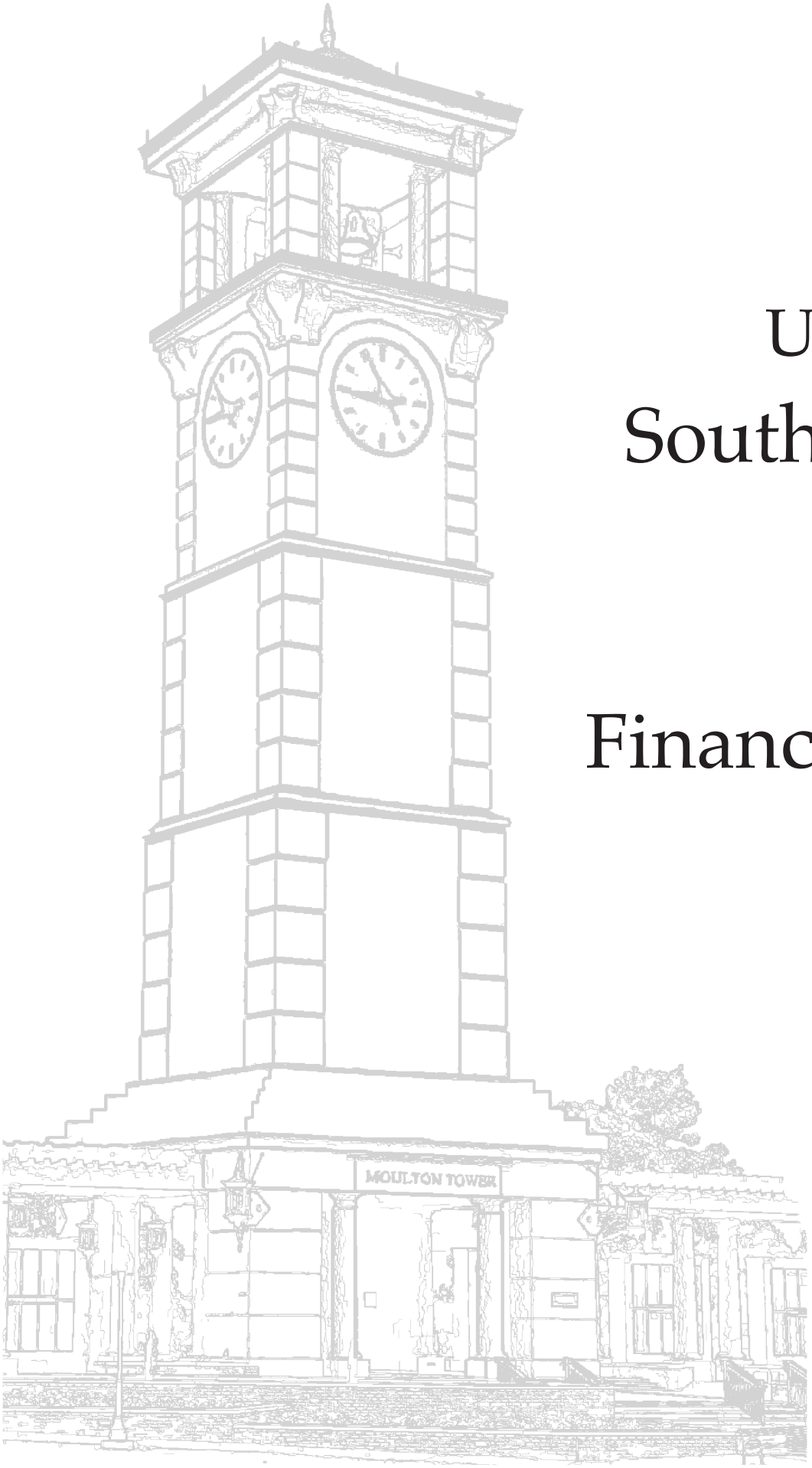


University of South Alabama

2012 Financial Report

USA Kicks Off 50th Anniversary with Dedication of Shelby Hall — *More than 500 people gathered on the University of South Alabama campus in September 2012 as the University celebrated the start of the institution's 50th Anniversary year with the dedication of Shelby Hall, USA's new world-class engineering and computing science facility. U.S. Sen. Richard Shelby was instrumental in securing more than $40 million in federal support for the project. Shown at the dedication, above, USA President Gordon Moulton presents Sen. Shelby and Dr. Annette Shelby with a resolution from the University's Board of Trustees, thanking the couple for their support. From the left are U.S. Rep. Jo Bonner, Board Chair Pro Tempore Jim Yance, Geri Moulton, School of Computing Dean Dr. Alec Yasinsac, College of Engineering Dean Dr. John Steadman, President Moulton, Sen. Shelby and Dr. Shelby. Presenters at the event, who are not pictured, included USA Faculty Senate President Dr. Philip Carr and Student Government Association President Parker Chastain. Dr. Thomas Rowell, associate professor of music, sang the national anthem.*

USA Marks Milestone Year; Kicks Off 50th Anniversary Celebration

The University of South Alabama marked a milestone year in fiscal 2012 as the institution kicked off the commemoration of its 50th Anniversary, which includes a host of events that acknowledge the University's accomplishments since its founding in 1963.

Amid global economic challenges in 2012, presented by a lingering recession, USA's constituents grew even more dependent on the University's contributions in teaching, research, health care, and economic enhancement. Thanks to the personal commitment of University faculty and staff, USA continued to expand its contribution in every benchmark by which higher education is measured.

A major indicator of USA's vitality during the fiscal year was student enrollment, which remained steady at 14,883. Student quality continued to set records as well—a result of the dedication of faculty and staff and the strength of the University's academic reputation.

Other indicators of the University's health in 2012 were vigorous faculty research and outreach productivity; improved health care services offered through USA Health System, which includes a major expansion of USA Children's and Women's Hospital that will enhance patient care; strong philanthropic support from alumni and the community; and a record number of degrees awarded by the institution, which brought the historic total to more than 73,000.

The University in 2012 continued to reap the benefits of its many investments, which include building a better atmosphere for learning through improved campus facilities, such as the construction of Shelby Hall, a new high-tech engineering and computing building; the development of new academic programs; and the introduction of new technologies that supplement classroom instruction. These, combined with the addition of new student amenities, a 330-bed residence hall, and programs that enhance campus life, such as football and marching band, have helped to sustain the University and foster its future growth.

"I thank you again for working every day to live up to the hopes and dreams invested in this University more than a half century ago, and I'm convinced that our best days are ahead."

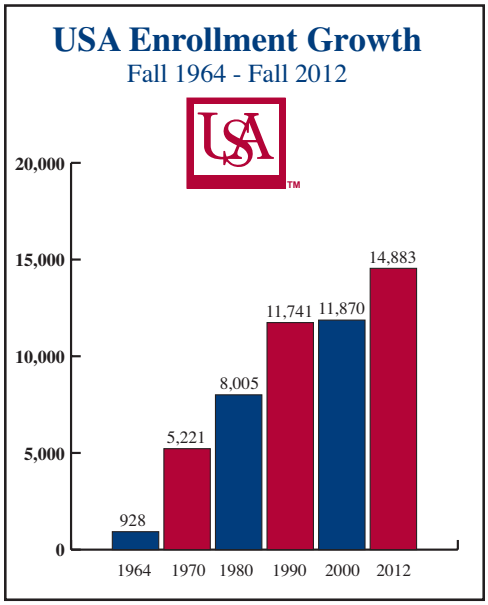
--Gordon Moulton, University of South Alabama President
Remarks from 2012 End-of-Year Letter

Shelby Hall — *Shelby Hall is the new high-tech home to the College of Engineering and the School of Computing. U.S. Sen. Richard Shelby was instrumental in securing federal support for the project.*

Enrollment Sets Multiple Records

Fall enrollment at the University of South Alabama remained steady, setting records for freshman and graduate enrollment, as well as record levels of academically talented students.

- USA this fall enrolled 14,883 students.
- Despite new admission standards, USA's freshman class in fall 2012 tied last year's record of 1,944 students.
- 11,315 undergraduate students enrolled fall semester.
- USA had a record 3,025 students enroll in graduate studies.
- Growth in quality of students is evident in USA's average ACT score, which is up from last year by almost a full point to 22.8, the University's highest level ever, and above the national average of 21.1 and state average of 20.3.
- This year, USA had a record 116 students in the freshman class with ACT scores of 30 or above. This marks a 51 percent increase from last year's number of these academically talented students. Additionally, there were 169 students with ACT scores of 29 and above, and 245 with 28 and higher.
- A record 169 students enrolled in the USA Honors program in fall 2012.
- USA students in virtually every discipline far surpassed average passage rates on professional licensure exams and other comparative standardized measures of academic achievement.



- More than 2,800 students live on campus.
- More than 4,800 students now take one or more online classes.

Moulton Tower Murals — *The University this year celebrated the installation of the Moulton Tower murals, which illustrate USA's teaching, research, health care, and outreach/service missions.*

New Campus Entrances – *Construction on new campus portals was completed, providing more inviting and aesthetically pleasing entrances to the University.*

Academic and Campus Life Improve

USA continued to make significant progress in its effort to enhance academic programs and improve the learning environment on campus. The University this year:

- Launched the yearlong celebration of the University's 50th Anniversary with a host of events and activities.
- Completed construction and dedicated Shelby Hall, a new high-tech home for the College of Engineering and the School of Computing.
- Dedicated Stokes Hall, a new 330-bed residence hall on campus in response to growing enrollment and increased student interest in on-campus living.
- Began construction of a new residence hall to open in fall 2013.
- Made progress toward the renovation of the Student Center, including completion of a new Student Center Food Court and the renovation and expansion of the USA Bookstore.
- Installed and dedicated the Moulton Tower murals, which illustrate the University's teaching, research, health care, and outreach/service missions.
- Held a public grand opening of exhibits in the University's new Archaeology Museum.
- Completed construction on new campus portals that provide more inviting and aesthetically pleasing entrances to the University.
- Dedicated the Glenn Sebastian Nature Trail.
- Installed several pieces of campus sculpture made possible through private gifts.
- Completed and dedicated the National Pan-Hellenic Council Park for African-American Greek organizations.
- Awarded 2,600 academic and athletic scholarships.
- Established doctoral degree programs in business administration and systems engineering.
- Hosted the University's first Holiday Concert, featuring University faculty and students.
- Welcomed the community to the University's first Arts and History Day, which highlighted USA's cultural contributions.
- Launched a plastic bottle recycling program as part of the University's sustainability initiative, "Jag Smart," which integrates the latest green principles in recycling, energy conservation, transportation, campus construction and campus life.
- Completed the Mobile Townhouse renovation, which will provide additional office space.

USA Children's & Women's Hospital Expansion — *Construction continues on a 195,000-square-foot expansion of USA Children's & Women's Hospital that will nearly double its size, enhancing patient care and services.*

Medical Milestones

The USA Health System this year continued to gain recognition for its ground-breaking medical research and innovation and for significantly improving the health of the Gulf Coast region, especially through the high-quality signature programs offered by its hospitals, physician clinics, and world-class comprehensive cancer research and treatment center. Some of the year's highlights include:

- USA Health System provided more than 250,000 patient treatment contacts.
- More than 6,500 patients were treated at the USA Mitchell Cancer Institute, representing 58,000 patient treatment contacts.
- Nearly 2,700 babies were delivered at Children's & Women's Hospital, the most in Mobile, and more than 35,000 patients were seen in the Evaluation Center.
- The Medical Center had nearly 6,700 admissions and more than 29,000 patients seen in the Emergency Department.
- USA's Comprehensive Epilepsy Program and Neuroscience Center now deliver the most advanced epilepsy care in the region through the Epilepsy Monitoring Unit at USA Medical Center. The EMU is a collaborative environment that provides unique and highly specialized care with state-of-the-art technology for patients with epilepsy and other neurological conditions.
- Construction continued on the 195,000-square-foot expansion of USA Children's & Women's Hospital. When completed in early 2013, the expansion - which will nearly double the hospital's size - will address patient care needs as well as enhance services provided for families, visitors and hospital staff.
- Construction continued on a new state-of-the-art Specialized Laboratory Building on USA's main campus following a $14.5 million College of Medicine grant from the National Institutes of Health to support ongoing research projects dedicated to the prevention and treatment of infectious diseases.
- The College of Medicine was awarded a $9 million grant from the National Institutes of Health to examine the causes and consequences of pneumonia. The NIH grant is the largest research project award ever received by the University.

USA Research and Sponsored Programs Highlights 2012

Total Awards for External Grants and Contracts..... $56.9 million

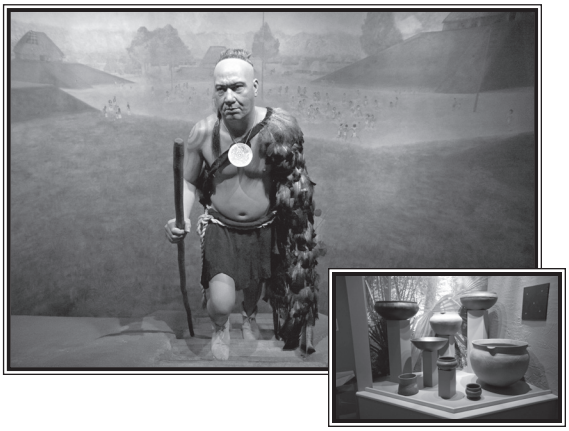
Technology Transfer:

- **$1.9 million in Licensing Revenues**
- **16 Invention Disclosures**
- **10 Patents Filed**
- **3 Licenses Executed**

Increasing Research

USA's research and outreach this year continued to make significant strides, with competitive awards and industry partnerships on the rise:

- External contract and grant funding totaled $56.9 million in fiscal year 2012.
- More than 42 percent of faculty with doctorate or medical degrees submitted one or more research proposals for funding consideration in fiscal year 2012. Half of the 399 proposals processed received awards.
- Since 1998, USA has been awarded a total of $161.8 million in federal direct appropriations for research and other sponsored programs, including capital improvement.
- USA's Technology and Research Park continues to foster new partnerships with industry, providing more than 600 local, private-sector jobs in computer science, information technology and biomedicine, as well as numerous part-time positions for USA students.
- Licensing revenue reported by the Office of Technology Transfer totaled more than $1.9 million in fiscal year 2012. There were 16 invention disclosures submitted, 10 U.S. patents filed, and three licenses/options executed.
- Due to the recent success of USA's academic research program, USA now shares the same Carnegie Classification of Institutions of Higher Education as the University of Alabama and Auburn University—"RU/H: Research Universities (high research activity)." Carnegie Classification is based on research activity and number of doctoral degrees awarded by an institution.



