

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

STANDING COMMITTEES

2007-2010

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Dr. Scott A. Charlton
Ms. Bettye R. Maye
Ms. Arlene Mitchell
Mr. John M. Peek
Appointment Pending

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Appointment Pending

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**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

DECEMBER 11, 2008

10:00 A.M.

**FREDERICK P. WHIDDON ADMINISTRATION BUILDING
AD 122, BOARD ROOM**

REVISED AGENDA

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MEMORANDUM

UNIVERSITY OF SOUTH ALABAMA

December 1, 2008

TO: USA Board of Trustees
FROM: Bettye R. Maye *BRM*
Secretary, USA Board of Trustees

Enclosed are the unapproved minutes for the September 11, 2008, meeting of the USA Board of Trustees. Please review them for amendment or approval during the September 11 meeting of the Board.

BRM:mgc

Enclosure

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

September 11, 2008

10:00 a.m.

A meeting of the University of South Alabama Board of Trustees was duly convened by Dr. Steven H. Stokes, Chair Pro Tempore, on Thursday, September 11, 2008, at 10:00 a.m. in the Board Room of the Frederick P. Whiddon Administration Building.

- Members Present: Trustees Scott Charlton, Steven Furr, Cecil Gardner, Samuel Jones, Donald Langham, Bettye Maye, Christie Miree, Arlene Mitchell, John Peek, Steven Stokes, Larry Striplin, and James Yance.
- Members Absent: Trustees J. L. Chestnut, Bryant Mixon, James Nix, Joseph Morton, and Bob Riley.
- Administration and Others: President Gordon Moulton; Drs. Zarrintaj Aliabadi, Michael Boyd, Joseph Busta, Joan Exline, Greg Gruner, Tom Montgomery (COM Alumni Assn.), Ron Franks, Russ Lea, John Sachs and David Turnipseed (Faculty Senate), Robert Shearer, Anita Smith, John Smith, David Stearns, Alvin Williams, and Alec Yasinsac; Messrs. Louis Cardinal (Thornton Farish), Ken Davis, Wayne Davis, Andy Denny (USA National Alumni Assn.), Stan Hammack, Rory Hartley (Protective Securities), Rod Kanter (Bradley Arant), Ward Miller, Abe Mitchell, Michael Mitchell, Bob Young (Frazer Lanier); and Mss. Caitlin Collins (SGA) and Jean Tucker.
- Press: Messrs. Curt Chapman (Gulf Coast Newspapers), Mike Kittrell (*Press-Register*), Matt Flanagan (*Vanguard*), Kevin Sullivan (WALA), Jud Hulon (WKRG), and Mike Corry (WPML); and Ms. Renee Busby (*Press-Register*).

Upon the call to order, Chairman Stokes called for adoption of the revised agenda. On motion by Mr. Langham, seconded by Ms. Miree, the revised agenda was unanimously approved.

President Moulton called for a moment of silence in observance of September 11, a date of historic significance for the United States of America.

President Moulton said that a press event was held on September 4 to announce a \$500,000 gift from Mr. and Mrs. Jim Yance to benefit construction of a football field house. He read aloud **ITEM A** as follows. On motion by Mr. Langham, seconded by Ms. Maye, the resolution was unanimously approved. Mr. and Mrs. Yance were presented a framed resolution. Mr. Yance expressed gratitude for the opportunity to serve and support his alma mater.

RESOLUTION

COMMENDATION OF JAMES & FRANCES YANCE FOR THEIR CONTRIBUTIONS TO THE UNIVERSITY OF SOUTH ALABAMA

WHEREAS, University of South Alabama Alumnus Mr. James A. Yance and his wife, Frances, are steadfastly loyal supporters of the University of South Alabama and, over the years, have contributed generously to the mission of the University of South Alabama, and

WHEREAS, Mr. Yance, a 1970 alumnus and retired Mobile attorney, serves as Campaign USA Chairman and as Vice Chairman of the USA Board of Trustees, and

WHEREAS, Mr. and Mrs. Yance have made a \$500,000 gift to the new Jaguar football field house, creating the "Jim and Frances Yance Coaches Suite," which will include a main foyer entrance, the head coach's office and conference room, reception and administrative offices, and

WHEREAS, the Yance gift is the first fund-raising gift and naming opportunity for the field house, and the largest gift to date to the new football program, and

WHEREAS, the generous gift is part of Campaign USA, the University's first comprehensive fund-raising campaign that seeks to raise \$75 million for USA programs, faculty, students and construction over three years, and

WHEREAS, in addition to this gift, Mr. and Mrs. Yance have made contributions of \$50,000 to the USA Football Support Club and \$15,000 to the campus Alumni Bell Tower project, and

WHEREAS, the Yances also recently increased their gifts to the James A. Yance Endowed Scholarship for Pre-Law Students and, to date, have contributed \$22,000 to the scholarship fund, which has been matched dollar-for-dollar by the University for a total endowment of \$44,000, and

WHEREAS, this latest gift to the new football field house brings the Yances' total giving to the University over time to \$619,000, and

WHEREAS, Mr. Yance has been an active alumnus, working tirelessly on behalf of both Campaign USA and the new Jaguar football program, and

WHEREAS, Mr. and Mrs. Yance's milestone gift in support of Campaign USA and the University's new football program will significantly enhance the college experience for future generations of USA students,

NOW, THEREFORE, BE IT RESOLVED, that the University of South Alabama's Board of Trustees publicly acknowledges the many generous contributions of Mr. and Mrs. Yance, and

BE IT FURTHER RESOLVED, that the Board of Trustees, the President, the faculty, administrators, staff, and present and future students of the University of South Alabama warmly thank Mr. and Mrs. Yance for their commitment to and support of the University.

President Moulton presented **ITEM 2**, the President's Report. He thanked Ms. Mitchell for her donation of an oil painting in memory of husband and former USA Trustee Mayer Mitchell. He invited guests to view the painting, *Newburg-on-Hudson, Yacht Club* by Reynolds Beal (1914), on display in the President's Office.

President Moulton recognized Drs. John Sachs and David Turnipseed - Faculty Senate Chair and Vice Chair, respectively; Ms. Caitlin Collins - SGA President; Mr. Andy Denny - President, USA National Alumni Association; and Dr. Tom Montgomery - President, College of Medicine Alumni Association.

President Moulton reported a fall enrollment of 14,279, including 4,109 new students and 2,600 students living on campus. He noted that the ACT scores of entering freshmen average 21.9 as compared to 20.4 in the state and 21.1 nationally. Of these, 134 USA freshmen had scores of 28 and above, and 61 had scores of 30 or higher. He reminded Board members that Mr. Landon Sykora, one of only two Alabama high school graduates to recently earn a perfect 36 ACT score, had enrolled at USA, as well as three America's Junior Miss state winners – Mss. Lauren Gessner of Ohio, Twila Tschan of Oregon, and Hannah Yeates of Idaho. Slides with enrollment figures were shown, and included data of the significant increase in enrollment from fall 1998 of 11,650 to fall 2008 of 14,279, a 2,629, or 23 percent, increase. Attention turned to the recently unveiled new Jaguar logo. President Moulton said that the design process was completed internally with input from faculty, staff, students, and alumni. He said that attendance at the unveiling event topped 1,000 and noted that response has been positive.

President Moulton called upon Dr. Greg Gruner, Chair of the Music Department, for an update on the new USA Marching Band program. Dr. Gruner said that a national search had been conducted which yielded an excellent pool of candidates. Following the interview process, Mr. Ward Miller was appointed USA's Marching Band Director. He introduced Mr. Miller, who expressed excitement for the opportunity to build USA's marching band program. He provided details of his background, noting pleasure in returning to his home state. Band uniform designs featuring the new logo were presented. Mr. Miller said that the marching band's first public performance will be in fall 2009 at USA's inaugural football game.

President Moulton announced that the Point Clear Polo Classic would be held October 19. Proceeds will benefit the USA Mitchell Cancer Institute. President Moulton invited Trustees and guests to attend the public dedication and grand opening of the Mitchell Cancer Institute on November 3 at 11:00 a.m. He called attention to the USA publications *Research, Innovation and Outreach, Volume Four*, and *Medicine*. He said that the next regular meeting of the Board of Trustees is scheduled for December 11.

Chairman Stokes called for consideration of **ITEM 1**, the minutes of the June 5, 2008, meeting of the Board of Trustees, as well as the minutes of the June 4, 2008, meeting of the Committee of the Whole and the August 21, 2008, meeting of the Executive Committee. On motion by Ms. Maye, seconded by Mr. Peek, the minutes were unanimously adopted.

Chairman Stokes called for a report of health affairs items. Dr. Furr, Chair of the Health Affairs Committee, presented **ITEM 3** as follows. On motion by Dr. Charlton, seconded by Mr. Langham, the resolution was unanimously approved.

RESOLUTION

MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS MAY, JUNE, JULY, AND AUGUST 21, 2008

WHEREAS, the Medical Staff appointments and reappointments for May, June, July, and August 21, 2008, for the University of South Alabama Hospitals are recommended for approval by the Medical Executive Committees of the University of South Alabama Hospitals,

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

Dr. Furr presented **ITEM 4** as follows. On motion by Mr. Langham, seconded by Dr. Charlton, the resolution was unanimously approved.

RESOLUTION
USA HOSPITALS MEDICAL STAFF RULES AND REGULATIONS ADDITION, MEETING OF AUGUST 5, 2008

WHEREAS, an addition to the USA Hospitals Medical Staff Rules and Regulations was approved by the Medical Staffs of the University of South Alabama Hospitals at their August 5, 2008, Medical Staff meeting and recommended to the Board of Trustees for approval,

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

Concerning **ITEM 5**, a report on the process to select of an architect for the USA Children's and Women's Hospital expansion project, President Moulton said that interviews with firms would be held in the coming week. He stated that a project management team is being established, and that a general contractor model would be implemented once the team is in place.

Dr. Franks and Mr. Hammack addressed **ITEM 6**, a report on the activities of the Division of Health Sciences and the USA Health System. Mr. Hammack reported that the USA Medical Center received national recognition for stroke certification. The Administration is working with the state of Mississippi for the Medical Center to be declared a level one trauma center. He expressed enthusiasm for the start of construction at USA Children's and Women's Hospital. Dr. Franks introduced Drs. Zari Aliabadi - Chair and Professor, Department of Physician Assistants Studies, and Anita Smith, Chair and Associate Professor, Maternal/Child Nursing, and provided biographical information on each guest. He reported that Dr. Rick Talbott - Dean, College of Allied Health Professions, had been awarded the highest honor given by his professional association, giving him national recognition in his field of Speech Pathology and Audiology. He reported on negotiations with UAB's Department of Public Health for a shared program for faculty who are interested in earning a Certificate of Public Health; participants will be able to complete requirements for the certificate online. He said that discussions are under way with the U.S. Department of Veterans Affairs to establish a residency program. He talked about a recent visit with Drs. Stokes and Ron Owen at the Southeast Regional Medical Center to discuss development of a residency program in family medicine, and reported on discussions to develop a partnership with the University of Alabama's Rural Health Program. Dr. Franks provided an update on the search process to fill the position of Senior Vice President for Academic Affairs. He said that a national search firm had been engaged and that a large pool of candidates had been identified. He said a shortlist of candidates is expected by the end of November.

Dr. Boyd presented **ITEM 7**, a report on the USA Mitchell Cancer Institute. He announced the appointment of Dr. Laurie Beth Owen as Professor of Oncologic Sciences and Associate Director of Basic Translational Sciences. He provided details of Dr. Owen's professional background, noting also that she is a USA graduate and that she is a previous recipient of a USA Distinguished Alumni Award. Dr. Owen will join the staff in October.

Chairman Stokes called for a report of academic and student affairs items. Ms. Miree, Academic and Student Affairs Committee Chair, called upon Dr. Moore to address **ITEM 8**, a report of academic affairs. Dr. Moore introduced and provided biographical information for Dr. Joan Exline - Associate Vice President, Office of Institutional Research, Assessment, and Planning; and Dr. Alec Yasinsac - Dean, School of Computer and Information Sciences. Dr. Yasinsac made brief comments about CIS activities. Dr. Moore introduced Dr. Alvin Williams - Professor, Department of Marketing and E-Commerce, and noted that Dr. Williams joins the Mitchell College of Business as Distinguished Professor of Marketing specializing in supply chain management.

Dr. Moore presented **ITEM 9** as follows. On motion by Ms. Miree, seconded by Mr. Langham, the resolution was unanimously approved.

**RESOLUTION
PROFESSORS EMERITI**

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

William F. Gilley, Ph.D., Professor of Health, Physical Education and Leisure Studies
Calvin N. Jones, Ph.D., Professor of Foreign Languages and Literatures
George E. Uhlig, Ph.D., Professor of Behavioral Studies and Educational Technology

and,

WHEREAS, in recognition of their contributions to the University through extraordinary accomplishments in teaching and in the generation of new knowledge through research and scholarship, and for serving as a consistently inspiring influence to students for a period of time, and

WHEREAS, the faculty and chairpersons from their departments, academic dean, the Senior Vice President for Academic Affairs, and the President have duly recommended the aforementioned retirees from the University faculty, and

NOW THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama in a seated meeting held on September 11, 2008, hereby appoints the aforementioned individuals to the rank of Professor Emeritus with the rights and privileges thereunto appertaining, and

FURTHER, BE IT RESOLVED that the Board of Trustees of the University of South Alabama in recognition of their extraordinary accomplishments and dedicated service to the University of South Alabama wishes to convey its deep appreciation to these individuals.

Ms. Miree called upon Dr. Shearer to present **ITEM 10** (refer to **APPENDIX A** for copies of policies and other authorized documentation) as follows. Dr. Shearer said that the report documents the University's progress relative to five goals: access of education, cooperative partnerships, program quality, funding resources, and workforce development. The document is the final report required for the five-year reporting period. On motion by Ms. Miree, seconded by Mr. Yance, the resolution was unanimously approved.

**RESOLUTION
REPORT TO ACHE ON STATE PLAN FOR ALABAMA HIGHER EDUCATION**

WHEREAS, the Alabama Commission on Higher Education (ACHE) has developed a *State Plan for Alabama Higher Education, 2003-2004 to 2008-2009 (Plan)*, and

WHEREAS, the ACHE Plan sets out five overarching goals with objectives - Access, Cooperation, Quality, Resources, and Workforce Development, and

WHEREAS, to demonstrate the accountability of the state's higher education institutions, ACHE has proposed that the boards of trustees of each institution annually submit a report on the institution's accomplishments toward achievement of the goals and objectives in the state Plan, and

WHEREAS, the fifth annual report to ACHE is due to be submitted by October 17, 2008,

NOW, THEREFORE, BE IT RESOLVED that the University of South Alabama Board of Trustees approves the attached report entitled *University of South Alabama Board of Trustees Fifth Annual Report to the Alabama Commission on Higher Education State Plan for Alabama Higher Education 2003-04 – 2008-09*, and authorizes the President of the University to submit said report on its behalf to the Alabama Commission on Higher Education.

Ms. Miree called upon Dr. Smith to present **ITEM 11**, a report of student affairs. Dr. Smith reported on the appointment of USA graduate and former SGA president Mr. Michael Mitchell as the University's new Dean of Students. He introduced Mr. Mitchell, who expressed enthusiasm for the opportunity to come "home" to USA.

Chairman Stokes called for consideration of budget and finance items. On behalf of Mayor Nix, Budget and Finance Committee Chair, Mr. Wayne Davis addressed **ITEM 12** reports titled *Monthly Fund Financial Reports for April, May, and June 2008*; *Quarterly GASB Financial Statement for the Nine Months Ended June 30, 2008*; and *Summary Comparison of Fund Financial Reports to GASB Financial Statements, June 30, 2008 and 2007*. He discussed the results of operations for the first nine months of 2008 compared to 2007. The report was accepted by the Board.

Mr. Ken Davis presented **ITEM 13** as follows. He explained that the nomination of two directors, Dr. Jim Laier and Mr. Joe Adamo, for new terms on the USA Research and Technology Corporation Board of Directors must be approved by the University of South Alabama Board of Trustees. These individuals currently serve as directors and both have agreed to serve additional four-year terms. On motion by Mr. Langham, seconded by Ms. Maye, the resolution was unanimously approved.

RESOLUTION

ELECTION OF DIRECTORS FOR THE USA RESEARCH AND TECHNOLOGY CORPORATION BOARD

WHEREAS, pursuant to the Amended Bylaws of the USA Research and Technology Corporation ("Corporation"), the Board of Trustees of the University of South Alabama ("University") shall elect directors of the Corporation who are not officers, employees or trustees of the University, and

WHEREAS, the Board of Directors of the Corporation is authorized to nominate new directors consistent with the aforesaid for consideration and confirmation by the Board of Trustees of the University, and

WHEREAS, the Board of Directors of the Corporation has nominated for consideration and confirmation by the Board of Trustees of the University Mr. Joseph J. Adamo and Dr. James E. Laier for four (4) year terms beginning June 2008, and these persons have agreed to serve in this capacity if elected,

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama does hereby elect as Directors of the USA Research and Technology Corporation Mr. Joseph J. Adamo and Dr. James E. Laier, both for four (4) year terms beginning June 2008.

Dr. Lea presented **ITEM 13.A** as follows. He indicated that, to receive federal direct appropriations for the construction of the Engineering and Science Center facility, the federal government requires that it maintain an interest in the building for 40 years. This resolution approves that interest. On motion by Mr. Peek, seconded by Mr. Yance, the resolution was unanimously approved.

RESOLUTION
EXECUTION OF NOTICE OF FEDERAL INTEREST IN USA ENGINEERING AND SCIENCE CENTER

WHEREAS, the University of South Alabama has been awarded federal grants from the U. S. Department of Commerce / National Institute of Standards and Technology and the Federal Highway Administration to partially fund the construction of the USA Engineering and Science Center, and

WHEREAS, applicable regulations require use of the building be restricted for a period of up to 40 years to those purposes documented in the applications approved by the agency that promulgated the subject awards unless subsequent preapproval of alternative uses is granted by the federal government, and

WHEREAS, such regulations also require the recording of such federal interests in the public records of Mobile County, and

WHEREAS, the University of South Alabama intends to construct and operate the Engineering and Science Center as proposed under approved grant awards to provide instruction and research in several engineering disciplines as well as in computing sciences,

NOW, THEREFORE, BE IT RESOLVED that the Board of Trustees hereby authorizes the President of the University to execute, file, and record such documents as necessary to affirm the federal interests in the Engineering and Science Center as required under applicable federal regulations.

President Moulton and Mr. Wayne Davis presented **ITEM 14**, the University Budget for 2008-2009. President Moulton said that the state appropriation decrease of \$17,881,956, and the mandatory cost increases for the Teachers' Retirement System of Alabama matching and retiree health insurance have caused significant challenges for the University. He noted that the appropriation the University receives from the state is dependent upon sales and income taxes collected and stated that, in general, tax revenue is down due to a weakened economy. To USA's advantage are enrollment growth and conservative spending during the previous three years of substantial state appropriation increases. This substantial deficit in revenue will affect all components of the University, including general University operations, the College of Medicine, and the Hospitals. President Moulton expressed the hope for tax reform in the future that would center on support for education. In the meantime, the Administration will continue to protect the University's financial health. It was noted that the proposed budget does not provide for salary increases. Mr. Davis reported that the budgeted revenues are \$654,155,787, an increase of \$30,255,168 over last year's revenues of \$623,900,619. Budgeted expenditures and transfers are \$658,614,044, an increase of \$34,713,425 compared to 2007-2008 expenditures of \$623,900,619. This results in a deficit budget of \$4,458,257 due primarily to a decrease in the state appropriation of \$17,881,956, or 11.81 percent.

Mr. Davis detailed budgeted revenues: the previously-approved tuition increase and enrollment growth of \$11,666,905; the state appropriation decrease of \$17,881,956; gifts, grants, and contracts increase of \$11,059,071; Hospitals sales and services revenues increase of \$6,977,344, contractual adjustments decrease of \$12,556,575, and other Hospital revenues increases of \$1,942,965; Mitchell

Cancer Institute revenues increase of \$260,465, contractual adjustments increase of \$1,724,630, and other MCI revenues increases of \$2,231,339; and Auxiliary Enterprise revenues increase of \$1,318,096.

Mr. Davis outlined budgeted expenditures: State Teachers' Retirement System employer matching cost increase of \$3,475,020; utilities, building maintenance, custodial services, and building maintenance and repairs increase of \$2,203,700; scholarships increase of \$1,000,000; debt service, renewals and replacements, and other transfers decrease of \$2,224,743; auxiliary operating expenses increase of \$1,136,536; Hospitals' operating expenses increase of \$20,240,399; MCI operating expenses increase of \$993,249; University operations and maintenance and College of Medicine expenditures increases of \$5,082,008; and grants and contracts expenses increase of \$4,439,263.

Mr. Davis said the University will implement several budget-reduction measures to address the budget deficit. These measures include a hiring and reclassification freeze, the elimination or reduction of overtime to the absolute minimum, the elimination of payment for cellular telephones, and the implementation of a pilot, voluntary program for employees to work four nine-hour days for a 36-hour work week. Employees electing this option would have their compensation reduced by four hours a week. Employees will continue to be eligible for all employee benefits and participation in the Teachers' Retirement System of Alabama. Adjustments to employees' schedules will be made with consideration of department needs and with supervisor approval. President Moulton noted that faculty recruitment will not be affected for the fiscal year 2008-2009. On motion by Mr. Langham, seconded by Mr. Peek, the budget was unanimously approved.

**RESOLUTION
UNIVERSITY BUDGET FOR 2008-2009**

BE IT RESOLVED, that the University of South Alabama Board of Trustees approves the 2008–2009 University of South Alabama Budget, and

BE IT FURTHER RESOLVED, that the University of South Alabama Board of Trustees approves the 2008–2009 Budget as a continuation budget for 2009–2010 in order to be in compliance with bond trust indenture requirements if the budget process cannot be completed prior to beginning the 2009–2010 fiscal year.

Mr. Wayne Davis discussed **ITEM 15** as follows, indicating that the bond issue being presented to the Board was for a face amount of \$112,885,000 with a cash yield of approximately \$110,000,000. He briefed Board members on the proposed use of the funds, and introduced Mr. Louis Cardinal of the firm of Thornton Farish; Mr. Rod Kanter of Bradley Arant Rose and White; Mr. Bob Young of Frazer Lanier; and Mr. Rory Hartley of Protective Securities.

Mr. Cardinal indicated that the bonds had been successfully sold on September 9, 2008. He reported that, in the process of preparing the issue, the bond rating of the University was upgraded to A1 by Moody's and A+ by Standard and Poor's – both primarily due to the improved financial position of the University. He said that the issue will be insured by Berkshire Hathaway Assurance Corporation. Because of this insurance, the bonds will be issued at a AAA rating, resulting in a gross cash flow savings to the University of approximately \$5,000,000 to \$6,000,000.

Mr. Young reiterated the success of the sale, indicating that the bonds were initially over subscribed, allowing the University to slightly lower the interest rate to 4.81 percent. Mr. Hartley thanked the Board for allowing his firm to participate in the issue. Mr. Kanter reported that his firm would deliver its legal opinion, as well as all other legal documents, when the bonds close, and noted that all legal documents are in place and proper.

President Moulton asked Mr. Cardinal about the debt position of the University. Mr. Cardinal responded that USA's debt position remains strong and conservative with debt service coverage of approximately 3.5 to 1. Mr. Kanter added that USA's debt service coverage is as high as he has seen for any other institution that is similar to the University of South Alabama. On motion by Ms. Maye, seconded by Mr. Peek, the resolution was unanimously approved.

