(565)	—	—	(1,699)
Equipment	(2,664)	(402)	—	51	(3,015)
Computer software	(98)	(7)	—	—	(105)
Right-of-use assets	(10,818)	(8,077)	—	1,961	(16,934)
	(17,007)	(10,301)	—	2,012	(25,296)
Capital assets being	150,231	(3,470)	57	(12,078)	134,740
depreciated or amortized, net	$ 150,289	(3,470)	—	(12,078)	134,741

Depreciation and amortization expense totaled approximately $10,301,000 for the year ended September 30, 2025.

A summary of HCA's net right-of-use assets categorized by classification for the year ended September 30, 2025 is as follows (in thousands):

Right-of-use assets:		
Buildings	$	103,422
Equipment		12,947
Software subscriptions		866
		117,235
Less accumulated amortization for right of use:		
Buildings		(13,379)
Equipment		(3,227)
Software subscriptions		(328)
		(16,934)
Right-of-use assets, net	$	100,301

(d) Providence Foundation

A summary of Providence Foundation's capital assets activity for the year ended June 30, 2025 is as follows (in thousands):

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Capital assets not being depreciated					
Land	$ 98	—	—	—	98
	98	—	—	—	98
Capital assets being depreciated:					
Land Improvements	139	—	—	—	139
	139	—	—	—	139
Less accumulated depreciation for:					
Land Improvements	(139)	—	—	—	(139)
	(139)	—	—	—	(139)
Capital assets being depreciated, net	—	—	—	—	—
Capital assets, net	$ 98	—	—	—	98

Capital assets as of June 30, 2025 are comprised of land valued at $98,000 and land improvements which have been fully depreciated for the year ended June 30, 2025.

(6) Noncurrent Liabilities

(a) University of South Alabama

A summary of the University's noncurrent liability activity for the year ended September 30, 2025 is as follows (in thousands):

	Adjusted Beginning balance	Additions	Reductions	Adjustments	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt and lease and subscription obligations							
Bonds payable	$ 509,406	—	(25,454)	(3,043)	480,909	26,328	454,581
Notes payable	737	64	(186)	—	615	202	413
Lease and subscription obligations	82,911	29,970	(28,556)	(2,279)	82,046	27,755	54,291
Total long-term debt and lease and subscription obligations	593,054	30,034	(54,196)	(5,322)	563,570	54,285	509,285
Other noncurrent liabilities:							
Net pension liability	349,710	—	(69,933)	—	279,777	—	279,777
Net OPEB liability	78,808	317,201	—	—	396,009	—	396,009
Other long-term liabilities, as restated	93,888	34,972	(34,846)	—	94,014	12,576	81,438
Total other noncurrent liabilities	522,406	352,173	(104,779)	—	769,800	12,576	757,224
Total noncurrent liabilities	$ 1,115,460	382,207	(158,975)	(5,322)	1,333,370	66,861	1,266,509

Other long-term liabilities primarily consist of self-insurance liabilities and liabilities related to compensated absences. Amounts due within one year are included in current portion of other long-term liabilities. In fiscal year 2025, the University adopted GASB Statement No. 101, *Compensated Absences*, which resulted in a beginning balance adjustment of approximately $24,191,000 to the compensated absence liability. This adjustment is reflected in the beginning balance for compensated absences below.

A detail of the University's other long-term liabilities activity for the year ended September 30, 2025 is as follows (in thousands):

		Adjusted beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Other long-term liabilities:							
Compensated absences*	$	34,689	3,538	(206)	38,021	10,574	27,447
Government advances		3,635	167	(171)	3,631	—	3,631
Professional Liability Trust Fund		44,819	24,892	(27,861)	41,850	1,959	39,891
General Liability Trust Fund		10,745	6,375	(6,608)	10,512	43	10,469
Other		—	—	—	—	—	—
Total other long-term liabilities	$	93,888	34,972	(34,846)	94,014	12,576	81,438

*The change in the compensated absences liability is presented as a net change ($10,498,000 vacation accrual as of September 30, 2024 plus $24,191,000 beginning balance adjustment related to GASB 101).

Lease and Subscription Obligations

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

The University leases various automobiles, buildings, equipment, office space, and software subscriptions under leases expiring at various dates through 2039. Aggregate future minimum lease and subscription payments under noncancelable agreements as of September 30, 2025, by fiscal year, are as follows (in thousands):

		Principal	Interest	Total
2026	$	27,755	3,459	31,214
2027		18,767	2,376	21,143
2028		15,572	1,479	17,051
2029		9,899	755	10,654
2030		6,044	348	6,392
2031 – 2035		3,995	121	4,116
2036 – 2040		14	1	15
Lease and subscription obligations	$	82,046	8,539	90,585

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

The University has commitments under leases and subscriptions for which the lease term has not commenced of approximately $10,188,000 as of September 30, 2025.

The University leases space from the Corporation and HCA. As of September 30, 2025, the University had lease and subscription obligations of approximately $6,440,000 related to leases between the University and component units.

(b) USA Research and Technology Corporation

Changes in noncurrent liabilities for the year ended September 30, 2025 are as follows (in thousands):

		Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Notes payable	$	16,967	—	(1,061)	15,906	1,101	14,805

(i) Notes Payable

Notes payable from direct borrowings consisted of the following as of September 30, 2025 (in thousands):

PNC Bank promissory note, 4.38%, payable through 2028	$	9,654
Hancock Whitney Bank promissory note, 3.08%, payable through 2031		6,252
	$	15,906

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

The promissory note payable to Hancock Whitney Bank has a 10-year term and is secured by an interest in rental leases and an interest in income received from rental of Building I. The Corporation agreed to not transfer or encumber the buildings or its leasehold interest in the real estate on which the buildings stand.

In connection with the PNC note and the Hancock Whitney note, the University entered into an agreement with both lenders providing that for any year in which the Corporation's debt service coverage ratio is less than 1 to 1, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to 1 to 1. The debt service coverage ratio is calculated by dividing the sum of unrestricted cash and cash equivalents at the beginning of the year (reduced by current year capital asset additions) and current year change in net position (determined without depreciation, amortization, and interest expenses) by current year debt service. As of September 30, 2025, the Corporation's debt service coverage ratio was 2.22 to 1.

The Corporation's outstanding notes from direct borrowings with PNC Bank and Hancock Whitney Bank contain a provision that, in the event of default, PNC Bank or Hancock Whitney Bank may take any or all of the following actions: (a) declare the loan due and payable, (b) declare the note in default, and (c) exercise any other remedies or rights, which it has under any instrument executed in connection with the loan. Prior to any of these actions, however, PNC Bank and Hancock Whitney Bank will give the Corporation 30 days to cure the default.

(ii) Debt Service on Long-Term Obligations

As of September 30, 2025, total future debt service by fiscal year is as follows (in thousands):

	Debt service on notes payable		
	Principal	Interest	Total
2026	$ 1,101	597	1,698
2027	1,144	554	1,698
2028	9,028	424	9,452
2029	574	135	709
2030	591	117	708
2031	3,468	35	3,503
Total	$ 15,906	1,862	17,768

(iii) Derivative Transaction

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

The swap was terminated on June 20, 2018 as part of a transaction refunding the Wells Fargo loan with the proceeds of a loan from PNC Bank. The fee paid by the Corporation to Wells Fargo to terminate the swap was $1,478,000. Pursuant to GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the fee is reported in deferred outflows on the statement of net position and amortized to interest expense according to the percentage of annual interest paid on the loan from PNC Bank to the total interest to be paid on that loan over the 118 months that were remaining on the Wells Fargo loan when the swap was terminated. As of September 30, 2025, the unamortized balance in deferred outflows was approximately $322,000.