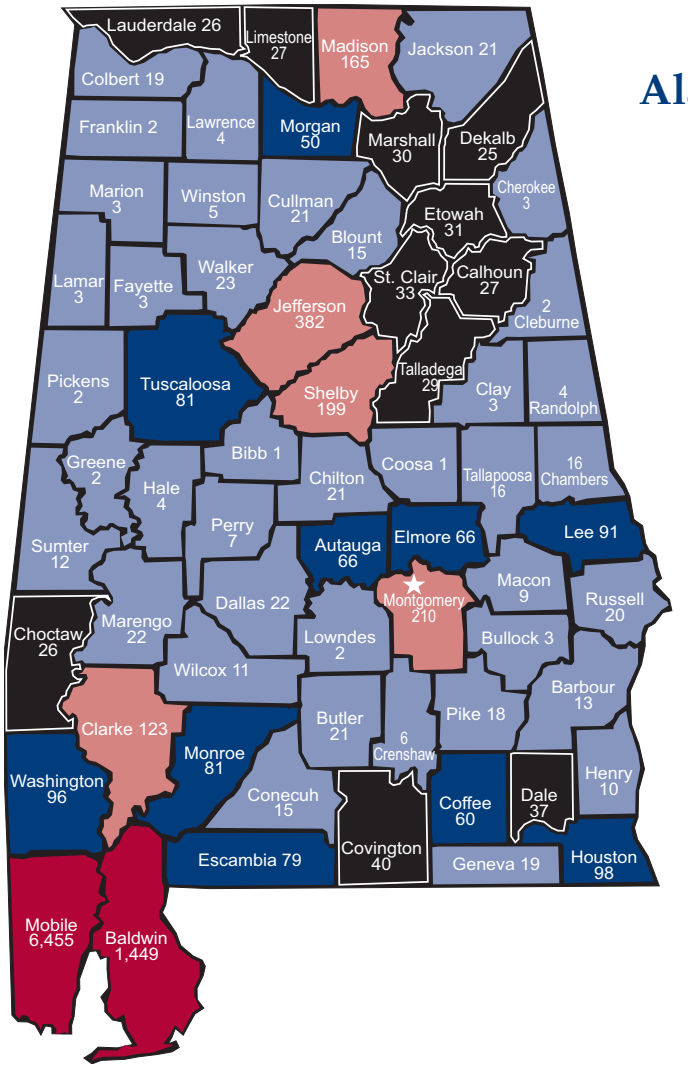
Archaeology Museum — *The public was welcomed this year to the grand opening of exhibits in the University's new Archaeology Museum.*

Building Private Support

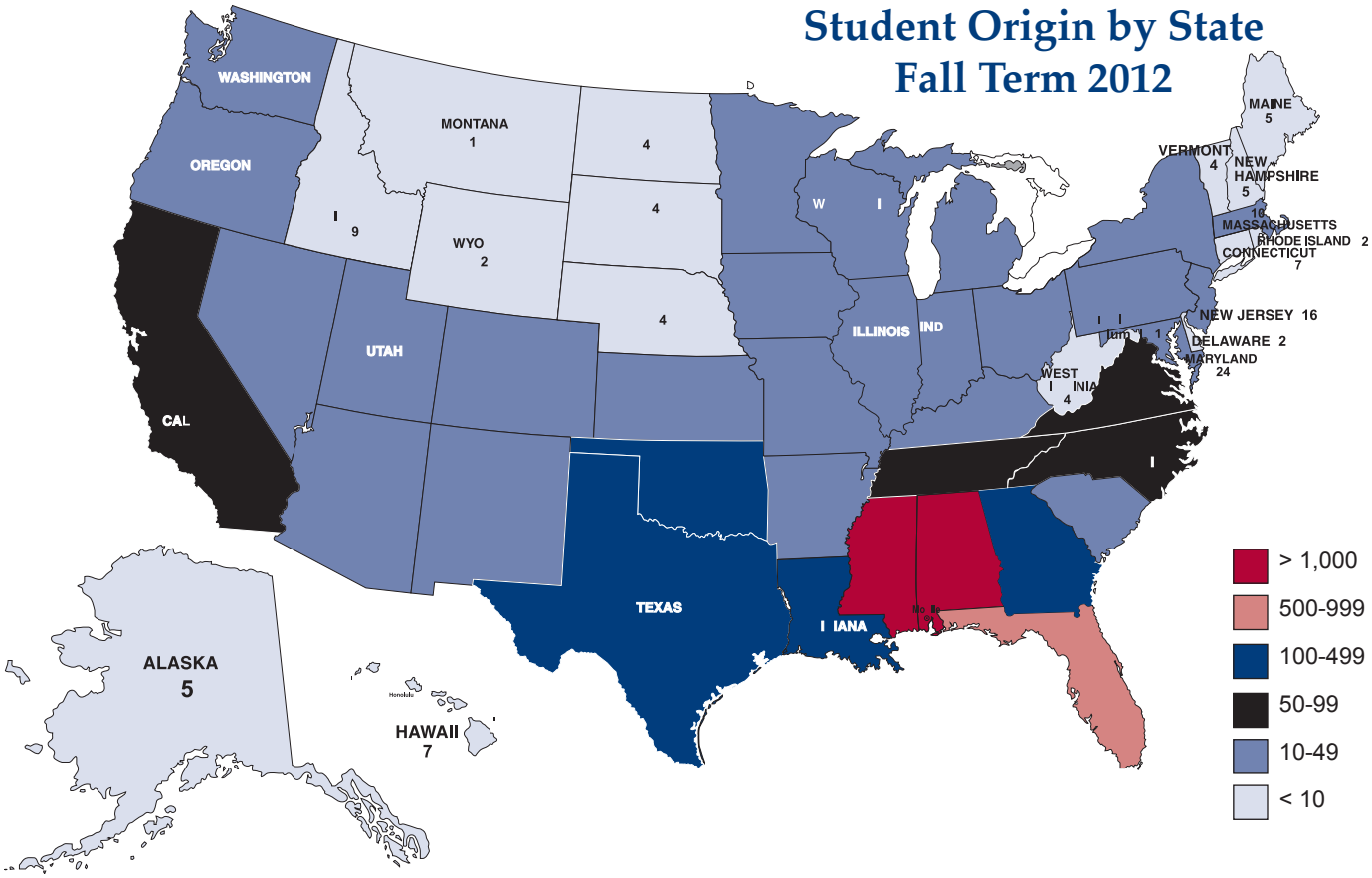
Alumni engagement and private giving to the University continued to rise this year in response to outreach programs of the Office of Development and Alumni Relations.

- Charitable giving totaled more than $12.8 million, representing a 9.2 percent increase from the prior year. The number of donors making gifts to USA also increased by 2.9 percent to 8,411.
- Progress on the three-year 50th Anniversary Campaign remained strong. The campaign has achieved more than 70 percent of its 50,000 gift goal and more than 90 percent of its National Alumni Association membership goal of 5,000. The campaign will continue until the close of the 2013 fiscal year.
- The Office of Development inaugurated the University's first phone-a-thon to solicit annual gifts from alumni, parents, and friends. Named the Jagline, this calling program completed 41,000 calls in its first year, garnering 2,085 pledges which will benefit each school and college.
- The 2012 Faculty Staff Annual Fund significantly outperformed all preceding employee campaigns. The campaign attracted gifts from 3,142 employees, among them a cadre of 120 leadership donors who each committed at least $5,000 (payable over a maximum of five years), to create a $1,038,417 single-year impact on programs.
- The Campaign for USA Children's and Women's Hospital raised $4.9 million toward its goal of $10.6 million.
- In its third year, the Celebrate Hope benefit for the Mitchell Cancer Institute sold out. Total net proceeds from these annual events now approaches $800,000.

Alabama Student Origin by County
Fall Term 2012



Student Origin by State
Fall Term 2012



KPMG

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Basic Financial Statements

September 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

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

Basic Financial Statements

September 30, 2012 and 2011

Table of Contents

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

Management's Discussion and Analysis (Unaudited)

September 30, 2012 and 2011

Introduction

The following discussion presents an overview of the financial position and financial activities of the University of South Alabama (the University), including the University of South Alabama Hospitals (the Hospitals), a division of the University, at September 30, 2012 and 2011 and for the years then ended. This discussion was prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

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

Financial Highlights

At September 30, 2012, 2011, and 2010, the University had total assets of $985,574,000, $920,197,000, and $917,157,000, respectively; total liabilities of $530,289,000, $503,301,000, and $497,886,000, respectively; and net assets of $455,285,000, $416,896,000, and $419,271,000, respectively. University net assets increased by $38,389,000 during the year ended September 30, 2012 compared to a decrease of $2,375,000 for the year ended September 30, 2011 and an increase of $18,959,000 for the year ended September 30, 2010.

An overview of each statement is presented herein along with a 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 Assets

The statement of net assets presents the assets, liabilities, and net assets of the University at September 30, 2012 and 2011. The net assets are displayed in three parts: invested in capital assets, net of related debt, restricted and unrestricted. Restricted net assets may either be expendable or nonexpendable and are those assets that are restricted by law or external donor. Unrestricted net assets are generally designated for specific purposes, and are available for use by the University to meet current expenses for any purpose. The statement of net assets, 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.

Assets included in the statement of net assets are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments, and net patient accounts receivable. Of these amounts, cash and cash equivalents, investments, and patient accounts receivable comprise approximately 41%, 31%, and 9%, respectively, of current assets at September 30, 2012. Noncurrent assets at September 30, 2012 consist primarily of capital assets, restricted cash and cash equivalents, and restricted investments.

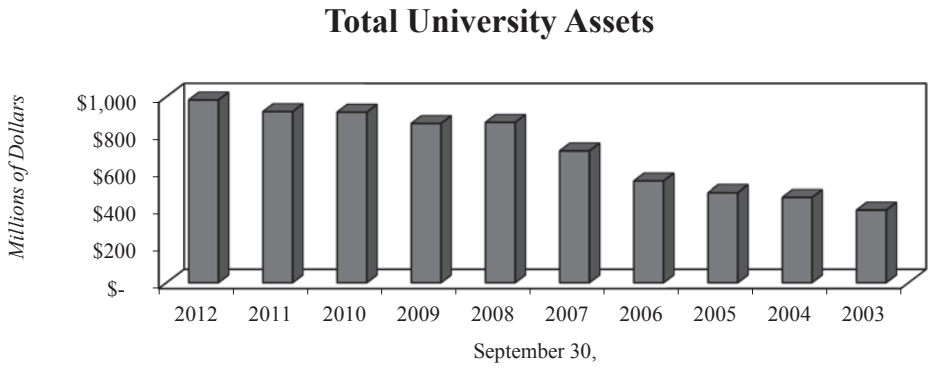
The Condensed Schedule of Net Assets at September 30, 2012, 2011, and 2010 follows (in thousands):

Condensed Schedule of Net Assets

		2012	2011	2010
Assets:				
Current	$	292,041	263,608	275,417
Capital assets		533,199	489,031	444,718
Other noncurrent		160,334	167,558	197,022
Total assets	$	985,574	920,197	917,157
Liabilities:				
Current	$	115,088	96,895	97,154
Noncurrent		415,201	406,406	400,732
Total liabilities	$	530,289	503,301	497,886
Net assets:				
Invested in capital assets, net of related debt	$	227,029	208,442	202,355
Restricted, nonexpendable		33,825	31,146	29,558
Restricted, expendable		48,201	43,227	42,053
Unrestricted		146,230	134,081	145,305
Total net assets	$	455,285	416,896	419,271

University cash, cash equivalents, and investments (current and noncurrent) increased between September 30, 2011 and 2012 by $28,418,000 to $347,648,000. This increase is due primarily to the issuance of the 2012-A and 2012-B bonds, net of the utilization of cash from the bond issue for various construction projects. This follows a decrease of $51,235,000 in cash, cash equivalents, and investments between 2010 and 2011, which was due primarily to the utilization of cash from the 2008 and 2010 bond issues for various construction projects.

Total assets of the University as of September 30 are as follows:



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

Net assets invested in capital assets, net of related debt, represent 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.

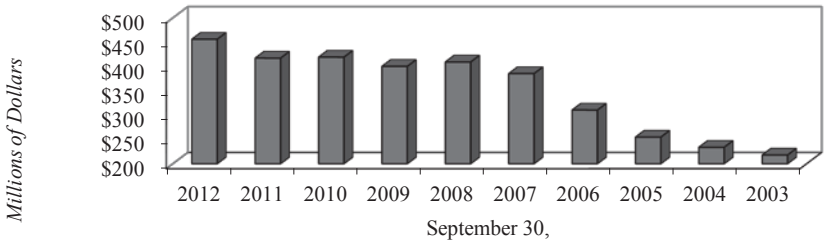
Restricted nonexpendable net assets consist primarily of the University's permanent endowment funds. While earnings from these funds may be expended, the corpus may not be expended for any reason and must remain intact with the University in perpetuity.

Restricted expendable net assets are 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 assets represent those net assets not subject to externally imposed stipulations. Even though these funds are not legally restricted, the majority of the University's unrestricted net assets have been internally designated for various projects, all supporting the missions of the University. These unrestricted net assets include funds for various academic and research programs, auxiliary operations (including the bookstore, student housing and dining services), student programs, capital projects and general operations.

Net assets of the University as of September 30 are as follows:

University Net Assets



All categories of restricted net assets increased by approximately 10% between September 30, 2011 and 2012, primarily due to the addition of restricted gifts and grants to the University. Unrestricted net assets increased from $134,081,000 to $146,230,000 between September 30, 2011 and 2012 reflecting the results of University financial operations during fiscal year 2012.