**A RESOLUTION
AUTHORIZING THE ISSUANCE OF \$112,885,000 PRINCIPAL AMOUNT OF
UNIVERSITY FACILITIES REVENUE CAPITAL IMPROVEMENT BONDS
SERIES 2008**

BE IT RESOLVED by the Board of Trustees (herein called the "Board") of **UNIVERSITY OF SOUTH ALABAMA** (herein called the "University") as follows:

Section 1. (a) Findings. The Board has determined and hereby finds and declares that the following facts are true and correct:

(1) It is necessary, advisable, in the interest of the University and in the public interest that the University make certain capital improvements representing a portion of the University's five and ten-year capital improvement program including, without limitation, the construction and acquisition of capital improvements to the University of South Alabama Children's and Women's Hospital (the "USACW") consisting of approximately 39,000 square feet of new renovations and 147,000 square feet of new construction to provide new operating room suites, OB/GYN ICU beds, Neonatal ICU beds, new Pediatric ICU rooms, additional Labor/Delivery/Recovery rooms, new pediatric beds, new office space, a new kitchen and cafeteria, a new auditorium, new classrooms and various other capital improvements at the USACW; improvements to the cafeteria on the campus of the University; renovations to the auditorium and student center; improvements to the recreation center and physical education building; and other capital improvements throughout the campus of the University (collectively, the "Improvements"); and

(2) It is necessary, advisable, in the interest of the University and in the public interest that the University issue its \$112,885,000 University Facilities Revenue Capital Improvement Bonds, Series 2008 (the "Bonds") in order to: (i) pay the costs of constructing and acquiring the Improvements, (ii) pay a portion of the costs of issuing the Bonds, and (iii) pay the premium for a financial guaranty insurance policy respecting the Bonds.

(b) Bonds to be Issued as Additional Parity Bonds Under the Indenture; Special Findings Under Section 8.2(b) of the Indenture. The Bonds shall be issued as additional parity bonds under Article VIII of the Indenture hereinafter referred to. In accordance with the provisions of Section 8.2(b) of the Indenture, the Board hereby finds and declares as follows:

- (1) the University is not now in default under the Indenture and no such default is imminent;
- (2) the Bonds shall be designated Series 2008;
- (3) the persons to whom the Bonds are to be delivered are set forth in Sections 6 hereof;
- (4) all of the Bonds are to be issued by sale in accordance with Section 6 hereof;
- (5) the sale price of the Bonds is set forth in Section 6 hereof;

(6) (a) the only bonds that have previously been issued by the University under the Indenture are its (i) \$31,680,000 original principal amount of University Tuition Revenue Refunding and Capital Improvement Bonds, Series 1996, dated February 15, 1996 (the "Series 1996 Bonds"), which were issued under and pursuant to the Trust Indenture dated February 15, 1996 further described in Section 2 hereof, (ii) \$7,055,000 original principal amount of University Tuition Revenue Refunding Bonds, Series 1996B, dated October 15, 1996 (the "Series 1996B Bonds"), which were issued under and pursuant to the First Supplemental Trust Indenture dated as of October 15, 1996, (iii) \$40,130,000.70 original principal amount of University Tuition Revenue Bonds, Series 1999, dated March 1, 1999 (the "Series 1999 Bonds"), which were issued under and pursuant to the Second Supplemental Trust Indenture dated as of October 15, 1996, (iv) \$51,080,000 original principal amount of Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, dated March 15, 2004 (the "Series 2004 Bonds"), which were issued under and pursuant to the Fourth Supplemental Trust Indenture dated as of March 15, 2004, and (v) \$100,000,000 original principal amount University Tuition Revenue Refunding and Capital Improvement Bonds, dated December 1, 2006 (the "Series 2006 Bonds" and, together with the Series 1999 Bonds and Series 2004 Bonds, the "Outstanding Bonds"), which were issued under and pursuant to the Fifth Supplemental Trust Indenture dated as of December 1, 2006; and (b) in Article VIII of the Indenture, the University has reserved the right to issue additional bonds, secured by a pledge of the Pledged Revenues on a parity with the Outstanding Bonds and with such additional bonds as shall have thereafter been issued thereunder, upon compliance with the applicable provisions of said Article VIII; and

(7) the Bonds are being issued for the purpose of paying the costs of the Improvements, paying a portion of the costs of issuing the Bonds, and paying the premium for the financial guaranty insurance policy respecting the Bonds.

The Trustee is hereby requested to authenticate and deliver the Bonds to the purchasers specified in Section 6 hereof upon payment of the purchase price designated therein.

Section 2. Authorization of Bonds. For the purposes specified in Section 1 of this resolution, there are hereby authorized to be issued by the University \$112,885,000 aggregate principal amount of University Facilities Revenue Capital Improvement Bonds, Series 2008, dated September 1, 2008 (herein called the "Bonds"), all under the terms, conditions and provisions set out in the Sixth Supplemental University Facilities Revenue Trust Indenture dated as of September 1, 2008, between the University and The Bank of New York Mellon Trust Company, N.A., as trustee (herein called the "Trustee"), which is supplemental to the Trust Indenture between the University and the Trustee dated as of February 15, 1996 (the said Trust Indenture, as heretofore supplemented and amended and as further supplemented and amended by the said Sixth Supplemental Trust Indenture, herein called the "Indenture"). All the provisions of the Indenture respecting the Bonds are hereby adopted as a part of this resolution as fully as if set out at length herein.

Section 3. Source of Payment of the Bonds. The principal of and the interest on the Bonds shall be payable solely from the Pledged Revenues as defined in the Indenture. Nothing contained in this resolution, in the Bonds or in the Indenture shall be deemed to impose any obligation on the University to pay the principal of or the interest on the Bonds except from and to the extent of the Pledged Revenues. The Bonds shall not represent or constitute obligations of any nature whatsoever of the State of Alabama and shall not be payable out of moneys appropriated to the University by the State of Alabama. The agreements, covenants or representations contained in this resolution, in the Bonds and in the Indenture do not and shall never constitute or give rise to any personal or pecuniary liability or charge against the general credit of the University, and in the event of a breach of any such agreement, covenant or representation, no personal or pecuniary liability or charge payable directly or indirectly from the general revenues of the University shall arise therefrom. Neither the Bonds, nor the pledge or any agreement contained in the Indenture or in this resolution shall be or constitute an obligation of any nature whatsoever of the State of Alabama, and neither the Bonds nor any obligation arising from the aforesaid pledge or agreements shall be payable out of any moneys appropriated to the University by the State of Alabama. Nothing contained in this section shall, however, relieve the University from the observance and performance of the several covenants and agreements on its part herein contained.

Section 4. Bonds Payable at Par. All remittances of principal of and interest on the Bonds to the holders thereof shall be made at par without any deduction for exchange or other cost, fees or expenses. The bank or banks at which the Bonds shall at any time be payable shall be considered by acceptance of their duties hereunder to have agreed

that they will make or cause to be made remittances of principal of and interest on the Bonds, out of the moneys provided for that purpose, in bankable funds at par without any deduction for exchange or other cost, fees or expenses. The University will pay to such bank or banks all reasonable charges made and expenses incurred by them in making such remittances in bankable funds at par.

Section 5. Authorization of Indenture. The Board does hereby authorize and direct the President of the University to execute and deliver, for and in the name and behalf of the University, to The Bank of New York Mellon Trust Company, N.A., as Trustee under the aforesaid Trust Indenture, a Sixth Supplemental University Facilities Revenue Trust Indenture in substantially the form presented to the meeting at which this resolution is adopted and attached as Exhibit I to the minutes of said meeting (which form is hereby adopted in all respects as if set out in full in this resolution) and does hereby authorize and direct the Secretary of the Board to affix to the Sixth Supplemental University Facilities Revenue Trust Indenture the corporate seal of the University and to attest the same.

Section 6. Sale of the Bonds. The Bonds are hereby sold and awarded to The Frazer Lanier Company, Incorporated, Protective Securities, a Division of Proequities, Inc., Morgan Keegan & Company, Inc., Raymond James and Associates, Inc., Merchant Capital, LLC, First Tuskegee Bank, and Gardnry Michael Capital, Inc. (collectively, herein called the "Underwriters"), at and for a purchase price equal to \$112,481,249.10, (representing the principal amount of the Bonds less an underwriting discount of \$536,203.75 and plus a net original issue premium of \$132,452.85), plus accrued interest on the Bonds from September 1, 2008, to the date of delivery thereof. The Board does hereby authorize and direct the President of the University to execute and deliver, for and in the name and behalf of the University, a Bond Purchase Agreement respecting the sale of the Bonds to the Underwriters in substantially the form presented to the meeting at which this resolution is adopted and attached as Exhibit II to the minutes of said meeting (which form is hereby adopted in all respects as if set out in full in this resolution). The Bonds shall bear such date, shall mature at such times and in such manner, shall bear such rate or rates of interest, shall be payable at such place, shall be in such denomination, shall bear such numbers and shall be in such form and contain such provisions as are set out in the Sixth Supplemental University Facilities Revenue Trust Indenture authorized in Section 5 above.

Section 7. Authorization of the Official Statement. The Board does hereby authorize and direct the President of the University to execute, for and in the name and behalf of the University, an Official Statement with respect to the Bonds, to be dated the date of the adoption of this resolution, in substantially the form presented to the meeting at which this resolution is adopted and attached as Exhibit III to the minutes of said meeting (which form is hereby adopted in all respects as if set out in full in this resolution), with such changes as shall be necessary to conform to the provisions of this resolution. The Board does hereby declare that the Official Statement so executed by the President of the University shall be the Official Statement of the University with respect to the Bonds. The actions of the Underwriters in circulating, on behalf of the University, a Preliminary Official Statement respecting the Bonds, dated September 5, 2008, and attached hereto as Exhibit IV, are hereby ratified and confirmed and the said Preliminary Official Statement is hereby adopted as the Preliminary Official Statement of the University and the Board hereby deems the said Official Statement "final" within the meaning of SEC Rule 15c2-12(b)(1) for the purposes of such rules.

Section 8. Authorization of Continuing Disclosure Agreement. The President of the University is hereby authorized and directed to execute and deliver, on behalf of the University, a Continuing Disclosure Agreement for the benefit of the beneficial owners of the Bonds, in substantially the form presented to the meeting at which this resolution is adopted (which form shall be attached as Exhibit V to the minutes of said meeting and which is hereby adopted in all respects as if set out in full in this resolution). The said Continuing Disclosure Agreement is to be entered into contemporaneously with the issuance of the Bonds in order to assist the Underwriters of the Bonds in complying with Rule 15c2-12 of the Securities and Exchange Commission. The rights of enforcement of the said Continuing Disclosure Agreement shall be as provided therein, and in no event shall a default by the University thereunder constitute a default hereunder or under the Indenture.

Section 9. Execution and Delivery of the Bonds. The Board does hereby authorize and direct the President of the University to execute the Bonds, in the name and on behalf of the University, by causing a manual or facsimile of his signature to be imprinted thereon, and does hereby authorize and direct the Secretary of the Board to cause the corporate seal of the University to be imprinted or impressed on each of the Bonds and to attest the same by causing a manual or facsimile of the signature of said Secretary to be imprinted thereon, all in the manner provided in the Indenture, and the President of the University is hereby authorized and directed to deliver the Bonds, subsequent to their execution as provided herein and in the Indenture, to the Trustee under the Indenture, and to direct the Trustee to authenticate all the

Bonds and to deliver them to the Underwriters, upon payment to the University of the purchase price therefor in accordance with the provisions of Section 6 hereof.

Section 10. Application of Proceeds. The entire proceeds derived by the University from the sale of the Bonds shall be paid to said Trustee under the Indenture, which is thereupon authorized and directed to apply and disburse such moneys for the purposes and in the order specified in Section 1.6 of the Sixth Supplemental University Facilities Revenue Trust Indenture herein authorized.

Section 11. Resolution Constitutes Contract. The provisions of this resolution shall constitute a contract between the University and each holder of the Bonds.

Section 12. Severability. The various provisions of this resolution are hereby declared to be severable. In the event any provision hereof shall be held invalid by a court of competent jurisdiction, such invalidity shall not affect any other portion of this resolution.

Section 13. General Authorization. The President of the University, the Vice-President for Financial Affairs and the Secretary of the Board are hereby authorized to execute such further certifications or other documents and to take such other action as any of them may deem appropriate or necessary for the consummation of the matters covered by this resolution, to the end that the Bonds may be executed and delivered as promptly as practicable.

Mr. Wayne Davis presented **ITEM 15.A** as follows. He discussed the bid process and stated that White-Spunner Construction Company was the low bidder on the entire project with a bid of \$6,798,000 (\$450,000 for Mitchell Center Drive; \$1,598,000 for Alumni Plaza; and \$4,750,000 for the Bell Tower). He noted that the Executive Committee met on August 21 and authorized construction of the new Student Recreation Center and the Football Field House exterior. On motion by Mr. Yance, seconded by Ms. Miree, the resolution was unanimously approved.

**RESOLUTION
AWARD BID FOR RELOCATION OF MITCHELL CENTER DRIVE
AND CONSTRUCTION OF ALUMNI PLAZA INCLUDING LANDSCAPING, AND BELL TOWER**

WHEREAS, for over a decade, the University of South Alabama National Alumni Association and the University of South Alabama have promoted the concept of a significant campus landmark, and

WHEREAS, the landmark envisioned is an Alumni Plaza and Bell Tower located in the central core of the campus, and

WHEREAS, such a landmark provides the opportunity to create a campus symbol of everlasting value and meaning for students, alumni, faculty and staff, and

WHEREAS, the University of South Alabama and the University of South Alabama National Alumni Association have identified this project as a major fundraising goal of the Association, and

WHEREAS, it became necessary to combine this project with the relocation of Mitchell Center Drive in accordance with the University Master Plan which was approved in March 2004, and

WHEREAS, the University solicited bids for the relocation of Mitchell Center Drive, construction of the Alumni Plaza including landscaping and Bell Tower, and opened these bids on August 21, 2008, and

WHEREAS, the low bid was submitted by White-Spunner Construction Company in the amounts of \$450,000 for the relocation of Mitchell Center Drive, \$1,598,000 for construction of the Alumni Plaza and landscaping, and \$4,750,000 for construction of the Bell Tower, for a total bid amount of \$6,798,000,

NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama authorizes the awarding of the bid to White-Spunner Construction Company in the amounts of \$450,000 for relocation of Mitchell Center Drive, \$1,598,000 for construction of Alumni Plaza and landscaping, and \$4,750,000 for construction of the Bell Tower, for a total approved bid amount of \$6,798,000.

Chairman Stokes called for a report of audit items. Mr. Wayne Davis presented **ITEM 16**, a report on the independent audit of the USA Foundation Financial Statements, June 2008 and 2007, and **ITEM 17**, a report on the independent audit of the USA Foundation Disproportionate Share Hospital (DSH) Funds, June 2008 and 2007. He indicated that the reports had been discussed by Mr. Ken Davis at the Committee of the Whole meeting on September 10. There was no discussion.

Chairman Stokes read aloud **ITEM 18** as follows. On motion by Mr. Langham, seconded by Mr. Yance, the resolution was unanimously approved. Mrs. Moulton shared heartfelt words of hope for a cure for the dreadful disease of cancer, and expressed gratitude for the opportunity to help in the fight. President Moulton talked of the inspiring example set by good friends and former Trustees Jack Brunson and Mayer Mitchell; Arlene, Abe, and the Mitchell family; and wife, Geri Moulton. He said it was a privilege to be involved in this worthwhile project.

RESOLUTION

NAMING OF THE USA MITCHELL CANCER INSTITUTE MAIN FLOOR RESEARCH AREA

WHEREAS, President Gordon Moulton and his wife, Geri, have been tireless advocates of the University for more than four decades, generously giving of their time and resources, and

WHEREAS, Gordon Moulton has worked professionally in both academic and administrative roles at the University of South Alabama for more than 40 years, the last ten of which as the University's President, and

WHEREAS, the idea for an academic cancer research institute was proposed by President Moulton in 2000 as a much-needed health care initiative for the area, and

WHEREAS, the USA Mitchell Cancer Institute is the single most ambitious research endeavor in the University's history, with the ultimate goal of helping Gulf Coast citizens lead longer, healthier lives through the prevention, diagnosis, and advanced treatment of cancer made possible through innovative medical research, and

WHEREAS, Geri and Gordon Moulton have now shown further support of the University of South Alabama by donating \$3 million toward research and the cure of cancer at the USA Mitchell Cancer Institute, establishing the "Geri and Gordon Moulton Research Fund," and

WHEREAS, the contribution is one of the largest gifts in the history of the University of South Alabama and further advances the development of the USA Mitchell Cancer Institute as a nationally recognized research and clinical cancer center, and

WHEREAS, the Moultons' gift is part of Campaign USA, the University's first comprehensive fund-raising campaign that seeks to raise \$75 million for USA programs, faculty, students and construction, and

WHEREAS, the gift to the USA Mitchell Cancer Institute is further evidence of the Moultons' dedication not only to the University of South Alabama, but to all citizens of the Gulf Coast region,

THEREFORE, BE IT RESOLVED, that the University of South Alabama's Board of Trustees acknowledges and thanks the Moultons for their steadfast service to humanity and generous philanthropic support of the University, and

BE IT FURTHER RESOLVED, that the Board of Trustees, in consideration of this recent and generous contribution to the USA Mitchell Cancer Institute, hereby names the main floor research area of the cancer institute the "Geri and Gordon Moulton Center for Cancer Research.

There being no further business, the meeting adjourned at 11:32 a.m.

Attest to:

Respectfully Submitted:

Bettye R. Maye, Secretary

Steven H. Stokes, MD, Chair Pro Tempore

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

COMMITTEE OF THE WHOLE

**September 10, 2008
2:00 p.m.**

A meeting of the Committee of the Whole was duly convened by Dr. Steven H. Stokes, Chair Pro Tempore, on Wednesday, September 10, 2008, at 1:57 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present: Trustees Scott Charlton, Steven Furr (via phone), Donald Langham, Bettye Maye, Christie Miree, Arlene Mitchell, John Peek, Steven Stokes, and James Yance.

Members Absent: Trustees J. L. Chestnut, Cecil Gardner, Sam Jones, Bryant Mixon, Joseph Morton, James Nix, Bob Riley, and Larry Striplin.

Administration and Others: President Gordon Moulton; Drs. Michael Boyd, Joe Busta, Ron Franks, Russ Lea, John Sachs (Faculty Senate), Robert Shearer, John Smith, David Stearns, and David Turnipseed; Messrs. Terry Albano, Louis Cardinal (Thornton Farish), Ken Davis, Wayne Davis, Stan Hammack, Rod Kanter (Bradley Arant); Mss. Caitlin Collins (SGA) and Jean Tucker.

Press: Ms. Renee Busby (*Press-Register*).

Chairman Stokes called the meeting of the Committee of the Whole to order. President Moulton suggested deferral of introductions and routine approval and report items until the Board meeting on September 11.

Ms. Miree, Chair of the Academic and Student Affairs Committee, called upon Dr. Shearer to discuss **ITEM 10** (for copies of resolutions, policies, and other authorized documentation, refer to the USA Board of Trustees meeting minutes, September 11, 2008), a resolution to approve the document titled *University of South Alabama Board of Trustees Fifth Annual Report to the Alabama Commission on Higher Education - State Plan for Alabama Higher Education, 2003-04 through 2008-09*. Dr. Shearer explained that the report documents the University's progress relative to five goals: access of education, cooperative partnerships, program quality, funding resources, and workforce development. The document is the final report required for the five-year reporting period. Action was deferred until the Board meeting.

On behalf of Mayor Nix, Chair of the Budget and Finance Committee, Mr. Wayne Davis presented **ITEM 12**, the Monthly Fund Financial Reports for April, May, and June 2008 and the GASB Financial Statements for the nine months ended June 30, 2008, comparing nine-month results for 2008 to 2007.

Mr. Ken Davis presented **ITEM 13**, a resolution to elect as Directors of the USA Research and Technology Corporation Mr. Joseph Adamo and Dr. James Laier for four-year terms effective June 2008. Both are currently directors and have agreed to serve additional four-year terms. Action was deferred until the Board meeting.

Ms. Jean Tucker discussed **ITEM 13.A**, a resolution authorizing the President to execute, file, and record such documents as necessary to affirm the federal interests in the Engineering and Science Center as required under applicable federal regulations. She explained that the resolution must be passed as a term of the federal award for the construction of the building to take place. On motion duly made and seconded, the Committee unanimously agreed to recommend approval by the full Board.

Mr. Wayne Davis presented **ITEM 14**, a resolution authorizing the University Budget for 2008-2009. He said that the proposed budget submits a \$4.5 million deficit. He noted that, for the upcoming year, there were significant revenue changes compared to the revenues received by the University over the past three years. President Moulton said that factors helping the University address decreased funding are enrollment growth and the recent tuition increase. Mr. Langham questioned indigent care funding. President Moulton responded that, unlike the USA Medical Center, no other area hospital has had more than six percent in unpaid indigent care patient charges. For this reason, the University does receive the bulk of indigent support among the local hospitals.

Mr. Davis discussed highlights of the proposed budget, noting that budgeted revenues are \$654,155,787, an increase of \$30,255,168 over last year's revenues of \$623,900,619. Budgeted expenditures and transfers are \$658,614,044, an increase of \$34,713,425 compared to 2007-2008 expenditures of \$623,900,619. This results in a deficit budget of \$4,458,257 due primarily to a decrease in the state appropriation of \$17,881,956, or 11.81 percent. This decrease follows three years of substantial appropriation increases.

Mr. Davis detailed budgeted revenues: the previously-approved tuition increase and enrollment growth of \$11,666,905; the state appropriation decrease of \$17,881,956; gifts, grants, and contracts increase of \$11,059,071; Hospitals sales and services revenues increase of \$6,977,344, contractual adjustments decrease of \$12,556,575, and other Hospital revenues increases of \$1,942,965; Mitchell Cancer Institute revenues increase of \$260,465, contractual adjustments increase of \$1,724,630, and other MCI revenues increases of \$2,231,339; and Auxiliary Enterprise revenues increase of \$1,318,096.

Mr. Davis outlined budgeted expenditures: State Teachers' Retirement System employer matching cost increase of \$3,475,020; utilities, building maintenance, custodial services, and building maintenance and repairs increase of \$2,203,700; scholarships increase of \$1,000,000; debt service, renewals and replacements, and other transfers decrease of \$2,224,743; auxiliary operating expenses increase of \$1,136,536; Hospitals' operating expenses increase of \$20,240,399; MCI operating expenses increase of \$993,249; University operations and maintenance and College of Medicine expenditures increases of \$5,082,008; and grants and contracts expenses increase of \$4,439,263.

Mr. Davis said the University will implement several budget-reduction measures to address the budget deficit. These measures include a hiring and reclassification freeze, the elimination or reduction of overtime to the absolute minimum, the elimination of payment for cellular telephones, and the implementation of a pilot, voluntary program for employees to work four nine-hour days for a 36-hour work week. Employees electing this option would have their compensation reduced by four hours a week. Employees will continue to be eligible for all employee benefits and participation in the Teachers' Retirement System of Alabama. Adjustments to employees' schedules will be made with consideration of department needs and with supervisor approval. President Moulton noted that faculty recruitment will not be affected.

Mr. Hammack discussed the financial condition of Medicaid and the effects on the University and other agencies. Mr. Davis and President Moulton addressed the University's self-insured health and dental plan, indicating that the plan is in good standing at a reasonable cost with no premium increases to policy holders. President Moulton said that the University utilizes its own delivery system for health care with the Hospitals and USA physicians as providers, which makes a tremendous difference in premium costs. On motion duly made and seconded, the Committee unanimously agreed to recommend approval by the full Board.

President Moulton presented an overview of the proposed University bond issue, **ITEM 15**, indicating that the primary purpose of the bond issue is to fund the construction of the expansion of Children's and Women's Hospital. The remainder is to be used for various projects on the main campus. Mr. Wayne Davis introduced Mr. Louis Cardinal of Thornton Parish, the University's financial advisor; and Mr. Rod Kanter, attorney with Bradley Arant Rose and White. Mr. Cardinal reported that the underwriters had a successful sale of the bonds. The bonds will be issued at an effective interest rate of 4.8 percent with a face value of \$112,885,000 and will yield approximately \$110,000,000. He discussed the upgrade of the Moody's Bond Rating from A2 to A1 and also indicated that the issue will be insured by Berkshire Hathaway Assurance Corporation. Because of this insurance, the bonds will be issued at a AAA rating, resulting in a net cash flow savings to the University of approximately \$5,000,000 (net of the cost of the insurance). Mr. Kanter reported that all of the documents required for the bond sale are proper and in place. Upon motion duly made and seconded, the Committee voted unanimously to recommend approval by the full Board.