(c) Health Care Authority

A summary of HCA’s noncurrent liability activity for the year ended September 30, 2025 follows (in thousands):

		Adjusted beginning balance	Additions	Reductions	Adjustments	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt	$	21,673	—	(195)	—	21,478	236	21,242
Lease and subscription obligations		119,015	6,781	(9,896)	(11,664)	104,236	6,998	97,238
Other long-term liabilities		3,453	873	—	—	4,326	1,944	2,382
Total noncurrent liabilities	$	144,141	7,654	(10,091)	(11,664)	130,040	9,178	120,862

Other long-term liabilities primarily consist of self-insurance liabilities and liabilities related to compensated absences. Amounts due within one year are included in current portion of other long-term liabilities. In fiscal year 2025, the University adopted Statement No. 101, *Compensated Absences*, which resulted in a beginning balance adjustment of approximately $1,358,000 to the compensated absence liability.

Long-Term Debt

HCA entered into an agreement with Family Medical Investments, LLC to construct a medical office building on the USA Health Mapp Family Campus. Construction began in 2021 and was completed in October 2022. The agreement commenced upon construction completion for an initial 15-year period plus two options to extend for consecutive 5-year terms. HCA began making monthly payments at an interest rate of 4.79% in October 2022 to Family Medical Investments, LLC. The total balance of principal payments outstanding at September 30, 2025 is approximately $21,478,000. Upon conclusion of the agreement term, HCA will obtain ownership of the building.

At September 30, 2025, future debt service for long-term debt by year is as follows (in thousands):

		Debt service on long-term debt		
		Principal	**Interest**	**Total**
2026	$	236	1,024	1,260
2027		280	1,011	1,291
2028		327	997	1,324
2029		376	980	1,356
2030		429	961	1,390
2031-2035		3,072	4,420	7,492
2036-2040		5,008	3,468	8,476
2041-2045		7,613	1,977	9,590
2046-2048		4,137	220	4,357
Total	$	21,478	15,058	36,536

Lease and Subscription Obligations

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

HCA has entered into agreements to lease various buildings and equipment and to utilize various software under lease and subscription obligations expiring at various dates through 2055.

Aggregate future minimum lease payments under noncancelable agreements as of September 30, 2025 by fiscal year, are as follows (in thousands):

		Principal	Interest	Total
2026	$	6,998	4,643	11,641
2027		6,584	4,347	10,931
2028		5,626	4,066	9,692
2029		4,160	3,829	7,989
2030		3,415	3,660	7,075
2031-2035		10,893	16,526	27,419
2036-2040		12,533	13,878	26,411
2041-2045		15,617	10,796	26,413
2046-2050		19,453	6,956	26,409
2051-2054		18,957	2,175	21,132
	$	104,236	70,876	175,112

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

The University has entered into two equipment lease agreements on behalf of Providence Hospital in the amount of approximately $2,665,000 for which the terms have not yet commenced. HCA will be responsible for making lease payments to the University for use of the equipment once the terms commence and an invoice is received. As of September 30, 2025, there are no other known lease or subscription commitments for which the terms have not yet commenced.

(7) Deferred Outflows and Inflows

(a) University of South Alabama

Deferred outflows of resources are consumption of net assets that are applicable to a future reporting period. In 2016, the University issued its Series 2016 Bonds. The proceeds from this series were used to partially defease the Series 2008 Bonds resulting in a loss of the difference between the acquisition price of the new debt and the net carrying amount of the old debt. In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, this loss was recorded as a deferred outflow and is being amortized over the remaining life of the Series 2016-A Bonds. In 2024, the University acquired an 81% ownership interest in a legally separate entity, South Coast Real Estate Venture, LLC (South Coast), as part of the Ascension Providence acquisition. During 2024, the University acquired the remaining 19% ownership interest in South Coast and formally dissolved the entity. In accordance with GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, the excess consideration provided over the net position acquired was recognized as a deferred outflow of resources and is being amortized over 338 months, the remaining service life of the capital assets acquired. Additionally, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions--an amendment of GASB*

Statement No. 27, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, changes in assumptions, changes in the proportion of total net liabilities relative to other plan participants, differences between employer contributions and the proportionate share of contributions, and employer contribution subsequent to the measurement date of the net pension liability but prior to the end of the fiscal year are presented as a deferred outflow of resources.

The components of deferred outflows of resources as of September 30, 2025 are summarized below (in thousands):

Loss on refunding of 2016-A bonds	$	4,334
South Coast acquisition		124
Pension		58,090
OPEB		405,045
	$	467,593

Deferred inflows of resources are net asset acquisitions that are applicable to a future reporting period. In 2016, the University issued its 2016-B, C, and D Bonds. In accordance with GASB Statement Nos. 63 and 65, the proceeds from these series refunded the remaining outstanding 2006 Bonds and the resulting gain was recognized as a deferred inflow of resources and was being amortized over the remaining life of the Series 2016-B, C, and D Bonds. In August 2024, the University refunded the Series 2016-B, C, and D with the Series 2024-C Bonds. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, Statement No. 63, and Statement No. 65, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred inflow and is being amortized over the remaining life of the Series 2024-C Bonds.

Additionally, in accordance with GASB Statement Nos. 68 and 75, the difference between the expected and actual experience and the net difference between projected and actual earnings on investments are presented as a deferred inflow of resources. Finally, in accordance with GASB Statement No. 87, the deferred inflow of resources attributable to leases is recognized on a straight-line basis over the respective lease terms.

The components of deferred inflows of resources as of September 30, 2025 are summarized below (in thousands):

Gain on refunding of 2016 Series B, C and D Bonds	$	2,534
Pension		72,549
OPEB		189,838
Leases		99,902
	$	364,823

(b) Health Care Authority

Deferred inflows of resources represent HCA's right to receive lease revenue in future reporting periods. In accordance with GASB Statement No. 87, Leases, the deferred inflow of resources attributable to leases is recognized on a straight-line basis over the respective lease terms. Deferred inflows as of September 30, 2025 totaled approximately $4,020,000.