Statement of Revenues, Expenses, and Changes in Net Assets

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

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

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

The Condensed Schedule of Revenues, Expenses, and Changes in Net Assets for the years ended September 30, 2012, 2011, and 2010 follows (in thousands):

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

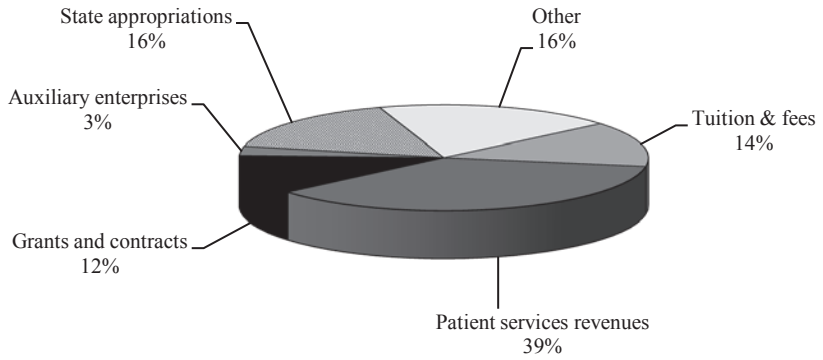
		2012	2011	2010
Operating revenues:				
Tuition and fees	$	88,299	81,557	69,212
Net patient service revenue		247,802	227,039	228,524
Federal, state and private grants and contracts		76,448	79,780	76,983
Other		56,579	47,790	47,121
		469,128	436,166	421,840
Operating expenses:				
Salaries and benefits		396,170	390,002	378,188
Supplies and other services		134,841	136,749	128,973
Other		51,222	53,224	49,197
		582,233	579,975	556,358
Operating loss		(113,105)	(143,809)	(134,518)
Nonoperating revenues (expenses):				
State appropriations		105,639	96,948	97,860
State appropriated – ARRA funds		—	10,769	10,769
Investment income (loss)		14,561	(6,335)	9,278
Other, net		12,197	13,375	10,369
Net nonoperating revenues		132,397	114,757	128,276
Income (loss) before capital appropriations, capital contributions and additions to endowment		19,292	(29,052)	(6,242)
Capital appropriations, capital contributions and additions to endowment		19,097	26,677	25,201
Change in net assets		38,389	(2,375)	18,959
Beginning net assets		416,896	419,271	400,312
Ending net assets	$	455,285	416,896	419,271

In 2012, 2011, and 2010, approximately 39%, 38%, and 39%, respectively, of total revenues of the University were net patient service revenue. Excluding net patient service revenue, state appropriations represent the largest component of total university revenues, approximately 16% of total revenues in fiscal 2012. Also in 2012, net

tuition and fees charged to students and grants and contracts (federal, state and private) represented approximately 14% and 12% of total revenues, respectively.

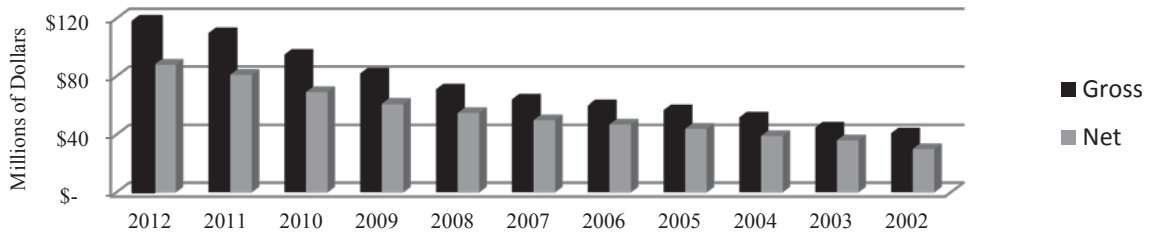
A summary of University revenues for the year ended September 30, 2012 is presented below:

Total Revenues



Tuition and fees have increased in each of the last ten years. These increases are due primarily to increases in tuition and fee rates charged to students as well as to an increase in the number of students enrolled and credit hours taken by those students. Additionally, net tuition and fees as a percent of total operating revenues continue to increase, from 9.5% of operating revenues in 2002 to 18.8% in 2012. Tuition and fees, gross and net of scholarship allowances, for the past eleven fiscal years are as follows:

Tuition and Fee Revenue

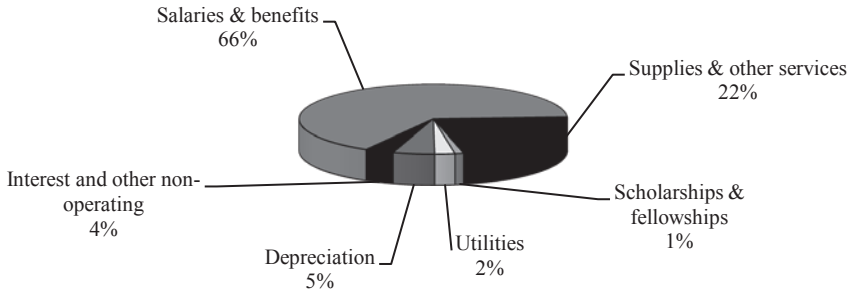


Other operating revenues increased by $6,778,0000 to $38,701,000 for the year ended September 30, 2012 primarily due to an increase in revenues from the Electronic Health Records Incentive Program.

Capital contributions and grants decreased from $23,247,000 in 2011 to $15,103,000 in 2012 due to a decrease in grant funds received for construction of Shelby Hall. The University recognized $239,000 in capital appropriations in 2012, compared to $20,000 in 2011. The 2012 appropriations were utilized in the renovation of the Student Center. Additionally, the University received revenue in the amount of $10,769,000 in 2011 appropriated by the State of Alabama pursuant to the American Recovery and Reinvestment Act (ARRA) of 2009. No state appropriated ARRA funds were received during the year ended September 30, 2012.

University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2012 is presented below:

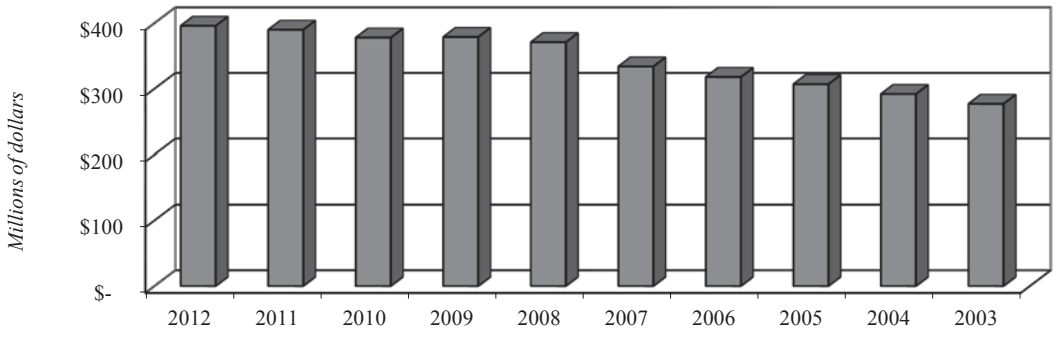
Total Expenses



While the University reports its expenses on a natural expense classification basis, functional classifications represent expenses categorized based on the function within the University. Such University functions include instruction, research, public service, academic support, student services, institutional support, scholarships, and operation and maintenance of plant. Expenses related to auxiliary enterprise activities and the hospitals are presented separately. Functional expense information is presented in note 15 to the basic financial statements.

In 2012, 2011, and 2010, approximately 68%, 67% and 68%, respectively, of the University's total operating expenses were salaries and benefits. After steady increases from 2003 to 2008, salaries and benefits have been consistent since 2008, as follows:

Total Salaries and Benefits Expense

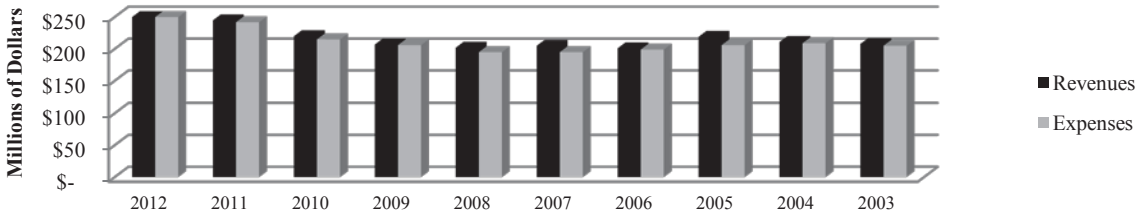


For the years ended September 30, 2012, 2011, and 2010, the University reported an operating loss of approximately $113,105,000, $143,809,000, and $134,518,000, respectively. Operating losses are offset partially by state appropriations, which are reported as nonoperating revenue. After adding state appropriations and other nonoperating revenues and expenses, (primarily capital appropriations, capital contributions, and additions to

endowment) the total change in net assets was approximately $38,389,000, $(2,375,000), and $18,959,000, for the years ended September 30, 2012, 2011, and 2010, respectively.

The Hospitals represent a significant portion of total University revenues and expenses and have remained relatively constant over the past four years. Operating hospital revenues and expenses for the last ten fiscal years are presented below:

Hospital Operating Revenues and Expenses



Statement of Cash Flows

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

Capital Assets and Debt Administration

Total capital asset additions for the University were approximately $74,972,000 in 2012. During 2012, the Campus Entrance Portals, Stokes Hall, and the renovation of the University Bookstore were placed into service. Significant construction projects that remain in progress at September 30, 2012 include the expansion of Children's and Women's Hospital, Shelby Hall, a major renovation of the Student Center and a new Student Housing Facility. Major projects completed and placed into service in fiscal 2010 and 2011 included the Student Recreation Center, Moulton Tower, the Glass Blowing Studio, a Student Dining Facility and various other smaller projects. At September 30, 2012, the University has outstanding commitments of approximately $42,236,000 for various capital projects.

In a prior year, the State of Alabama made allocations from state bond issues to the University in the amount of $21,332,000. During 2012, $239,000 was recognized by the University and is reported as a capital appropriation. $4,830,000 remains unspent at September 30, 2012.

In January 2012, the University issued the University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B, with a face value of $32,740,000. The net proceeds of these bonds will be used to fund the construction of new student housing as well as other construction and capital projects on the main campus of the University, the Hospitals and the Mitchell Cancer Institute.

In order to realize debt service savings currently from future debt refunding, in January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to a counterparty and resulted in an up-front

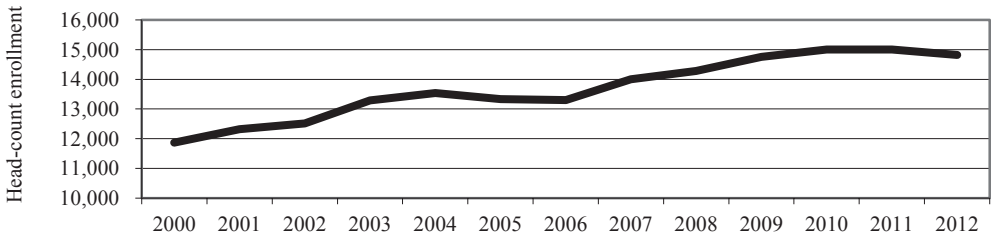
payment to the University totaling $9,328,000 in exchange for selling the counterparty the option to enter into an interest rate swap with respect to the Series 2004 and 2006 bonds. A portion of this payment is considered a borrowing and is included in the long-term debt of the University. The fair value component of the refunding associated with the swaps is considered an investment derivative and, as such, the change in the fair value component is reflected as a component of investment income in 2012, 2011 and 2010.

In March 2012, the University's bond credit rating was downgraded by Moody's Investors Services from Aa3 to A1. This represents the first change in the University's bond credit rating since it was upgraded from A1 to Aa3 in 2010. The University also has a rating of A+ from Standard and Poor's Ratings Services, which did not change in 2012.

Economic Outlook

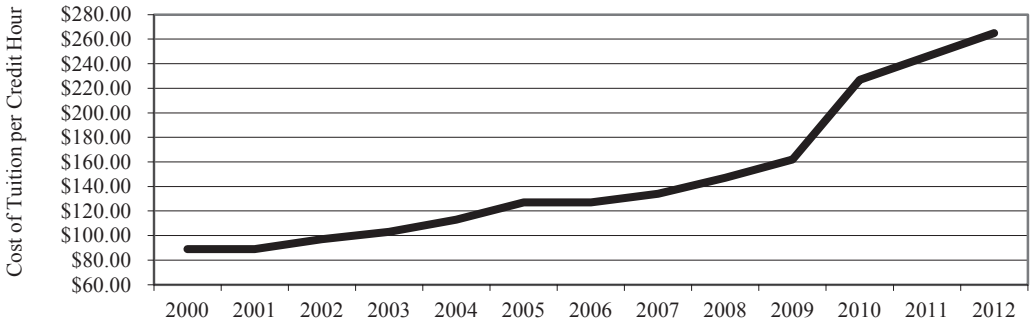
Student enrollment and tuition and fee rates have both increased over the past twelve years. The University has experienced an increase in enrollment between 2000 and 2012, from 11,870 in 2000 to 14,883 for the 2012 fall semester. The enrollment trend for the University between 2000 and 2012 is as follows:

Enrollment Growth Summary



In that same time period, in-state tuition per credit hour has increased by approximately 198%. The large increase in 2010 is the result of the University's bundling of tuition and required fees into a single per-hour charge. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. The trend of in-state tuition per credit hour between 2000 and 2012 is as follows:

Tuition per Credit Hour



While enrollment and tuition have both increased in recent years, state appropriations prior to 2006 were relatively flat. However, in the 2008, 2007 and 2006 fiscal years, the University experienced increases of 16%, 19% and 17%, respectively, or approximately $19,349,000, $19,185,000 and $14,581,000, respectively, in its state appropriation. These increases were unusually high. For the 2009 fiscal year, the University's original state appropriation decreased 12.8% or approximately $17,882,000. Additionally, in December 2008 the Governor of Alabama announced proration of 9%, or approximately $10,967,000; and in July 2009, the Governor announced additional proration of 2%, or approximately $2,437,000. Therefore, the total decrease in the 2009 state appropriation was approximately $31,286,000 to $108,451,000, or 22.4% lower than in 2008.

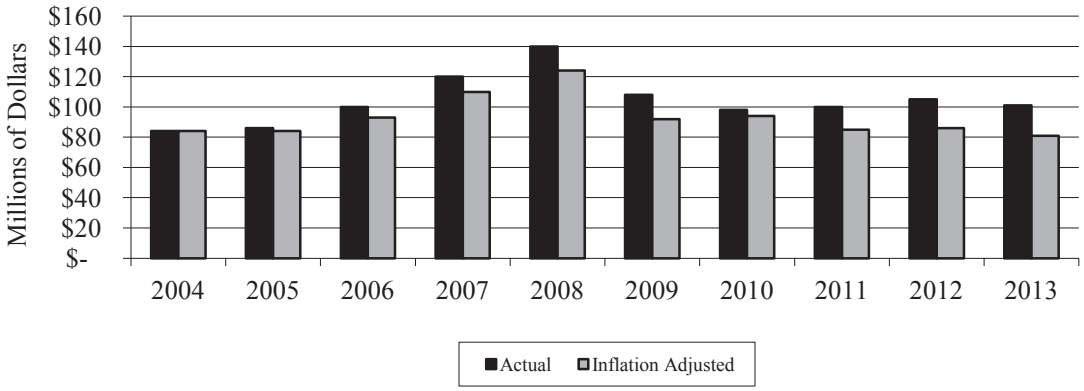
A state appropriation in the amount of approximately $108,286,000 was authorized for the year ended September 30, 2010. In September 2009, the Governor announced proration of 7.5%, or approximately $8,264,000; and in September 2010, the Governor announced additional proration of 2%, or approximately $2,162,000. Therefore, the total decrease from the original authorized 2010 state appropriation was approximately $10,426,000 to $97,860,000, or 9.6% lower than the original appropriation and 9.8% lower than actual 2009 amounts received.