President Moulton introduced **ITEM 15.A**, a resolution authorizing the awarding of the construction bid for relocating Mitchell Center Drive to White-Spunner Construction at a cost of \$450,000; for construction of Alumni Plaza and landscaping at a cost of \$1,598,000; and for construction of the Bell Tower at a cost of \$4,750,000; for a total approved bid amount of \$6,798,000. The resolution and other documentation were distributed for review by Trustees. Mr. Davis discussed the bid process and stated that White-Spunner Construction Company was the low bidder on the entire project. He noted that the original low bid from White-Spunner came in at \$7.3 million, and added that the University Administration negotiated for a reduced cost of \$6.9 million. He said that the project was covered under the 2006 University bond issue. President Moulton called upon Dr. Busta to comment on development efforts for the project. Dr. Busta reported that funds raised thus far are in the \$4 million range. He suggested that continued efforts may bring the total dollars raised to the

\$5 million mark. On motion duly made and seconded, the Committee voted unanimously to recommend approval by the full Board.

Chairman Stokes called for a report of audit items. Mr. Ken Davis presented **ITEM 16**, a report on the independent audit of the USA Foundation Financial Statements, June 2008 and 2007. He reported that the auditor's opinion was unqualified, and pointed out that 41 percent of the Foundation's assets were invested in marketable securities, while 53 percent was invested in timber and mineral properties.

Mr. Ken Davis discussed **ITEM 17**, a report on the independent audit of the USA Foundation Disproportionate Share Hospital (DSH) Funds, June 2008 and 2007. He noted that the auditor's opinion was unqualified.

Chairman Stokes called upon Mr. Albano to address **ITEM 18**, a report on the endowment and University investments. Reports were distributed for review by Trustees as Mr. Albano presented performance results for the total endowment and each individual money manager for the 2008 fiscal year: Commonfund, Private Advisors, Arlington Partners, Gerber/Taylor, Douglas Lane, and various other fund managers. He stated that the endowment out-performed its relative index for the 2008 fiscal year to date (-7.49 percent vs. -8.09 percent), and out-performed since inception (3.78 percent vs. 2.34 percent). He commented on the outstanding performance of Douglas Lane, noting that the management company had out-performed its relative index by 9.51 percentage points due, in part, to the investment strategies employed in a very volatile market. He reported that the current value of the endowment is \$64.4 million. Ms. Miree asked Mr. Albano how the relative indices were calculated; Mr. Albano responded that the calculations were based on a weighted value for each asset class.

Mr. Yance reported on the *Campaign USA* Leadership Team meeting held prior to the Committee of the Whole meeting. He said that the finish line is in sight with 90 percent of the drive complete. He expressed enthusiasm and confidence that the goal of \$75 million would be met. Thus far, \$69.7 million has been raised.

There being no further business, the meeting adjourned at 3:01 p.m.

Attest to:

Respectfully Submitted:

Bettye R. Maye, Secretary

Steven H. Stokes, MD, Chair Pro Tempore

**UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES**

Executive Committee Meeting

**November 2, 2008
5:30 p.m.**

The Executive Committee of the University of South Alabama Board of Trustees was duly convened by Chairman Steven Stokes on Sunday, November 2, 2008, at 5:35 p.m. in the Bienville Room at The Battle House.

Members Present: Trustees Cecil Gardner, Samuel Jones, Donald Langham, Bettye Maye, James Nix, Steven Stokes, and James Yance.

Other Trustees: Trustees Christie Miree and Larry Striplin.

Administration and Others: President Gordon Moulton; Dr. Bob Shearer; Messrs. Wayne Davis and Stan Hammack; and Ms. Jean Tucker.

Press: Ms. Renee Busby (*Press-Register*).

Chairman Stokes convened the meeting and deferred to President Moulton for discussion of **ITEM 1** as follows. President Moulton discussed the proposal process for selection of an architect for the Children's and Women's Hospital expansion project, pointing out that, of several firms submitting proposals, five were invited to the campus to make presentations. It was noted that the teams interviewed had extensive backgrounds in hospital design, and recommended approval of awarding the contract to TRO Jung/Brannen. Mr. Hammack concurred. On motion by Mr. Langham, seconded by Mayor Jones, the resolution was unanimously approved.

**RESOLUTION
SELECTION OF ARCHITECT FOR ADDITION TO CHILDREN'S AND WOMEN'S HOSPITAL**

WHEREAS, the University of South Alabama Children's and Women's Hospital is a quality facility with the mission of providing outstanding medical care to children and women, and

WHEREAS, the facility, including the addition made in 1996, is filled to capacity with patients, and

WHEREAS, it is apparent that this trend of high patient volume will continue because of the specialized nature of services rendered by the physicians and staff at the Children's and Women's Hospital, and

WHEREAS, this project was envisioned when the Board of Trustees authorized the sale of the University Facilities Revenue Capital Improvements Bonds Series 2008 at the September 11, 2008, Board of Trustees meeting, and

WHEREAS, the selection of an architect with the proper background and experience is essential to the successful completion of this project, and

WHEREAS, the University and Hospital Administration interviewed five outstanding architectural firms for this project, and

WHEREAS, the University Administration, after much deliberation, recommends the appointment of the TRO Jung/Brannen firm as the architect for this building,

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama hereby authorizes the President to engage the firm TRO Jung/Brannen for this project.

President Moulton called upon Mr. Davis to present **ITEM 2** as follows. Mr. Davis explained that the resolution authorizes the awarding of two bids. He reminded the Committee of prior approval by the Executive Committee on August 21, 2008, to construct the exterior shell of the football field house facility, and reported that eight firms had recently submitted bids to complete the interior of the building. He read aloud the portion of the resolution pertinent to the construction bid and provided details on the bid process. He said that the administration would soon conclude examination of the proposals.

Mr. Davis addressed the bid process for installation of the primary power supply for the football field house and practice field. He reported that Gulf Electric Company had submitted the lowest bid at \$305,596. He read aloud the corresponding language of the resolution, and he and President Moulton responded to questions. On motion by Mayor Nix, seconded by Mr. Gardner, the resolution was unanimously approved.

RESOLUTION

AWARD BIDS FOR FOOTBALL FIELD HOUSE AND PRACTICE FIELD PRIMARY POWER, AND INTERIOR PACKAGE PHASE II

WHEREAS, on August 21, 2008, the Executive Committee of the Board of Trustees of the University of South Alabama approved the award of the bid by Trademark Construction, Inc. for construction of the Football Field House shell, and

WHEREAS, it was contemplated that construction of the shell would proceed while design of the interior fit out was completed, and

WHEREAS, the University solicited bids for construction of the interior fit out of the Football Field House, as shown on the bid tabulation attached as Exhibit A, and

WHEREAS, after reviewing all bids, the University determined that further due diligence needs to be performed with the apparent low bidder to determine that all bid specifications were met and that all value engineering possibilities were examined, and

WHEREAS, it was determined that the power grid of the University must be expanded to supply electrical power to the Football Field House and Practice Field and other facilities that might be located in that area in the future, and

WHEREAS, the University solicited bids for installation of the primary power supply for the Football Field House and Practice Field, as shown on the bid tabulation attached as Exhibit B, and

WHEREAS, after reviewing all bids, the University determined that Gulf Electric Power, Inc. was the lowest qualified bidder with a price of \$305,996.00,

THEREFORE, BE IT RESOLVED, that the Executive Committee of the Board of Trustees of the University of South Alabama hereby authorizes the President to award the bid to the successful bidder in an amount not to exceed \$2,760,000 for construction of the interior fit out of the Football Field House in accordance with the Alabama bid law, and

Executive Committee

Page 3

November 2, 2008

BE IT FURTHER RESOLVED, that the Executive Committee of the Board of Trustees of the University of South Alabama hereby approves the award of the bid by Gulf Electric Power, Inc. for installation of the primary power supply for the Football Field House and Practice Field.

There being no further business, the meeting was adjourned at 5:45 p.m.

Attest to:

Respectfully Submitted:

Bettye R. Maye, Secretary

Steven H. Stokes, M.D., Chair Pro Tempore

RESOLUTION

**USA HOSPITALS
MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS
FOR AUGUST, SEPTEMBER, OCTOBER, AND NOVEMBER 14, 2008**

WHEREAS, the Medical Staff appointments and reappointments for August, September, October, and November 14, 2008, for the University of South Alabama Hospitals are recommended for approval by the Medical Executive Committees of the University of South Alabama Hospitals,

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

UNIVERSITY OF SOUTH ALABAMA



STANLEY K. HAMMACK
VICE PRESIDENT
HEALTH SYSTEM

REC'D
OFFICE OF THE PRESIDENT

NOV 17 2008

UNIVERSITY OF SOUTH ALABAMA
2451 FILLINGIM STREET, SUITE 1000
MOBILE, ALABAMA 36617-2293
FAX: (251) 471-7751

MEMORANDUM

TO: V. Gordon Moulton
President

FROM: Stan Hammack 

DATE: November 17, 2008

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

For Approval:
University of South Alabama Hospitals:

Credentials Report – August, September, October and November 14, 2008

SKH:eb

Attachments

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEES APPROVAL
AUGUST, SEPTEMBER & OCTOBER 2008

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

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Status	Category	Dept/Ser	Type/Status	Category	Dept/Ser	Type/Status	Category	Dept/Ser
Allison, Ronald C, MD	Reappt	Active	IM/Pulm	Reappt	Active	IM/Pulm	Reappt	Active	IM/Pulm
Ambrose, Michael, MD	Reappt	Active	EM	Reappt	Active	EM	Reappt	Active	EM
Ashbee, Susan J, MD	No Privs	N/A	N/A	Reappt	Courtesy	Peds	N/A	N/A	N/A
Atkinson, Tangela C, MD	Reappt	Active	FM	Reappt	Active	FM	Reappt	Active	FM
Awan, Farida, MD	Reappt	Active	Peds	Reappt	Active	Peds	Reappt	Active	Peds
Bassam, Bassam, MD	Reappt	Active	Peds	Reappt	Active	Peds	Reappt	Active	Peds
Bentley, James R, MD	Reappt	Courtesy	OB/GYN	No Privs	N/A	N/A	N/A	N/A	N/A
Berry, Michael A, MD	Reappt	Courtesy	IM/Gastr	Reappt	Courtesy	IM/Gastr	N/A	N/A	N/A
Brogdon, Byron, MD	Reappt	Consulting	Radiology	Reappt	Consulting	Radiology	N/A	N/A	N/A
Catranis, Theodore N, MD	Reappt	Courtesy	OB/GYN	Reappt	Courtesy	OB/GYN	N/A	N/A	N/A
Cave, Luther D, MD	Reappt	Active	IM/Card	Reappt	Active	IM/Card	Reappt	Active	IM/Card
Clemens, Elizabeth, MD	New Appt	Associate	Anes	New Appt	Associate	Anes	New Appt	Associate	Anes
Courtney, James V, MD	New Appt	Associate	Radiology	New Appt	Associate	Radiology	New Appt	Associate	Radiology
Dempsey, Thomas R, MD	Reappt	Courtesy	Ortho	Reappt	Courtesy	Ortho	N/A	N/A	N/A
Duffy, Robert L, MD	Reappt	Active	FM	Reappt	Active	FM	Reappt	Active	FM
Dumlao, Donato G, MD	New Appt	Associate	IM/Gen	New Appt	Associate	IM/Gen	New Appt	Associate	IM/Gen
Dumlao, Theresa L, MD	New Appt	Associate	IM/HemOnc	New Appt	Associate	IM/HemOnc	New Appt	Associate	IM/HemOnc
Ellingwood, Kenneth E, MD	Reappt	Active	Radiology	Reappt	Active	Radiology	Reappt	Active	Radiology
Elliott, Kimberly, MD	Reappt	Courtesy	Surgery	No Privs	N/A	N/A	N/A	N/A	N/A
Falkos, Sheryl A, MD	Reappt	Active	Peds	Reappt	Active	Peds	Reappt	Active	Peds
Frye, Karen, MD	Reappt	Active	Surgery	Reappt	Active	Surgery	Reappt	Active	Surgery
Hagmaier, Ramona, PA	Reappt	Allied Health	Surgery	Reappt	Allied Health	Surgery	Reappt	Allied Health	Surgery
Hassell, David R, MD	No Privs	N/A	N/A	Reappt	Consulting	Radiology	N/A	N/A	N/A
Hoffman, Michael C, MD	Reappt	Active	FM	Reappt	Active	FM	N/A	N/A	N/A
Hudgens, Russell A, MD	Reappt	Courtesy	Ortho	Reappt	Courtesy	Ortho	N/A	N/A	N/A
Khong, Hung T, MD	Reappt	Active	IM/HemOnc	Reappt	Active	IM/HemOnc	Reappt	Active	IM/HemOnc
Kirby, Dale S, MD	Reappt	Courtesy	IM/Cardio	Reappt	Courtesy	IM/Card	N/A	N/A	N/A
Mancao, Mary C, MD	Reappt	Active	Peds	Reappt	Active	Peds	Reappt	Active	Peds

**UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEES APPROVAL
AUGUST, SEPTEMBER & OCTOBER 2008**

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

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Status	Category	Dept/Ser	Type/Status	Category	Dept/Ser	Type/Status	Category	Dept/Ser
McClure, Michael, MD	New Appt	Associate	Surgery	New Appt	Associate	Surgery	New Appt	Associate	Surgery
Mire, Christopher, MD	Reappt	Courtesy	IM/Neph	Reappt	Courtesy	IM/Neph	N/A	N/A	N/A
Mull, David, MD	Reappt	Active	Surgery	Reappt	Active	Surgery	N/A	N/A	N/A
Nimityoungkul, Prasit, MD	Reappt	Active	Ortho	Reappt	Active	Ortho	Reappt	Active	Ortho
Nolan, Patrick E, MD	Reappt	Courtesy	IM/Inf Dis	Reappt	Courtesy	IM/Inf Dis	N/A	N/A	N/A
Omar, Bassam A, MD	Reappt	Active	IM/Card	Reappt	Active	IM/Card	Reappt	Active	IM/Card
Panayiotou, Hercules, MD	No Privs	N/A	N/A	Reappt	Active	IM/Card	N/A	N/A	N/A
Plessala, Kirby J, MD	Reappt	Courtesy	OB/GYN	No Privs	N/A	N/A	N/A	N/A	N/A
Revels, Tim S, MD	Reappt	Courtesy	Ortho	Reappt	Courtesy	Ortho	N/A	N/A	N/A
Richerson, Jason M, MD	Reappt	Active	Peds	Reappt	Active	Peds	Reappt	Active	Peds
Rodriguez, Reynaldo, DO	No Privs	N/A	N/A	Reappt	Active	EM	Reappt	Active	EM
Rodriguez, Reynaldo, DO	Reappt	Active	IM/Gastr	Reappt	Active	IM/Gastr	Reappt	Active	IM/Gastr
Rodriguez-Feo, John A, MD	Reappt	Courtesy	Ortho	Reappt	Courtesy	Ortho	N/A	N/A	N/A
Semon, John E, MD	Reappt	Courtesy	Ortho	Reappt	Courtesy	Ortho	N/A	N/A	N/A
Siegel, Jonathan, MD	Reappt	Consulting	IM/Gastr	Reappt	Consulting	IM/Gastr	N/A	N/A	N/A
Teplick, Steven K, MD	Reappt	Active	Radiology	Reappt	Active	Radiology	Reappt	Active	Radiology
CHANGE IN STATUS/RESIGNATION:									
Cole, Kimberly, DO	****	Active	Peds	****	Active	Peds	****	Active	Peds

**UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEES APPROVAL
AUGUST, SEPTEMBER & OCTOBER 2008**

LEGEND:

- | | |
|--------------------------|--|
| New Appt | New application for medical staff privileges recommended for approval. |
| Reappt | Reappointment application for medical staff privileges recommended for approval. |
| No Privs | No privileges requested |
| Changes in Status | # Change to USA Faculty |
| | ## Change to Private Practice |
| | * Additional Privileges Requested – Epicor Cardiac Tissue Ablation |
| | ** Additional Privileges Requested – OB/GYN Privileges Added |
| | *** Additional Privileges Requested – Moderate Conscious Sedation Privileges |
| | **** Additional Privileges Requested – Deep Sedation Privileges |

RECOMMENDED BY:



Craig Sherman, MD, President, Medical Staff
USA Children's & Women's Hospital



Robert A. Perkins, MD, President, Medical Staff,
USA Medical Center



Stanley K. Hammack
Vice President, USA Health System

**UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEES APPROVAL
November 14, 2008**

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

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Status	Category	Dept/Ser	Type/Status	Category	Dept/Ser	Type/Status	Category	Dept/Ser
Alonso, Jorge, MD	New Appt	Associate	Ortho	New Appt	Associate	Ortho	New Appt	Associate	Ortho
Batten, Lynn, MD	Reappt	Active	Peds	Reappt	Active	Peds	N/A	N/A	N/A
Bose, William, MD	Reappt	Courtesy	Ortho	Reappt	Courtesy	Ortho	N/A	N/A	N/A
Boudreaux, Carole, MD	Reappt	Active	Path	Reappt	Active	Path	Reappt	Active	Path
Brooks, Marjorie, DO	Reappt	Active	OB/GYN	Reappt	Active	OB/GYN	Reappt	Active	OB/GYN
Burch, Andrew, MD	Reappt	Courtesy	Surgery	Reappt	Courtesy	Surgery	N/A	N/A	N/A
Burch, Cynthia, CRNP	Reappt	Allied Health	Peds	No Privs	N/A	N/A	Reappt	Allied Health	Peds
Burch, Ernest, MD	Reappt	Courtesy	Surgery	Reappt	Courtesy	Surgery	N/A	N/A	N/A
Clarke, Ronald, M, MD	Reappt	Courtesy	OB/GYN	No Privs	N/A	N/A	N/A	N/A	N/A
Clements, Lloyd, MD	Reappt	Active	Peds	No Privs	N/A	N/A	Reappt	Active	Peds
Crocker, Percy V, MD	Reappt	Courtesy	Surgery/Otolaryn	No Privs	N/A	N/A	N/A	N/A	N/A
Crotwell, William, MD	Reappt	Active	Ortho	Reappt	Active	Ortho	N/A	N/A	N/A
Cunningham, Jennifer, MD	No Privs	N/A	N/A	Reappt	Courtesy	OB/GYN	N/A	N/A	N/A
Damrich, Michael, MD	Reappt	Active	Surgery/Cardiovas	Reappt	Active	Surgery/Cardiovas	N/A	N/A	N/A
Daugherty, M Preston, MD	Reappt	Courtesy	Ortho	Reappt	Courtesy	Ortho	N/A	N/A	N/A
Davis, Jerri B, RN	No Privs	N/A	N/A	Reappt	Allied Health	Surgery/Cardiovas	N/A	N/A	N/A
Duncan, Clinton E, PA	No Privs	N/A	N/A	Reappt	Allied Health	Ortho	N/A	N/A	N/A
Dye, Hilary, MD	New Appt	Associate	IM/Gen	New Appt	Associate	IM/Gen	New Appt	Associate	IM/Gen
Gaffin, Daniel, DPM	Reappt	Allied Health	Podiatrist	No Privs	N/A	N/A	N/A	N/A	N/A
Gallaspy, Glenn T, MD	Reappt	Courtesy	OB/GYN	No Privs	N/A	N/A	N/A	N/A	N/A
Gore, Lisa, CRNP	Reappt	Allied Health	Peds	No Privs	N/A	N/A	Reappt	Allied Health	Peds
Harrell, James B, MD	Reappt	Active	Peds	No Privs	N/A	N/A	N/A	N/A	N/A
Harris, Curtis, MD	Reappt	Active	Surgery/Plas	Reappt	Active	Surgery/Plas	Reappt	Active	Surgery/Plas
Hughes, Helen, CRNA	New Appt	Allied Health	Anesth	New Appt	Allied Health	Anesth	New Appt	Allied Health	Anesth
Hundley, Olivette, MD	New Appt	Associate	IM/Gen	New Appt	Associate	IM/Gen	New Appt	Associate	IM/Gen
Hundley, Olivette, MD	New Appt	Associate	Peds	New Appt	Associate	Peds	New Appt	Associate	Peds
Ichim, Stephen, MD	Reappt	Active	Anesth	Reappt	Active	Anesth	Reappt	Active	Anesth
Jardine, James Q, MD	Reappt	Courtesy	OB/GYN	No Privs	N/A	N/A	N/A	N/A	N/A

**UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEES APPROVAL
November 14, 2008**

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

NAME	USACWH				USAMC				AMBULATORY CARE			
	Type/Status	Category	Dept/Ser	Path	Type/Status	Category	Dept/Ser	Path	Type/Status	Category	Dept/Ser	Path
Kahn, Andrea, MD	Reappt	Active			Reappt	Active			Reappt	Active		
Kirk, Jessica, MD	New Appt	Associate	Peds		No Privs	N/A	N/A		New Appt	Associate		
Koulianos, George T, MD	Reappt	Courtesy	OB/GYN		N/A	N/A	N/A		N/A	N/A		
Lubitz, Jonathan, DPM	Reappt	Allied Health	Podiatrist		Reappt	Allied Health	Podiatrist		N/A	N/A		
Madonia, Phillip, MD	Reappt	Courtesy	OB/GYN		N/A	N/A	N/A		N/A	N/A		
Martinko, Thomas, MD	New Appt	Associate	Peds		No Privs	N/A	N/A		New Appt	Associate		
McNease, Jennifer L, CRNP	New Appt	Allied Health	Peds		No Privs	N/A	N/A		New Appt	Allied Health		
Ozias, Ozgur, MD	New Appt	Associate	Neurology		New Appt	Associate	Neurology		N/A	N/A		
Ringhoffer, Carolyn, MD	Reappt	Courtesy	OB/GYN		No Privs	N/A	N/A		N/A	N/A		
Rizk, Botros, MD	Reappt	Active	OB/GYN		Reappt	Active	OB/GYN		Reappt	Active		
Rusyniak, Walter, MD	New Appt	Associate	Neurosurg		New Appt	Associate	Neurosurg		New Appt	Associate		
Sansaricq, Jean A, MD	Reappt	Active	OB/GYN		Reappt	Active	OB/GYN		N/A	N/A		
Scott, Byron C, DMD	Reappt	Allied Health	Dentist		Reappt	Allied Health	Dentist		N/A	N/A		
Shields, Ruth, MD	Reappt	Courtesy	OB/GYN		N/A	N/A	N/A		N/A	N/A		
Stadther, Joseph, MD	Reappt	Active	Peds		No Privs	N/A	N/A		Reappt	Active		
Storey, James, MD	No Privs	N/A	N/A		Reappt	Courtesy	IM/Cardiology		N/A	N/A		
Thornycroft, Ian, MD	Reappt	Active	OB/GYN		Reappt	Active	OB/GYN		N/A	N/A		
Urquhart, William J, MD	Reappt	Courtesy	OB/GYN		Reappt	Courtesy	OB/GYN		N/A	N/A		
West, James, MD	Reappt	Courtesy	Ortho		Reappt	Courtesy	Ortho		N/A	N/A		
Wing, Stacey, MD	No Privs	N/A	N/A		Reappt	Active	IM/Gen		Reappt	Active		
Zayek, Michael, MD	Reappt	Active	Peds		Reappt	Active	Peds		Reappt	Active		
CHANGE IN STATUS/RESIGNATION:												

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

November 14, 2008

LEGEND:

New Appt Reappt No Privs Changes in Status	New application for medical staff privileges recommended for approval. Reappointment application for medical staff privileges recommended for approval. No privileges requested # Change to USA Faculty ## Change to Private Practice * Additional Privileges Requested – Epicor Cardiac Tissue Ablation ** Additional Privileges Requested – OB/GYN Privileges Added *** Additional Privileges Requested – Moderate Conscious Sedation Privileges **** Additional Privileges Requested – Deep Sedation Privileges
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RECOMMENDED BY:

8



Craig Sherman, MD, President, Medical Staff
USA Children's & Women's Hospital



Robert A. Perkins, MD, President, Medical Staff,
USA Medical Center



Stanley K. Hammack
Vice President, USA Health System

RESOLUTION

PROFESSORS EMERITI

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

Wanda K. Kirkpatrick, M.D., Associate Professor, Internal Medicine
Michael B. Kirkpatrick, M.D., Professor, Internal Medicine
Robert L. Lausch, Ph.D., Professor, Microbiology/Immunology
Randall W. Powell, M.D., Professor, Pediatric Surgery
Richard Wesenberg, M.D., Professor, Radiology

and

WHEREAS, in recognition of their contributions to the University through extraordinary accomplishments in teaching and in the generation of new knowledge through research and scholarship, and for serving as a consistently inspiring influence to students for a period of time, and

WHEREAS, the faculty and chairpersons from their departments, the Dean of the College of Medicine, the Vice President for Health Sciences, and the President have duly recommended the aforementioned retirees from the University faculty,

NOW THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama hereby appoints the aforementioned individuals to the rank of *Associate or Professor Emeritus*, as appropriate, with the rights and privileges thereunto appertaining, and

FURTHER, BE IT RESOLVED that the Board of Trustees of the University of South Alabama, in recognition of their noteworthy accomplishments and dedicated service, wishes to convey its deep appreciation to these individuals.