(8) Bonds Payable

Bonds payable consisted of the following at September 30, 2025 (in thousands):

University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2.83% payable through August 2033	$	14,969
University Facilities Revenue Capital Improvement Bonds, Series 2013-B, 2.83% payable through August 2033		3,742
University Facilities Revenue Capital Improvement Bonds, Series 2013-C, 2.78% payable through August 2028		2,342
University Facilities Revenue Capital Improvement Bonds, Series 2015, 2.47% payable through August 2030		1,875
University Facilities Revenue Refunding Bonds, Series 2016-A, 3.00% to 5.00% payable through November 2037		64,500
University Facilities Revenue Bonds, Series 2017, 2.00% to 5.00%, payable through October 2037		27,775
University Facilities Revenue Bonds, Series 2019-A, 5.00%, payable through April 2049		47,750
University Facilities Revenue Bonds, Series 2019-B, 3.09% to 4.10%, payable through April 2033		11,855
University Facilities Revenue Bonds, Series 2019-C, 1.87%, payable through April 1, 2030		9,350
University Facilities Revenue Bonds, Series 2020, 4%, payable through April 1, 2040		31,515
University Facilities Revenue Bonds, Series 2021, 4%, payable through April 1, 2041		35,210
University Facilities Revenue Bonds, Series 2021-B 1.398%, payable through August 1, 2032		10,115
University Facilities Revenue Bonds, Series 2024-A, 5.0% through 2053 and 5.25% for 2054, payable through April 1, 2054		72,810
University Facilities Taxable Revenue Bonds, Series 2024-B, 4.753% to 5.233%, payable through April 1, 2035		17,165
University Facilities Revenue Bonds, Series 2024-C, 5%, payable through October 1, 2036		83,845
		434,818
Plus unamortized premium		47,195
Less unamortized debt extinguishment costs		(1,104)
	$	480,909

Substantially all student tuition and fee and auxiliary revenues secure University bonds. Additionally, security for all bonds includes USA Health Children's and Women's Hospital revenues in an amount not exceeding $10,000,000. The Series 2013-A, 2013-B, and 2013-C Bonds began maturing in August 2014 and were redeemable beginning in June 2023. The Series 2015 Bonds began maturing in August 2015 and were redeemable beginning in June 2020. The Series 2016-A Bonds began maturing in November 2018 and are redeemable beginning in November 2026. The Series 2017 Bonds began maturing in October 2017 and are redeemable beginning in October 2027. The Series 2019-A Bonds will begin maturing in April 2033. The Series 2019-B Bonds began maturing in April 2021. Both Series 2019-A and 2019-B are both redeemable beginning in April 2029. The Series 2019-C Bonds began maturing in April 2020 and are not subject to redemption at the option of the University. Series 2020 Bonds began maturing in April 2021 and are redeemable beginning April 2030. Series 2021 Bonds began maturing in April 2022 and were redeemable beginning April 2031. The Series 2021-B Bonds began maturing in August 2022 and are subject to redemption beginning August 2024. The Series 2023-A and 2023-B Bonds were amended and restated in April 2024, extending their final maturities to April 2025. The Series 2024-A Bonds begin maturing in April 2035 and are redeemable beginning April 1, 2034. The Series 2024-B Bonds begin maturing in April 2025 and are redeemable at the option of the University beginning April 1, 2034. The Series 2024-C Bonds begin maturing in April 2025 and are redeemable at the option of the University beginning April 1, 2034.

In September 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016- A, with a face value of $85,605,000. The proceeds from the Series 2016-A Bonds were used to partially defease the Series 2008 Bonds. The funds were deposited into escrow trust funds to provide for the subsequent repayment of the Series 2008 Bonds when they were called in December 2018. Neither the assets of the escrow trust account nor the defeased indebtedness are included in the accompanying statement of net position. The loss on the defeasement of the Series 2008 Bonds of $7,859,000 was recorded as a deferred outflow and is being amortized over the remaining life of the Series 2016-A Bonds. The balance of the related deferred outflow totaled $4,334,000 at September 30, 2025. The principal outstanding on all defeased bonds is $64,500,000 at September 30, 2025.

In December 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016-B, C, and D, with a face value totaling $100,000,000. The proceeds refunded the remaining outstanding Series 2006 Bonds. The gain on the refunding of the Series 2006 Bonds of $4,539,000 was recorded as a deferred inflow and was being amortized over the remaining life of the Series 2016-B, C, and Bonds. In August of 2024, the University refunded the Series 2016-B, C, and D with the Series 2024-C Bonds. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred inflow and is being amortized over the remaining life of the Series 2024-C Bonds. The balance of the related net deferred inflow at September 30, 2025 totaled $2,534,000.

In September 2021, the terms for the outstanding bonds of the University designated “Series 2016-B,” “Series 2016-C,” and “Series 2016-D” (together, the Original 2016 Bonds), each of which bore interest at a variable rate based on a one-month LIBOR base index, were revised to address, among other things, the cessation of LIBOR. Specifically, the University issued bonds designated “Amended and Restated Series 2016-B,” “Amended and Restated Series 2016-C,” and “Amended and Restated Series 2016-D” (together, the Amended and Restated 2016 Bonds) in exchange for the Original 2016 Bonds. Each of the Amended and Restated 2016 Bonds provide that, upon the cessation of LIBOR as a base index for purposes of ISDA-based defined rates, the base index for such bond (the Replacement Index) would equal a benchmark replacement and any applicable spread adjustment that would apply for derivatives

 (Continued)

transactions referencing the ISDA Definitions. In addition, for each Amended and Restated 2016 Bond, the earliest date (the Put Date) on which the holder could elect to cause all scheduled principal thereunder to become due and payable was extended by approximately five years as compared to the first Put Date for the Original 2016 Bond exchanged therefor.

On March 5, 2021, the Financial Conduct Authority (FCA) announced the final publication date for US LIBOR was June 30, 2023. The Alternative Reference Rates Committee (ARRC) has recommended the Secured Overnight Financing Rate (SOFR) as an alternative to replace LIBOR.

In July 2024, the University issued University Facilities Revenue Bonds Series 2024-A $72,810,000 and Taxable Series 2024-B $19,925,000. Proceeds of the Series 2024-A and 2024-B Bonds were used to refund the University Facilities Revenue Bonds (Draw-Down Loan) 2023-A and the University Facilities Revenue Bonds (Draw-Down Loan) 2023-B, the proceeds of which were used by the University to purchase and improve the healthcare facilities located at 6801 Airport Blvd., Mobile, AL, known as Providence Hospital.

In August 2024, the University issued University Facilities Revenue Bonds Series 2024-C $90,850,000. Proceeds of the Series 2024-C Bonds were used to refund the Amended and Restated University Facilities Revenue Refunding Bond Series 2016-B, 2016-C and 2016-D. The related interest rate swap agreement with Wells Fargo Bank was terminated using $14,745,000 of University funds to pay swap termination fees, accrued interest and other related costs.

All bond funds are restricted for capital purposes as outlined in the bond indentures. The University is subject to arbitrage restrictions on its bonded indebtedness prescribed by the U.S. Internal Revenue Service. As such, amounts are accrued as needed in the University’s basic financial statements for any expected arbitrage liabilities. At September 30, 2025, no amounts were due or recorded in the basic financial statements.

Debt Service on Long-Term Obligations

Total debt service (which includes bonds and notes payable) by fiscal year is as follows at September 30, 2025 (in thousands):

	Debt service on notes and bonds				
	Bonds		Notes payable from direct borrowing		
	Principal	Interest	Principal	Interest	Total
2026	$ 23,285	19,892	202	25	43,404
2027	24,190	18,980	196	16	43,382
2028	25,200	17,994	191	7	43,392
2029	25,431	16,944	26	1	42,402
2030	25,642	15,870	—	—	41,512
2031–2035	125,825	62,063	—	—	187,888
2036–2040	95,510	32,975	—	—	128,485
2041–2045	34,935	19,109	—	—	54,044
2046–2050	33,635	10,428	—	—	44,063
2051–2054	21,165	2,848	—	—	24,013
Subtotal	434,818	$ 217,103	615	49	652,585
Plus (less):					
Unamortized bond premium	47,195		—		
Unamortized debt extinguishment costs	(1,104)		—		
Total	$ 480,909		615		

(9) Lease Receivables

(a) University of South Alabama

The University leases land, buildings, and suites to various lessees expiring at various dates through 2069. For the year ended September 30, 2025, the University recognized a total of approximately $12,471,000 of inflows of resources from leases, of which $7,772,000 was recognized as lease revenue which is included in other operating revenues and interest approximately of $4,699,000 which was recognized as a component of net investment income in the statement of revenues, expenses, and changes in net position.