A state appropriation in the amount of approximately $105,639,000 was authorized and received for the year ended September 30, 2012.

A state appropriation in the amount of approximately $101,295,000 has been authorized for the year ending September 30, 2013. This represents a $4,096,000 decrease from the fiscal 2012 appropriation received. While no announcement has been made, the University is aware that reductions in its 2013 appropriation are possible.

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

State Appropriations - Ten-year Trend



In addition to state appropriations, the University is subject to declines in general economic conditions in the United States and, specifically, the State of Alabama. Declines in financial markets over the past few years have had a significant impact on the value of the University's endowment. While financial markets were relatively flat over the past two years, further weakening of the economy could have a potential further negative impact on the University's enrollment, extramural funding, endowment performance, and health care operations.

In early 2009, ARRA was passed by Congress and signed into law by the President. As a result of this legislation, the University was awarded and received approximately $10,769,000 in both 2010 and 2011 through the U.S. Department of Education's State Fiscal Stabilization Fund Program. No additional ARRA State Fiscal Stabilization funds were received in 2012, nor are anticipated in 2013. Additional funding was available through the competitive grant process from various federal agencies. As of September 30, 2012, the University had been awarded ARRA grants totaling approximately $51,097,000.

Other than the issues presented above, University administration is not aware of any other currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during fiscal year 2013 beyond those unknown variables having a global effect on virtually all types of business operations.

Requests for Information

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

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

Independent Auditors' Report

The Board of Trustees
University of South Alabama:

We have audited the accompanying basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of and for the years ended September 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the 2012 and 2011 consolidated financial statements of the University of South Alabama Foundation, which represents 80%, 101% and 14%, respectively, of the 2012 assets, net assets, and revenues, gains and other support of the discretely presented component units and 81%, 102% and 29%, respectively, of the 2011 assets, net assets, and revenues, gains and other support of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University of South Alabama Foundation, the University of South Alabama Health Services Foundation, the USA Research and Technology Corporation, and the Professional and General Liability Trust Funds were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

As discussed in note 1, the financial statements of the University are intended to present the financial position, changes in financial position and, where applicable, cash flows of only that portion of the basic financial statements and the aggregate discretely presented component units of the State of Alabama that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of Alabama as of September 30, 2012 and 2011, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of September 30, 2012 and 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2012, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 2 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

November 15, 2012

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

Statements of Net Assets

September 30, 2012 and 2011

(In thousands)

	2012	2011
Assets:		
Current assets:		
Cash and cash equivalents	$ 120,227	100,967
Investments	91,193	79,620
Net patient accounts receivable, (net of allowance for doubtful accounts of $54,220 and $55,269)	26,838	33,707
Accounts receivable, affiliates	22,218	21,350
Accounts receivable, other	17,635	15,367
Notes receivable, net	4,630	4,896
Prepaid expenses, inventories, and other	9,300	7,701
Total current assets	292,041	263,608
Noncurrent assets:		
Restricted cash and cash equivalents	95,374	77,918
Restricted investments	39,969	60,003
Investments	885	722
Accounts receivable	5,239	7,012
Notes receivable, net	10,782	14,016
Other noncurrent assets	8,085	7,887
Capital assets, net	533,199	489,031
Total noncurrent assets	693,533	656,589
Total assets	985,574	920,197
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	57,513	47,072
Deferred revenue	44,306	39,394
Deposits	2,479	2,158
Current portion of long-term debt	10,790	8,271
Total current liabilities	115,088	96,895
Noncurrent liabilities:		
Long-term debt, less current portion	348,909	324,873
Other long-term liabilities	66,292	81,533
Total noncurrent liabilities	415,201	406,406
Total liabilities	530,289	503,301
Net assets:		
Invested in capital assets, net of related debt	227,029	208,442
Restricted, nonexpendable:		
Scholarships	14,685	13,892
Other	19,140	17,254
Restricted, expendable:		
Scholarships	10,323	8,917
Other	37,878	34,310
Unrestricted	146,230	134,081
Total net assets	$ 455,285	416,896

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statements of Financial Position

June 30, 2012 and 2011

(In thousands)

Assets		**2012**	**2011**
Cash and cash equivalents	$	671	775
Investments:			
Equity securities		104,498	110,579
Timber and mineral properties		153,574	153,432
Real estate		31,040	27,973
Other		5,522	5,531
Other assets		768	1,009
Total assets	$	296,073	299,299
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	182	76
Note payable - University of South Alabama		11,493	15,085
Other liabilities		637	642
Total liabilities		12,312	15,803
Net assets:			
Unrestricted		61,628	63,177
Temporarily restricted		52,887	51,393
Permanently restricted		169,246	168,926
Total net assets		283,761	283,496
Total liabilities and net assets	$	296,073	299,299

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
HEALTH SERVICES FOUNDATION
(Discretely Presented Component Unit)

Statements of Financial Position

September 30, 2012 and 2011

(In thousands)

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents	$	234	859
Patient accounts receivable (net of allowance for uncollectible accounts of approximately $5,873 and $5,307)		13,969	9,120
Other current assets		1,196	1,121
Total current assets		15,399	11,100
Interest in assets of University of South Alabama Professional Liability Trust Fund		20,218	21,016
Property and equipment, net		4,388	2,961
Total assets	$	40,005	35,077
Liabilities and Net Deficit			
Current liabilities:			
Accounts payable	$	1,914	1,190
Due to affiliates		21,715	20,790
Total current liabilities		23,629	21,980
Estimated professional liability costs		20,218	21,016
Total liabilities		43,847	42,996
Net deficit		(3,842)	(7,919)
Total liabilities and deficit	$	40,005	35,077

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statements of Net Assets

September 30, 2012 and 2011

(In thousands)

	2012	2011
Assets:		
Current assets:		
Unrestricted cash and cash equivalents	$ 1,487	1,072
Restricted cash and cash equivalents	253	594
Investments	—	225
Rent receivable	268	237
Grant receivable	—	277
Prepaid expenses and other current assets	4	7
Total current assets	2,012	2,412
Noncurrent assets:		
Intangible assets, net	145	177
Capital assets, net	25,242	26,055
Total noncurrent assets	25,387	26,232
Deferred outflows	4,889	4,629
Total assets and deferred outflows	32,288	33,273
Liabilities:		
Current liabilities:		
Deposits, other current liabilities, and accrued expenses	195	314
Payable to University of South Alabama	12	—
Deferred rent income	400	395
Current portion of notes payable	946	881
Total current liabilities	1,553	1,590
Noncurrent liabilities:		
Notes payable, excluding current portion	24,287	25,233
Interest rate swap	4,889	4,629
Total noncurrent liabilities	29,176	29,862
Total liabilities	30,729	31,452
Net assets:		
Invested in capital assets, net of related debt	311	447
Unrestricted	1,248	1,374
Total net assets	$ 1,559	1,821

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended September 30, 2012 and 2011

(In thousands)

		2012	2011
Operating revenues:			
Tuition and fees (net of scholarship allowances of $29,770 and $29,025)	$	88,299	81,557
Net patient service revenue		247,802	227,039
Federal grants and contracts		20,573	22,851
State grants and contracts		6,292	5,955
Private grants and contracts		49,583	50,974
Auxiliary enterprises (net of scholarship allowances of $873 and $871)		17,878	15,867
Other operating revenues		38,701	31,923
Total operating revenues		469,128	436,166
Operating expenses:			
Salaries and benefits		396,170	390,002
Supplies and other services		134,841	136,749
Scholarships and fellowships		6,272	6,690
Utilities		14,554	14,480
Depreciation and amortization		30,396	32,054
Total operating expenses		582,233	579,975
Operating loss		(113,105)	(143,809)
Nonoperating revenues (expenses):			
State appropriations		105,639	96,948
State appropriated – ARRA funds		—	10,769
Investment income (loss)		14,561	(6,335)
Interest expense		(13,775)	(14,128)
Other nonoperating revenues		32,996	31,927
Other nonoperating expenses		(7,024)	(4,424)
Net nonoperating revenues		132,397	114,757
Income (loss) before capital appropriations, capital contributions and grants, and additions to endowment		19,292	(29,052)
Capital appropriations		239	20
Capital contributions and grants		15,103	23,247
Additions to endowment		3,755	3,410
Change in net assets		38,389	(2,375)
Net assets:			
Beginning of year		416,896	419,271
End of year	$	455,285	416,896

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2012

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Net realized and unrealized gains on investments	$ 5,513	768	—	6,281
Rents, royalties and timber sales	4,255	—	18	4,273
Interest and dividends	611	1,230	7	1,848
Gifts	—	—	195	195
Other income	5	—	—	5
Required match of donor contributions	(100)	—	100	—
Interfund interest	(88)	88	—	—
Transfer	(864)	864	—	—
Net assets released from program restrictions	1,456	(1,456)	—	—
Total revenues, gains, and other support	10,788	1,494	320	12,602
Expenditures:				
Program services:				
Faculty support	2,307	—	—	2,307
Scholarships	1,023	—	—	1,023
Other	1,096	—	—	1,096
Total program service expenditures	4,426	—	—	4,426
Management and general	1,653	—	—	1,653
Other investment expense	1,638	—	—	1,638
Depletion expense	4,135	—	—	4,135
Depreciation expense	77	—	—	77
Interest expense	408	—	—	408
Total expenditures	12,337	—	—	12,337
Increase (decrease) in net assets	(1,549)	1,494	320	265
Net assets – beginning of year	63,177	51,393	168,926	283,496
Net assets – end of year	$ 61,628	52,887	169,246	283,761

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2011

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Net realized and unrealized gains (losses) on investments	$ 12,852	12,258	(22)	25,088
Rents, royalties and timber sales	4,149	—	22	4,171
Interest and dividends	712	1,094	7	1,813
Gifts	—	—	21	21
Other income	148	1	—	149
Required match of donor contributions	(12)	1	11	—
Interfund interest	(92)	92	—	—
Net assets released from program restrictions	1,173	(1,173)	—	—
Total revenues, gains, and other support	18,930	12,273	39	31,242
Expenditures:				
Program services:				
Faculty support	2,154	—	—	2,154
Scholarships	945	—	—	945
Other	1,071	—	—	1,071
Total program service expenditures	4,170	—	—	4,170
Management and general	1,622	—	—	1,622
Other investment expense	1,682	—	—	1,682
Depletion expense	3,534	—	—	3,534
Depreciation expense	67	—	—	67
Interest expense	305	—	—	305
Total expenditures	11,380	—	—	11,380
Increase in net assets	7,550	12,273	39	19,862
Net assets – beginning of year	55,627	39,120	168,887	263,634
Net assets – end of year	$ 63,177	51,393	168,926	283,496

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
HEALTH SERVICES FOUNDATION
(Discretely Presented Component Unit)

Statements of Operations and Changes in Net Deficit

Years ended September 30, 2012 and 2011

(In thousands)

		2012	2011
Unrestricted revenues, gains and other support:			
Net patient service revenue	$	66,026	65,152
Other revenue		8,410	7,857
Total unrestricted revenues, gains, and other support		74,436	73,009
Expenses:			
Salaries and benefits		48,328	47,667
General and administrative		7,064	13,363
Provision for uncollectible accounts		11,670	12,426
Depreciation and amortization		1,270	1,065
Total expenses		68,332	74,521
Operating income (loss)		6,104	(1,512)
Nonoperating gains		2,173	1,831
Revenues over expenses		8,277	319
Transfer of capital to University of South Alabama, College of Medicine		(4,200)	(3,343)
Change in deficit		4,077	(3,024)
Net deficit at beginning of year		(7,919)	(4,895)
Net deficit at end of year	$	(3,842)	(7,919)

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended September 30, 2012 and 2011

(In thousands)

	2012	2011
Operating revenues	$ 4,003	4,041
Operating expenses:		
Building management and operating expenses	1,367	1,119
Depreciation and amortization	1,137	941
Legal and administrative fees	222	177
Insurance	120	110
Lease termination expense	—	5
Total operating expenses	2,846	2,352
Operating income	1,157	1,689
Nonoperating revenues (expenses):		
Investment income	9	7
Interest expense	(1,458)	(1,550)
Abandoned development and tenant improvement costs	(158)	—
Loan refinancing expense	—	(49)
Donation revenue	—	2
Other	5	(14)
Net nonoperating expenses	(1,602)	(1,604)
Capital grant	183	277
Change in net assets	(262)	362
Net assets:		
Beginning of year	1,821	1,459
End of year	$ 1,559	1,821

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended September 30, 2012 and 2011

(In thousands)

	2012	2011
Cash flows from operating activities:		
Receipts related to tuition and fees	$ 89,347	83,753
Receipts from and on behalf of patients and third-party payers	253,766	225,158
Receipts from grants and contracts	73,694	79,165
Receipts related to auxiliary enterprises	17,995	17,041
Payments to suppliers and vendors	(161,308)	(127,826)
Payments to employees and related benefits	(383,158)	(408,644)
Payments for scholarships and fellowships	(6,272)	(6,690)
Other operating receipts	46,995	35,582
Net cash used in operating activities	(68,941)	(102,461)
Cash flows from noncapital financing activities:		
State appropriations	105,639	96,948
State appropriated – ARRA funds	—	11,548
Endowment gifts	3,755	3,410
Agency funds received	1,361	1,112
Agency funds disbursed	(1,007)	(679)
Student loan program receipts	115,253	91,984
Student loan program disbursements	(115,884)	(91,969)
Other nonoperating revenues	27,569	26,874
Other nonoperating expenses	(7,339)	(4,424)
Net cash provided by noncapital financing activities	129,347	134,804
Cash flows from capital and related financing activities:		
Capital contributions and grants	15,718	23,485
Purchases of capital assets	(71,804)	(79,219)
Proceeds from sale of capital assets	3,419	3,942
Proceeds from issuance of capital debt	32,740	—
Principal payments on capital debt	(8,033)	(6,404)
Interest payments on capital debt	(13,951)	(13,597)
Net cash used in capital and related financing activities	(41,911)	(71,793)
Cash flows from investing activities:		
Interest and dividends on investments	2,946	1,590
Purchases of investments	(22,330)	(29,581)
Proceeds from sales of investments	37,605	45,163
Net cash provided by investing activities	18,221	17,172
Net increase (decrease) in cash and cash equivalents	36,716	(22,278)
Cash and cash equivalents (unrestricted and restricted):		
Beginning of year	178,885	201,163
End of year	$ 215,601	178,885

(Continued)

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

Statements of Cash Flows

Years ended September 30, 2012 and 2011

(In thousands)

		2012	2011
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(113,105)	(143,809)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization expense		30,396	32,054
Changes in assets and liabilities, net:			
Student receivables		(1,182)	(212)
Net patient accounts receivables		6,868	(2,852)
Grants and contracts receivables		(5,378)	290
Other receivables		3,201	8,033
Prepaid expenses, inventories, and other		(15,458)	1,667
Accounts payable and accrued liabilities		15,555	(302)
Deferred revenue		10,162	2,670
Net cash used in operating activities	$	(68,941)	(102,461)
Noncash investing, noncapital financing, and capital and related financing transactions:			
Net increase (decrease) in fair value of investments recognized as a component of investment income	$	11,490	(7,357)
Additional maturity on capital appreciation on bonds payable and other borrowings recorded as interest expense		2,086	2,151
Payments on behalf of the University by the Alabama Public School and College Authority reducing purchases of capital assets		239	20
Gifts of capital and other assets		513	3,805
Pledges of operating and capital gifts		1,064	1,666
Capitalization of construction period interest		2,466	1,243
Increase (decrease) in accounts payable related to capital assets		3,516	(513)

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

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

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

The University has adopted GASB Statement No. 39, which 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. The statement also clarifies reporting requirements for those organizations. Based on these criteria as of September 30, 2012 and 2011, the University reports the University of South Alabama Foundation (USA Foundation), the University of South Alabama Health Services Foundation (USAHSF), and the USA Research and Technology Corporation (the Corporation) as discretely presented component units.