UNIVERSITY OF SOUTH ALABAMA



OFFICE OF THE VICE PRESIDENT
FOR HEALTH SCIENCES

REC'D
OFFICE OF THE PRESIDENT

NOV 12 2008

UNIVERSITY OF SOUTH ALABAMA
TELEPHONE: (251) 460-7189
MOBILE, ALABAMA 36688-0002
FAX: (251) 460-6073

Date: November 11, 2008

To: V. Gordon Moulton
President

From: Ronald D. Franks, M.D.
Vice President for Health Sciences

Subject: Professor Emeritus Recommendations for the College of Medicine

In accordance with the recommendation of the faculty and Chairs of the respective disciplines and Deans, I recommend that the retired University of South Alabama faculty listed below be granted the status of Professor Emeritus upon approval of you and the Board of Trustees.

Dr. Wanda K. Kirkpatrick, Associate Professor, Internal Medicine
Dr. Michael B. Kirkpatrick, Professor, Internal Medicine
Dr. Robert N. Lausch, Professor, Microbiology/Immunology
Dr. Randall W. Powell, Professor, Pediatric Surgery
Dr. Richard L. Wesenberg, Professor, Radiology

A resolution for the Board of Trustees is attached.

RESOLUTION

SELECTION OF ARCHITECT FOR DINING FACILITY

WHEREAS, the University of South Alabama is a growing institution of higher learning,
and

WHEREAS, the current Student Center dining area is insufficient to handle the growing
residential student population, and

WHEREAS, a high-quality residential dining facility is a key component to recruiting and
retaining the highest quality students, and

WHEREAS, a new dining facility located with the residential housing will yield a marked
improvement in campus life, and

WHEREAS, the selection of an architect with the proper background and experience is
essential to the successful completion of this project, and

WHEREAS, the University Administration interviewed five outstanding architectural firms
for this project, and

WHEREAS, the University Administration, after much deliberation, recommends the
appointment of _____ as the architect for this building,

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South
Alabama hereby authorizes the President to engage the firm of _____ for this
project.



UNIVERSITY OF SOUTH ALABAMA
Director of Facilities Management
AD 328

REC'D
OFFICE OF THE PRESIDENT

NOV 21 2008

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

DATE: November 24, 2008
TO: President V. Gordon Moulton
VIA: M. Wayne Davis, Vice President of Financial Affairs
FROM: Chris M. Willis *Chris M. Willis*
SUBJECT: Resolution for Selection of Architect for USA Dining Facility *M. Wayne Davis*

In conjunction with the planned construction of a Dining Facility, we have selected the following architectural firms for interviews:

Walcott Adams Verneuille Architects, Fairhope, AL
WHLC Architecture, Fairhope, AL
Goodwyn, Mills and Cawood, Inc., Mobile, AL
The Garrison Barrett Group, Birmingham, AL
Williams Blackstock, Birmingham, AL

After the interviews and follow-up discussions and deliberations, we will recommend that a firm be authorized as the architect for the proposed Dining Facility.

With your approval, we will include the attached resolution on the agenda for the meeting of the Board of Trustees, scheduled for December 11, 2008.

CMW

Attachment

c: Mr. John Smith

RESOLUTION

**SELECTION OF ARCHITECT FOR PLANNING AND
DEVELOPMENT OF A CAMPUS WELLNESS CENTER AND CONFERENCE
CENTER COMPLEX**

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama hereby authorizes the President to engage the firm of Enwright Associates, Inc., to complete due diligence for the development of a campus wellness center and conference center complex, and

BE IT FURTHER RESOLVED, that the President will report the results to the Board of Trustees and make a final recommendation for the project.



UNIVERSITY OF SOUTH ALABAMA
Office of the Vice President for Financial Affairs
AD 170

REC'D
OFFICE OF THE PRESIDENT

DEC 03 2008

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

December 3, 2008

TO: President V. Gordon Moulton
FROM: M. Wayne Davis
SUBJECT: Proposed Board of Trustees Resolution

Attached is a proposed resolution for consideration by the Board of Trustees at its meeting scheduled for December 11, 2008. The resolution concerns the planning for the clinically-integrated wellness and meeting room facility.

We have had numerous meetings about this facility and visited other such centers in New Jersey and South Carolina.

We recommend the appointment of the architect firm Enwright Associates, Inc. to complete the due diligence efforts.

With your permission, we will include this on the agenda for the Board meeting.

Thank you.

MWD/cbm

Attachment

RESOLUTION

RESTATEMENT OF UNIVERSITY OF SOUTH ALABAMA MATCHING PLAN

WHEREAS, the University of South Alabama, in 1964, authorized the participation of certain employees in the Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF) pursuant to an elective salary reduction arrangement under which matching funds are available, and

WHEREAS, on November 30, 1967; on October 24, 1980; on January 1, 1986; on January 1, 1987; on October 1, 1989; on June 27, 1991; and on June 8, 2006 the program was changed, and

WHEREAS, the United States Treasury Department issued final regulations under Section 403(b) of the Internal Revenue Code on July 26, 2007, that become effective January 1, 2009, and

WHEREAS, the final regulations include a new requirement that all Section 403(b) plans must be set forth in a written document, and

WHEREAS, no changes to the Matching Plan other than its provisions being set forth in a written document are being made,

THEREFORE, BE IT RESOLVED, that the Board of Trustees approves the attached plan document for the University of South Alabama Matching Plan and authorizes the President to sign the plan document.

RESOLUTION

**RESTATEMENT OF UNIVERSITY OF SOUTH ALABAMA
TAX DEFERRED ANNUITY PLAN**

WHEREAS, the University of South Alabama, in 1964, authorized the participation of all employees in the Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF) pursuant to an elective salary reduction arrangement under which matching funds are not available, and

WHEREAS, on November 30, 1967; on October 24, 1980; on January 1, 1986; on January 1, 1987; on October 1, 1989; and on June 27, 1991, the program was changed, and

WHEREAS, the United States Treasury Department issued final regulations under Section 403(b) of the Internal Revenue Code on July 26, 2007, that become effective January 1, 2009, and

WHEREAS, the final regulations include a new requirement that all Section 403(b) plans must be set forth in a written document, and

WHEREAS, no changes to the Tax Deferred Annuity Plan other than its provisions being set forth in a written document are being made,

THEREFORE, BE IT RESOLVED, that the Board of Trustees approves the attached plan document for the University of South Alabama Tax Deferred Annuity Plan and authorizes the President to sign the plan document.



**CAMPUS MEMORANDUM
UNIVERSITY OF SOUTH ALABAMA**

REC'D
OFFICE OF THE PRESIDENT

NOV 25 2008

Date: November 25, 2008

To: President V. Gordon Moulton

From: M. Wayne Davis

A handwritten signature in black ink, appearing to read 'M. Wayne Davis'.

UNIVERSITY OF SOUTH ALABAMA

Subject: Agenda Items for December 11, 2008 Board of Trustees Meeting

Attached are two resolutions for consideration by the Budget and Finance Committee concerning the approval of restatements for the University of South Alabama Matching Plan and the University of South Alabama Tax Deferred Annuity Plan. As you know, the United States Treasury Department issued final regulations on IRC Section 403(b) on July 26, 2007. For the University, the adoption of the final regulations primarily means a requirement to adopt a written plan document by January 1, 2009. No changes are being made to eligibility, benefits, distribution rules, or other plan aspects. With your approval, this item will be presented to the Budget and Finance Committee and the Board of Trustees for final approval. Further, I recommend the adoption of the resolutions by the Board of Trustees.

Attachments (2)

INDEX **JULY 2008**

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Financial Report Highlights September 30, 2008

Introduction

This Financial Report presents the financial position and financial activity of the University of South Alabama utilizing the fund basis of accounting. The report presents the assets, liabilities and fund balances of each fund including the current funds (unrestricted and restricted), loan funds, endowment funds, and plant funds (renewals and replacements, retirement of indebtedness and investment in plant). The financial reporting requirements of the Governmental Accounting Standard Board, by which the University reports its quarterly financial statements, are not utilized in this monthly financial report.

Financial Highlights

Financial report highlights at, and for the year ended, September 30, 2008 and 2007 are as follows (in thousands):

	At and for the year ended	
	9-30-08	9-30-07
<i>Total assets, by fund</i>		
Current	\$ 206,913	
Loan	4,733	
Endowment	68,829	
Plant	478,514	
<i>Fund Balances, by fund</i>		
Current	\$ 48,758	
Loan	385	
Endowment	68,829	
Plant	266,546	
<i>Other balance sheet highlights</i>		
Cash and investments	\$ 285,053	
Accounts receivable	58,076	
Bonds and notes payable	199,613	

	For the year ended	
	9-30-08	9-30-07
<i>Selected operating highlights (current funds)</i>		
Tuition and fees	\$ 63,974	
State appropriations	120,388	
Hospital revenues	287,956	
Gifts, grants and contracts	106,180	
Instruction and Academic support	119,997	
Research and public service	67,436	
Hospital expenses	265,558	
Net current fund increase (decrease)	4,789	

Financial Analysis

This report should be read in conjunction with the University's monthly financial reports and with the understanding of the cyclical nature of the University's operations. Certain revenues (tuition and fees, auxiliary enterprises, etc.) are received at specific times in the University's fiscal year while certain other revenue streams (hospital, state appropriations) are received throughout the year. Additionally, certain revenue and expense items fluctuate with changes in enrollment while others do not. As a result of these items, significant fluctuations of cash and investments along with other balance sheet items are normal.

Economic Outlook

Enrollment and tuition have increased in recent years. Additionally, state appropriations increased significantly in fiscal 2008 and 2007. University administration is not aware of any conditions that are expected to have a significant impact on the University financial position throughout the remainder of 2008 or beyond.

UNIVERSITY OF SOUTH ALABAMA
BALANCE SHEETS
JULY 2008 AND 2007

ASSETS		2008	2007	LIABILITIES AND FUND BALANCES		2008	2007
CURRENT FUNDS:				CURRENT FUNDS:			
UNRESTRICTED:				UNRESTRICTED:			
CASH AND CASH EQUIVALENTS	\$	144,157.49	136,630.08	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		51,012,067.86	50,688,936.07
INVESTMENTS		94,862,084.84	103,294,733.72	DEFERRED REVENUES	\$	35,933,079.52	30,892,948.47
ACCOUNTS RECEIVABLE - PATIENTS (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF \$42,476,864.26 FOR 2008 AND \$41,931,015.87 FOR 2007)				DUE TO OTHER FUNDS		89,765,420.85	72,410,895.10
DEPOSITS		89,515,926.02	73,765,252.85	DEPOSITS HELD IN CUSTODY		316,689.21	329,536.82
INVENTORIES AT COST		35,000.00	35,000.00	OTHER DEPOSITS		482,643.43	625,296.36
PREPAID EXPENSES		4,236,908.09	4,756,627.23	FUND BALANCES:			
		20,771,872.09	8,059,263.24	ALLOCATED FOR:			
				HOSPITALS	(15,402,888.42)		(10,139,616.26)
				AUXILIARY ENTERPRISES	(909,116.19)		(507,938.87)
				ENCUMBRANCES	2,117,476.82		2,330,848.32
				SELF-SUPPORTING ACTIVITIES	45,186,174.22		42,853,125.83
				UNALLOCATED	1,065,511.43		563,531.28
				TOTAL FUND BALANCES	32,057,157.86		35,099,950.30
				TOTAL UNRESTRICTED	209,565,958.53		190,047,507.12
TOTAL UNRESTRICTED		209,565,958.53	190,047,507.12				
RESTRICTED FUNDS:				RESTRICTED FUNDS:			
CASH AND CASH EQUIVALENTS		7,871,463.10	6,398,872.87	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		21,308.08	440,698.66
INVESTMENTS		44,426.36	166,763.28	OTHER DEPOSITS		1,100.00	1,070.00
UNBILLED COSTS AND ACCOUNTS RECEIVABLE		10,751,310.55	15,314,759.18	DEFERRED REVENUES		1,132,986.36	962,381.10
				FUND BALANCES		17,511,805.57	20,476,245.37
TOTAL RESTRICTED		18,667,200.01	21,880,395.13	TOTAL RESTRICTED		18,667,200.01	21,880,395.13
TOTAL CURRENT FUNDS		228,233,158.54	211,927,902.25	TOTAL CURRENT FUNDS		228,233,158.54	211,927,902.25
LOAN FUNDS:				LOAN FUNDS:			
CASH AND CASH EQUIVALENTS		467,338.18	220,274.39	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		0.00	2,200.00
NOTES RECEIVABLE (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF \$521,687.85 FOR 2008 AND \$493,734.41 FOR 2007)				REFUNDABLE GOVERNMENT ADVANCES		4,348,114.74	4,547,901.00
				FUND BALANCES:			
				UNIVERSITY FUNDS, UNRESTRICTED		441,759.02	267,252.80
TOTAL LOAN FUNDS		4,322,537.58	4,597,079.41	TOTAL FUND BALANCES		441,759.02	267,252.80
				TOTAL LOAN FUNDS		4,789,873.76	4,817,353.80
ENDOWMENT FUNDS:				ENDOWMENT FUNDS:			
CASH AND CASH EQUIVALENTS		17,947,128.67	13,400,334.98	DEFERRED REVENUE		2,101,675.00	0.00
FUNDS WITH TRUSTEES		53,981.22	53,981.22	OTHER LONG TERM DEBT		7,245,919.00	0.00
INVESTMENTS		65,385,152.20	23,210,560.49	FUND BALANCES:			
REAL ESTATE HELD FOR RESALE		988,429.00	3,365,871.00	RESTRICTED NONEXPENDABLE		24,255,873.47	12,291,443.71
PREPAID - LIFE ESTATE		3,466,541.00	0.00	UNRESTRICTED EXPENDABLE		54,241,864.62	27,739,103.98
				TOTAL FUND BALANCES		78,497,738.09	40,030,547.69
TOTAL ENDOWMENT FUNDS		87,845,332.09	40,030,547.69	TOTAL ENDOWMENT FUNDS		87,845,332.09	40,030,547.69
PLANT FUNDS:				PLANT FUNDS:			
CASH AND CASH EQUIVALENTS		9,506,405.34	53,788,435.51	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		1,160,748.78	188,163.90
INVESTMENTS		50,499,147.50	75,888,721.04	DEFERRED REVENUES		6,723,563.72	7,202,443.99
ACCOUNTS RECEIVABLE		1,830,526.00	2,734,498.00	OTHER DEPOSITS		27,791.67	1,666.70
NOTES RECEIVABLE		254,936.16	258,189.26	NOTES PAYABLE		367,034.61	1,694,576.80
INTEREST RECEIVABLE		94,173.61	94,173.61	BONDS PAYABLE		195,444,318.31	198,971,766.06
DUE FROM OTHER FUNDS		89,765,420.85	72,410,839.10	CAPITALIZED LEASE OBLIGATIONS		107,757.51	201,756.85
PREPAID EXPENSES		2,126,195.81	3,512,540.88				
CAPITAL LEASE RECEIVABLE		1,304,193.30	1,723,268.43				
INVESTMENT IN PLANT:							
LAND		29,271,538.45	29,314,538.45				
LAND IMPROVEMENTS		10,184,698.17	11,059,625.15				
BUILDINGS, ACCUM DEPREC AND IMPROVEMENTS		127,598,763.25	126,292,254.97				
OTHER EQUIPMENT, BOOKS AND FILMS		59,166,352.89	37,642,481.11				
CONSTRUCTION IN PROGRESS		100,436,271.34	64,191,052.60				
TOTAL PLANT FUNDS		482,040,622.47	478,910,628.11				
TOTAL ASSETS	\$	802,908,986.86	735,686,431.85	TOTAL LIABILITIES AND FUND BALANCES	\$	802,908,986.86	735,686,431.85

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

UNIVERSITY OF SOUTH ALABAMA
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE TEN MONTHS ENDED JULY 31, 2008

	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT FUNDS	RENEWALS AND REPLACEMENTS	PLANT FUNDS RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
	UNRESTRICTED	RESTRICTED					
REVENUES AND OTHER ADDITIONS:							
EDUCATIONAL AND GENERAL REVENUES	226,626,795.42						
HOSPITALS REVENUES	253,108,925.72						
AUXILIARY ENTERPRISES REVENUES	11,881,949.56						
GRANTS AND CONTRACTS:							
FEDERAL		35,464,133.25					
STATE AND LOCAL		6,788,509.59					
PRIVATE		5,157,158.74					
GOVERNMENT APPROPRIATIONS:							
FEDERAL							
STATE			1,719.44	(2,535,644.47)	2,120,832.72	387,983.12	
INVESTMENT INCOME GAINS/LOSS					448,792.25		
INSURANCE PROCEEDS					2,144.88		
INTEREST ON LOANS RECEIVABLE			36,839.39		(183,122.46)	47,344.95	
GIFTS AND BEQUESTS			100.00	8,781,057.17			56,262,716.57
EXPENDED FOR PLANT FACILITIES (INCLUDING \$11,512,148.21 CURRENT FUNDS EXPENDITURES)							
RETIREMENT OF INDEBTEDNESS							4,897,789.18
PROCEEDS FROM SALE OF CAPITAL ASSETS							
OTHER SOURCES			55.00		286,057.23		382,854.56
TOTAL REVENUES AND OTHER ADDITIONS	491,617,670.70	3,781,227.25	38,713.83	6,245,412.70	2,674,704.62	435,328.07	61,543,360.31
EXPENDITURES AND OTHER DEDUCTIONS:							
EDUCATIONAL AND GENERAL EXPENDITURES	202,196,385.11	44,989,922.05					
HOSPITALS EXPENDITURES	250,105,714.77						
AUXILIARY ENTERPRISES EXPENDITURES	11,640,079.52						
INDIRECT COSTS RECOVERED		4,489,372.53					
REFUNDED TO GRANTORS		149,758.28					
RETIREMENT OF INDEBTEDNESS			982.33			4,897,789.18	
ADMINISTRATIVE AND COLLECTION COSTS							
EXPENDED FOR PLANT FACILITIES (INCLUDING \$6,079,690.31 FOR NON-CAPITALIZED EXPENDITURES)					50,830,258.67	4,771,499.27	16,471,429.84
INTEREST ON INDEBTEDNESS							46.31
DEPRECIATION EXPENSES OF PLANT FACILITIES						818,282.16	77.76
DISPOSAL OF PLANT							
LOSS ON DISPOSAL OF PLANT							
OTHER DEDUCTIONS			5,773.11	179,196.42	50,830,258.67	10,487,570.61	16,471,553.91
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	463,942,179.40	49,629,052.86	6,755.44	179,196.42			
TRANSFERS AMONG FUNDS-ADDITIONS(DEDUCTIONS):							
MANDATORY:					(2,385,898.45)	9,757,801.21	(85,094.11)
PRINCIPAL AND INTEREST	(7,286,808.65)						
FINANCIAL AID MATCHING	(45,207.00)	45,207.00					
NON-MANDATORY:							
FUNDED DEPRECIATION	(7,455,928.00)				7,455,928.00		
MOBILE RACING COMMISSION	(312,950.73)				312,950.73		
PLANT ADDITIONS AND REPLACEMENTS	(4,697,118.69)				4,697,118.69		
ENDOWMENT FUND	(3,640,035.98)				(417,245.48)		
OTHER TRANSFERS	(3,701,085.32)	459,582.93		3,597,698.53	6,249,874.67	1,029,097.13	(1,815,085.49)
TOTAL TRANSFERS	(27,135,137.37)	(1,782,632.25)	25,000.00	4,834.26	15,912,728.16	10,786,898.34	(1,900,179.60)
NET INCREASE (DECREASE) FOR THE PERIOD	536,353.93	274,133.65	56,958.39	9,668,749.07	(32,242,825.89)	734,655.80	43,171,625.80
FUND BALANCES AT OCTOBER 1, 2007	31,520,803.93	17,237,671.92	384,800.63	68,828,989.02	86,062,570.39	17,021,155.56	163,472,225.21
FUND BALANCES AT JULY 31, 2008	\$ 32,057,157.86	\$ 17,511,805.57	\$ 441,759.02	\$ 78,497,738.09	\$ 53,809,744.50	\$ 17,755,811.36	\$ 206,643,852.01

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$2,487,098.00 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

UNIVERSITY OF SOUTH ALABAMA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2008
WITH COMPARATIVE FIGURES FOR 2007

	MONTH ENDED JULY 31, 2008			MONTH ENDED JULY 31, 2007	
	UNRESTRICTED	RESTRICTED	TOTAL	UNRESTRICTED	RESTRICTED
REVENUES:					
TUITION AND FEES	\$ 58,025,414.90	\$	\$ 58,025,414.90	\$ 52,390,148.32	
STATE APPROPRIATIONS	105,475,401.70		105,475,401.70	90,866,553.38	
MOBILE RACING COMMISSION	312,960.73		312,960.73	393,823.42	
FEDERAL GRANTS AND CONTRACTS	3,589,677.02	31,855,612.68	35,444,289.70	27,143,903.67	
STATE GRANTS AND CONTRACTS (INCLUDING INDIRECT COST RECOVERED OF \$366,616.67)	564,628.67	6,244,141.48	6,808,770.15	14,616,297.76	
PRIVATE GIFTS, GRANTS, AND CONTRACTS (INCLUDING INDIRECT COSTS RECOVERED OF \$534,078.84)	43,949,317.76	4,501,472.66	47,550,790.42	42,905,739.71	
ENDOWMENT INCOME	1,854,220.90		1,854,220.90	7,110,583.15	
SALES AND SERVICES OF EDUCATIONAL ACTIVITIES	3,649,806.64		3,649,806.64	3,234,317.52	
HOSPITALS - SALES AND SERVICES	242,136,922.42		242,136,922.42	242,198,939.24	
- STATE APPROPRIATIONS	10,972,003.30		10,972,003.30	8,756,996.82	
AUXILIARY ENTERPRISES - SALES AND SERVICES	11,881,949.66		11,881,949.66	11,766,618.97	
OTHER SOURCES	10,106,377.10	2,389,695.23	12,496,072.33	12,315,279.48	
TOTAL CURRENT REVENUES	491,617,670.70	44,989,922.05	536,607,592.75	514,397,201.14	
EXPENDITURES AND TRANSFERS:					
EDUCATIONAL AND GENERAL:					
INSTRUCTION	86,275,715.61	7,680,086.16	93,955,801.76	86,590,181.30	
RESEARCH	5,685,001.42	11,669,890.66	17,343,892.08	16,764,100.19	
PUBLIC SERVICE	34,743,692.14	1,946,033.08	36,689,725.22	38,232,840.94	
ACADEMIC SUPPORT	14,161,079.58	2,292.64	14,163,372.22	12,596,533.12	
STUDENT SERVICES	17,251,649.99	570,921.82	17,822,571.81	16,506,961.83	
INSTITUTIONAL SUPPORT	24,017,592.95	604,044.65	24,621,637.60	23,343,053.85	
OPERATION AND MAINTENANCE OF PLANT	17,522,756.57	16,089,055.34	33,611,811.91	28,183,637.43	
SCHOLARSHIPS	2,548,896.85	6,438,797.71	8,987,694.56	7,609,836.56	
EDUCATIONAL AND GENERAL MANDATORY TRANSFERS FOR:	202,196,385.11	44,989,922.05	247,186,307.16	229,877,145.22	
PRINCIPAL AND INTEREST	4,411,780.00		4,411,780.00	4,595,466.00	
FINANCIAL AID MATCHING	45,207.00		45,207.00	61,486.00	
TOTAL EDUCATIONAL AND GENERAL	206,653,372.11	44,989,922.05	251,643,294.16	234,534,097.22	
HOSPITALS (INCLUDING DEBT SERVICE OF \$1,690,076.66)	251,795,791.42		251,795,791.42	230,348,699.83	
AUXILIARY ENTERPRISES:					
EXPENDITURES	11,640,079.52		11,640,079.52	11,025,825.76	
MANDATORY TRANSFERS FOR:					
PRINCIPAL AND INTEREST	1,184,952.00		1,184,952.00	1,186,008.00	
NON-MANDATORY TRANSFERS FOR:					
RENEWALS AND REPLACEMENTS	15,000.00		15,000.00	0.00	
OTHER TRANSFERS	(6,420.13)		(6,420.13)	(2,042.00)	
TOTAL AUXILIARIES	12,833,611.39	0.00	12,833,611.39	12,209,791.76	
TOTAL EXPENDITURES AND TRANSFERS	471,282,774.92	44,989,922.05	516,272,696.97	477,092,588.83	
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS):					
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUES					
REFUNDED TO GRANTORS	1,711,734.25		1,711,734.25	4,169,048.69	
FUNDED DEPRECIATION	(149,768.28)		(149,768.28)	(94,796.75)	
MOBILE RACING COMMISSION	(7,455,928.00)		(7,455,928.00)	(20,717,090.00)	
PLANT ADDITIONS AND REPLACEMENTS	(312,960.73)		(312,960.73)	(393,823.42)	
ENDOWMENT FUND	(4,662,118.69)		(4,662,118.69)	(4,486,493.00)	
OTHER TRANSFERS	459,582.93		459,582.93	(3,376,251.66)	
TOTAL TRANSFERS	(1,747,425.25)		(1,747,425.25)	(799,312.35)	
NET INCREASE/(DECREASE) IN FUND BALANCES	\$ 536,353.93	\$ 274,133.65	\$ 810,487.58	\$ 11,606,893.83	

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$2,487,098.00 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

UNIVERSITY OF SOUTH ALABAMA
Notes to Financial Report

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTS

The accompanying financial reports are the responsibility of management of the University of South Alabama. Management is responsible for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising a system of internal control that will, among other things, help assure the production of proper financial statements. The transactions which should be reflected in the accounts and in the financial reports are matters within the direct knowledge and control of management.