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

		Principal	Interest	Total
2026	$	6,368	4,649	11,017
2027		5,734	4,385	10,119
2028		5,725	4,119	9,844
2029		4,464	3,868	8,332
2030		3,510	3,684	7,194
2031–2035		11,331	16,555	27,886
2036–2040		12,534	13,882	26,416
2041–2045		15,618	10,799	26,417
2046–2050		19,455	6,959	26,414
2051–2055		18,960	2,178	21,138
2056–2060		3	2	5
2061–2065		4	2	6
2066–2069		3	1	4
Lease receivable	$	103,709	71,083	174,792

Of the $103,709,000 lease receivable, approximately $97,408,000 is related to leases between the University and its component units.

(b) USA Research and Technology Corporation

The Corporation leases land, buildings, and suites to various lessees under financing leases and short-term leases expiring at various dates through 2057. Space in Buildings I, II, and III is leased to the University and various other tenants. The leases have remaining terms varying from month-to-month to seven years.

Under leases for Buildings I, II, and III, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, and insurance. Tenants will reimburse the Corporation for such expenses only as the total expenses for a year increase over the total expenses for the base year of the lease (which generally is the first calendar year of the lease term). For the year ended September 30, 2025, the Corporation recognized operating expense reimbursement income of $88,000 as a component of operating revenues in the statement of revenues, expenses, and changes in net position.

Space under lease to the University was 95,334 square feet at September 30, 2025.

The Corporation owns a building located on the premises of USA Health, 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 had a 10-year initial term, which was set to expire in March 2020, with three 5-year renewal options. The initial lease was terminated in

December 2022 and replaced with a new lease with an initial term of 10 years, expiring in March 2030, 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, 2025. One lease is for a 40 year initial term expiring in October 2046 with two renewal options, the first for 20 years and the second for 15 years. The second lease is for a 30 year initial term expiring in October 2036 with four 5 year renewal options. The third lease has a 38.5 year initial term expiring in September 2046 with two renewal options, the first for 20 years and the second for 15 years.

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

For the year ended September 30, 2025, the Corporation recognized approximately $408,000 in revenues related to short-term leases and a total of approximately $3,614,000 of inflows of resources from financing leases, of which approximately $3,189,000 was recognized as lease revenue and approximately $425,000 was recognized as interest income in other nonoperating revenues.

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

	Principal	Interest	Total
2026	$ 3,273	423	3,696
2027	2,019	341	2,360
2028	2,019	278	2,297
2029	1,825	217	2,042
2030	1,096	171	1,267
2031–2035	1,359	654	2,013
2036–2040	1,301	472	1,773
2041–2045	1,640	247	1,887
2046–2050	487	51	538
2051–2055	149	23	172
2056–2057	69	2	71
Lease receivable	$ 15,237	2,879	18,116

(c) Health Care Authority

Leases as a lessor are included in the lease receivable and current portion thereof on the statement of net position.

(Continued)

Lease receivables represent HCA's contractual right to receive cash in exchange for the right to use an asset for a specific amount of time. HCA subleases buildings, suites, and land under leases expiring at various dates through 2073. For the year ended September 30, 2025, HCA recognized a total of approximately $934,000 of inflows of resources from leases, of which approximately $761,000 was recognized as lease revenue and approximately $173,000 was recognized as interest income. 88% of total lease revenue recognized was attributable to subleases to the University. The other 12% of total lease revenue is attributable to unrelated third parties. Lease revenue is included within other operating revenues and interest income is included within investment income on the statement of revenues, expenses, and changes in net position.

Future minimum lease revenue under noncancelable agreements as of September 30, 2025, by fiscal year, are as follows (in thousands):

	Principal	Interest	Total
2026	$ 977	174	1,151
2027	880	135	1,015
2028	939	93	1,032
2029	534	57	591
2030	365	37	402
2031-2035	174	121	295
2036-2040	30	110	140
2041-2045	37	102	139
2046-2050	46	93	139
2051-2055	57	82	139
2056-2060	72	68	140
2061-2065	89	50	139
2066-2070	112	28	140
2071-2073	52	4	56
	$ 4,364	1,154	5,518

As of September 30, 2025, 51% of the total lease receivable balance amount reflected on the accompanying statement of net position is related to subleases to the University.

(10) Patient Service Revenues

(a) University of South Alabama

The University of South Alabama Health System (USA Health) has agreements with governmental and other third-party payers that provide for reimbursement at amounts different from their established rates. Contractual adjustments under third party reimbursement programs represent the difference between USA Health's billings at established rates for services and amounts reimbursed by third party payers.

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

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

USA Health University Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2021. USA Health Children's & Women's Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2020.

Revenues from the Medicare program accounted for approximately 9% of USA Health's net patient service revenues for the year ended September 30, 2025.

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

Revenues from the Blue Cross program accounted for approximately 28% of USA Health's net patient service revenues for the year ended September 30, 2025.

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

USA Health qualifies as a Medicaid essential provider and, therefore, also receives supplemental payments based on formulas established by the Alabama Medicaid Agency. There can be no certainty that USA Health will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified. For the year ended September 30, 2025, the University received net supplemental payments from this program of approximately $88,176,000, which is included in patient service revenues on the statement of revenues, expenses, and changes in net position.

Revenues from the Medicaid program accounted for approximately 17% of USA Health's net patient service revenues for the year ended September 30, 2025.

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

The composition of net patient service revenues for the year ended September 30, 2025 follows (in thousands):

Gross patient service revenues	$	2,560,450
Less:		
Provision for contractual and other adjustments		(1,564,557)
Provision for bad debts		(82,650)
	$	913,243

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance which vary in amount. USA Health also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. USA Health estimates the provision for bad debts for patients with deductibles and coinsurance and for those who are uninsured based on historical experience and current market conditions. Subsequent changes to the estimate of the provision for bad debts are generally recorded as adjustments to net patient service revenues in the period of the change. For the year ended September 30, 2025, a reduction in revenue of approximately $636,000 was recognized due to changes in estimates of the provision for bad debts.

The composition of gross patient service revenues before the provision for contractual and other adjustments and the provision for bad debts by major payor source is as follows for the year ended September 30, 2025 (in thousands):

		Gross patient service revenues	Percentage
Blue Cross	$	569,885	22
Medicaid		541,746	21
Medicare Advantage		528,162	21
Medicare		284,079	11
Commercial		303,210	12
Other		203,318	8
Self pay		130,050	5
	$	2,560,450	100 %

The University provides charity care to patients who meet specific financial need criteria, as outlined in its USA Health Financial Assistance Policy. Charity care is defined as services provided to patients who are unable to pay for all or part of their care and for whom no expectation of payment exists. Costs are calculated based on the cost-to-charge ratio which is applied to the amounts of services provided to qualifying patients. The estimated cost of charity care provided for USA Health University Hospital and

(Continued)

USA Health Children’s & Women’s Hospital during the year ended September 30, 2025 is as follows (in thousands):

		USA Health University Hospital	USA Health Children's & Women's Hospital
Approximately charges foregone, based on established rates	$	20,044	2,013
Percentage of charity care charges to total charges		33%	41%

(b) Health Care Authority

HCA has agreements with governmental and other third-party payors that provide for reimbursement to HCA at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between HCA’s billings at established rates and amounts reimbursed by third-party payors.