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF). This entity is not considered a component unit of the University under the provisions of GASB Statement Nos. 14 and 39 because the University does not consider SAMSF significant enough to warrant inclusion in the University's reporting entity (see note 13 for further discussion of this entity).

GASB Statement No. 14 requires the University, as the primary government, to include in its financial statements, as a component unit, organizations that, even though they are legally separate entities, meet certain requirements as defined by GASB Statement No. 14. Based on these criteria, the University reports the Professional Liability Trust Fund, the General Liability Trust Fund and the USA HealthCare Management, LLC as blended component units. All significant transactions among the University and its blended component units have been eliminated.

(b) USA HealthCare Management, LLC

In June 2010, the University's Board of Trustees approved the formation of the USA HealthCare Management, LLC (the LLC). The LLC was organized for the purpose of managing and operating on behalf of, and as agent for, substantially all of the health care clinical enterprise of the University.

The University is the sole member of the LLC. The LLC 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 a separate professional liability trust fund (the PLTF) in which the University, USAHSF, LLC and SAMSF are the only participants. In accordance with the bylaws of the trust fund, the president of the University is responsible for appointing members of the trust fund policy committee. Additionally, the general liability of the University, USAHSF, LLC, SAMSF and the Corporation is maintained and managed in a general liability trust fund (the GLTF) for which the University, as defined by GASB Statement No. 14, is responsible. The PLTF and GLTF are separate legal entities which are governed by the University Board of Trustees through the University president. As such, PLTF and GLTF are reported as blended component units.

(d) University of South Alabama Foundation

The USA Foundation is a not-for-profit foundation that was organized for the purpose of promoting education, scientific research, and charitable purposes, and to assist in developing and advancing the University in furthering, improving, and expanding its properties, services, facilities, and activities. Because of the significance of the relationship between the University and the USA Foundation, the USA Foundation is considered a component unit of the University. The Board of Directors of the USA Foundation is not appointed or controlled by the University. The University receives distributions from the USA Foundation primarily for scholarship, faculty and other support. Total distributions received or accrued by the University for the years ended September 30, 2012 and 2011 were $4,258,000 and $4,155,000, respectively, and are primarily included in other nonoperating revenues and capital contributions and grants in the University's statements of revenues, expenses, and changes in net assets. The USA Foundation presents its financial statements in accordance with standards issued by the Financial Accounting Standards Board (FASB). The USA Foundation is reported in separate financial statements because of the difference in the financial reporting format since the USA Foundation follows FASB rather than GASB pronouncements. The USA Foundation has a June 30 fiscal year end which differs from the University's September 30 fiscal year end. In accordance with GASB Statement No. 14, this discretely presented unit has been included with the most recent fiscal year. The consolidated statements of financial position and the consolidated statements of activities and changes in net assets for the USA Foundation as of and for the years ended June 30, 2012 and 2011 are discretely presented following the statements of net assets and statements of revenues, expenses, and changes in net assets of the University.

(e) University of South Alabama Health Services Foundation

The USAHSF is a not-for-profit corporation that exists to provide a group medical practice for physicians who are faculty members of the University and to further medical education and research at the University. Because of the significance of the relationship between the University and USAHSF, USAHSF is considered a component unit of the University. The USAHSF reimburses the University for salaries, certain administrative expenses, dean's clinical assessment and other support services. Total amounts received and accrued for such expenses were approximately $43,621,000 and $45,386,000 for the years ended September 30, 2012 and 2011, respectively, and are reflected as

private grants and contracts in the accompanying statements of revenues, expenses, and changes in net assets of the University. The USAHSF presents its financial statements in accordance with standards issued by the FASB. The statements of financial position and the statements of operations and changes in unrestricted net assets for the USAHSF for the years ended September 30, 2012 and 2011 are discretely presented following the statements of net assets and statements of revenues, expenses, and changes in net assets of the University.

(f) USA Research and Technology Corporation

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

(g) 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. 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.

The University prepares its basic financial statements in accordance with U.S. generally accepted accounting principles, as prescribed by GASB, including all applicable effective statements of the GASB and all statements of the FASB issued through November 30, 1989 that do not conflict with GASB pronouncements. The University has elected not to apply the provisions of any pronouncements of the FASB issued after November 30, 1989.

(h) 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.

(i) Cash and Cash Equivalents

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

(j) Investments and Investment Income

Investments are recorded at fair value. The fair value of alternative investments (low-volatility multi-strategy funds, private placement fund-of-funds, relative value arbitrage funds, and other) 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. Because these investments are not marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. Investments received by gift are recorded at fair value at the date of receipt. Changes in the fair value of investments are reported in investment income (loss).

(k) Derivatives

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

The University has two interest rate swaptions which were entered into in January 2008. As a result of entering into the swaptions, the University received up-front payments. Swaptions are considered hybrid instruments which are required to be bifurcated into the fair value of the derivative and a piece that reflects a borrowing for financial statement purposes, which will accrete interest over time. The University determined that as of September 30, 2012 and 2011, the swaptions were not hedging derivative instruments. Therefore, the swaptions are required to be recorded as investment derivatives, with the change in fair value flowing through the statements of revenues, expenses, and change in net assets.

The fair values of the derivatives were $(23,609,000) and $(20,661,000) at September 30, 2012 and 2011, respectively. At September 30, 2012 and 2011, the fair values of the derivatives were included in other long-term liabilities in the accompanying statements of net assets. The change in fair value for the years ended September 30, 2012 and 2011 was $(2,948,000) and $(7,334,000) and resulted in a reduction of investment income in the accompanying statements of revenues, expenses, and changes in net assets for the periods ended September 30, 2012 and 2011. See note 5 for further discussion.

(l) Accounts Receivable

Accounts receivable primarily result from net patient service revenue. Accounts receivable from affiliates primarily represent amounts due from USAHSF for salaries, and certain administrative and other support services. Accounts receivable – other includes amounts due from students, the federal government, state and local governments, or private sources in connection with reimbursement of

allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

(m) Inventories

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

(n) Capital Assets

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

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

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

Certain buildings are componentized for depreciation purposes.

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

The University evaluates impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. For the years ended September 30, 2012 and 2011, no impairments were recorded.

(o) Deferred Revenue

Student tuition, fees, and dormitory rentals are deferred and recognized over the applicable portion of each school term.

Operating lease rental payments related to the University's lease of USA Knollwood Hospital to the Infirmary Health System, Inc. (see note 10) are deferred and recognized as revenue over the term of the lease using the straight-line method.

(p) Classification of Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt reflect 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 *invested in capital assets, net of related debt*.

Restricted, nonexpendable net assets consist of endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, 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 assets include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

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

(q) Scholarship Allowances and Student Financial Aid

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

(r) 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, on the endowment. The law also allows the University to appropriate for expenditure or accumulate to an endowment fund such amounts as

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

(s) Classification of Revenues

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

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

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

(t) 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.

(u) 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.

(v) Net Patient Service Revenue and Electronic Health Records Incentive Program

Net patient service revenue is reported at estimated net realizable amounts due from patients, third-party payers and others for healthcare services rendered, including estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are

rendered and such amounts are adjusted in future periods, as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

The Centers for Medicare and Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The Hospitals utilize a grant accounting model to recognize EHR incentive revenues. The Hospitals record EHR incentive revenue ratably throughout the incentive reporting period when it is reasonably assured that it will meet the meaningful use objectives for the required reporting period and that the grants will be received. The EHR reporting period for hospitals is based on the federal fiscal year, which runs from October 1 through September 30. The Hospitals believe that meaningful use objectives will be met for the federal fiscal year ended September 30, 2013. For the year ended September 30, 2012, the Hospitals recognized EHR incentive revenues of $4,673,000, comprised of Medicaid revenues as the Hospitals implemented certified EHR technology and therefore met the qualifications for year 1 of the Alabama Medicaid EHR incentive program. EHR incentive revenues are included in other operating revenues in the accompanying consolidated statements of revenues, expenses and changes in net assets.

(w) State Appropriated – ARRA Funds

Pursuant to the American Recovery and Reinvestment Act (ARRA) of 2009, the University was awarded approximately $10,769,000 in 2011 through the U.S. Department of Education's State Fiscal Stabilization Fund Program. These funds are billed and recorded as revenue as they are expended and reported in the statements of revenues, expenses and changes in net assets as State Appropriated – ARRA funds. No ARRA distributions were received in 2012.

(x) Costs of Borrowing

Debt financing costs and bond premium and discounts are deferred and amortized using the straight-line method, which approximates the effective interest rate method, over the term of the related bond issue.

(y) Compensated Absences

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

(z) Reclassifications

Certain amounts in the 2011 basic financial statements have been reclassified in order to conform to 2012 classification.

(2) Income Taxes

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

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

(3) Cash

Pursuant to the Security for Alabama Funds Enhancement Act, funds on deposit may be placed in an institution designated as a qualified public depository (QPD) by the State of Alabama. QPD institutions pledge securities to a statewide collateral pool administered by the State Treasurer's office. Such financial institutions contribute to this collateral pool in amounts proportionate to the total amount of public fund deposits at their respective institutions. The securities are held at the Federal Reserve Bank and are designated for the State of Alabama. Additional collateral was not required for University funds on deposit with QPD institutions. At September 30, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately $8,080,000. The University had cash and cash equivalents totaling $215,601,000 and $178,885,000 at September 30, 2012 and 2011, respectively.

At September 30, 2012, restricted cash and cash equivalents consist of $36,753,000 related to swaption collateral obligations, $12,246,000 related to cash included in the PLTF and GLTF to pay insurance liability claims and $46,375,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture. At September 30, 2011, restricted cash and cash equivalents consist of $30,911,000 related to swaption collateral obligations, $1,122,000 related to cash included in the PLTF and GLTF to pay insurance liability claims and $45,885,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture.

(4) Investments

(a) University of South Alabama

The investments of the University are invested pursuant to the University of South Alabama "Nonendowment Cash Pool Investment Policies," the "Endowment Fund Investment Policy," and the "Derivatives Policy" (collectively referred to as the University Investment Policies) as adopted by the Board of Trustees. The purpose of the nonendowment cash pool investment policy is to provide guidelines by which pooled 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 of 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, investments of the University's component units both blended and discretely presented are subject to UPMIFA as well as any requirements placed on them by contract or donor agreements.

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

Investments of the University, by type, at fair value, are as follows at September 30, 2012 and 2011 (in thousands):

		2012	2011
U.S. Treasury notes	$	8,404	10,946
U.S. federal agency notes		14,981	32,782
Pooled equity mutual funds		57,464	51,812
Pooled debt mutual funds		24,619	21,213
Managed income alternative investments (low-volatility multi-strategy funds, private placement fund-of-funds, relative value arbitrage funds, and other)		17,777	16,741
State agency obligations		462	—
Other		8,340	6,851
	$	132,047	140,345

At September 30, 2012 and 2011, $6,938,000 and $6,060,000, respectively, of appreciation in fair value of investments of donor-restricted endowments was recognized and are included in restricted expendable net assets in the accompanying statements of net assets.

Credit Risk and Concentration of Credit Risk

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

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

The University's exposure to credit risk and concentration of credit risk at September 30, 2012 is as follows:

	Credit rating	Percentage of total investments
Federal Home Loan Mortgage Corporation	Aaa	1.3%
Federal Home Loan Bank Corporation	Aaa	4.1
Federal National Mortgage Association	Aaa	4.3
Common Fund Bond Fund	AA	16.7
Various State Agency Obligations	Aaa/A2	0.4
PIMCO Pooled Bond Fund	AA+/NR	2.0
Federal Farm Credit Banks Funding Corporation	Aaa	1.7
Federal Agricultural Mortgage Corporation	Aaa	0.1

The University's exposure to credit risk and concentration of credit risk at September 30, 2011 is as follows:

	Credit rating	Percentage of total investments
Federal Home Loan Mortgage Corporation	AA+	8.0%
Federal Home Loan Bank Corporation	AA+	7.3
Federal National Mortgage Association	AA+	4.6
Common Fund Bond Fund	AA	15.1
Federal Farm Credit Banks Funding Corporation	AA+	2.2
Federal Agricultural Mortgage Corporation	AA+	0.8

Interest Rate Risk

At September 30, 2012, the maturity dates of the University's debt investments were as follows (in thousands):

		Years to maturity			
	Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes	$ 8,404	4,497	3,907	—	—
U.S. federal agency notes	14,981	5,180	9,378	—	423
Pooled debt mutual funds	24,619	892	—	21,986	1,741
State agency obligations	462	—	42	—	420
	$ 48,466	10,569	13,327	21,986	2,584

At September 30, 2011, the maturity dates of the University's debt investments were as follows (in thousands):

		Years to maturity			
	Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes	$ 10,946	4,464	6,482	—	—
U.S. federal agency notes	32,782	14,249	17,931	302	300
Pooled debt mutual funds	21,213	—	—	21,213	—
	$ 64,941	18,713	24,413	21,515	300

Pooled debt mutual funds are classified based on the weighted average maturity of the individual investment instruments within each fund.