BASIS OF PRESENTATION

The financial reports of the University of South Alabama (the University) are prepared on the accrual basis. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and, (3) transfers of a nonmandatory nature in all other cases.

FUND ACCOUNTING

In order to observe limitations and restrictions placed on the use of resources available to the University, the accounts of the University are maintained in accordance with the principles of fund accounting. Resources for various purposes are classified for accounting and reporting purposes into funds which may be used for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, funds restricted by outside sources are so indicated and are distinguished from funds designated for specific purposes by authority of the Board of Trustees.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

UNIVERSITY OF SOUTH ALABAMA
Notes to Financial Report

CURRENT FUNDS

Current fund balances are separated into those which are unrestricted and those which are restricted by donors and grantors. Restricted funds may only be expended for the purpose indicated by the donor or grantor, whereas unrestricted funds are under the control of the University to use in achieving its educational purposes.

PLANT FUNDS

Plant funds include the transactions related to investment in institutional properties and related indebtedness.

Plant assets consisting of land, buildings, equipment and library books are stated at cost or, if contributed, at fair market value at the time of receipt. Investment in plant is reduced for disposals of plant assets.

Some equipment purchases are made from current funds and are presented under the appropriate functional classification of expenditures, while other additions are funded by transfers from unrestricted current funds to the plant funds. All such expenditures in excess of \$5,000 having a life of two years or more are capitalized as investment in plant.

INVESTMENT IN POOLED FUNDS

Investments are stated at cost, except those received by gift which are stated at fair market value at date of receipt. Endowment investments of the University are maintained and administered in a common pool. Separate accounts are maintained for each fund, as applicable. Depositories and other financial institutions that held investments for the University have pledged securities of various governmental agencies to secure funds held on deposit.

UNRESTRICTED GIFTS

Except for pledged operating and capital gifts, unrestricted gifts are recognized as revenue when received. Certain operating and capital pledges are recorded as a receivable, along with the corresponding revenue, when such pledges are made.

GRANTS AND CONTRACTS

The University has been awarded grants and contracts for current funds operations for which the funds have not been received nor have expenditures been made for the purpose specified in the grant or contract. These awards have not been reflected in the financial reports, but represent commitments of sponsors to provide funds for specific research and training projects.

UNIVERSITY OF SOUTH ALABAMA
Notes to Financial Report

SCHOLARSHIPS AND FELLOWSHIPS

The University receives funds which are restricted by donors and grantors for assistance to qualified students. When these funds are granted to students, the University records the expenditure for scholarships and fellowships along with the corresponding revenue.

INCOME TAXES

The Internal Revenue Service has determined that the University is a tax-exempt organization; accordingly, no provision for income taxes has been made in the accompanying financial statements.

DEFERRED REVENUES AND EXPENDITURES

Dormitory rentals, student tuition and other fees, together with related expenditures, are deferred and amortized over the applicable academic semester.

EMPLOYEE BENEFITS

Employees of the University are covered by two pension plans, a defined contribution pension plan and a pension plan administered by the Teachers' Retirement System of the State of Alabama (the Retirement Plan).

The defined contribution pension plan covers certain academic and administrative employees and contributions under this plan are funded as accrued.

Permanent employees of the University participate in the Teachers' Retirement System of Alabama. The Retirement Plan is fully funded by the State and by contributions from participating employees. The University contributes 11.75% of each employee's gross earnings to the Retirement Plan and is reflected in current funds expenditures. All covered employees must contribute 5% of their gross earnings to the Retirement Plan. Benefits fully vest after 10 years of full-time, permanent employment.

LIABILITY INSURANCE

The University and certain of its affiliates participate in professional and general liability trust funds. These trust funds are irrevocable and use contributions by the University and its affiliates, together with earnings thereon, to pay liabilities arising from the performance of its employees. Contributions to the trusts are recorded as expenditures upon payment and are determined by independent actuaries. If the trust funds are ever terminated, appropriate provision for payment of reported claims will be made and any remaining balance will be distributed to the University and its affiliates in proportion to contributions made.

UNIVERSITY OF SOUTH ALABAMA
Notes to Financial Report

BONDS PAYABLE

Bonds payable consist of the following:

- University Tuition Revenue Refunding and Capital Improvements Bonds, Series 1996, 3.80% to 5.00%, payable through November 2015 (refunded in January 2007)
- University Tuition Revenue Bonds, Series 1999, 3.70% to 5.25%, payable through November 2018.
- University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, 2.00% to 5.00%, payable through March 2024.
- University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, 5.00% payable through June 2037.

LITIGATION

Various other claims have been filed against the University alleging discriminatory employment practices and other matters. University administration and legal counsel are of the opinion that the resolution of these matters will not have a material effect on the financial position or results of operations of the University.

MEDICAID DISPROPORTIONATE SHARE PAYMENTS

Hospitals revenues include funds received from the Alabama Medicaid Agency for services provided to a disproportionately high number of low income patients.

SUPPLEMENTAL SCHEDULES

**SUMMARY SCHEDULE OF AUXILIARY ENTERPRISES
REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2008
WITH COMPARATIVE FIGURES FOR 2007**

	<u>REVENUES</u>	<u>EXPENDITURES</u>	<u>TRANSFERS</u>	<u>EXCESS REVENUES OVER EXPENDITURES AND OTHER CHANGES (DEFICIT)</u>	
				<u>07/31/08</u>	<u>07/30/07</u>
BOOKSTORE	\$ 5,269,163.33	\$ 5,222,186.59	\$ 0.00	\$ 46,976.74	\$ (1,395.37)
BROOKLEY CENTER	1,807,824.62	2,252,502.58	(56,697.60)	(501,375.56)	(445,468.77)
FOOD SERVICES-CAMPUS	144,324.52	111,295.09	0.00	33,029.43	(11,989.94)
HOUSING	<u>4,660,637.09</u>	<u>4,054,095.26</u>	<u>(1,136,834.27)</u>	<u>(530,292.44)</u>	<u>15,681.27</u>
TOTAL	<u>\$ 11,881,949.56</u>	<u>\$ 11,640,079.52</u>	<u>\$ (1,193,531.87)</u>	<u>\$ (951,661.83)</u>	<u>\$ (443,172.81)</u>

BOOKSTORE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2008
WITH COMPARATIVE FIGURES FOR 2007

	CAMPUS		HEALTH SCIENCES		TOTAL	
	07/31/08	07/31/07	07/31/08	07/31/07	07/31/08	07/31/07
REVENUES:						
SALES	\$ 4,387,050.71	\$ 4,028,724.18	\$ 800,851.70	\$ 783,148.39	\$ 5,187,902.41	\$ 4,811,872.57
LESS: DEPARTMENTAL DISCOUNTS	4,462.27	3,565.06	3,770.50	3,145.35	8,232.77	6,710.41
COST OF GOODS SOLD	3,251,505.67	2,980,674.85	588,117.17	597,322.71	3,819,622.84	3,577,997.56
GROSS PROFIT	1,131,082.77	1,044,484.27	228,964.03	182,680.33	1,360,046.80	1,227,164.60
CASH OVER/(SHORT)	(432.34)	(95.92)	(990.88)	5.09	(1,423.22)	(90.83)
GRADUATION (NET)	43,187.59	34,840.34	0.00	0.00	43,187.59	34,840.34
BAD DEBT RECOVERY	0.00	0.00	0.00	0.00	0.00	0.00
OTHER	25,526.19	20,731.64	13,970.36	11,423.92	39,496.55	32,155.56
NET REVENUES:	<u>1,199,364.21</u>	<u>1,099,960.33</u>	<u>241,943.51</u>	<u>194,109.34</u>	<u>1,441,307.72</u>	<u>1,294,069.67</u>
EXPENDITURES:						
SALARIES	525,152.14	497,868.88	74,987.42	53,479.58	600,139.56	551,348.46
EMPLOYEE BENEFITS	170,345.90	145,213.54	21,932.89	16,010.96	192,278.79	161,224.50
SUPPLIES	25,259.76	16,458.95	3,377.67	2,824.92	28,637.43	19,283.87
TRAVEL	11,918.45	12,004.35	0.00	540.96	11,918.45	12,545.31
EQUIPMENT	7,065.28	2,764.82	169.16	0.00	7,234.44	2,764.82
EQUIPMENT MAINTENANCE AND REPAIR	23,548.02	4,063.48	10.00	0.00	23,558.02	4,063.48
BUILDING & EQUIPMENT RENTAL	3,692.56	2,783.03	241.96	854.16	3,934.52	3,637.19
UTILITIES	62,500.00	62,500.00	0.00	0.00	62,500.00	62,500.00
TELEPHONE	3,927.03	3,691.02	4,381.95	4,406.71	8,308.98	8,097.73
INSURANCE AND BONDS	4,362.00	4,023.00	0.00	0.00	4,362.00	4,023.00
CONTRACT SERVICES	95,422.28	85,674.59	18,410.39	24,792.96	113,832.67	110,467.55
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
RENT	0.00	0.00	16,650.00	16,650.00	16,650.00	16,650.00
OBSOLETE INVENTORY	702.74	0.00	0.00	0.00	702.74	0.00
GENERAL EXPENSES	36,142.91	38,341.42	7,337.48	4,976.71	43,480.39	43,318.13
CHARGE CARD AND FACULTY						
STAFF DISCOUNTS	16,093.92	50,739.37	7,262.47	6,314.63	23,356.39	57,054.00
INSTITUTIONAL COST ALLOCATION	216,830.80	201,892.00	36,605.80	36,595.00	253,436.60	238,487.00
TOTAL EXPENDITURES	<u>1,202,963.79</u>	<u>1,128,018.45</u>	<u>191,367.19</u>	<u>167,446.59</u>	<u>1,394,330.98</u>	<u>1,295,465.04</u>
TRANSFERS AMONG FUNDS-						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:						
OTHER TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
RENEWAL AND REPLACEMENT	0.00	0.00	0.00	0.00	0.00	0.00
RETIREMENT REIMBURSEMENT	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
EXCESS REVENUES OVER EXPENDITURES	<u>\$ (3,599.58)</u>	<u>\$ (28,058.12)</u>	<u>\$ 50,576.32</u>	<u>\$ 26,662.75</u>	<u>\$ 46,976.74</u>	<u>\$ (1,395.37)</u>
AND MANDATORY TRANSFERS						

BROOKLEY CENTER
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2008
WITH COMPARATIVE FIGURES FOR 2007

	ADMINISTRATION	INVESTMENT HOUSING	GOLF SHOP	RECREATION CENTER	FOOD SERVICE	TOTAL AUXILIARY SERVICES
REVENUES:						
SALES-FOOD & MERCHANDISE	\$ 0.00	\$ 0.00	\$ 32,603.42	\$ 0.00	\$ 0.00	\$ 32,603.42
LESS: COST OF GOODS SOLD	0.00	0.00	21,277.80	0.00	0.00	21,277.80
DISCOUNTS	0.00	0.00	3,298.73	0.00	0.00	3,298.73
GROSS PROFIT	0.00	0.00	8,026.89	0.00	0.00	8,026.89
FEES	249.00	0.00	328,698.41	0.00	30,436.71	359,135.12
RENTALS	23,330.00	574,790.52	0.00	0.00	0.00	574,790.52
OTHER	2,500.40	2,016.17	376.03	0.00	0.00	2,392.20
FACILITY ASSESSMENT FEE	41,670.00	0.00	0.00	0.00	0.00	0.00
NET REVENUES	67,749.40	576,806.69	337,101.33	0.00	30,436.71	944,344.73
EXPENDITURES:						
OPERATING EXPENDITURES:						
SALARIES	591,980.89	68,533.85	190,170.83	0.00	0.00	258,704.68
EMPLOYEE BENEFITS	199,086.10	23,401.84	57,982.21	0.00	0.00	81,384.05
SUPPLIES	48,268.90	176.30	71,316.48	0.00	0.00	71,495.78
TRAVEL	2,361.72	0.00	462.42	0.00	0.00	462.42
CONTRACT SERVICE	117,763.83	29,021.19	47,347.72	0.00	1,920.00	78,288.91
BUILDING MAINTENANCE & REPAIR	9,420.94	35,649.14	1,798.22	0.00	2,720.26	40,167.62
GROUND MAINTENANCE	12,980.72	19,223.36	32,097.07	0.00	86.54	51,406.97
UTILITIES	124,407.06	74,590.85	25,126.18	0.00	41,809.47	141,526.50
EQUIPMENT MAINTENANCE & REPAIR	1,740.68	3,081.17	39,625.72	0.00	5,656.38	48,363.27
BUILDING & EQUIPMENT RENTAL	2,261.67	0.00	19,969.33	0.00	1,955.20	21,924.53
TELEPHONE	12,757.75	78.40	992.34	0.00	5.76	1,074.50
INSURANCE AND BONDS	51,650.00	0.00	732.00	0.00	2,115.00	2,847.00
RECEPTIONS	1,507.10	155.00	0.00	0.00	0.00	155.00
ADVERTISING	2,829.95	788.72	5,702.81	0.00	186.68	6,676.21
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	64,822.96	1,272.52	14,871.46	0.00	7,003.61	23,147.59
EXPENSE OFFSET	0.00	0.00	0.00	0.00	0.00	0.00
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
OPERATING COST ALLOCATIONS	(1,239,486.72)	347,056.27	0.00	12,394.89	49,579.47	409,030.63
TOTAL OPERATING EXPENDITURES	4,393.55	603,029.61	508,194.79	12,394.89	113,038.37	1,236,657.66
EXCESS REVENUES OVER EXPENDITURES	63,355.85	(26,222.92)	(171,093.46)	(12,394.89)	(82,601.66)	(292,312.93)
OTHER EXPENDITURES:						
EQUIPMENT	3,995.85	1,818.99	1,975.00	0.00	0.00	3,793.99
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	3,995.85	1,818.99	1,975.00	0.00	0.00	3,793.99
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	(59,360.00)	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:						
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	2,662.40	0.00	0.00	2,662.40
TOTAL TRANSFERS	(59,360.00)	0.00	2,662.40	0.00	0.00	2,662.40
EXCESS REVENUES OVER						
EXPENDITURES (DEFICIT)	\$ 0.00	\$ (28,041.91)	\$ (170,406.06)	\$ (12,394.89)	\$ (82,601.66)	\$ (293,444.52)

BROOKLEY CENTER
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2008
WITH COMPARATIVE FIGURES FOR 2007

	CONTINUING EDUCATION	EDUCATIONAL LEASING	UNIVERSITY SERVICE	TOTAL EDUCATIONAL SERVICES	BROOKLEY CENTER TOTAL 07/31/08	BROOKLEY CENTER TOTAL 07/31/07
REVENUES:						
SALES-FOOD & MERCHANDISE	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 32,603.42	\$ 37,169.01
LESS: COST OF GOODS SOLD	0.00	0.00	0.00	0.00	21,277.80	(3,602.49)
DISCOUNTS	3,681.12	0.00	0.00	3,681.12	6,979.85	7,684.39
GROSS PROFIT	(3,681.12)	0.00	0.00	(3,681.12)	4,345.77	33,087.11
FEES	331,636.66	423,783.80	0.00	755,420.46	1,114,804.58	1,008,462.33
RENTALS	11,000.00	418.00	0.00	11,418.00	603,538.52	584,156.61
OTHER	4,315.50	0.00	0.00	4,315.50	9,208.10	8,758.00
FACILITY ASSESSMENT FEE	0.00	0.00	0.00	0.00	41,670.00	41,670.00
NET REVENUES	343,271.04	424,201.80	0.00	767,472.84	1,779,566.97	1,676,134.05
EXPENDITURES:						
OPERATING EXPENDITURES:						
SALARIES	0.00	0.00	0.00	0.00	850,685.57	818,100.35
EMPLOYEE BENEFITS	0.00	0.00	0.00	0.00	280,470.15	256,426.29
SUPPLIES	15,512.96	4,706.99	0.00	20,219.97	140,004.65	98,141.24
TRAVEL	0.00	0.00	0.00	0.00	2,824.14	3,444.40
CONTRACT SERVICE	10,939.78	3,547.80	0.00	14,487.58	210,580.32	208,307.24
BUILDING MAINTENANCE & REPAIR	19,547.64	4,015.41	0.00	23,563.05	73,151.61	65,202.65
GROUND MAINTENANCE	0.00	682.32	0.00	682.32	65,070.01	72,793.14
UTILITIES	105,412.33	81,097.97	0.00	186,510.30	452,443.86	418,379.12
EQUIPMENT MAINTENANCE & REPAIR	8,293.88	5,219.17	0.00	13,513.05	63,617.00	51,074.96
BUILDING & EQUIPMENT RENTAL	0.00	0.00	0.00	0.00	24,186.20	22,597.39
TELEPHONE	0.00	0.00	0.00	0.00	13,832.25	15,899.59
INSURANCE AND BONDS	5,840.00	0.00	0.00	5,840.00	60,137.00	54,056.00
RECEPTIONS	495.00	0.00	0.00	495.00	2,157.10	400.00
ADVERTISING	17,987.60	0.00	0.00	17,987.60	27,475.76	24,443.50
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	32,927.58	24,022.09	0.00	56,949.67	144,920.22	(55,177.46)
EXPENSE OFFSET	(28,375.00)	0.00	0.00	(28,375.00)	(28,375.00)	0.00
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	(183,221.70)	(183,221.70)	(183,221.70)	0.00
OPERATING COST ALLOCATIONS	247,887.34	210,712.74	371,846.01	830,456.09	0.00	0.00
TOTAL OPERATING EXPENDITURES	438,259.13	334,004.49	188,624.31	958,887.93	2,198,939.14	2,055,088.38
EXCESS REVENUES OVER EXPENDITURES	(92,988.09)	90,197.31	(188,624.31)	(191,415.09)	(420,372.17)	(378,954.33)
OTHER EXPENDITURES:						
EQUIPMENT	12,741.96	3,773.99	0.00	16,515.95	24,305.79	9,041.44
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	12,741.96	3,773.99	0.00	16,515.95	24,305.79	9,041.44
TRANSFERS AMONG FUNDS -						
MANDATORY:						
ADDITIONS/(DEDUCTIONS):						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	(59,360.00)	(59,360.00)
NON-MANDATORY:						
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	2,662.40	1,887.00
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	(56,697.60)	(57,473.00)
EXCESS REVENUES OVER						
EXPENDITURES (DEFICIT)	\$ (105,730.05)	\$ 86,423.32	\$ (188,624.31)	\$ (207,931.04)	\$ (501,375.56)	\$ (445,468.77)

FOOD SERVICE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2008
WITH COMPARATIVE FIGURES FOR 2007

	<u>07/31/08</u>	<u>07/31/07</u>
REVENUES:		
COMMISSION INCOME	\$ <u>144,324.52</u>	\$ <u>110,821.97</u>
TOTAL REVENUES	<u>144,324.52</u>	<u>110,821.97</u>
EXPENDITURES:		
SUPPLIES	(2.60)	31.28
EQUIPMENT MAINTENANCE AND REPAIR	18,508.09	31,143.49
UTILITIES	54,166.70	54,158.00
TELEPHONE	40.72	4.80
MEMBERSHIPS AND DUES	270.00	270.00
CONTRACT SERVICES	8,004.96	10,109.60
INSURANCE AND BONDS	11,865.00	10,003.00
EQUIPMENT	243.97	0.00
BUILDING MAINTENANCE AND REPAIR	4,102.00	3,675.00
INDIRECT COST	13,485.00	13,472.00
GENERAL EXPENSE	<u>611.25</u>	<u>(55.26)</u>
TOTAL EXPENDITURES	<u>111,295.09</u>	<u>122,811.91</u>
TRANSFERS AMONG FUNDS-		
ADDITIONS/(DEDUCTIONS):		
NON-MANDATORY:		
OTHER TRANSFERS		
TOTAL TRANSFERS	<u>0.00</u>	<u>0.00</u>
EXCESS REVENUES OVER		
EXPENDITURES AND MANDATORY		
TRANSFERS (DEFICIT)	\$ <u>33,029.43</u>	\$ <u>(11,989.94)</u>

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2008
WITH COMPARATIVE FIGURES FOR 2007