A summary of the basis of reimbursement with major third-party payors 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, HCA 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. HCA is generally paid for certain retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by HCA and audits by the Medicare fiscal intermediary.

HCA acquired Providence Hospital on October 1, 2023. HCA had no prior responsibility for filing Providence Hospital's Medicare cost report prior to that date. HCA filed its first Medicare cost report for the year ended September 30, 2024 on February 27, 2025 for review and audit by the Medicare fiscal intermediary.

Revenues from the Medicare program accounted for approximately 16% of HCA’s gross patient service revenues for the year ended September 30, 2025.

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

Revenues from the Blue Cross program accounted for approximately 21% of HCA’s gross patient service revenues for the year ended September 30, 2025.

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.

Revenues from the Medicaid program accounted for approximately 6% of HCA's gross patient service revenues for the year ended September 30, 2025.

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

The composition of net patient service revenues for the year ended September 30, 2025 is as follows (in thousands):

Gross patient service revenues	$	1,235,409
Provision for contractual and other adjustments		(932,342)
Provision for bad debts		(25,952)
Net patient service revenues	$	277,115

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance which vary in amount. HCA also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. HCA estimates the provision for bad debts for patients with deductibles and coinsurance and for those who are uninsured based on historical experience and current market conditions. Subsequent changes to the estimate of the provision for bad debts are generally recorded as adjustments to net patient service revenues in the period of the change.

Providence Hospital provides charity care to patients who meet specific financial need criteria, as outlined in the USA Health Providence Financial Assistance Policy. Charity care is defined as services provided to patients who are unable to pay for all or part of their care and for whom no expectation of payment exists. Costs are calculated based on the cost-to-charge ratio which is applied to the amounts of services provided to qualifying patients. The estimated cost of charity care provided during the year ended September 30, 2025 was approximately $6,700,000.

Approximate charges forefone, based on established rates (in thousands)	$	27,756
Percentage of charity care charges to total charges		24%

The composition of gross patient service revenues before the provision for contractual and other adjustments and the provision for bad debts by major payor source is as follows for the year ended September 30, 2025 (in thousands):

	Gross patient service revenues	Percentage
Medicare managed care	$ 485,392	39 %
Blue Cross	253,354	21
Medicare	195,182	16
Other	126,846	10
Medicaid	73,535	6
Self pay patients	63,613	5
Health maintenance organization	37,487	3
	$ 1,235,409	100 %

(11) Business and Credit Concentrations

(a) University of South Alabama

The University grants credit to patients, substantially all of whom reside in the University's service area. The University generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, preferred provider arrangements, and commercial insurance policies).

The mix of receivables from patients and third-party payors as of September 30, 2025 is as follows:

Self Pay	19 %
Medicare Advantage	17
Blue Cross	16
Medicaid	16
Commercial	12
Medicare	9
Other	11
	100 %

(b) Gulf Coast TotalCare

During fiscal year 2025, the Alabama Medicaid Agency (AMA) paid Gulf Coast TotalCare (Gulf Coast) $1.26 per member serviced per month, as well as service payments based on the actual care management services provided. Gulf Coast contracted with Triton Health Systems, LLC ("Triton") to provide the care management services to covered Medicaid recipients. All payments to Gulf Coast from the AMA for these services are remitted to Triton, less 9.50% ($700,000 annual minimum) for management and administrative services performed by Gulf Coast.

Medicaid contract service revenues received from the AMA comprised 100% of Gulf Coast's operating revenues for the year ended September 30, 2025. Third-party administration fees paid to Triton comprised 91% of Gulf Coast's operating expenses for the year ended September 30, 2025.

(12) Defined-Benefit Cost-Sharing Pension Plan

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

(a) Plan Description

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

(b) Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after ten years of creditable service. Tier 1 TRS members who retire after age 60 with 10 years or more of creditable service or with twenty-five years of services (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or formula method, with the member receiving payment under the method that yields the higher monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest three of the last ten years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Act 2022-222 amended benefits for Tier 2 members, and they are now eligible for retirement after 31 years of creditable service and are entitled to an annual retirement benefit, with a 2% reduction for each year under 62, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest five of the last ten years) for each year of service. Members are eligible for disability retirement if they have ten years of credible service, are currently in service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status, and eligibility for retirement.

(c) Contributions

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

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

Participating employers' contractually required contribution rates are 13.57% of annual pay for Tier 1 members and 12.60% of annual pay for Tier 2 members. These required contribution rates are a percentage of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were $25,978,000 for the year ended September 30, 2025 are included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

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

At September 30, 2025, the University reported a liability of approximately $279,777,000 for its proportionate share of the collective net pension liability. At September 30, 2025, the collective net pension liability was measured as of September 30, 2024 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2023. The University's proportion of the collective net pension liability is based on the employer's shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At the measurement date of September 30, 2024, the University's proportion of contributions to the pension plan was 2.150783%, which was a decrease of 0.04068% from its proportion measured as of September 30, 2023 of 2.191463%.

For the year ended September 30, 2025, the University recognized pension expense of approximately $22,166,000, which is included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

At September 30, 2025, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	27,821	2,017
Changes of assumptions		4,291	—
Net difference between projected and actual earnings on pension plan investments		—	45,881
Changes in proportion and differences between employer contributions and proportionate share of contributions		—	24,651
Employer contributions subsequent to measurement date		25,978	—
	$	58,090	72,549

At September 30, 2025, approximately $25,978,000 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ending September 30:		
2026	$	(9,881)
2027		4,789
2028		(20,168)
2029		(15,177)
2030		—
Thereafter		—
	$	(40,437)

(e) Actuarial Assumptions

The total pension liability as of September 30, 2025 was determined by an actuarial valuation as of September 30, 2023, using the following actuarial assumptions, applied to all periods included in the measurement:

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

* Net of pension plan investment expense, including inflation
** Includes inflation

The actuarial assumptions used in the September 30, 2023 valuation were based on the results of an actuarial experience study for the period from October 1, 2015 through September 30, 2020, and a discount rate of 7.45%. Mortality rates for TRS were based on the Pub-2010 Teacher Below Median tables set forward by two years and further adjusted for males (108% ages < 63, 96% ages > 67; phasing down 63–67) and for females (112% ages < 69, 98% > age 74, phasing down 69–74), projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2019.