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

Mortgage-Backed Securities

The University, from time to time, invests in mortgage-backed securities issued by the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA), agencies 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.

The fair value of mortgage-backed securities is generally based on the cash flows from principal and interest receipts on the underlying mortgage pools. These securities include collateralized mortgage obligations (CMOs). In CMOs, the cash flow from principal and interest payments from one or more mortgage pass-through securities or a pool of mortgages may be reallocated to multiple security classes with different priority claims and payment streams (commonly referred to as tranches). A holder of the CMO security thus chooses the class of security that best meets its risk and return objectives. CMOs are subject to significant market risk due to fluctuations in interest rates, prepayment rates and various liquidity factors related to their specific markets. There were no CMOs in the University's investment portfolio at September 30, 2012 or 2011.

At September 30, 2012, restricted investments consist of $39,969,000 related to investments included in the PLTF and GLTF to pay insurance liability claims. At September 30, 2011, restricted investments consist of $6,996,000 related to swaption collateral obligations and $53,007,000 related to investments included in the PLTF and GLTF to pay insurance liability claims.

(b) University of South Alabama Foundation

Investments in securities consist primarily of equity securities totaling $104,498,000 and $110,579,000, at June 30, 2012 and 2011, respectively.

Investment income was comprised of the following for the years ended June 30, 2012 and 2011 (in thousands):

		2012	2011
Unrealized gains	$	5,840	24,043
Realized gains		441	1,045
Timber sales		3,473	3,351
Interest and dividends		1,848	1,813
Rents		602	614
Royalties		198	206
	$	12,402	31,072

Investment related expenses in the amount of $244,000 and $238,000, respectively, are included in the USA Foundation's management and general expenses in the accompanying 2012 and 2011 consolidated statements of activities and changes in net assets.

Real estate at June 30, 2012 and 2011 consisted of the following property held (in thousands):

		2012	2011
Land and land improvements – held for investment	$	29,913	26,816
Building and building improvements – held for investment, net of depreciation		1,127	1,157
	$	31,040	27,973

Timber and mineral properties are stated at fair market 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, 2012 and 2011, include an equity interest in a timberland management company. The company's primary assets consist of timberland. The Foundation's proportionate share of the fair value of the company is based upon the valuation of the trustee responsible for the management of the company and the timber valuation.

The Foundation has adopted Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, (formally FASB Statement No. 157, *Fair Value Measurements*). ASC 820 provides a single definition of fair value and a hierarchical framework for measuring it, as well as establishing additional disclosure requirements about the use of fair value to measure assets and liabilities. Fair value measurements are classified as either observable or unobservable in nature. Observable fair values are derived from quoted market prices for investments traded on an active exchange or in dealer markets where there is sufficient activity and liquidity to allow price discovery by substantially all market participants (Level 1). The Foundation's observable values consist of

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

The Foundation's investment assets at June 30, 2012 and 2011, respectively, are summarized based on the criteria of ASC 820 as follows (in thousands):

	Fair value measurements at June 30, 2012			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 51,461	53,037	—	104,498
Timber and mineral properties	—	—	153,574	153,574
Real estate	—	—	31,040	31,040
Other investments	—	—	5,522	5,522
	$ 51,461	53,037	190,136	294,634

	Fair value measurements at June 30, 2011			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 48,054	62,525	—	110,579
Timber and mineral properties	—	—	153,432	153,432
Real estate	—	—	27,973	27,973
Other investments	—	—	5,531	5,531
	$ 48,054	62,525	186,936	297,515

For the year ended June 30, 2012, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description	**Timber and mineral properties**	**Real estate**	**Other investments**	**Total**
Beginning balance	$ 153,432	27,973	5,531	186,936
Total gains (losses) (realized/unrealized)	3,793	3,100	(9)	6,884
Reforestation	484	—	—	484
Depreciation/depletion	(4,135)	(33)	—	(4,168)
Ending balance	$ 153,574	31,040	5,522	190,136

For the year ended June 30, 2011, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description	Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	$ 156,465	8,727	5,535	170,727
Total gains (losses) (realized/unrealized)	(160)	457	(4)	293
Additions	—	18,820	—	18,820
Reforestation	661	—	—	661
Depreciation/depletion	(3,534)	(31)	—	(3,565)
Ending balance	$ 153,432	27,973	5,531	186,936

As of June 30, 2012, the Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of the Foundation's equity securities at June 30, 2012 and 2011 are considered readily liquid. Timber and mineral properties, real estate, and other investments are generally considered illiquid.

(5) Derivative Transactions

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

Objective of the Derivative Transaction

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

Terms

A summary of the transactions is as follows:

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

If the counterparty exercises its options in 2014 and 2016, the University would, at the counterparty's option, be forced into an underlying swap. If the options are exercised, the University would begin to make payments on the notional amount, currently $41,125,000 and $100,000,000 for the 2004 bonds and 2006

bonds, respectively, of the underlying swap contract. Simultaneously, the University would call outstanding 2004 and 2006 bonds and issue variable rate demand notes (VRDNs) in their place. Under the swap contracts, the University would pay a fixed rate of 4.9753% on the 2004 bonds and 5.0% on the 2006 bonds to the counterparty and would receive payments based on 68% of the one-month LIBOR index. Alternatively, although it is not anticipated that this option would be to the University's advantage, the University could, at its option, cash settle the swap and retain its right to refund the 2004 and 2006 bonds.

If the interest rate environment is such that the counterparty chooses to not exercise its options, the swaptions would be canceled and the University would have no further obligation under these agreements.

Financial Statement Presentation

A swaption is considered a hybrid instrument and as such the payment by the counterparty to the University must be bifurcated into two components, a borrowing component and an embedded derivative component, and each component treated separately. The embedded derivative value of the swaption represents the fair value resulting from the fact that the fixed rate stated in the swaption is greater than the at-the-market rate. The initial value of the borrowing is the difference between the upfront payment and the fair value of the embedded derivative and represents the time value to the counterparty for holding the option, or the probability-weighted, discounted values of a range of future possible outcomes. The values of the derivatives and borrowings at the date of execution of this transaction are as follows:

		2004 Bonds	2006 Bonds
Embedded derivatives	$	918,000	3,343,000
Borrowings		1,070,000	3,997,000
	$	1,988,000	7,340,000

The values of the borrowings are included in long-term debt on the University's 2012 and 2011 statements of net assets. Interest is being accreted on, and added to, the borrowings through the expiration date of the option. For the years ended September 30, 2012 and 2011, $378,000 and $358,000, respectively, was accreted and is included in interest expense in the statements of revenues, expenses, and changes in net assets.

The fair values of the embedded investment derivatives are reported as investment assets if the derivatives are assets or other noncurrent liabilities, depending on the fair values of the derivatives. The change in the fair market values of the derivatives is reported as a component of investment income (loss) in the statements of revenues, expenses and changes in net assets. At September 30, 2012 and 2011, the negative fair values of the derivatives are approximately $(23,609,000) and $(20,661,000) and are included in other long-term liabilities in the accompanying statements of net assets. For the years ended September 30, 2012 and 2011, the changes in the fair value of the derivatives were $(2,948,000) and $(7,334,000), respectively.

Fair Value

At September 30, 2012 and 2011, the embedded derivatives had negative fair values of $(23,609,000) and $(20,661,000), respectively. The fair values of the embedded derivatives were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the

instruments, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement.

Risks Associated with this Transaction

Certain risks are inherent to derivative transactions.

Interest rate risk. Interest rate risk, as a result of rising short-term interest rates causing higher interest rate payments, is effectively hedged by the University's fixed rate bonds. If the counterparty exercises its options, the underlying swaps are expected to effectively hedge the potentially higher payments on VRDNs as well. The University is also subject to interest rate risk, as a result of changes in long-term interest rates, which may cause the value of fixed rate bonds or interest rate derivatives to change. If long-term interest rates fall subsequent to the execution of this transaction, the value of the swaptions will change, with negative consequences for the University.

Market access risk. This transaction assumes that VRDNs will be issued as a replacement of the 2004 and 2006 bonds. If the University is unable to issue variable rate bonds after the counterparty exercises its right under the swaptions, the University would still be required to begin making periodic payments on the swaps, even though there are no related bonds. Alternatively, the University could choose to liquidate the swaps, which may create a substantial cash outlay.

Basis risk. If the counterparty exercises its option, there is a risk that the floating payments received under the swaps will not fully offset the variable rate payments due on the assumed VRDNs.

Credit risk. Although the underlying swap exposes the University to credit risk should the swap be executed, the swaption itself does not expose the University to credit risk. If the option is exercised on one or both issues, the University would begin to make payments on the appropriate notional amount of the underlying swap contract. In that situation, if the fair value of the swap is positive, the University would be exposed to credit risk on the swap in the amount of its fair value. As of September 30, 2012 and 2011, the swap counterparty was rated Aa3 by Moody's Investors Services and AA- by Standard and Poor's Rating Services.

Termination risk. The University may be required to terminate the swaptions or swaps under certain circumstances, such as credit downgrades or other events specified in the contracts. In the event that a position needs to be terminated, the University may owe a substantial amount of money to terminate the contracts. At September 30, 2012 and 2011, no events of termination have occurred.

(6) Capital Assets

(a) University of South Alabama

A summary of the University's capital asset activity for the year ended September 30, 2012 follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Land and other	$ 25,341	188	—	(1)	25,528
Construction-in-progress	88,128	61,556	(29,921)	—	119,763
	113,469	61,744	(29,921)	(1)	145,291
Capital assets being depreciated:					
Land improvements	27,112	426	3,728	(10)	31,256
Buildings, fixed equipment, and infrastructure	512,428	3,375	25,313	(1,998)	539,118
Other equipment	129,741	6,458	880	(3,989)	133,090
Library materials	51,687	2,969	—	—	54,656
	720,968	13,228	29,921	(5,997)	758,120
Less accumulated depreciation for:					
Land improvements	(15,372)	(1,226)	—	10	(16,588)
Buildings, fixed equipment, and infrastructure	(194,925)	(15,082)	—	1,508	(208,499)
Other equipment	(96,577)	(11,366)	—	3,859	(104,084)
Library materials	(38,532)	(2,509)	—	—	(41,041)
	(345,406)	(30,183)	—	5,377	(370,212)
Capital assets being depreciated, net	375,562	(16,955)	29,921	(620)	387,908
Capital assets, net	$ 489,031	44,789	—	(621)	533,199

At September 30, 2012, the University had commitments of approximately $39,618,000 related to various construction projects.

A summary of the University's capital asset activity for the year ended September 30, 2011 follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Land and other	$ 29,671	3,170	—	(7,500)	25,341
Construction-in-progress	84,734	67,355	(63,961)	—	88,128
	114,405	70,525	(63,961)	(7,500)	113,469
Capital assets being depreciated:					
Land improvements	26,751	93	332	(64)	27,112
Buildings, fixed equipment, and infrastructure	459,109	1,517	61,385	(9,583)	512,428
Other equipment	123,713	8,694	2,244	(4,910)	129,741
Library materials	48,740	2,947	—	—	51,687
	658,313	13,251	63,961	(14,557)	720,968
Less accumulated depreciation for:					
Land improvements	(13,900)	(1,558)	—	86	(15,372)
Buildings, fixed equipment, and infrastructure	(190,543)	(13,918)	—	9,536	(194,925)
Other equipment	(87,422)	(13,971)	—	4,816	(96,577)
Library materials	(36,135)	(2,397)	—	—	(38,532)
	(328,000)	(31,844)	—	14,438	(345,406)
Capital assets being depreciated, net	330,313	(18,593)	63,961	(119)	375,562
Capital assets, net	$ 444,718	51,932	—	(7,619)	489,031

At September 30, 2011, the University had commitments of approximately $60,958,000 related to various construction projects.

(b) USA Research and Technology Corporation

Changes in capital assets for the years ended September 30, 2012 and 2011 are as follows (in thousands):

	2012				
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land improvements	$ 2,326	14	7	(146)	2,201
Buildings	27,145	25	499	—	27,669
Tenant improvements	801	14	150	(223)	742
Construction in progress	277	379	(656)	—	—
Other equipment	250	6	—	—	256
	30,799	438	—	(369)	30,868
Less accumulated depreciation for:					—
Land improvements	(654)	(94)	—	—	(748)
Buildings	(3,746)	(727)	—	212	(4,261)
Tenant improvements	(280)	(248)	—	—	(528)
Other equipment	(64)	(25)	—	—	(89)
	(4,744)	(1,094)	—	212	(5,626)
Capital assets, net	$ 26,055	(656)	—	(157)	25,242

	2011				
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land improvements	$ 2,315	4	22	(15)	2,326
Buildings	26,779	388	(22)	—	27,145
Tenant improvements	623	178	—	—	801
Construction in progress	—	277	—	—	277
Other equipment	188	67	—	(5)	250
	29,905	914	—	(20)	30,799
Less accumulated depreciation for:					
Land improvements	(560)	(94)	—	—	(654)
Buildings	(3,075)	(671)	—	—	(3,746)
Tenant improvements	(164)	(116)	—	—	(280)
Other equipment	(46)	(20)	—	2	(64)
	(3,845)	(901)	—	2	(4,744)
Capital assets, net	$ 26,060	13	—	(18)	26,055

(7) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the years ended September 30, 2012 and 2011 follows (in thousands):

	2012					
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable and other	$ 333,144	34,826	(8,271)	359,699	10,790	348,909
Total long-term debt	333,144	34,826	(8,271)	359,699	10,790	348,909
Other long-term liabilities	96,379	34,179	(50,493)	80,065	13,773	66,292
Total noncurrent liabilities	$ 429,523	69,005	(58,764)	439,764	24,563	415,201

	2011					
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable and other	$ 337,635	2,151	(6,642)	333,144	8,271	324,873
Total long-term debt	337,635	2,151	(6,642)	333,144	8,271	324,873
Other long-term liabilities	81,742	43,001	(28,364)	96,379	14,846	81,533
Total noncurrent liabilities	$ 419,377	45,152	(35,006)	429,523	23,117	406,406

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

(8) Bonds Payable

Bonds payable consisted of the following at September 30, 2012 and 2011 (in thousands):

		2012	2011
University Tuition Revenue Bonds, Series 1999 Capital Appreciation, 4.70% to 5.25%, payable November 2011 through November 2018	$	34,398	36,941
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, 2.00% to 5.00%, payable through March 2024		42,250	42,785
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, 5.00%, payable through December 2036		100,000	100,000
University Facilities Revenue and Capital Improvement Bonds, Series 2008, 3.00% to 5.00%, payable through August 2038		108,850	111,060
University Facilities Revenue and Capital Improvement Bond, Series 2010, 3.81%, payable through August 2030		27,718	28,756
University Facilities Revenue Capital Improvement Bond, Series 2012-A, 2.92% payable through August 2032		25,000	—
University Facilities Revenue Capital Improvement Bond, Series 2012-B, 2.14% payable through August 2018		7,740	—
Borrowing arising from swaption, Series 2004 Bonds		1,571	1,494
Borrowing arising from swaption, Series 2006 Bonds		5,587	5,286
		353,114	326,322
Plus unamortized premium		6,958	7,307
Less unaccreted discount		(42)	(49)
Less unamortized debt extinguishment costs		(331)	(436)
	$	359,699	333,144

Substantially all student tuition and fee revenues secure University bonds. Additionally, security for Series 2008 bonds includes Children's and Women's Hospital revenues in an amount not exceeding $10,000,000. Series 1999 Current Interest Bonds began maturing November 2002, and Capital Appreciation Bonds began maturing in November 2011. Series 1999 Bonds are not redeemable prior to maturity. Series 2004 Bonds began maturing in March 2005 and are redeemable beginning in March 2014. Series 2006 Bonds begin maturing in December 2024 and are redeemable beginning in December 2016. Series 2008 Bonds began maturing in August 2009 and are redeemable beginning in August 2018. The Series 2010 Bond began maturing in August 2011 and is redeemable beginning in February 2020. The 2012-A and 2012-B Bonds begin maturing in August 2013.