	CENTRAL HOUSING	HOUSING PROGRAMMING	WASHERS AND DRYERS	OLD SHELL ROAD HOUSING	HILLSDALE MARRIED STUDENT	SMALL GROUP HOUSING
REVENUES:						
RENTAL INCOME	\$ 0.00	\$ 0.00	\$ 108,545.00	\$ 0.00	\$ 455,903.11	\$ 312,647.31
BAD DEBT RECOVERY	5,210.84	0.00	0.00	0.00	1,088.02	0.00
OTHER	250.00	0.00	0.00	0.00	20,437.43	51,357.80
TOTAL REVENUES	5,460.84	0.00	108,545.00	0.00	477,428.56	364,005.11
EXPENDITURES:						
SALARIES	316,178.32	69,925.58	0.00	0.00	247,655.60	70,783.04
EMPLOYEE BENEFITS	92,457.18	243.37	0.00	0.00	84,972.41	13,141.79
CONTRACT LABOR	0.00	0.00	0.00	0.00	808.00	210.00
CONTRACT SERVICES	1,722.50	0.00	49,606.00	0.00	16,429.71	16,037.00
TRAVEL	3,885.58	783.38	0.00	0.00	0.00	0.00
RECEPTIONS	(95.15)	19,526.08	0.00	0.00	0.00	0.00
SUPPLIES	14,135.88	456.83	0.00	4.08	22,921.09	10,289.62
CABLE	83,355.04	0.00	0.00	0.00	1,145.64	0.00
TELEPHONE	1,254.58	0.00	0.00	0.00	1,544.18	752.07
UTILITIES	0.00	0.00	0.00	0.00	21,721.98	922.40
INSURANCE AND BONDS	2,196.00	0.00	0.00	0.00	13,976.00	8,112.00
BUILDING MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	0.00	0.00
EQUIPMENT	54.26	201.42	0.00	0.00	0.00	1,811.15
EQUIPMENT RENTAL	311.38	0.00	0.00	0.00	4,170.25	0.00
EQUIPMENT MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	326.95	0.00
MAJOR RENOVATIONS	933.75	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	0.00	0.00	0.00	0.00	0.00	0.00
ADMINISTRATIVE OVERHEAD	48,124.47	667.22	200.00	0.00	9,860.94	1,740.00
ADMINISTRATIVE EXPENSES	291,999.04	0.00	0.00	0.00	0.00	51,955.04
TOTAL EXPENDITURES	(851,051.99)	(88,046.15)	34,746.65	0.00	3,756.39	87,336.11
TRANSFERS AMONG FUNDS -	5,460.84	3,757.73	84,552.65	4.08	429,289.14	263,090.22
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	(607,032.00)
TOTAL MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	(607,032.00)
NON-MANDATORY:						
RENEWALS AND REPLACEMENTS	0.00	0.00	0.00	0.00	0.00	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	3,757.73	0.00	0.00	0.00	0.00
TOTAL NON-MANDATORY TRANSFERS	0.00	3,757.73	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	0.00	3,757.73	0.00	0.00	0.00	(607,032.00)
EXCESS REVENUES OVER EXPENDITURES	\$ (0.00)	\$ 0.00	\$ 23,992.35	\$ (4.08)	\$ 48,139.42	\$ (506,117.11)
AND TRANSFERS (DEFICIT)						

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2008
WITH COMPARATIVE FIGURES FOR 2007

	GAMMA DORMS	BETA DORMS	DELTA DORMS	EPSILON DORMS	TOTAL HOUSING 07/31/08	TOTAL HOUSING 07/31/07
REVENUES:						
RENTAL INCOME	\$ 808,314.55	\$ 504,047.65	\$ 1,893,447.28	\$ 443,182.49	\$ 4,526,087.39	\$ 4,931,955.42
BAD DEBT RECOVERY	0.00	0.00	0.00	0.00	6,298.86	5,300.15
OTHER	5,907.00	4,866.30	28,885.46	16,546.85	128,250.84	159,547.84
TOTAL REVENUES	814,221.55	508,913.95	1,922,332.74	459,729.34	4,660,637.09	5,096,803.41
EXPENDITURES:						
SALARIES	154,725.36	41,798.78	198,534.04	135,577.96	1,235,178.68	1,207,343.59
EMPLOYEE BENEFITS	39,930.02	10,626.80	45,919.01	25,604.28	312,894.86	294,768.42
CONTRACT LABOR	150.00	357.00	58,251.69	357.00	60,133.69	25,264.52
CONTRACT SERVICES	10,135.73	7,573.78	51,069.56	64,887.82	217,462.10	161,154.62
TRAVEL	0.00	0.00	0.00	0.00	4,668.96	5,235.03
RECEPTIONS	0.00	0.00	0.00	0.00	19,430.93	18,059.58
SUPPLIES	8,424.64	7,583.44	59,629.78	19,375.51	142,820.87	158,467.79
CABLE	0.00	0.00	0.00	0.00	84,500.68	100,591.92
TELEPHONE	34,421.10	15,009.89	86,036.34	16,833.51	155,851.67	167,659.23
UTILITIES	0.00	0.00	0.00	0.00	22,644.38	25,386.09
INSURANCE AND BONDS	13,585.00	6,945.00	20,492.00	6,097.00	71,403.00	70,030.00
BUILDING MAINTENANCE AND REPAIR	6,150.00	1,054.88	437.50	175.00	7,817.38	7,432.32
EQUIPMENT	0.00	0.00	16,742.00	5,390.00	24,198.83	41,068.90
EQUIPMENT RENTAL	0.00	0.00	428.65	0.00	4,910.28	5,818.89
EQUIPMENT MAINTENANCE AND REPAIR	0.00	0.00	180.49	0.00	507.44	9,981.12
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	933.75	595.36
GENERAL EXPENSES	54,999.54	33,177.30	159,621.44	33,946.69	342,337.60	1,337.95
ADMINISTRATIVE OVERHEAD	295,482.00	139,605.04	425,267.04	142,092.00	1,346,400.16	355,101.81
ADMINISTRATIVE EXPENSES	180,306.84	102,361.70	398,177.61	132,412.84	1,299,332.00	1,299,332.00
TOTAL EXPENDITURES	798,310.23	366,093.61	1,520,787.15	582,749.61	4,054,095.26	3,954,629.14
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	(63,976.00)	(45,760.00)	(266,160.00)	(142,664.00)	(1,125,592.00)	(1,126,648.00)
TOTAL MANDATORY TRANSFERS	(63,976.00)	(45,760.00)	(266,160.00)	(142,664.00)	(1,125,592.00)	(1,126,648.00)
NON-MANDATORY:						
RENEWALS AND REPLACEMENTS	(15,000.00)	0.00	0.00	0.00	(15,000.00)	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	3,757.73	155.00
TOTAL NON-MANDATORY TRANSFERS	(15,000.00)	0.00	0.00	0.00	(11,242.27)	155.00
TOTAL TRANSFERS	(78,976.00)	(45,760.00)	(266,160.00)	(142,664.00)	(1,136,834.27)	(1,126,493.00)
EXCESS REVENUES OVER EXPENDITURES						
AND TRANSFERS (DEFICIT)	\$ (63,084.68)	\$ 97,060.34	\$ 135,385.59	\$ (265,684.27)	\$ (530,292.44)	\$ 15,681.27

INDEX **AUGUST 2008**

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Financial Report Highlights August 31, 2008

Introduction

This Financial Report presents the financial position and financial activity of the University of South Alabama utilizing the fund basis of accounting. The report presents the assets, liabilities and fund balances of each fund including the current funds (unrestricted and restricted), loan funds, endowment funds, and plant funds (renewals and replacements, retirement of indebtedness and investment in plant). The financial reporting requirements of the Governmental Accounting Standard Board, by which the University reports its quarterly financial statements, are not utilized in this monthly financial report.

Financial Highlights

Financial report highlights at, and for the eleven months ended, August 31, 2008 and 2007 are as follows (in thousands):

	At and for the eleven months ended	
	8-31-08	8-31-07
<i>Total assets, by fund</i>		
Current	\$ 202,743	\$ 187,681
Loan	4,721	4,699
Endowment	87,142	66,022
Plant	485,170	451,517
<i>Fund Balances, by fund</i>		
Current	\$ 47,671	\$ 54,551
Loan	372	151
Endowment	77,782	66,022
Plant	278,663	243,087
<i>Other balance sheet highlights</i>		
Cash and investments	\$ 264,487	\$ 295,838
Accounts receivable	61,438	52,251
Bonds and notes payable	196,181	199,265

	For the eleven months ended	
	8-31-08	8-31-07
<i>Selected operating highlights (current funds)</i>		
Tuition and fees	\$ 62,054	\$ 55,800
State appropriations	128,092	110,356
Hospital revenues	266,131	263,596
Gifts, grants and contracts	103,929	98,023
Instruction and Academic support	118,252	107,993
Research and public service	60,400	61,477
Hospital expenses	275,752	254,064
Net current fund increase (decrease)	(1,087)	10,583

Financial Analysis

This report should be read in conjunction with the University's monthly financial reports and with the understanding of the cyclical nature of the University's operations. Certain revenues (tuition and fees, auxiliary enterprises, etc.) are received at specific times in the University's fiscal year while certain other revenue streams (hospital, state appropriations) are received throughout the year. Additionally, certain revenue and expense items fluctuate with changes in enrollment while others do not. As a result of these items, significant fluctuations of cash and investments along with other balance sheet items are normal.

Economic Outlook

Enrollment and tuition have increased in recent years. Additionally, state appropriations increased significantly in fiscal 2008 and 2007. University administration is not aware of any conditions that are expected to have a significant impact on the University financial position throughout the remainder of 2008 or beyond.

UNIVERSITY OF SOUTH ALABAMA
BALANCE SHEETS
AUGUST 2008 AND 2007

ASSETS		2008	2007	LIABILITIES AND FUND BALANCES		2008	2007
CURRENT FUNDS:				CURRENT FUNDS:			
UNRESTRICTED:				UNRESTRICTED:			
CASH AND CASH EQUIVALENTS	\$	145,465.64	137,546.55	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$	49,123,880.89	49,682,360.26
INVESTMENTS		116,287,254.26	102,451,155.21	DEFERRED REVENUES		35,427,376.18	31,520,669.23
ACCOUNTS RECEIVABLE - PATIENTS (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF \$42,398,087.84 FOR 2008 AND \$40,391,292.34 FOR 2007)				DUE TO OTHER FUNDS		86,304,539.41	53,113,984.01
DEPOSITS		61,437,891.22	52,250,915.30	DEPOSITS HELD IN CUSTODY		557,013.18	431,560.43
INVENTORIES AT COST		35,000.00	35,000.00	OTHER DEPOSITS		373,177.71	316,185.20
PREPAID EXPENSES		4,181,599.76	3,901,165.40	FUND BALANCES:			
		20,809,893.77	8,041,420.17	ALLOCATED FOR:			
				HOSPITALS	(15,285,482.05)	(9,952,456.74)	
				AUXILIARY ENTERPRISES	(722,186.17)	191,649.27	
				ENCUMBRANCES	2,261,972.54	2,855,755.54	
				SELF-SUPPORTING ACTIVITIES	47,624,230.72	43,397,851.98	
				UNALLOCATED	(2,767,417.76)	(1,540,355.55)	
				TOTAL FUND BALANCES	31,111,117.28	34,752,144.50	
				TOTAL UNRESTRICTED	202,897,104.85	166,817,203.63	
TOTAL UNRESTRICTED		202,897,104.85	166,817,203.63				
RESTRICTED FUNDS:				RESTRICTED FUNDS:			
CASH AND CASH EQUIVALENTS		4,955,290.57	10,047,325.38	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		42,545.93	113,053.89
INVESTMENTS		44,426.36	168,763.28	OTHER DEPOSITS		1,100.00	1,070.00
UNBILLED COSTS AND ACCOUNTS RECEIVABLE		12,846,195.97	10,647,658.55	DEFERRED REVENUES		1,242,007.86	950,588.11
				FUND BALANCES		19,560,259.11	19,799,035.21
				TOTAL RESTRICTED	17,845,912.90	20,863,747.21	20,863,747.21
TOTAL RESTRICTED		17,845,912.90	20,863,747.21	TOTAL CURRENT FUNDS	220,743,017.55	187,680,950.84	187,680,950.84
TOTAL CURRENT FUNDS		220,743,017.55	187,680,950.84				
LOAN FUNDS:				LOAN FUNDS:			
CASH AND CASH EQUIVALENTS		401,308.34	124,931.28	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		600.00	0.00
NOTES RECEIVABLE (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF \$600,533.16 FOR 2008 AND \$493,734.41 FOR 2007)				REFUNDABLE GOVERNMENT ADVANCES		4,348,114.74	4,547,901.00
				FUND BALANCES:			
				UNIVERSITY FUNDS, UNRESTRICTED		372,267.99	151,337.92
				TOTAL FUND BALANCES		372,267.99	151,337.92
TOTAL LOAN FUNDS		4,720,982.73	4,699,238.92	TOTAL LOAN FUNDS	4,720,982.73	4,699,238.92	4,699,238.92
ENDOWMENT FUNDS:				ENDOWMENT FUNDS:			
CASH AND CASH EQUIVALENTS		18,352,683.81	19,832,318.46	DEFERRED REVENUE		2,023,282.00	0.00
FUNDS WITH TRUSTEES		53,981.22	53,981.22	OTHER LONG TERM DEBT		7,336,871.00	0.00
INVESTMENTS		64,280,076.70	42,770,173.34	FUND BALANCES:			
REAL ESTATE HELD FOR RESALE		988,429.00	3,365,671.00	RESTRICTED NONEXPENDABLE		24,255,873.47	12,291,443.71
PREPAID - LIFE ESTATE		3,466,641.00	0.00	UNRESTRICTED EXPENDABLE		53,525,785.26	53,730,700.31
				TOTAL FUND BALANCES		77,781,658.73	66,022,144.02
TOTAL ENDOWMENT FUNDS		87,141,811.73	66,022,144.02	TOTAL ENDOWMENT FUNDS	87,141,811.73	66,022,144.02	66,022,144.02
PLANT FUNDS:				PLANT FUNDS:			
CASH AND CASH EQUIVALENTS		9,395,382.57	44,799,481.99	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		3,474,439.18	1,752,205.15
INVESTMENTS		50,624,955.00	75,506,477.97	DEFERRED REVENUES		6,723,648.21	7,217,490.48
ACCOUNTS RECEIVABLE		1,630,528.00	2,734,498.00	OTHER DEPOSITS		27,791.67	1,866.70
NOTES RECEIVABLE		254,936.16	258,199.26	NOTES PAYABLE		244,531.49	1,575,503.01
INTEREST RECEIVABLE		94,173.61	94,173.61	BONDS PAYABLE		195,936,298.81	197,689,410.31
DUE FROM OTHER FUNDS		86,304,539.41	53,113,984.01	CAPITALIZED LEASE OBLIGATIONS		99,691.53	194,116.94
PREPAID EXPENSES		2,099,462.35	2,244,267.13				
CAPITAL LEASE RECEIVABLE		1,265,377.51	1,686,762.25				
INVESTMENT IN PLANT:							
LAND		29,271,538.45	29,315,038.45				
LAND IMPROVEMENTS		10,098,135.04	10,977,279.61				
BUILDINGS, ACCUM DEPREC AND IMPROVEMENTS		126,955,225.18	126,116,618.88				
OTHER EQUIPMENT, BOOKS AND FILMS		60,921,966.09	40,075,094.96				
CONSTRUCTION IN PROGRESS		106,053,587.28	64,596,104.08				
TOTAL PLANT FUNDS		485,169,804.65	451,516,980.20				
TOTAL ASSETS	\$	797,775,616.66	709,919,313.98	TOTAL LIABILITIES AND FUND BALANCES	\$	797,775,616.66	709,919,313.98

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

UNIVERSITY OF SOUTH ALABAMA
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2008

	CURRENT FUNDS		LOAN FUNDS	ENDOWMENT FUNDS	RENEWALS AND REPLACEMENTS	PLANT FUNDS RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
	UNRESTRICTED	RESTRICTED					
REVENUES AND OTHER ADDITIONS:							
EDUCATIONAL AND GENERAL REVENUES	248,413,989.26						
HOSPITALS REVENUES	278,200,397.55						
AUXILIARY ENTERPRISES REVENUES	16,159,522.85						
GRANTS AND CONTRACTS:							
FEDERAL		43,349,444.68					
STATE AND LOCAL		8,178,215.04					
PRIVATE		5,542,728.55					
GOVERNMENT APPROPRIATIONS:							
FEDERAL							
STATE							
INVESTMENT INCOME/GAINS/LOSS			2,017.70	(3,561,205.59)	2,328,402.63	423,976.69	
INSURANCE PROCEEDS					448,792.25		
INTEREST ON LOANS RECEIVABLE					2,144.88		
GIFTS AND BEQUESTS			39,621.32	8,971,456.47	(144,661.45)	51,420.55	
EXPENDED FOR PLANT FACILITIES (INCLUDING			120.00				60,567,292.71
\$11,639,723.90 CURRENT FUNDS EXPENDITURES)							
RETIREMENT OF INDEBTEDNESS							5,028,358.28
PROCEEDS FROM SALE OF CAPITAL ASSETS							
OTHER SOURCES			55.00	24,133.00	339,554.29		4,319,519.51
TOTAL REVENUES AND OTHER ADDITIONS	542,773,909.66	3,790,843.75	41,814.02	5,434,383.88	2,974,232.60	475,397.24	69,915,170.50
EXPENDITURES AND OTHER DEDUCTIONS:							
EDUCATIONAL AND GENERAL EXPENDITURES	225,243,213.42	54,972,842.51					
HOSPITALS EXPENDITURES	273,854,374.35						
AUXILIARY ENTERPRISES EXPENDITURES	15,196,293.54						
INDIRECT COSTS RECOVERED		5,040,884.31					
REFUNDED TO GRANTORS		153,123.86					
RETIREMENT OF INDEBTEDNESS							5,028,358.28
ADMINISTRATIVE AND COLLECTION COSTS			71,561.93		56,594,497.68		
EXPENDED FOR PLANT FACILITIES (INCLUDING							
\$7,665,928.87 FOR NON-CAPITALIZED EXPENDITURES)							18,026,433.55
INTEREST ON INDEBTEDNESS							5,018.30
DEPRECIATION EXPENSES OF PLANT FACILITIES							77.76
DISPOSAL OF PLANT							
LOSS ON DISPOSAL OF PLANT			7,764.73	270,148.42			
OTHER DEDUCTIONS			79,346.66	270,148.42			
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	514,293,881.31	60,166,850.68			56,594,497.68	833,878.12	18,031,529.61
TRANSFERS AMONG FUNDS-ADDITIONS(DEDUCTIONS):							
MANDATORY:							
PRINCIPAL AND INTEREST	(7,941,761.33)				(2,624,678.05)	10,679,898.19	(113,458.81)
FINANCIAL AID MATCHING	(45,207.00)	45,207.00					
NON-MANDATORY:							
FUNDED DEPRECIATION	(8,080,810.00)				8,080,810.00		
MOBILE RACING COMMISSION	(359,140.87)				359,140.87		
PLANT ADDITIONS AND REPLACEMENTS	(5,235,611.94)				5,235,611.94		
ENDOWMENT FUND	(3,474,209.30)				(810,873.62)		
OTHER TRANSFERS	(28,885,715.00)			3,775,299.99	6,506,870.47	1,543,645.69	(2,408,891.78)
TOTAL TRANSFERS	(409,686.65)			13,134.26	16,746,881.61	12,223,543.88	(2,522,350.59)
NET INCREASE (DECREASE) FOR THE PERIOD				3,788,434.25	(36,873,383.47)	(370,454.23)	49,361,290.30
FUND BALANCES AT OCTOBER 1, 2007	31,520,803.93			8,952,669.71	86,052,570.39	17,021,155.56	163,472,225.21
FUND BALANCES AT AUGUST 31, 2008	\$ 31,111,117.28	\$ 16,560,259.11	\$ 372,267.99	\$ 77,781,658.73	\$ 49,179,186.92	\$ 15,650,701.33	\$ 212,833,515.51

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$2,768,697.00 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

UNIVERSITY OF SOUTH ALABAMA
Notes to Financial Report

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTS

The accompanying financial reports are the responsibility of management of the University of South Alabama. Management is responsible for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising a system of internal control that will, among other things, help assure the production of proper financial statements. The transactions which should be reflected in the accounts and in the financial reports are matters within the direct knowledge and control of management.

BASIS OF PRESENTATION

The financial reports of the University of South Alabama (the University) are prepared on the accrual basis. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and, (3) transfers of a nonmandatory nature in all other cases.

FUND ACCOUNTING

In order to observe limitations and restrictions placed on the use of resources available to the University, the accounts of the University are maintained in accordance with the principles of fund accounting. Resources for various purposes are classified for accounting and reporting purposes into funds which may be used for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, funds restricted by outside sources are so indicated and are distinguished from funds designated for specific purposes by authority of the Board of Trustees.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

UNIVERSITY OF SOUTH ALABAMA
Notes to Financial Report

CURRENT FUNDS

Current fund balances are separated into those which are unrestricted and those which are restricted by donors and grantors. Restricted funds may only be expended for the purpose indicated by the donor or grantor, whereas unrestricted funds are under the control of the University to use in achieving its educational purposes.

PLANT FUNDS

Plant funds include the transactions related to investment in institutional properties and related indebtedness.

Plant assets consisting of land, buildings, equipment and library books are stated at cost or, if contributed, at fair market value at the time of receipt. Investment in plant is reduced for disposals of plant assets.

Some equipment purchases are made from current funds and are presented under the appropriate functional classification of expenditures, while other additions are funded by transfers from unrestricted current funds to the plant funds. All such expenditures in excess of \$5,000 having a life of two years or more are capitalized as investment in plant.

INVESTMENT IN POOLED FUNDS

Investments are stated at cost, except those received by gift which are stated at fair market value at date of receipt. Endowment investments of the University are maintained and administered in a common pool. Separate accounts are maintained for each fund, as applicable. Depositories and other financial institutions that held investments for the University have pledged securities of various governmental agencies to secure funds held on deposit.

UNRESTRICTED GIFTS

Except for pledged operating and capital gifts, unrestricted gifts are recognized as revenue when received. Certain operating and capital pledges are recorded as a receivable, along with the corresponding revenue, when such pledges are made.

GRANTS AND CONTRACTS

The University has been awarded grants and contracts for current funds operations for which the funds have not been received nor have expenditures been made for the purpose specified in the grant or contract. These awards have not been reflected in the financial reports, but represent commitments of sponsors to provide funds for specific research and training projects.

UNIVERSITY OF SOUTH ALABAMA
Notes to Financial Report

SCHOLARSHIPS AND FELLOWSHIPS

The University receives funds which are restricted by donors and grantors for assistance to qualified students. When these funds are granted to students, the University records the expenditure for scholarships and fellowships along with the corresponding revenue.

INCOME TAXES

The Internal Revenue Service has determined that the University is a tax-exempt organization; accordingly, no provision for income taxes has been made in the accompanying financial statements.

DEFERRED REVENUES AND EXPENDITURES

Dormitory rentals, student tuition and other fees, together with related expenditures, are deferred and amortized over the applicable academic semester.

EMPLOYEE BENEFITS

Employees of the University are covered by two pension plans, a defined contribution pension plan and a pension plan administered by the Teachers' Retirement System of the State of Alabama (the Retirement Plan).

The defined contribution pension plan covers certain academic and administrative employees and contributions under this plan are funded as accrued.

Permanent employees of the University participate in the Teachers' Retirement System of Alabama. The Retirement Plan is fully funded by the State and by contributions from participating employees. The University contributes 11.75% of each employee's gross earnings to the Retirement Plan and is reflected in current funds expenditures. All covered employees must contribute 5% of their gross earnings to the Retirement Plan. Benefits fully vest after 10 years of full-time, permanent employment.

LIABILITY INSURANCE

The University and certain of its affiliates participate in professional and general liability trust funds. These trust funds are irrevocable and use contributions by the University and its affiliates, together with earnings thereon, to pay liabilities arising from the performance of its employees. Contributions to the trusts are recorded as expenditures upon payment and are determined by independent actuaries. If the trust funds are ever terminated, appropriate provision for payment of reported claims will be made and any remaining balance will be distributed to the University and its affiliates in proportion to contributions made.

UNIVERSITY OF SOUTH ALABAMA
Notes to Financial Report

BONDS PAYABLE

Bonds payable consist of the following:

- University Tuition Revenue Refunding and Capital Improvements Bonds, Series 1996, 3.80% to 5.00%, payable through November 2015 (refunded in January 2007)
- University Tuition Revenue Bonds, Series 1999, 3.70% to 5.25%, payable through November 2018.
- University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, 2.00% to 5.00%, payable through March 2024.
- University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, 5.00% payable through June 2037.

LITIGATION

Various other claims have been filed against the University alleging discriminatory employment practices and other matters. University administration and legal counsel are of the opinion that the resolution of these matters will not have a material effect on the financial position or results of operations of the University.

MEDICAID DISPROPORTIONATE SHARE PAYMENTS

Hospitals revenues include funds received from the Alabama Medicaid Agency for services provided to a disproportionately high number of low income patients.