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

	Target allocation	**Long-term expected rate of return***
Fixed income	15.0 %	2.8 %
U.S. large stocks	32.0	8.0
U.S. mid stocks	9.0	10.0
U.S. small stocks	4.0	11.0
International developed market stocks	12.0	9.5
International emerging market stocks	3.0	11.0
Alternatives	10.0	9.0
Real estate	10.0	6.5
Cash equivalents	5.0	1.5
	100.0 %	

* Includes assumed rate of inflation of 2.00%

(f) Discount Rate

The discount rate used to measure the total pension liability as of September 30, 2025 was 7.45%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(g) Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.45%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current rate (in thousands):

	1% Decrease (6.45)%	Current rate (7.45)%	1% Increase (8.45)%
University's proportionate share of collective net pension liability	$ 389,007	279,777	187,836

(h) Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Annual Comprehensive Financial Report for the fiscal year ended September 30, 2024 as well as prior-year reports. The supporting actuarial information is included in the GASB Statement No. 68 Report for the TRS prepared as of September 30, 2024. The auditors' report dated February 27, 2025 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, 2024 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

(13) Other Employee Benefits

(a) Other Pension Plans

Certain employees of the University also participate in a defined-contribution pension plan. The defined-contribution pension plan covers certain academic and administrative employees, and participation by eligible employees is optional. The plan is administered by the University and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). Under this plan, contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University contributed approximately $309,000 included in the statement of revenues, expenses, and changes in net position representing 125 employees for the year ended September 30, 2025.

All employees of HCM working at least half-time are eligible to participate in a defined-contribution pension plan. The plan is administered by HCM and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by TIAA-CREF. Under this plan, contributions by eligible employees are matched equally by HCM up to a maximum of 5% of current annual pay. HCM contributed approximately $12,195,000 included in the statement of revenues, expenses and changes in net position representing 3,029 employees participating in this plan for the year ended September 30, 2025. 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 36 months; at which time, they become 100% vested in the plan.

Effective April 1, 2022, HCM adopted a deferred compensation retirement plan. All nonstudent employees are eligible to defer receipt of a portion of their salary until a later date. The plan is administered by HCM and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, TIAA-CREF. Under this plan, contributions by eligible employees are not matched by HCM. During the year ended September 30, 2025, 371 employees participated in this plan. All eligible employees are fully vested in their accounts under this plan immediately upon contributing.

(b) Compensated Absences

In fiscal year 2025, the University adopted the provisions of Statement No. 101, *Compensated Absences*, which requires the University to recognize a liability for leave that has not been used if it is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means, as well as leave that has been used but not yet paid or settled through noncash means. 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 paid time off (PTO) hours upon separation of employment. Employees acquired through the Providence purchase were able to transfer their current PTO balances to the University. This transferred PTO is eligible for payout. The accompanying statement of net position includes accruals for unused leave of approximately $38,021,000 at September 30, 2025. The accrual is included in other long-term liabilities (and current portion thereof) in the accompanying financial statements.

(14) Other Postemployment Benefit Plans

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

(a) Plan Description

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

(b) Benefits Provided

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

Effective January 1, 2020, Medicare eligible members and Medicare eligible dependents covered on a retiree contract were enrolled in the Humana Group Medicare Advantage plan for PEEHIP retirees. Effective January 1, 2023, United Health Care (UHC) Group replaced the Humana contract. The Medicare Advantage Prescription Drug Plan (MAPDP) is fully insured by UHC, and members are able to have all of their Medicare Part A, Part B, and Part D (prescription drug coverage) in one convenient plan. With the UHC plan for PEEHIP, retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Retirees have the same benefits in and out-of-network, and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

(c) Contributions

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

Total employer contributions to the OPEB plan from the University were approximately $8,175,000 for the year ended September 30, 2025 and are included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

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

At September 30, 2025, the University reported a liability of approximately $396,009,000, for its proportionate share of the net OPEB liability. At September 30, 2025, the net OPEB liability was measured as of September 30, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2023. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At the measurement date of September 30, 2024, the University's proportion of contributions to the OPEB plan was 4.307503%, which was an increase of 0.207525% from its proportion measured as of September 30, 2023 of 4.099978%.

For the year ended September 30, 2025, the University recognized OPEB expense of approximately $21,812,000, which is included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

At September 30, 2025, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	184,682	85,470
Changes of assumptions		136,383	56,029
Net difference between projected and actual earnings on OPEB plan investments		—	9,770
Changes in proportion and differences between employer contributions and proportionate share of contributions		75,805	38,569
Employer contributions subsequent to the measurement date		8,175	—
	$	405,045	189,838

At September 30, 2025, approximately $8,175,000 reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending September 30, 2026.

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

Year ending September 30:		
2026	$	43,809
2027		37,602
2028		18,561
2029		34,143
2030		55,985
Thereafter		16,932
	$	207,032

(e) Actuarial Assumptions

The total OPEB liability as of September 30, 2025 was determined by an actuarial valuation performed as of September 30, 2023, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Projected salary increases*	3.25-5.00 %
Long-term investment rate of return**	7.00 %
Municipal bond index rate at the measurement date	3.89 %
Municipal bond index rate at prior measurement date	4.53 %
Projected year for fiduciary net position to be depleted	2040
Single equivalent interest rate at the measurement date	4.32 %
Single equivalent interest rate at prior measurement date	7.00 %
Healthcare cost trend rate	
Pre-Medicare eligible	6.75 %
Medicare eligible	***
Ultimate trend rate	
Pre-Medicare eligible	4.50 %
Medicare eligible	4.50 %
Year of ultimate trend rate	
Pre-Medicare eligible	2033
Medicare eligible	2028
Optional plans trend rate	2.00 %

* Includes 2.75% wage inflation

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

*** Initial Medicare trend rates are set based on renewal premium rates through calendar year 2025 with an assumed 0% increase for the upcoming 2026-2028 negotiation period.

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

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2020, submitted to and adopted by the TRS on September 13, 2021. The remaining actuarial assumptions (e.g., initial per capita costs, healthcare cost trends, rate of plan participation, rates of plan election, etc.) of the total OPEB liability were based on the September 30, 2023 valuation.

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

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

* Geometric mean, includes 2.50% inflation

(f) Discount Rate

The discount rate used to measure the total OPEB liability at September 30, 2025 was 4.32%. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating employers must contribute for each active employee, which is currently $800 per non-university active member. 9.751% of the employer contributions were used to assist in funding retiree benefit payments in fiscal year 2024. It is assumed that the 9.751% will increase or decrease at the same rate as expected benefit payments for the closed group until reaching an employer rate of 20.000%, at which point, based on budget projections, the monthly employer rate will increase to $904 in fiscal year 2026, $1,114 in fiscal year 2027, and then will increase with inflation at 2.5% starting in fiscal year 2028. The long-term expected rate of return on OPEB plan investments will be determined based on the allocation of assets by asset class and by the mean and variance of real returns. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Therefore, the projected future benefit payments for all current plan members were projected through 2122.

(Continued)

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

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

		1% Decrease (3.50)%	Current rate (4.50)%	1% Increase (5.50)%
University's proportionate share of collective net OPEB liability	$	318,556	396,009	495,885

The following table presents the University's proportionate share of the net OPEB liability calculated using the discount rate of 4.32%, as well as what the net OPEB liability would be if calculated using one percentage point lower 3.32% or one percentage point higher 5.32% than the current rate (in thousands):

		1% Decrease (3.32)%	Current rate (4.32)%	1% Increase (5.32)%
University's proportionate share of collective net OPEB liability	$	481,060	396,009	328,044

(h) OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the Alabama Retired Education Employees' Health Care Trust's financial statements for the fiscal year ended September 30, 2024. The supporting actuarial information is included in the GASB Statement No. 75 Report for PEEHIP prepared as of September 30, 2024. Additional financial and actuarial information is available at www.rsa-al.gov.