In January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to a counterparty. The proceeds from each sale, totaling $9,328,000, consist of two components, a borrowing and an embedded derivative. The borrowing is included in long-term debt. As a result of this transaction,

the counterparty has the option to force the University to redeem its Series 2004 and 2006 bonds at their respective redemption dates. See note 5 for a complete description of this transaction.

During the years ended September 30, 2012 and 2011, the maturity value of the Capital Appreciation Bonds increased $1,708,000 and $1,793,000, respectively, over the original principal amount of $19,810,000, reflecting accretion of interest.

Approximately $16,801,000 of proceeds from the issuance of the Series 2008 bonds remained unspent at September 30, 2012 and is included in restricted cash and cash equivalents in the 2012 statement of net assets. These funds are restricted for capital purposes as outlined in the indenture.

Approximately $29,574,000 of proceeds from the issuance of the Series 2012-A and 2012-B bonds remained unspent at September 30, 2012 and is included in restricted cash and cash equivalents in the 2012 statement of net assets. These funds are restricted for capital purposes as outlined in the indenture.

The University is subject to arbitrage restrictions on its bonded indebtedness prescribed by the U. S. Internal Revenue Service. As such, amounts are accrued as needed in the University's basic financial statement for any expected arbitrage liabilities. At September 30, 2012 and 2011, no amounts were due or recorded in the financial statements.

The University is subject to restrictive covenants related to its bonds payable. At September 30, 2012, management believes the University was in compliance with such financial covenants.

Debt Service on Long-Term Obligations

Total debt service by fiscal year is as follows as of September 30, 2012 (in thousands):

	Debt service on bonds			
	Principal	Interest	Additional maturity	Total
2013	$ 10,552	14,170	(1,981)	22,741
2014	10,854	14,073	(1,854)	23,073
2015	11,160	13,927	(1,627)	23,460
2016	11,428	13,665	(1,473)	23,620
2017	14,728	13,754	(782)	27,700
2018 – 2022	69,826	64,686	(476)	134,036
2023 – 2027	70,729	49,055	—	119,784
2028 – 2032	75,029	31,927	—	106,956
2033 – 2037	79,926	12,945	—	92,871
2038 – 2039	7,075	354	—	7,429
Subtotal	361,307	228,556	(8,193)	581,670
Plus (less):				
Additional maturity	(8,193)			
Unamortized bond premium	6,958			
Unaccreted bond discount	(42)			
Unamortized debt extinguishment costs	(331)			
Total	$ 359,699			

The principal amount of debt service due on bonds at September 30, 2012 includes $18,839,000 representing additional maturity value on Series 1999 Capital Appreciation Bonds. These bonds mature through 2019. Also included in the principal amount of debt service due on bonds at September 30, 2012, is $1,732,000 representing additional maturity value of the borrowing resulting from the Series 2004 and Series 2006 swaption. As described in note 5, additional maturity will continue to accrue until the swaption option period in 2014 and 2016. Although this additional maturity is presented as principal on the debt service schedule above, it is also recognized as interest expense on an annual basis in the University's basic financial statements as it accretes.

(a) USA Research and Technology Corporation

Notes Payable

Notes payable consisted of the following at September 30, 2012 and 2011 (in thousands):

		2012	2011
Wells Fargo, N.A. promissory note, one-month LIBOR plus 0.85% (1.0645% at September 30, 2012) payable through 2028	$	15,746	16,314
PNC Bank promissory note, 4.88%, payable through 2021		9,487	9,800
	$	25,233	26,114

The note payable to Wells Fargo Bank, N.A. was incurred by the Corporation to acquire Buildings II and III in the USA Technology & Research Park and to provide funds for renovations and tenant finishing costs. The loan is a fully amortizing promissory note with a 20-year term. As is more fully described below, the Corporation entered into a "receive-variable, pay-fixed" type of interest rate swap on the promissory note, which will yield a synthetic fixed interest rate of 6.1%. The promissory note payable is secured by an interest in the ground lease with respect to the parcels of land on which Buildings II and III stand, an interest in Buildings II and III, an interest in tenant leases for Buildings II and III, and an interest in income received from rental of Buildings II and III. The University also entered into an agreement with Wells Fargo Bank, N.A. providing that, for a year in which the Corporation's debt service coverage ratio is less than one to one, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to one to one.

The promissory note payable to PNC Bank has a 10-year term and amortization is based on a 20-year term. PNC Bank acquired the promissory note as part of its acquisition of RBC Bank (USA) on March 20, 2012. 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 is secured by an interest in tenant leases for Building I and the dialysis services building, and an interest in income received from rental of Building I and the dialysis services building. The University also entered into an agreement with PNC Bank providing that, for a year in which the Corporations' debt service coverage ratio is less than one to one, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to one to one.

Proceeds of $253,000 and $594,000 from the issuance of notes payable remain unspent at September 30, 2012 and 2011, respectively, and are restricted for capital purposes. These amounts are included in restricted cash and cash equivalents.

At September 30, 2012, the Corporation's management believes the Corporation was in compliance with its debt covenants.

Debt Service on Long-Term Obligations

At September 30, 2012, total debt service by fiscal year is as follows (in thousands):

		Debt service on note and loan		
		Principal	Interest	Total
2013	$	946	1,409	2,355
2014		1,002	1,354	2,356
2015		1,060	1,295	2,355
2016		1,118	1,238	2,356
2017		1,186	1,169	2,355
2018 – 2022		12,426	4,238	16,664
2023 – 2027		6,471	1,386	7,857
2028		1,024	24	1,048
Total	$	25,233	12,113	37,346

Derivative Transaction

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

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

The swap will terminate on May 1, 2028, when the loan matures. The notional amount of the swap will at all times match the outstanding principal amount of the loan. Under the swap, the Corporation pays the counterparty a fixed payment of 6.10% and receives a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the loan bears interest at the one-month LIBOR rate plus 0.85%. The Corporation paid $802,711 and $847,261 under the interest rate swap agreement for the years ended September 30, 2012 and 2011, respectively, which is reflected as an increase in interest expense.

Fair value. The interest rate swap had a negative fair value of $(4,888,612) and $(4,629,253) at September 30, 2012 and 2011, respectively.

The changes in fair value are reported as a deferred outflows on the Statements of Net Assets since the interest rate swap is a hedging derivative instrument.

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

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

Credit risk. As of September 30, 2012 and 2011, the Corporation was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivatives become positive, the Corporation would have a gross exposure to credit risk in the amount of the derivatives' fair value. The counterparty was rated Aa3 and Aa3 by Moody's Investors Services and AA- and AA by Standard & Poor's Ratings Services as of September 30, 2012 and 2011, respectively.

Termination risk. The interest rate swap contracts use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard default and termination events, such as failure to make payments, breach of agreement, and bankruptcy. At September 30, 2012 and 2011, no events of default or termination had occurred. If the interest rate swap is terminated, interest rate risk associated with the variable rate debt would no longer be hedged. Also, if at the time of termination the interest rate swap had a negative fair value, the Corporation would be liable to the counterparty for a payment equal to the interest rate swap's fair value. To allow the Corporation the maximum flexibility to manage the utilization of Buildings II and III while at the same time providing protection for the counterparty, the Corporation granted the counterparty a $2,000,000 mortgage secured by an interest in the ground lease with respect to the parcel of land on which Building II stands, an interest in Building II, a security interest in Building II tenant leases, and a security interest in income received from rental of Building II.

Derivative payments and hedged debt. As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of September 30, 2012, debt service requirements by fiscal year of the variable rate debt and net derivative payments, assuming current interest rates remain the same in the future, are as follows (in thousands):

	Variable rate loan		Interest rate	
	Principal	Interest	swap, net	Total
2013	$ 618	166	787	1,571
2014	657	160	755	1,572
2015	698	152	721	1,571
2016	738	145	688	1,571
2017	787	137	647	1,571
2018 – 2022	4,753	542	2,562	7,857
2023 – 2027	6,471	242	1,144	7,857
2028	1,024	4	20	1,048
Total	$ 15,746	1,548	7,324	24,618

(9) Net Patient Service Revenue

The Hospitals have agreements with governmental and other third-party payers that provide for reimbursement at amounts different from their established rates. Contractual adjustments under third-party

reimbursement programs represent the difference between the Hospitals' billings at established rates for services and amounts reimbursed by third-party payers.

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

Medicare – Substantially all acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Additionally, the Hospitals are reimbursed for both direct and indirect medical education costs (as defined), principally based on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. The Hospitals generally are reimbursed for certain retroactively settled items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospitals and audits by the Medicare fiscal intermediary. The cost report for the USA Medical Center has been audited and settled through 2009. The cost report for USA Children's and Women's Hospital has been audited and settled through 2010. Revenue from the Medicare program accounted for approximately 13% and 14% of the Hospitals' net patient service revenue for the years ended September 30, 2012 and 2011, respectively.

Blue Cross – Inpatient services rendered to Blue Cross subscribers are paid at a prospectively determined per diem rate. Outpatient services are reimbursed under a cost reimbursement methodology. For outpatient services, the Hospitals are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospitals and audits thereof by Blue Cross. The Hospitals' Blue Cross cost reports have been audited through 2011 and settled for all fiscal years through 2010. Revenue from the Blue Cross program accounted for approximately 17% of the Hospitals' net patient service revenue for both years ended September 30, 2012 and 2011.

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

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

Revenue from the Medicaid program accounted for approximately 25% of the Hospitals' net patient service revenue for both years ended September 30, 2012 and 2011.

Other – The Hospitals have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The bases for payments to the Hospitals under these agreements include discounts from established charges and prospectively determined daily and case rates.

The composition of net patient service revenue for the years ended September 30, 2012 and 2011 follows (in thousands):

		2012	2011
Gross patient service revenue	$	547,824	467,388
Less provision for contractual and other adjustments		(221,339)	(178,282)
Less provision for bad debts		(78,683)	(62,067)
	$	247,802	227,039

Changes in estimates related to prior cost reporting periods resulted in an increase (decrease) of approximately $2,272,000 and $(14,000) in net patient service revenue for the years ended September 30, 2012 and 2011, respectively.

(10) Hospital Lease

In fiscal 2006, the University and Infirmary Health System, Inc. (the Infirmary) entered into a Lease Agreement (the Lease) in which the University agreed to lease certain land, buildings and equipment used in connection with the operation of its USA Knollwood Hospital campus to the Infirmary. The lease is effective through March 2056 with an automatic renewal, for an additional forty-nine years, through March 2105; and may be canceled by the Infirmary after the initial fifty-year term. Upon the expiration or termination of the lease, the assets, along with responsibility for the operation of such assets, will revert to the University and the University will pay the Infirmary, at fair market value, for any capital improvements to the assets. Additionally, the lease may be terminated at any time, at the option of the Infirmary, in the event that a change in any law, statute, rule, or a regulation of any governmental or other regulatory body or any third-party payment program is deemed by the Infirmary to be significant, as defined by the lease.

In January 2009, the Infirmary and the University entered into a "First Amendment to Lease Agreement" (the Amendment). The Amendment deferred the original payment terms of the lease for two years such that during the period from January 2009 to December 2010, annual lease payments are reduced to $1 annually. Beginning in January 2011, the original payment schedule resumed. The payment schedule and narrative presented below reflects these revised terms.

The total amount of lease payments due the University was based on the fair market value of the appraised assets, $32,418,000. The allocation of the appraised fair market value was $29,370,000 for the land and buildings and $3,048,000 for medical equipment, office furnishings and other equipment.

Upon execution of the lease, a partial lease prepayment in the amount of $7,418,000 was made by the Infirmary. In addition to the prepayment, required lease payments by the Infirmary to the University are as follows (payable monthly):

- Months one through thirty-three of the initial lease term – $1,000,000 annually ($83,333 monthly)
- Months thirty-four through fifty-seven of the initial lease term – $1 annually
- Months fifty-eight through eighty-four of the initial lease term – $1,000,000 annually ($83,333 monthly)

- Years eight through twelve of the initial lease term – $1,250,000 annually
- Years thirteen through seventeen of the initial lease term – $1,500,000 annually
- Years eighteen through thirty-two of the initial lease term – The monthly payment will be the remaining unpaid balance of the lease payments amortized over years sixteen through thirty using an interest rate calculated from the immediately previous 15-year monthly average of the 20-year state and local tax exempt general obligation bond issues as determined by the United States Federal Reserve System. The remaining unpaid balance at the end of year fifteen, $17,401,000, is derived by taking the initial unpaid balance of rent due after the partial lease prepayment, $25,000,000 plus accrued interest at an annual rate of 3.75%, less monthly lease payments.
- Years thirty-three through fifty of the initial lease term – $1 annually
- Year fifty-one through ninety-nine of the extended lease term – $1 annually

For reporting purposes, management assumed that the interest rate utilized in years sixteen through thirty would remain at 3.75%. This assumption will be reviewed, and amortization schedules adjusted, if necessary, when the actual interest rate is determined.