SUPPLEMENTAL SCHEDULES

**SUMMARY SCHEDULE OF AUXILIARY ENTERPRISES
REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2008
WITH COMPARATIVE FIGURES FOR 2007**

	<u>REVENUES</u>	<u>EXPENDITURES</u>	<u>TRANSFERS</u>	<u>EXCESS REVENUES OVER EXPENDITURES AND OTHER CHANGES (DEFICIT)</u>	
				<u>08/31/08</u>	<u>08/31/07</u>
BOOKSTORE	\$ 9,013,185.72	\$ 8,235,171.07	\$ 0.00	\$ 778,014.65	\$ 756,995.12
BROOKLEY CENTER	2,009,174.36	2,509,031.28	(62,633.60)	(562,490.52)	(500,950.86)
FOOD SERVICES-CAMPUS	149,720.33	123,652.04	0.00	26,068.29	(17,680.50)
HOUSING	4,987,442.44	4,328,439.15	(1,665,327.52)	(1,006,324.23)	18,832.56
TOTAL	<u>\$ 16,159,522.85</u>	<u>\$ 15,196,293.54</u>	<u>\$ (1,727,961.12)</u>	<u>\$ (764,731.81)</u>	<u>\$ 257,196.32</u>

BOOKSTORE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2008
WITH COMPARATIVE FIGURES FOR 2007

	CAMPUS		HEALTH SCIENCES		TOTAL	TOTAL
	08/31/08	08/31/07	08/31/08	08/31/07	08/31/08	08/31/07
REVENUES:						
SALES	\$ 7,748,843.01	\$ 7,153,287.59	\$ 1,177,750.35	\$ 1,231,503.58	\$ 8,926,593.36	\$ 8,384,791.17
LESS: DEPARTMENTAL DISCOUNTS	5,122.92	4,117.11	4,206.54	3,495.87	9,329.46	7,612.98
COST OF GOODS SOLD	5,696,579.16	5,258,241.78	859,676.51	938,646.92	6,556,255.67	6,196,888.70
GROSS PROFIT	2,047,140.93	1,890,928.70	313,867.30	289,360.79	2,361,008.23	2,180,289.49
CASH OVER/(SHORT)	(433.93)	3.79	(1,124.84)	114.56	(1,558.77)	118.35
GRADUATION (NET)	41,169.59	32,683.84	0.00	0.00	41,169.59	32,683.84
BAD DEBT RECOVERY	0.00	0.00	0.00	0.00	0.00	0.00
OTHER	26,874.43	21,671.79	20,107.11	17,335.70	46,981.54	39,007.49
NET REVENUES:	<u>2,114,751.02</u>	<u>1,945,288.12</u>	<u>332,849.57</u>	<u>306,811.05</u>	<u>2,447,600.59</u>	<u>2,252,099.17</u>
EXPENDITURES:						
SALARIES	610,907.53	562,118.57	85,266.70	60,984.83	696,174.23	623,103.40
EMPLOYEE BENEFITS	197,052.32	160,691.76	25,384.73	18,102.52	222,437.05	178,794.28
SUPPLIES	28,299.79	22,283.12	3,481.91	2,824.92	31,781.70	25,108.04
TRAVEL	11,918.45	12,456.29	0.00	540.96	11,918.45	12,997.25
EQUIPMENT	8,558.28	3,957.00	169.16	0.00	8,727.44	3,957.00
EQUIPMENT MAINTENANCE AND REPAIR	23,548.02	26,409.48	10.00	0.00	23,558.02	26,409.48
BUILDING & EQUIPMENT RENTAL	4,146.69	2,988.70	241.96	854.16	4,388.65	3,842.86
UTILITIES	68,750.00	68,750.00	0.00	0.00	68,750.00	68,750.00
TELEPHONE	4,349.87	4,139.65	5,525.70	5,115.69	9,875.57	9,255.34
INSURANCE AND BONDS	4,362.00	4,023.00	0.00	0.00	4,362.00	4,023.00
CONTRACT SERVICES	117,179.87	109,182.62	22,798.80	28,272.90	139,978.67	137,455.52
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
RENT	0.00	0.00	18,315.00	18,315.00	18,315.00	18,315.00
OBsolete INVENTORY	702.74	0.00	0.00	0.00	702.74	0.00
GENERAL EXPENSES	42,220.09	43,803.78	8,229.03	5,433.50	50,449.12	49,237.28
CHARGE CARD AND FACULTY						
STAFF DISCOUNTS	90,006.14	63,466.73	9,380.90	8,099.87	99,387.04	71,566.60
INSTITUTIONAL COST ALLOCATION	238,513.88	222,033.00	40,266.38	40,256.00	278,780.26	262,289.00
TOTAL EXPENDITURES	<u>1,450,515.67</u>	<u>1,306,303.70</u>	<u>219,070.27</u>	<u>188,800.35</u>	<u>1,669,585.94</u>	<u>1,485,104.05</u>
TRANSFERS AMONG FUNDS- ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:						
OTHER TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
RENEWAL AND REPLACEMENT	0.00	0.00	0.00	0.00	0.00	0.00
RETIREMENT REIMBURSEMENT	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
EXCESS REVENUES OVER EXPENDITURES AND MANDATORY TRANSFERS	\$ <u>664,235.35</u>	\$ <u>638,984.42</u>	\$ <u>113,779.30</u>	\$ <u>118,010.70</u>	\$ <u>778,014.65</u>	\$ <u>756,995.12</u>

BROOKLEY CENTER
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2008
WITH COMPARATIVE FIGURES FOR 2007

	ADMINISTRATION	INVESTMENT HOUSING	GOLF SHOP	RECREATION CENTER	FOOD SERVICE	TOTAL AUXILIARY SERVICES
REVENUES:						
SALES-FOOD & MERCHANDISE	\$ 0.00	\$ 0.00	\$ 37,429.49	\$ 0.00	\$ 0.00	\$ 37,429.49
LESS: COST OF GOODS SOLD	0.00	0.00	21,277.80	0.00	0.00	21,277.80
DISCOUNTS	0.00	0.00	4,094.89	0.00	0.00	4,094.89
GROSS PROFIT	0.00	0.00	12,056.80	0.00	0.00	12,056.80
FEES	249.00	0.00	364,475.41	0.00	44,598.94	409,074.35
RENTALS	25,883.00	633,344.70	0.00	0.00	0.00	633,344.70
OTHER	2,578.04	2,016.17	426.33	0.00	0.00	2,442.50
FACILITY ASSESSMENT FEE	45,837.00	0.00	0.00	0.00	0.00	0.00
NET REVENUES	74,325.04	635,360.87	376,958.54	0.00	44,598.94	1,056,918.35
EXPENDITURES:						
OPERATING EXPENDITURES:						
SALARIES	654,189.74	76,017.48	205,837.17	0.00	0.00	281,854.65
EMPLOYEE BENEFITS	229,819.76	27,251.30	66,263.18	0.00	0.00	93,514.48
SUPPLIES	56,083.16	179.30	71,967.65	0.00	0.00	72,146.95
TRAVEL	3,076.23	0.00	462.42	0.00	0.00	462.42
CONTRACT SERVICE	135,368.03	31,127.29	50,633.43	0.00	1,920.00	83,680.72
BUILDING MAINTENANCE & REPAIR	10,060.11	38,826.19	1,918.04	0.00	2,720.26	43,464.49
GROUNDS MAINTENANCE	16,049.97	23,200.52	36,640.56	0.00	86.54	59,927.62
UTILITIES	132,913.51	77,207.03	29,863.24	0.00	48,203.21	155,273.48
EQUIPMENT MAINTENANCE & REPAIR	2,694.13	3,081.17	43,892.71	0.00	6,523.92	53,497.80
BUILDING & EQUIPMENT RENTAL	2,577.11	0.00	25,061.51	0.00	2,150.72	27,212.23
TELEPHONE	14,861.34	76.40	1,132.26	0.00	6.72	1,215.38
INSURANCE AND BONDS	51,850.00	0.00	732.00	0.00	2,115.00	2,847.00
RECEPTIONS	1,507.10	205.00	0.00	0.00	0.00	205.00
ADVERTISING	2,829.95	788.72	6,014.11	0.00	186.88	6,989.51
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	70,717.12	1,872.52	16,373.16	0.00	7,003.61	25,049.29
EXPENSE OFFSET	0.00	0.00	0.00	0.00	0.00	0.00
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
OPERATING COST ALLOCATIONS	(1,379,184.07)	386,165.93	0.00	13,791.66	55,166.96	455,124.15
TOTAL OPERATING EXPENDITURES	5,033.19	665,798.85	556,791.44	13,791.66	126,083.22	1,362,465.17
EXCESS REVENUES OVER EXPENDITURES	69,291.85	(30,437.98)	(179,832.90)	(13,791.66)	(81,484.28)	(305,546.82)
OTHER EXPENDITURES:						
EQUIPMENT						
OTHER COST ALLOCATIONS	3,995.85	1,818.99	1,975.00	0.00	0.00	3,793.99
TOTAL OTHER EXPENDITURES	0.00	0.00	0.00	0.00	0.00	0.00
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	(65,286.00)	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:						
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	2,662.40	0.00	0.00	2,662.40
TOTAL TRANSFERS	(65,286.00)	0.00	2,662.40	0.00	0.00	2,662.40
EXCESS REVENUES OVER						
EXPENDITURES (DEFICIT)	\$ 0.00	\$ (32,256.97)	\$ (179,145.50)	\$ (13,791.66)	\$ (81,484.28)	\$ (306,678.41)

BROOKLEY CENTER
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2008
WITH COMPARATIVE FIGURES FOR 2007

	CONTINUING EDUCATION	EDUCATIONAL LEASING	UNIVERSITY SERVICE	TOTAL EDUCATIONAL SERVICES	BROOKLEY CENTER TOTAL 08/31/08	BROOKLEY CENTER TOTAL 08/31/07
REVENUES:						
SALES-FOOD & MERCHANDISE	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 37,429.49	\$ 40,423.48
LESS: COST OF GOODS SOLD	0.00	0.00	0.00	0.00	21,277.80	(3,456.99)
DISCOUNTS	4,347.44	0.00	0.00	4,347.44	8,442.33	8,494.57
GROSS PROFIT	(4,347.44)	0.00	0.00	(4,347.44)	7,709.36	35,385.88
FEES	376,264.66	459,460.12	0.00	835,724.78	1,245,048.13	1,132,241.64
RENTALS	12,100.00	418.00	0.00	12,518.00	871,525.70	692,032.61
OTHER	4,315.50	0.00	0.00	4,315.50	9,334.04	10,452.84
FACILITY ASSESSMENT FEE	0.00	0.00	0.00	0.00	45,637.00	0.00
NET REVENUES	388,332.72	459,878.12	0.00	848,210.84	1,979,454.23	1,870,112.97
EXPENDITURES:						
OPERATING EXPENDITURES:						
SALARIES	0.00	0.00	0.00	0.00	936,044.39	893,077.51
EMPLOYEE BENEFITS	0.00	0.00	0.00	0.00	323,134.24	283,004.08
SUPPLIES	17,372.91	5,448.32	0.00	22,821.23	151,051.34	115,151.29
TRAVEL	0.00	0.00	0.00	0.00	3,538.65	3,642.62
CONTRACT SERVICE	11,452.30	3,602.66	0.00	15,054.96	234,103.71	230,711.94
BUILDING MAINTENANCE & REPAIR	23,230.84	4,319.81	0.00	27,550.65	81,075.25	74,699.69
GROUND MAINTENANCE	144.81	682.32	0.00	827.13	76,804.72	81,508.84
UTILITIES	120,843.12	92,571.85	0.00	213,414.97	501,601.96	471,780.57
EQUIPMENT MAINTENANCE & REPAIR	8,293.88	6,016.42	0.00	14,310.30	70,502.23	61,862.93
BUILDING & EQUIPMENT RENTAL	0.00	0.00	0.00	0.00	28,789.34	28,779.05
TELEPHONE	0.32	0.00	0.00	0.32	16,077.04	18,434.81
INSURANCE AND BONDS	7,320.00	0.00	0.00	7,320.00	81,817.00	54,056.00
RECEPTIONS	495.00	0.00	0.00	495.00	2,207.10	400.00
ADVERTISING	20,120.90	0.00	0.00	20,120.90	29,940.36	26,229.30
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	47,384.20	26,923.79	0.00	74,307.99	170,074.40	(46,409.46)
EXPENSE OFFSET	(31,212.50)	0.00	0.00	(31,212.50)	(31,212.50)	0.00
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	(201,543.87)	(201,543.87)	(201,543.87)	0.00
OPERATING COST ALLOCATIONS	275,832.81	234,457.88	413,749.22	924,039.92	0.00	0.00
TOTAL OPERATING EXPENDITURES	501,278.59	374,023.08	212,205.35	1,087,507.00	2,455,005.36	2,296,929.27
EXCESS REVENUES OVER EXPENDITURES	(112,945.87)	85,855.06	(212,205.35)	(239,296.16)	(475,551.13)	(426,816.30)
OTHER EXPENDITURES:						
EQUIPMENT	12,741.96	3,773.99	0.00	16,515.95	24,305.79	10,976.43
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	12,741.96	3,773.99	0.00	16,515.95	24,305.79	10,976.43
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	(65,296.00)	(65,296.00)
NON-MANDATORY:						
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	2,662.40	2,137.87
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	(62,633.60)	(63,158.13)
EXCESS REVENUES OVER						
EXPENDITURES (DEFICIT)	\$ (125,687.83)	\$ 82,081.07	\$ (212,205.35)	\$ (255,812.11)	\$ (562,490.52)	\$ (500,950.66)

FOOD SERVICE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2008
WITH COMPARATIVE FIGURES FOR 2007

	<u>08/31/08</u>	<u>08/31/07</u>
REVENUES:		
COMMISSION INCOME	\$ 149,720.33	\$ 113,431.65
TOTAL REVENUES	<u>149,720.33</u>	<u>113,431.65</u>
EXPENDITURES:		
SUPPLIES	(3.86)	31.28
EQUIPMENT MAINTENANCE AND REPAIR	20,456.06	31,887.13
UTILITIES	59,583.37	59,575.00
TELEPHONE	73.92	20.40
MEMBERSHIPS AND DUES	270.00	270.00
CONTRACT SERVICES	8,004.96	10,754.60
INSURANCE AND BONDS	11,865.00	10,003.00
EQUIPMENT	243.97	0.00
BUILDING MAINTENANCE AND REPAIR	5,079.81	3,675.00
INDIRECT COST	14,833.50	14,821.00
GENERAL EXPENSE	<u>3,245.31</u>	<u>74.74</u>
TOTAL EXPENDITURES	<u>123,652.04</u>	<u>131,112.15</u>
TRANSFERS AMONG FUNDS-		
ADDITIONS/(DEDUCTIONS):		
NON-MANDATORY:		
OTHER TRANSFERS	<u>0.00</u>	<u>0.00</u>
TOTAL TRANSFERS		
EXCESS REVENUES OVER		
EXPENDITURES AND MANDATORY		
TRANSFERS (DEFICIT)	<u>\$ 26,068.29</u>	<u>\$ (17,680.50)</u>

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2008
WITH COMPARATIVE FIGURES FOR 2007

	CENTRAL HOUSING	HOUSING PROGRAMMING	WASHERS AND DRYERS	OLD SHELL ROAD HOUSING	HILLSDALE MARRIED STUDENT	SMALL GROUP HOUSING
REVENUES:						
RENTAL INCOME	\$ 0.00	\$ 0.00	\$ 132,200.00	\$ 0.00	\$ 480,678.90	\$ 327,646.57
BAD DEBT RECOVERY	6,436.84	0.00	0.00	0.00	2,521.70	0.00
OTHER	300.00	0.00	0.00	0.00	21,743.13	51,932.80
TOTAL REVENUES	6,736.84	0.00	132,200.00	0.00	504,943.73	379,579.37
EXPENDITURES:						
SALARIES	347,712.45	86,623.17	0.00	0.00	276,283.00	75,318.57
EMPLOYEE BENEFITS	106,089.07	470.98	0.00	0.00	99,362.71	14,799.87
CONTRACT LABOR	0.00	0.00	0.00	0.00	808.00	210.00
CONTRACT SERVICES	1,722.50	0.00	49,606.00	0.00	18,022.71	23,343.30
TRAVEL	3,885.58	783.38	0.00	0.00	0.00	0.00
RECEPTIONS	(95.15)	25,872.01	0.00	0.00	0.00	0.00
SUPPLIES	14,795.18	595.45	0.00	44.51	25,848.91	12,153.02
CABLE	83,355.04	0.00	0.00	0.00	1,287.19	0.00
TELEPHONE	1,421.78	0.00	0.00	0.00	1,828.88	835.54
UTILITIES	0.00	0.00	0.00	0.00	24,407.90	1,124.03
INSURANCE AND BONDS	2,196.00	0.00	0.00	0.00	13,976.00	8,112.00
BUILDING MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	217.87	0.00
EQUIPMENT	253.26	201.42	0.00	0.00	0.00	1,811.15
EQUIPMENT RENTAL	311.38	0.00	0.00	0.00	4,600.80	0.00
EQUIPMENT MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	590.95	0.00
GROUND MAINTENANCE	933.75	0.00	0.00	0.00	0.00	0.00
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	55,123.71	4,034.75	200.00	0.00	11,658.57	1,952.00
ADMINISTRATIVE OVERHEAD	291,999.04	0.00	0.00	0.00	0.00	51,955.04
ADMINISTRATIVE EXPENSES	(902,966.75)	(114,823.43)	37,658.26	0.00	4,071.16	94,654.47
TOTAL EXPENDITURES	6,736.84	3,757.73	87,464.26	44.51	482,964.65	286,268.99
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	(607,032.00)
TOTAL MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	(607,032.00)
NON-MANDATORY:						
RENEWALS AND REPLACEMENTS	0.00	0.00	0.00	0.00	0.00	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	3,757.73	0.00	0.00	0.00	0.00
TOTAL NON-MANDATORY TRANSFERS	0.00	3,757.73	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	0.00	3,757.73	0.00	0.00	0.00	(607,032.00)
EXCESS REVENUES OVER EXPENDITURES	\$ (0.00)	\$ 0.00	\$ 44,735.74	\$ (44.51)	\$ 21,979.08	\$ (513,721.62)
AND TRANSFERS (DEFICIT)						

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2008
WITH COMPARATIVE FIGURES FOR 2007

	GAMMA DORMS	BETA DORMS	DELTA DORMS	EPSILON DORMS	TOTAL HOUSING 08/31/08	TOTAL HOUSING 08/31/07
REVENUES:						
RENTAL INCOME	\$ 860,835.98	\$ 538,024.54	\$ 2,010,088.63	\$ 486,906.95	\$ 4,836,381.57	\$ 5,241,843.75
BAD DEBT RECOVERY	0.00	0.00	0.00	0.00	8,958.54	5,558.90
OTHER	6,583.30	7,390.38	33,980.87	20,191.85	142,102.33	180,672.07
TOTAL REVENUES	867,399.28	545,414.92	2,044,069.50	507,098.80	4,987,442.44	5,428,074.72
EXPENDITURES:						
SALARIES	167,488.44	44,595.75	223,096.58	156,859.95	1,377,977.91	1,360,884.11
EMPLOYEE BENEFITS	45,699.52	11,492.74	53,887.75	29,410.14	361,212.78	324,839.16
CONTRACT LABOR	150.00	357.00	63,891.21	357.00	65,773.21	40,478.51
CONTRACT SERVICES	11,820.73	8,158.78	63,648.56	65,179.82	241,502.40	211,239.98
TRAVEL	0.00	0.00	0.00	0.00	4,668.96	5,235.03
RECEPTIONS	0.00	443.75	0.00	0.00	26,220.61	18,514.61
SUPPLIES	11,004.90	8,566.85	68,108.08	23,590.38	164,707.28	201,377.27
CABLE	0.00	0.00	0.00	0.00	84,642.23	113,221.05
TELEPHONE	34,428.94	15,093.36	86,050.15	16,851.80	156,510.45	168,728.79
UTILITIES	0.00	0.00	0.00	0.00	25,531.93	29,876.53
INSURANCE AND BONDS	13,585.00	6,945.00	20,492.00	6,097.00	71,403.00	70,030.00
BUILDING MAINTENANCE AND REPAIR EQUIPMENT	6,275.00 198.16	4,379.88 0.00	437.50 (77,858.00)	175.00 5,390.00	11,485.25 (70,004.01)	10,381.05
EQUIPMENT RENTAL	0.00	0.00	428.65	0.00	5,340.83	41,068.90
EQUIPMENT MAINTENANCE AND REPAIR	0.00	0.00	180.49	0.00	771.44	6,354.39
GROUPS MAINTENANCE	0.00	0.00	0.00	0.00	933.75	9,981.12
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	0.00	595.36
GENERAL EXPENSES	54,999.54	33,564.76	221,946.44	69,881.20	453,360.97	1,337.95
ADMINISTRATIVE OVERHEAD	295,482.00	139,605.04	425,267.04	142,092.00	1,346,400.16	369,273.35
ADMINISTRATIVE EXPENSES	195,415.71	110,939.13	431,543.03	143,508.42	0.00	1,299,332.00
TOTAL EXPENDITURES	836,547.94	384,142.04	1,581,119.48	659,392.71	4,328,439.15	4,282,749.16
TRANSFERS AMONG FUNDS - ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	(63,976.00)	(45,760.00)	(266,160.00)	(142,664.00)	(1,125,592.00)	(1,126,648.00)
TOTAL MANDATORY TRANSFERS	(63,976.00)	(45,760.00)	(266,160.00)	(142,664.00)	(1,125,592.00)	(1,126,648.00)
NON-MANDATORY:						
RENEWALS AND REPLACEMENTS	(259,698.25)	0.00	(283,795.00)	0.00	(543,493.25)	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	3,757.73	155.00
TOTAL NON-MANDATORY TRANSFERS	(259,698.25)	0.00	(283,795.00)	0.00	(539,735.52)	155.00
TOTAL TRANSFERS	(323,674.25)	(45,760.00)	(549,955.00)	(142,664.00)	(1,665,327.52)	(1,126,493.00)
EXCESS REVENUES OVER EXPENDITURES AND TRANSFERS (DEFICIT)	\$ (292,822.91)	\$ 115,512.88	\$ (87,004.98)	\$ (294,957.91)	\$ (1,006,324.23)	\$ 18,832.56

I N D E X **SEPTEMBER 2008**

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Financial Report Highlights September 30, 2008

Introduction

This Financial Report presents the financial position and financial activity of the University of South Alabama utilizing the fund basis of accounting. The report presents the assets, liabilities and fund balances of each fund including the current funds (unrestricted and restricted), loan funds, endowment funds, and plant funds (renewals and replacements, retirement of indebtedness and investment in plant). The financial reporting requirements of the Governmental Accounting Standard Board, by which the University reports its quarterly financial statements, are not utilized in this monthly financial report.

Financial Highlights

Financial report highlights at, and for the year ended, September 30, 2008 and 2007 are as follows (in thousands):

	At and for the year ended	
	9-30-08	9-30-07
Total assets, by fund		
Current	\$ 217,769	\$ 199,443
Loan	4,744	4,733
Endowment	82,248	68,829
Plant	607,898	478,514
Fund Balances, by fund		
Current	\$ 49,020	\$ 48,758
Loan	411	385
Endowment	72,888	68,829
Plant	286,009	266,546
Other balance sheet highlights		
Cash and investments	\$ 369,142	\$ 285,057
Accounts receivable	49,534	50,606
Bonds and notes payable	308,897	199,613

	For the year ended	
	9-30-08	9-30-07
Selected operating highlights (current funds)		
Tuition and fees	\$ 71,531	\$ 63,974
State appropriations	139,737	120,388
Hospital revenues	290,474	287,956
Gifts, grants and contracts	112,884	106,180
Instruction and Academic support	132,757	119,997
Research and public service	64,894	67,436
Hospital expenses	302,188	265,558
Net current fund increase	262	4,789

Financial Analysis

This report should be read in conjunction with the University's monthly financial reports and with the understanding of the cyclical nature of the University's operations. Certain revenues (tuition and fees, auxiliary enterprises, etc.) are received at specific times in the University's fiscal year while certain other revenue streams (hospital, state appropriations) are received throughout the year. Additionally, certain revenue and expense items fluctuate with changes in enrollment while others do not. As a result of these items, significant fluctuations of cash and investments along with other balance sheet items are normal.