(15) Risk Management

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

As discussed in note 1, the PLTF and GLTF are blended component units of the University and, as such, are included in the financial statements of the University for the year ended September 30, 2025. Claims

(Continued)

and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. These liabilities are generally based on actuarial valuations and are reported at their present value.

The University, HCM, and HCA each participate in a separate self-insured health plan administered by unaffiliated entities. Administrative fees paid by the University for such services were approximately $4,026,000 for the year ended September 30, 2025 and are included in salaries and benefits expense on the statement of revenues, expenses and changes in net position. 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, 2025 for the PLTF, GLTF, and health plan are summarized as follows (in thousands):

Balance, beginning of year	$	72,621
Premiums and other additions		125,404
Claims, administrative fees paid, and other reductions		(131,814)
Balance, end of period	$	66,211

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

(16) Other Related Parties and Related-Party Transactions

During the year ended September 30, 2025, the University had certain related-party transactions with affiliates as described below.

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. For the year ended September 30, 2025, SAMSF had total assets of approximately $14,312,000, net assets of approximately $14,181,000, and total revenues of approximately $2,629,000. During fiscal year 2025, SAMSF made contributions of approximately $178,000 to support clinical trials and research at the University. Contributions from SAMSF are presented as private grants and contracts revenues on the statement of revenues, expenses, and changes in net position for the University.

USA Presidential 1963 Fund is an Alabama not-for-profit corporation created for promoting charitable, scientific, literary, or educational initiatives that benefit and support the University. This not-for-profit corporation had no financial activity for the year ended September 30, 2025.

(17) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2025, the University had been awarded approximately $73,252,000 in grants and contracts for which resources had not been received and for which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements, as the eligibility requirements of the awards have not been met. Advances, if any, are included in unrecognized revenues and include amounts received from grant and contract sponsors that have not been expended under the terms of the agreements and, therefore, have not yet been included in revenues in the accompanying basic financial statements. Federal awards are subject to audit by federal agencies. The University's management believes any potential adjustment from such audits will not be material.

(b) Litigation

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

(c) Rent Supplement Agreements

The University has entered into two irrevocable rent supplement agreements with the Corporation and a financial institution. The agreements require that, in the event the Corporation fails to maintain a debt service coverage ratio of one to one with respect to all of its outstanding indebtedness, the University will pay to the Corporation any and all rent amounts necessary to cause the Corporation's net operating income to be equal to the Corporation's annual debt service obligations (see note 6). As of September 30, 2025, no amounts were payable pursuant to these agreements.

(d) USA Research and Technology Corporation Leases

The University has commitments under lease receivables with the Corporation. Space under lease to the University was 95,334 square feet at September 30, 2025. See note 9 for additional details.

(e) Gulf Coast TotalCare Letter of Credit

In connection with Gulf Coast TotalCare's participation in the Alabama Coordinated Health Network, it was required to establish a $250,000 irrevocable standby letter of credit for the sole benefit of the Alabama Medicaid Agency. The letter of credit was obtained through Hancock Whitney Bank and expires on December 30, 2025. The letter of credit is collateralized by a certificate of deposit. No amounts were advanced on the letter of credit during the year ended September 30, 2025.

(18) Functional Expense Information

Operating expenses by functional classification for the year ended September 30, 2025 are as follows (in thousands).

Instruction	$	128,260
Research		35,261
Public service		14,492
Academic support		31,673
Student services		50,199
Institutional support		48,954
Operation and maintenance of plant		13,756
Scholarships		18,512
USA Health		1,004,826
Auxiliary enterprises		20,918
Depreciation and amortization		92,819
	$	1,459,670

(19) Blended Component Units

As more fully described in note 1, HCM, PLTF, GLTF, Providence IPA, JAF, FRAC and other billing related entities are reported as blended component units. Prior to fiscal year 2025, the Jaguar Athletic Fund (JAF) and the USA Foundation for Research and Commercialization (FRAC) were not presented in the

University's financial statements because they were not considered significant enough to warrant inclusion in the University's reporting entity.

Required combining financial information of the aggregate blended component units as of and for the year ended September 30, 2025 follows (in thousands):

Current assets	$	45,818
Noncurrent assets		40,504
Total assets		86,322
Current liabilities		27,471
Noncurrent liabilities		50,359
Total liabilities		77,830
Net position	$	8,492
Operating revenues	$	545,909
Operating expenses		(553,418)
Operating loss		(7,509)
Nonoperating revenues		8,515
Nonoperating expenses		—
Change in net position	$	1,006

(20) Recently Issued Accounting Pronouncements

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*, which is effective for fiscal years beginning after June 15, 2025. The primary objective of Statement No. 103 is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability.

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*, which is effective for fiscal years beginning after June 15, 2025. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets and requires disclosure of certain information regarding capital assets to be presented by major class.

The effect of the implementation of GASB Statement Nos. 103 and 104 on the University has not yet been determined.

(21) Subsequent Event

(a) University of South Alabama

During fiscal year 2026, the Mitchell Cancer Institute was affected by a cybersecurity breach involving its third-party billing vendor, Unlimited Systems. On October 17, 2025, the vendor's Vector data center environment was compromised, resulting in the shutdown of the platform used for oncology billing and collections. As a result of the disruption, Mitchell Cancer Institute lost access to legacy billing information, and charges and payments were held pending system restoration and completion of the transition to Cerner Patient Accounting, the long-term billing solution selected by USA Health. Management will reflect all known and measurable financial impacts of this incident in the fiscal year 2026 financial statements.

(b) Health Care Authority

In October 2025, HCA received notice for the option to exercise Right of First Refusal related to the ASC Ground Lease and Development Agreement with HHRE USA Fairhope ASC, LLC (HHRE). The agreement allows HCA to have the right of first refusal in the purchase of the Ambulatory Surgery Center located on the USA Health Mapp Family Campus and to receive assignment of the Ground Lease on which the building resides.

On November 13, 2025, HCA notified HHRE of their intent to exercise their right to purchase the Building and receive assignment of the Ground Lease at a target price of $15,100,000. The transaction is expected to take place on or before January 13, 2026. The purchase will be funded on behalf of HCA by the University.

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

Required Supplementary Information

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

Teachers' Retirement Plan of Alabama

September 30 of each year from 2016 to 2025

(In thousands of dollars)

		2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
University's proportion of the net pension liability		2.150783 %	2.191463 %	2.418758 %	2.521971 %	2.551330 %	2.664536 %	2.843720 %	3.018313 %	3.108048 %	3.185471 %
University's proportionate share of the net pension liability	$	279,777	349,710	375,894	237,578	315,591	294,615	282,739	296,654	336,477	329,294
University's covered-employee payroll during the measurement period	$	193,271	181,019	188,126	184,984	181,875	190,559	191,520	200,464	198,378	201,858
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll		144.76 %	193.19 %	199.81 %	128.43 %	173.52 %	154.61 %	147.63 %	147.98 %	169.61 %	163.13 %
Plan fiduciary net position as a percentage of the total pension liability		71.41 %	63.57 %	62.21 %	76.44 %	67.72 %	69.85 %	72.29 %	71.50 %	67.93 %	67.51 %

Unaudited – see accompanying auditors' report.
Covered-employee payroll: payroll on which contributions to a pension plan are based.
The measurement period for each year presented is the prior fiscal year ending September 30.
For fiscal year 2025, the measurement period is October 1, 2023 - September 30, 2024.