In order to properly report this transaction, the University has bifurcated the lease into an equipment component and a real property component, as required by FASB Statement No. 13, based on the appraised fair value of each such component. The financial considerations of the lease are then applied to, and the accounting treatment is determined for, each component based on this bifurcation.

The equipment component of the lease is considered a capital lease (sales-type lease) and as such the current portion of the receivable has been recorded as a capital lease receivable in other current assets and the noncurrent portion has been recorded in other noncurrent assets in the accompanying basic financial statements of the University. The capital equipment lease is being amortized through fiscal 2013 at a fixed rate of 3.75%. Future receipts from this capital lease are expected as follows:

Year ending September 30:		
2013	$	298,000
		298,000
Less amounts representing interest		(3,000)
Total capital lease receivable	$	295,000

The component of the lease attributable to land and buildings is considered an operating lease. As such, lease revenue will be recorded as it is earned over the ninety-nine year lease term (the fifty-year initial term and the forty-nine year automatic renewal term). The expected total lease payments to be received over the next twenty-seven years are approximately $42,939,000. These total receipts will be recognized as revenue in the amount of approximately $485,000 annually. Payments received in excess of this amount, along with cash and other consideration already received in the amount of $5,602,000, will be deferred and amortized over the ninety-nine year lease term.

As more fully discussed in note 17, on October 15, 2012, the Infirmary publically announced the closing of Mobile Infirmary West (formerly USA Knollwood Hospital), effective October 31, 2012. Currently, the University has received no formal notice from the Infirmary as to its intent with respect to the lease and, as such, the ultimate impact on the financial statements of the University has not yet been determined.

(11) Employee Benefits

(a) Retirement and Pension Plans

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

Permanent employees of the University participate in TRS, a public retirement system created by an act of the State Legislature, with benefit provisions established by the Code of Alabama. Responsibility for general administration and operation of the TRS is vested in the Board of Control (currently 14 members). Benefits fully vest after 10 years of full-time, permanent employment. Vested employees may retire with full benefits at age 60 or after 25 years of service. Participating retirees may elect the maximum benefit, or may choose among four other monthly benefit options. Under the maximum benefit, participants are allowed 2.0125% of their average final salary (average of three highest years of annual compensation during the last ten years of service) for each year of service. The TRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150, or by calling (334) 832-4140.

Prior to October 1, 2011, all employees covered by this retirement plan were required to contribute 5% of their eligible earnings to TRS. Effective October 1, 2011, the required employee contribution was increased to 7.25% of their eligible earnings. An actuary employed by the TRS Board of Control establishes the employer-matching amount annually. During 2012, 2011 and 2010, the University made total contributions of $23,381,000, $31,420,000, and $32,259,000 (100% of the required contributions), respectively, to TRS on behalf of participants, which represents 10%, 12.51%, and 12.51%, respectively, of each participant's gross earnings. The University's payroll for all employees was approximately $268,684,000 and $286,504,000 in 2012 and 2011, respectively. The LLC's payroll for all employees was approximately $43,479,000 and $14,817,000 in 2012 and 2011, respectively. Total payroll for University employees participating in the Teachers' Retirement System of Alabama was approximately $233,806,000 and $251,158,000 in 2012 and 2011, respectively.

The defined contribution pension plan covers certain academic and administrative employees, and participation by eligible employees is optional. Under this plan, administered by Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University and the employees each contributed $984,000 and $1,000,000 in 2012 and 2011, respectively, representing 469 and 522 employees participating in this Plan.

All employees of the LLC working at least half time are eligible to participate in a defined contribution pension plan. Under this plan, contributions by eligible employees are matched equally by the LLC up to a maximum of 5% of current annual pay. The LLC and the employees contributed $1,272,000 and $395,000, respectively in 2012 and 2011 representing 307 and 531, employees participating in this plan. University employees as of September 30, 2011 who later transfer to the LLC are immediately vested in the plan. All other employees do not vest until they have held employment with the LLC for thirty-six months; at which time they become 100% vested in the plan.

(b) Compensated Absences

Regular University employees accumulate vacation and sick leave and hospital and clinical employees accumulate paid time off. These are subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon separation of employment, employees who were hired before January 1, 2012 are paid all unused accrued vacation at their regular rate of pay up to a maximum of two times their annual accumulation rate. Employees hired after January 1, 2012 are not eligible for payment of unused accrued vacation or PTO hours upon separation of employment. The accompanying statements of net assets include accruals for vacation pay and paid time off of approximately $15,990,000 and $17,949,000 at September 30, 2012 and 2011, respectively. The current portion of the accrual is included in accounts payable and accrued liabilities and the noncurrent portion is included in other long-term liabilities in the accompanying basic financial statements. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

(c) Other Postretirement Employee Benefits

As the provider of postretirement benefits to state retirees, the state is responsible for implementing GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In September 2003, the State of Alabama Legislature passed legislation that requires all colleges and universities to fund the healthcare premiums of its participating retirees. In prior years, such costs have been paid by the State. Beginning in October 2003, the University was assessed a monthly premium by the Public Education Employees' Health Insurance Plan (PEEHIP) based on the number of retirees in the system and an actuarially determined premium. During the years ended September 30, 2012 and 2011, the University's expense related to PEEHIP was $7,318,000 and $7,361,000, respectively.

(12) Risk Management

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

As discussed in note 1, the PLTF and GLTF are blended component units of the University, as defined by GASB Statement No. 14, and as such are included in the basic financial statements of the University for the years ended September 30, 2012 and 2011. Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. These liabilities are generally based on actuarial valuations and are reported at their present value.

The University and LLC participate in a self-insured health plan, administered by an unaffiliated entity. Administrative fees paid by the University for such services were approximately $1,712,000 and $1,700,000 in 2012 and 2011, respectively. Contributions by the University and its employees, together with earnings thereon, are used to pay liabilities arising from healthcare claims. It is the opinion of University administration that plan assets are sufficient to meet future plan obligations.

The changes in the total self-insurance liabilities for the years ended September 30, 2012 and 2011 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

		2012	2011
Balance, beginning of year	$	38,568	41,310
Liabilities incurred and other additions		51,937	44,154
Claims, administrative fees paid and other reductions		(67,758)	(46,896)
Balance, end of year	$	22,747	38,568

Self-insurance liabilities due within one year are included in accounts payable and accrued liabilities. The noncurrent portion is included in other long-term liabilities in the accompanying basic financial statements.

(13) Other Related Party

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. At September 30, 2012 and 2011, SAMSF had total assets of $11,506,000 and $11,609,000, net assets of $8,933,000 and $8,804,000, and total revenues of $3,175,000 and $5,075,000, respectively. SAMSF reimburses the University for certain administrative expenses and other related support services. Total amounts received for such expenses were approximately $521,000 and $1,008,000 in 2012 and 2011, respectively, and are reflected as private grants and contracts in the accompanying statements of revenues, expenses, and changes in net assets.

(14) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2012 and 2011, the University had been awarded approximately $35,987,000 and $56,337,000, respectively, in grants and contracts for which resources had not been received and for which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements as the eligibility requirements of the award have not been met. Advances include amounts received from grant and contract sponsors which have not been earned under the terms of the agreements and, therefore, have not yet been included in

revenues in the accompanying basic financial statements. Federal awards are subject to audit by Federal agencies. The University's management believes any adjustment from such audits will not be material.

(b) Letter of Credit

In connection with the Hospitals' participation in the State of Alabama Medicaid Program, the University has established a $77,000 irrevocable standby letter of credit with Wells Fargo, N.A. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds were advanced under this letter during the years ended September 30, 2012 and 2011.

(c) Litigation

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

(d) Rent Supplement Agreements

The University has entered into two irrevocable rent supplement agreements with the Corporation and a financial institution. The agreements require that, in the event the Corporation fails to maintain a debt service coverage ratio of one to one with respect to all of its outstanding indebtedness, the University will pay to the Corporation any and all rent amounts necessary to cause the Corporation's net operating income to be equal to the Corporation's annual debt service obligations (see note 8). As of September 30, 2012 and 2011, no amounts were payable pursuant to these agreements.

(e) State Bond Issues

The State of Alabama has made allocations to the University from bond issues in prior years. Pursuant to these allocations, at September 30, 2012, approximately $4,830,000 is unspent and remains available to the University for certain future construction costs. The allocations have not been reflected in the accompanying financial statements.

(f) FICA Refund

In March 2010, the Internal Revenue Service (the Service) ruled that for all tax periods ending before April 2005, the medical residents working at the USA hospitals could be treated under the student exception with respect to FICA taxes. Historically, the Service had held that residents were not exempt from FICA taxes. As a result of this ruling, the University has recorded a receivable of $5,297,000 representing the employer's portion of FICA contributions from March 1996 to April 2005 and any related interest.

(g) Sale of Brookley Campus

On September 29, 2010, the University and the USA Foundation executed purchase and sale agreement calling for the University to sell approximately 327 acres on Mobile Bay, known as the Brookley campus, to the Foundation. The terms of the agreement required the Foundation to pay the University $20,000,000; $4,000,000 at closing and $4,000,000 annually thereafter through the 2015

fiscal year. The sale closed on November 10, 2010 and the initial payment was received by the University at that point. The transaction is recorded as an installment sale. As such, during the years ended September 30, 2012 and 2011, the University reported a gain on the sale of $2,035,000 and $2,380,000, respectively, which is reported as other nonoperating revenues in the 2012 statement of revenues, expenses and changes in net assets. At September 30, 2012, the University is reporting a note receivable from the Foundation in the amount of $11,100,000 ($3,556,000 is reported as a current asset in notes receivable and $7,544,000 is reported as a noncurrent asset in noncurrent notes receivable) and deferred revenue in the amount of $6,605,000 ($2,116,000 is reported as current deferred revenue and $4,489,000 as other noncurrent liabilities). At September 30, 2011, the University is reporting a note receivable from the Foundation in the amount of $14,520,000 ($3,846,000 is reported as a current asset in notes receivable and $10,674,000 is reported as a noncurrent asset in noncurrent notes receivable) and deferred revenue in the amount of $8,639,000 ($2,289,000 is reported as current deferred revenue and $6,350,000 as other noncurrent liabilities.) The deferred revenue will be amortized as an installment gain as payments are received through 2015.

(h) USA Research and Technology Corporations Leases

The Corporation leases space in Building I to two tenants under operating leases. One lease has a 10-year initial term expiring in November 2013 with two 5-year renewal options. During 2011, this tenant agreed to pay $250,000 in exchange for termination a portion of the leased space. The other lease has a 10-eyar initial term expiring in March 2021, an option to cancel at the end of 6 years, and two 5-year renewal options. Under the leases, the tenants must also pay as rent an amount to reimburse the Corporation for operating expenses such as common area maintenance, utilities, and general liability and property damage insurance.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. Space under lease to the University was 53,000 and 52,636 square feet at September 30, 2012 and 2011, respectively. Under these leases, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, property taxes, and insurance. Tenants will reimburse the Corporation for such expenses only as the total expenses for a year increase over the total expenses for the base year of the lease (the Corporation's fiscal year beginning after the date the lease is signed). The leases have terms varying from one to ten years.

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

The Corporation, as lessor, had three ground leases in place at September 30, 2012 and 2011. One lease is for a 40-year initial term with 20-year, and 15-year renewal options. The second lease is for a 30-year initial term with four 5-year renewal options. The third lease has a 38.5-year initial term with 20-year and 15-year renewal options.

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

2013	$	2,369
2014		1,436
2015		1,290
2016		1,145
2017		980
2018 – 2046		7,791
Total	$	15,011

(15) Functional Information

Operating expenses by functional classification for the years ended September 30, 2012 and 2011 are listed below (in thousands). In preparing the basic financial statements, all significant transactions and balances among accounts have been eliminated.

		2012	2011
Instruction	$	115,526	115,265
Research		20,860	22,019
Public service		48,110	52,112
Academic support		16,184	15,666
Student services		26,831	24,945
Institutional support		24,837	26,190
Operation and maintenance of plant		29,901	29,635
Scholarships		5,290	5,936
Hospital		251,196	242,372
Auxiliary enterprises		13,102	13,781
Depreciation and amortization		30,396	32,054
	$	582,233	579,975

(16) Significant New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB Statement No. 60 addresses accounting and reporting issues related to public-public and public-private service concession arrangements and will be effective for the year ended September 30, 2013. In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity and will be effective for the year ending September 30, 2013. In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 incorporates into the GASB's authoritative literature accounting and financial reporting guidance that is

included in certain FASB and AICPA authoritative literature, where such guidance does not conflict with or contradict GASB pronouncements. In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Statement No. 63 renames the Statement of Net Assets as the Statement of Net Position and requires that deferred inflows and outflows of resources be reported as components of the Statement of Net Position and will be effective for the year ending September 30, 2013. In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities and will be effective for the year ending September 30, 2014. In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012*. GASB Statement No. 66 resolves conflicting guidance that resulted from the issuance of GASB Statements No. 54 and 62 and will be effective for the year ending September 30, 2014. In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 changes accounting and financial reporting for entities participating in certain pension plans and will be effective for the year ending September 30, 2015.

The effect of the implementation of GASB Statements Nos. 60, 61, 62, 63, 65, 66 and 68 on the University has not been determined.

(17) Subsequent Event

On October 15, 2012, officials of the Infirmary publically announced the closing of Mobile Infirmary West, formerly USA Knollwood Hospital. As more fully described in note 10, in 2006, the University and the Infirmary entered into a lease agreement in which the University agreed to lease the property and certain equipment to the Infirmary. The lease is effective through 2056, with an automatic renewal for an additional forty-nine years. There are provisions within the lease agreement that allow the Infirmary to terminate the lease in the event certain conditions exist. To date, no formal notice has been received by the University from the Infirmary and it is unknown as to whether or not the Infirmary intends to invoke the termination provisions of the lease. Assets and liabilities related to this transaction that are currently reported in the University's 2012 financial statements include a receivable in the amount of $295,000, which is included in current assets on the statement of net assets and deferred revenue in the amount of $5,602,000. Of the total deferred revenue, $525,000 is included in current assets and $5,077,000 is included in other noncurrent liabilities. As formal notice has not been received by the University, no adjustments have been made to the University's financial statements nor has the impact of the closing on the financial statements been determined.

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