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

Required Supplementary Information

Schedule of the University's Pension Contributions (Unaudited)

Teachers' Retirement Plan of Alabama

September 30 of each year from 2016 to 2025

(In thousands of dollars)

		2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	$	25,978	22,307	21,345	22,005	21,566	21,413	22,481	22,262	23,664	23,405
Contributions in relation to the contractually required contribution		25,978	22,307	21,345	22,005	21,566	21,413	22,481	22,262	23,664	23,405
Contribution deficiency (excess)	$	—	—	—	—	—	—	—	—	—	—
University's covered-employee payroll	$	193,271	181,019	188,126	184,984	181,875	190,559	191,520	200,464	198,378	201,858
Contributions as a percentage of covered-employee payroll		13.44 %	12.32 %	11.35 %	11.90 %	11.86 %	11.24 %	11.74 %	11.11 %	11.93 %	11.59 %

Unaudited – see accompanying auditors' report.
Covered-employee payroll: payroll on which contributions to a pension plan are based.
The measurement period for each year presented is the prior fiscal year ending September 30.
For fiscal year 2025, the measurement period is October 1, 2023 - September 30, 2024.

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

Required Supplementary Information

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

Alabama Retired Education Employees' Health Care Trust

September 30 of each year from 2017 to 2025

(In thousands of dollars)

		2025	2024	2023	2022	2021	2020	2019	2018	2017
University's proportion of the net OPEB liability		4.307503 %	4.099978 %	3.065860 %	3.974950 %	4.016210 %	2.737717 %	3.156420 %	3.449076 %	2.963813 %
University's proportionate share of the net OPEB liability	$	396,009	78,808	53,421	205,378	260,646	103,288	259,418	256,178	238,060
University's covered-employee payroll during the measurement period	$	193,271	181,019	188,126	184,984	181,875	190,559	191,520	200,464	198,378
University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll		204.90 %	43.54 %	28.40 %	111.02 %	143.31 %	54.20 %	135.45 %	127.79 %	120.00 %
Plan fiduciary net position as a percentage of the total OPEB liability		20.41 %	49.42 %	48.39 %	27.11 %	19.80 %	28.14 %	14.81 %	15.37 %	13.38 %

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

Unaudited – see accompanying auditors' report.
Covered-employee payroll: payroll on which contributions to a pension plan are based.
The measurement period for each year presented is the prior fiscal year ending September 30.
For fiscal year 2025, the measurement period is October 1, 2023 - September 30, 2024.

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

Required Supplementary Information

Schedule of the University's OPEB Contributions (Unaudited)

Alabama Retired Education Employees' Health Care Trust

September 30 of each year from 2017 to 2025

(In thousands of dollars)

		2025	2024	2023	2022	2021	2020	2019	2018	2017
Contractually required contribution	$	8,175	6,171	6,382	5,859	6,868	7,947	7,772	7,728	8,373
Contributions in relation to the contractually required contribution		8,175	6,171	6,382	5,859	6,868	7,947	7,772	7,728	8,373
Contribution deficiency (excess)	$	—	—	—	—	—	—	—	—	—
University's covered-employee payroll	$	193,271	181,019	188,126	184,984	181,875	190,559	191,520	200,464	198,378
Contributions as a percentage of covered-employee payroll		4.23 %	3.41 %	3.39 %	3.17 %	3.78 %	4.17 %	4.06 %	3.86 %	4.22 %

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

Unaudited – see accompanying auditors' report.
Covered-employee payroll: payroll on which contributions to a pension plan are based.
The measurement period for each year presented is the prior fiscal year ending September 30.
For fiscal year 2025, the measurement period is October 1, 2023 - September 30, 2024.

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

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

(a) Actuarial Assumptions

The total pension liability as of September 30, 2025 was determined by an actuarial valuation as of September 30, 2023, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Investment rate of return*	7.45%
Projected salary increases**	3.25-5.00%

* Net of pension plan investment expense
** Includes inflation

The actuarial assumptions used in the September 30, 2023 valuation were based on the results of an actuarial experience study for the period from October 1, 2015 through September 30, 2020, and a discount rate of 7.45%. Mortality rates for TRS were based on the Pub-2010 Teacher Below Median tables set forward by two years and further adjusted for males (108% ages < 63, 96% ages > 67; phasing down 63–67) and for females (112% ages < 69, 98% > age 74, phasing down 69–74), projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2019. The September 30, 2023 valuation reflects the impact of Act 2022-222.

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

(b) Changes in Actuarial Assumptions

In 2021, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2021, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience, including a change in the discount rate from 7.70% to 7.45%. In 2021 and later, the expectation of retired life mortality was changed to the Pub-2010 Teacher Retiree Below Median Tables projected generationally with 66-2/3% of the MP-2020 scale beginning in 2019.

In 2018, the discount rate was changed from 7.75% to 7.70%.

In 2016, rates of retirement, disability, withdrawal and mortality were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were

(Continued)

adjusted to more closely reflect actual and anticipated experience. In 2016 the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

(c) Discount Rate

The discount rate used to measure the total pension liability as of September 30, 2025 was 7.45%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The assumptions and methods used in the valuation are based on the results of the Experience Investigation for the five-year period ended September 30, 2020, dated July 12, 2021, and adopted by the Teachers’ Retirement System Board of Control on September 13, 2021. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	Market value of assets
Inflation	2.50%
Salary increase	3.25% to 5.00%, including inflation
Investment rate of return	7.45%, net of pension plan investment expense, including inflation

(2) Summary of OPEB Plan Provisions and Assumptions

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

(a) Changes in Actuarial Assumptions

In 2024, assumptions regarding aging factors were adjusted to reflect actual and anticipated experience more closely. Additionally, future healthcare trend rates for the Medicare Advantage Plan were updated.

In 2022, rates of plan participation and tobacco usage assumptions were adjusted to reflect actual experience more closely.

In 2021, rates of withdrawal, retirement, disability, and mortality were adjusted to reflect actual experience more closely. In 2021, economic assumptions and the assumed rates of salary increases were adjusted to reflect actual and anticipated experience more closely.

In 2019, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to reflect actual experience more closely.

(b) Recent Plan Changes

The September 30, 2022 valuation reflects the impact of Act 2022-222.

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

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

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

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

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Therefore, the actuarially determined employer contribution for fiscal year ended September 30, 2024 is determined based on the actuarial valuation as of September 30, 2021. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percent of pay, closed
Remaining amortization period	20 years
Asset valuation method	Market value of assets
Inflation	2.50%
Healthcare cost trend rate:	
Pre-Medicare eligible	6.50%
Medicare eligible	*
Ultimate trend rate:	
Pre-Medicare eligible	4.50%
Medicare eligible	4.50%
Year of ultimate trend rate	2031 for pre-Medicare eligible 2027 for Medicare eligible
Investment rate of return	5.00%, including inflation
Optional plans trend rate	2.00%

*Initial Medicare claims are set based on scheduled increases through plan year 2025.