Economic Outlook

Enrollment and tuition have increased in recent years. Additionally, state appropriations increased significantly in fiscal 2008 and 2007. University administration is not aware of any conditions that are expected to have a significant impact on the University financial position throughout the remainder of 2008 or beyond.

UNIVERSITY OF SOUTH ALABAMA
BALANCE SHEETS
SEPTEMBER 2008 AND 2007

ASSETS		2008	2007	LIABILITIES AND FUND BALANCES		2008	2007
CURRENT FUNDS:				CURRENT FUNDS:			
UNRESTRICTED:				UNRESTRICTED:			
CASH AND CASH EQUIVALENTS	\$	45,101.84	129,022.81	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$	55,363,281.25	48,080,444.14
INVESTMENTS		122,735,558.31	102,740,178.84	DEFERRED REVENUES		24,324,481.85	21,554,609.55
ACCOUNTS RECEIVABLE - PATIENTS (LESS ALLOWANCE				DUE TO OTHER FUNDS		85,691,158.24	76,218,307.86
FOR DOUBTFUL ACCOUNTS OF \$43,808,288.69				DEPOSITS HELD IN CUSTODY		579,201.35	205,407.12
FOR 2008 AND \$41,432,000.00 FOR 2007)				OTHER DEPOSITS		429,587.46	470,920.95
DEPOSITS		49,534,245.23	50,606,280.58	FUND BALANCES:			
INVENTORIES AT COST		35,000.00	35,000.00	ALLOTTED FOR:			
PREPAID EXPENSES		4,894,962.22	4,235,380.74	HOSPITALS	(16,987,519.04)		(8,260,495.40)
		21,965,889.48	20,305,630.58	AUXILIARY ENTERPRISES	2,173,902.95		42,545.64
				ENCUMBRANCES	1,852,815.58		1,746,935.02
				SELF-SUPPORTING ACTIVITIES	43,526,099.19		39,302,113.69
				UNALLOCATED	2,257,748.25		(1,310,295.02)
				TOTAL FUND BALANCES	32,823,046.93		31,520,803.93
				TOTAL UNRESTRICTED	199,210,757.08		178,050,493.55
TOTAL UNRESTRICTED		<u>199,210,757.08</u>	<u>178,050,493.55</u>				
RESTRICTED FUNDS:				RESTRICTED FUNDS:			
CASH AND CASH EQUIVALENTS		7,577,887.11	7,670,686.09	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		1,401,942.10	1,446,496.58
INVESTMENTS		11,529.60	169,426.36	OTHER DEPOSITS		1,100.00	6,210.32
UNBILLED COSTS AND ACCOUNTS RECEIVABLE		10,968,785.93	13,552,786.29	DEFERRED REVENUES		957,827.51	2,702,519.72
				FUND BALANCES		16,197,333.03	17,237,871.92
TOTAL RESTRICTED		<u>18,558,202.64</u>	<u>21,392,898.74</u>	TOTAL RESTRICTED		18,558,202.64	21,392,898.74
TOTAL CURRENT FUNDS		<u>217,768,959.72</u>	<u>199,443,392.29</u>	TOTAL CURRENT FUNDS		<u>217,768,959.72</u>	<u>199,443,392.29</u>
LOAN FUNDS:				LOAN FUNDS:			
CASH AND CASH EQUIVALENTS		442,761.89	184,000.29	REFUNDABLE GOVERNMENT ADVANCES		4,333,038.93	4,348,114.74
NOTES RECEIVABLE (LESS ALLOWANCE FOR				FUND BALANCES:			
DOUBTFUL ACCOUNTS OF \$500,533.16 FOR				UNIVERSITY FUNDS, UNRESTRICTED		410,683.89	384,800.63
2008 AND \$493,734.41 FOR 2007)				TOTAL FUND BALANCES		410,683.89	384,800.63
TOTAL LOAN FUNDS		<u>4,300,960.93</u>	<u>4,548,915.08</u>	TOTAL LOAN FUNDS		<u>4,300,960.93</u>	<u>4,548,915.08</u>
ENDOWMENT FUNDS:				ENDOWMENT FUNDS:			
CASH AND CASH EQUIVALENTS		20,183,820.52	21,538,749.94	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		87.50	0.00
FUNDS WITH TRUSTEES		53,981.22	53,981.22	DEFERRED REVENUE		2,023,282.00	0.00
INVESTMENTS		58,509,826.82	43,870,586.86	OTHER LONG TERM DEBT		7,336,871.00	0.00
PREPAID- LIFE ESTATE		3,500,298.00	3,365,671.00	FUND BALANCES:			
				RESTRICTED NONEXPENDABLE		28,073,403.57	15,762,717.56
				UNRESTRICTED EXPENDABLE		44,814,282.49	53,066,271.46
				TOTAL FUND BALANCES		72,887,686.06	68,828,989.02
				TOTAL ENDOWMENT FUNDS		<u>82,247,926.56</u>	<u>68,828,989.02</u>
TOTAL ENDOWMENT FUNDS		<u>82,247,926.56</u>	<u>68,828,989.02</u>				
PLANT FUNDS:				PLANT FUNDS:			
CASH AND CASH EQUIVALENTS		95,284,985.13	22,814,480.24	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		6,148,410.90	5,444,969.46
FUNDS WITH TRUSTEES		351,707.17	0.00	DEFERRED REVENUES		6,724,007.70	6,722,013.82
INVESTMENTS		63,362,945.00	85,940,933.06	OTHER DEPOSITS		27,791.67	1,666.70
REAL ESTATE HELD FOR RESALE		988,429.00	0.00	NOTES PAYABLE	0.00		
ACCOUNTS RECEIVABLE		1,799,284.00	2,405,471.00	BONDS PAYABLE		308,897,250.93	198,156,424.64
NOTES RECEIVABLE		254,936.16	258,199.26	CAPITALIZED LEASE OBLIGATIONS		91,588.99	186,442.40
INTEREST RECEIVABLE		0.00	94,173.61				
DUE FROM OTHER FUNDS		85,591,158.24	76,218,307.86				
PREPAID EXPENSES		5,108,891.27	2,206,396.18				
CAPITAL LEASE RECEIVABLE		1,226,440.42	1,685,762.25				
INVESTMENT IN PLANT:							
LAND		29,232,252.32	29,271,538.45				
LAND IMPROVEMENTS		10,073,539.08	11,050,329.47				
BUILDINGS - ACCUM DEPREC AND IMPROVEMENTS		136,567,042.26	134,041,395.24				
OTHER EQUIPMENT, BOOKS AND FILMS		59,706,940.26	47,699,916.55				
CONSTRUCTION IN PROGRESS		118,249,698.17	64,826,723.91				
TOTAL PLANT FUNDS		<u>607,898,248.48</u>	<u>478,513,607.08</u>				
TOTAL ASSETS	\$	<u>912,658,857.58</u>	<u>751,518,903.76</u>	TOTAL LIABILITIES AND FUND BALANCES	\$	<u>912,658,857.58</u>	<u>751,518,903.76</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

UNIVERSITY OF SOUTH ALABAMA
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	CURRENT FUNDS			LOAN FUNDS	ENDOWMENT FUNDS	RENEWALS AND REPLACEMENTS	PLANT FUNDS	
	UNRESTRICTED	RESTRICTED					RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
REVENUES AND OTHER ADDITIONS:								
EDUCATIONAL AND GENERAL REVENUES	276,203,949.36							
HOSPITALS REVENUES	303,640,095.93							
AUXILIARY ENTERPRISES REVENUES	17,383,750.79							
GRANTS AND CONTRACTS:								
FEDERAL		47,160,679.57						
STATE AND LOCAL		9,957,893.43						
PRIVATE		5,700,132.33						
GOVERNMENT APPROPRIATIONS:								
FEDERAL			15,075.81					
STATE								
INVESTMENT INCOME, GAINS/LOSS								
INSURANCE PROCEEDS				28,965.25	(9,385,128.67)	2,347,198.45	463,966.42	
INTEREST ON LOANS RECEIVABLE						590,211.47		
GIFTS AND BEQUESTS				43,232.83		2,144.88	55,374.85	
EXPENDED FOR PLANT FACILITIES (INCLUDING				130.00	9,488,221.37			16,577.50
\$22,674,581.46 CURRENT FUNDS EXPENDITURES)								86,700,874.93
RETIREMENT OF INDEBTEDNESS								
PROCEEDS FROM SALE OF CAPITAL ASSETS								5,287,133.64
OTHER SOURCES								
TOTAL REVENUES AND OTHER ADDITIONS	587,227,796.08	4,546,755.65	55.00	87,458.89	103,092.70	334,786.31	519,341.27	932,044.59
		67,365,460.98				3,274,341.11		92,936,630.66
EXPENDITURES AND OTHER DEDUCTIONS:								
EDUCATIONAL AND GENERAL EXPENDITURES	250,054,472.05	61,224,600.08						
HOSPITALS EXPENDITURES	300,162,630.02							
AUXILIARY ENTERPRISES EXPENDITURES	16,104,917.24							
INDIRECT COSTS RECOVERED		5,636,011.36						
REFUNDED TO GRANTORS		159,052.78						
RETIREMENT OF INDEBTEDNESS								
ADMINISTRATIVE AND COLLECTION COSTS			71,693.70					
EXPENDED FOR PLANT FACILITIES (INCLUDING								
\$5,809,938.06 FOR NON-CAPITALIZED EXPENDITURES)						69,836,231.52		20,080,474.05
INTEREST ON INDEBTEDNESS								
DEPRECIATION EXPENSES OF PLANT FACILITIES								
DISPOSAL OF PLANT								
LOSS ON DISPOSAL OF PLANT								
OTHER DEDUCTIONS				14,881.93	270,148.42			181,503.42
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	586,322,019.31	67,019,664.22	86,575.63		270,148.42	69,836,231.52	850,695.62	20,212,055.23
							13,957,695.82	
TRANSFERS AMONG FUNDS-ADDITIONS(DEDUCTIONS):								
MANDATORY:								
PRINCIPAL AND INTEREST	(8,516,655.51)					(2,863,457.64)	11,493,571.96	(113,456.81)
FINANCIAL AID MATCHING	(148,269.00)	148,269.00						
NON-MANDATORY:								
FUNDED DEPRECIATION	(8,700,224.00)					8,700,224.00		
MOBILE RACING COMMISSION	(397,635.24)					397,635.24		
PLANT ADDITIONS AND REPLACEMENTS	(5,540,611.94)					5,540,611.94		
ENDOWMENT FUND	(5,682,975.97)					92,774.54		
OTHER TRANSFERS	(29,603,533.77)	477,582.93		25,000.00	5,112,618.50			
TOTAL TRANSFERS	(39,984,045.42)	(2,011,987.58)		25,000.00	(886,865.74)	4,503,342.23	1,543,645.69	(2,555,972.49)
NET INCREASE (DECREASE) FOR THE PERIOD	1,302,243.00	(1,386,135.65)		25,000.00	4,225,752.76	16,371,130.31	13,037,217.65	(2,669,431.30)
FUND BALANCES AT OCTOBER 1, 2007	31,520,803.93	(1,040,336.89)		25,883.26	4,058,697.04	(50,190,760.10)	(401,136.90)	70,055,144.13
FUND BALANCES AT SEPTEMBER 30, 2008	\$ 32,823,046.93	\$ 16,197,333.03	\$ 410,683.89	\$ 72,887,686.06	\$ 72,887,686.06	\$ 86,052,570.39	\$ 17,021,155.56	\$ 163,472,225.21
						\$ 35,961,810.29	\$ 15,620,018.66	\$ 233,527,369.34

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$3,044,828.00 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

UNIVERSITY OF SOUTH ALABAMA

	YEAR ENDED SEPTEMBER 30, 2008		TOTAL
	UNRESTRICTED	RESTRICTED	
REVENUES:			
TUITION AND FEES	\$ 71,530,652.51	\$	71,530,652.51
STATE APPROPRIATIONS	126,570,525.00		126,570,525.00
MOBILE RACING COMMISSION	397,636.24		397,636.24
FEDERAL GRANTS AND CONTRACTS	4,523,735.39		4,523,735.39
STATE GRANTS AND CONTRACTS (INCLUDING INDIRECT COST RECOVERED OF \$604,890.17)	742,452.17		742,452.17
PRIVATE GIFTS, GRANTS, AND CONTRACTS (INCLUDING INDIRECT COSTS RECOVERED OF \$607,385.80)	50,362,623.75		50,362,623.75
INVESTMENT INCOME	3,888,961.24		3,888,961.24
SALES AND SERVICES OF EDUCATIONAL ACTIVITIES	4,562,356.88		4,562,356.88
HOSPITALS - SALES AND SERVICES	290,473,691.93		290,473,691.93
- STATE APPROPRIATIONS	13,166,404.00		13,166,404.00
AUXILIARY ENTERPRISES - SALES AND SERVICES	17,383,750.79		17,383,750.79
OTHER SOURCES	13,625,008.18		13,625,008.18
TOTAL CURRENT REVENUES	597,227,796.08		61,224,600.08
EXPENDITURES AND TRANSFERS:			
EDUCATIONAL AND GENERAL:			
INSTRUCTION	105,050,203.30		116,073,018.85
RESEARCH	6,731,410.31		21,819,718.87
PUBLIC SERVICE	40,604,068.49		43,074,378.30
ACADEMIC SUPPORT	16,881,548.17		16,683,840.81
STUDENT SERVICES	22,589,547.07		2,292.64
INSTITUTIONAL SUPPORT	30,441,539.45		23,411,936.36
OPERATION AND MAINTENANCE OF PLANT	22,536,967.96		76,000.00
SCHOLARSHIPS	5,419,189.30		18,744,456.06
EDUCATIONAL AND GENERAL MANDATORY TRANSFERS FOR:	250,054,472.05		12,999,028.17
PRINCIPAL AND INTEREST	5,294,136.00		61,224,600.08
FINANCIAL AID MATCHING	148,269.00		
TOTAL EDUCATIONAL AND GENERAL	255,496,877.05		316,721,477.13
HOSPITALS (INCLUDING DEBT SERVICE OF \$2,025,695.51)	302,188,325.53		302,188,325.53
AUXILIARY ENTERPRISES:			
EXPENDITURES	16,104,917.24		16,104,917.24
MANDATORY TRANSFERS FOR:			
PRINCIPAL AND INTEREST	1,196,824.00		1,196,824.00
NON-MANDATORY TRANSFERS FOR:			
RENEWALS AND REPLACEMENTS	838,493.25		838,493.25
OTHER TRANSFERS	(2,887,841.01)		(2,887,841.01)
TOTAL AUXILIARIES	15,252,393.48		15,252,393.48
TOTAL EXPENDITURES AND TRANSFERS	572,937,596.06		634,162,196.14
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS):			
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUES			
REFUNDED TO GRANTORS			
FUNDED DEPRECIATION			
MOBILE RACING COMMISSION	(8,700,224.00)		(8,700,224.00)
PLANT ADDITIONS AND REPLACEMENTS	(397,636.24)		(397,636.24)
ENDOWMENT FUND	(4,702,118.69)		(4,702,118.69)
OTHER TRANSFERS	(5,682,975.97)		(5,205,393.04)
TOTAL TRANSFERS	(3,605,003.12)		(1,963,718.88)
NET INCREASE/(DECREASE) IN FUND BALANCES	1,302,243.00		261,904.11

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$3,044,828.00 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

UNIVERSITY OF SOUTH ALABAMA
Notes to Financial Report

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTS

The accompanying financial reports are the responsibility of management of the University of South Alabama. Management is responsible for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising a system of internal control that will, among other things, help assure the production of proper financial statements. The transactions which should be reflected in the accounts and in the financial reports are matters within the direct knowledge and control of management.

BASIS OF PRESENTATION

The financial reports of the University of South Alabama (the University) are prepared on the accrual basis. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and, (3) transfers of a nonmandatory nature in all other cases.

FUND ACCOUNTING

In order to observe limitations and restrictions placed on the use of resources available to the University, the accounts of the University are maintained in accordance with the principles of fund accounting. Resources for various purposes are classified for accounting and reporting purposes into funds which may be used for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, funds restricted by outside sources are so indicated and are distinguished from funds designated for specific purposes by authority of the Board of Trustees.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

UNIVERSITY OF SOUTH ALABAMA
Notes to Financial Report

CURRENT FUNDS

Current fund balances are separated into those which are unrestricted and those which are restricted by donors and grantors. Restricted funds may only be expended for the purpose indicated by the donor or grantor, whereas unrestricted funds are under the control of the University to use in achieving its educational purposes.

PLANT FUNDS

Plant funds include the transactions related to investment in institutional properties and related indebtedness.

Plant assets consisting of land, buildings, equipment and library books are stated at cost or, if contributed, at fair market value at the time of receipt. Investment in plant is reduced for disposals of plant assets.

Some equipment purchases are made from current funds and are presented under the appropriate functional classification of expenditures, while other additions are funded by transfers from unrestricted current funds to the plant funds. All such expenditures in excess of \$5,000 having a life of two years or more are capitalized as investment in plant.

INVESTMENT IN POOLED FUNDS

Investments are stated at cost, except those received by gift which are stated at fair market value at date of receipt. Endowment investments of the University are maintained and administered in a common pool. Separate accounts are maintained for each fund, as applicable. Depositories and other financial institutions that held investments for the University have pledged securities of various governmental agencies to secure funds held on deposit.

UNRESTRICTED GIFTS

Except for pledged operating and capital gifts, unrestricted gifts are recognized as revenue when received. Certain operating and capital pledges are recorded as a receivable, along with the corresponding revenue, when such pledges are made.

GRANTS AND CONTRACTS

The University has been awarded grants and contracts for current funds operations for which the funds have not been received nor have expenditures been made for the purpose specified in the grant or contract. These awards have not been reflected in the financial reports, but represent commitments of sponsors to provide funds for specific research and training projects.

UNIVERSITY OF SOUTH ALABAMA
Notes to Financial Report

SCHOLARSHIPS AND FELLOWSHIPS

The University receives funds which are restricted by donors and grantors for assistance to qualified students. When these funds are granted to students, the University records the expenditure for scholarships and fellowships along with the corresponding revenue.

INCOME TAXES

The Internal Revenue Service has determined that the University is a tax-exempt organization; accordingly, no provision for income taxes has been made in the accompanying financial statements.

DEFERRED REVENUES AND EXPENDITURES

Dormitory rentals, student tuition and other fees, together with related expenditures, are deferred and amortized over the applicable academic semester.

EMPLOYEE BENEFITS

Employees of the University are covered by two pension plans, a defined contribution pension plan and a pension plan administered by the Teachers' Retirement System of the State of Alabama (the Retirement Plan).

The defined contribution pension plan covers certain academic and administrative employees and contributions under this plan are funded as accrued.

Permanent employees of the University participate in the Teachers' Retirement System of Alabama. The Retirement Plan is fully funded by the State and by contributions from participating employees. The University contributes 11.75% of each employee's gross earnings to the Retirement Plan and is reflected in current funds expenditures. All covered employees must contribute 5% of their gross earnings to the Retirement Plan. Benefits fully vest after 10 years of full-time, permanent employment.

LIABILITY INSURANCE

The University and certain of its affiliates participate in professional and general liability trust funds. These trust funds are irrevocable and use contributions by the University and its affiliates, together with earnings thereon, to pay liabilities arising from the performance of its employees. Contributions to the trusts are recorded as expenditures upon payment and are determined by independent actuaries. If the trust funds are ever terminated, appropriate provision for payment of reported claims will be made and any remaining balance will be distributed to the University and its affiliates in proportion to contributions made.

UNIVERSITY OF SOUTH ALABAMA
Notes to Financial Report

BONDS PAYABLE

Bonds payable consist of the following:

- University Tuition Revenue Refunding and Capital Improvements Bonds, Series 1996, 3.80% to 5.00%, payable through November 2015 (refunded in January 2007)
- University Tuition Revenue Bonds, Series 1999, 3.70% to 5.25%, payable through November 2018.
- University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, 2.00% to 5.00%, payable through March 2024.
- University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, 5.00% payable through June 2037.
- University Facilities Revenue Capital Improvement Bonds, Series 2008, 3.00% to 5.00%, payable through August 2038.

LITIGATION

Various other claims have been filed against the University alleging discriminatory employment practices and other matters. University administration and legal counsel are of the opinion that the resolution of these matters will not have a material effect on the financial position or results of operations of the University.

MEDICAID DISPROPORTIONATE SHARE PAYMENTS

Hospitals revenues include funds received from the Alabama Medicaid Agency for services provided to a disproportionately high number of low income patients.

SUPPLEMENTAL SCHEDULES

SUMMARY SCHEDULE OF AUXILIARY ENTERPRISES
REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2008
WITH COMPARATIVE FIGURES FOR 2007

	REVENUES	EXPENDITURES	TRANSFERS	OPERATING RESULTS 09/30/08	FUND BALANCE TRANSFERS	EXCESS REVENUES OVER EXPENDITURES AND OTHER CHANGES (DEFICIT) 09/30/08	09/30/07
BOOKSTORE	\$ 9,342,141.03	\$ 8,636,207.37	\$ (250,000.00)	\$ 455,933.66	\$ 0.00	\$ 455,933.66	\$ 301,116.37
BROOKLEY CENTER	2,172,863.43	2,762,479.36	(68,569.60)	(658,185.53)	2,881,420.88	2,223,235.35	(616,524.95)
FOOD SERVICES-CAMPUS	199,287.01	141,136.82	(45,000.00)	13,150.19	0.00	13,150.19	15,771.76
HOUSING	5,669,459.32	4,565,093.69	(1,121,834.27)	(17,468.64)	(543,493.25)	(560,961.89)	406,948.52
TOTAL	\$ 17,383,750.79	\$ 16,104,917.24	\$ (1,485,403.87)	\$ (206,570.32)	\$ 2,337,927.63	\$ 2,131,357.31	\$ 107,311.70

BOOKSTORE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2008
WITH COMPARATIVE FIGURES FOR 2007

	CAMPUS		HEALTH SCIENCES		TOTAL	TOTAL
	09/30/08	09/30/07	09/30/08	09/30/07	09/30/08	09/30/07
REVENUES:						
SALES	\$ 8,007,849.16	\$ 7,388,838.06	\$ 1,243,661.78	\$ 1,310,361.72	\$ 9,251,510.94	\$ 8,699,199.78
LESS: DEPARTMENTAL DISCOUNTS	5,726.22	4,699.17	4,764.56	4,003.83	10,490.78	8,703.00
COST OF GOODS SOLD	5,888,196.26	5,529,964.79	920,992.40	1,046,133.63	6,809,188.66	6,576,098.42
GROSS PROFIT	2,113,926.68	1,854,174.10	317,904.82	260,224.26	2,431,831.50	2,114,398.36
CASH OVER/(SHORT)	(447.74)	30.14	(1,132.87)	216.58	(1,580.61)	246.72
GRADUATION (NET)	42,548.99	32,683.84	0.00	0.00	42,548.99	32,683.84
BAD DEBT RECOVERY	0.00	0.00	0.00	0.00	0.00	0.00
OTHER	28,431.58	22,499.86	21,230.13	18,415.03	49,661.71	40,914.89
NET REVENUES:	<u>2,184,459.51</u>	<u>1,909,387.94</u>	<u>338,002.08</u>	<u>278,855.87</u>	<u>2,522,461.59</u>	<u>2,188,243.81</u>
EXPENDITURES:						
SALARIES	661,680.86	618,405.38	80,821.41	71,303.14	742,502.27	689,708.52
EMPLOYEE BENEFITS	214,524.17	184,110.29	27,778.84	21,244.55	242,303.01	205,354.84
SUPPLIES	28,504.50	21,765.36	5,215.78	3,133.86	33,720.28	24,899.22
TRAVEL	12,548.45	12,456.29	55.57	540.96	12,604.02	12,997.25
EQUIPMENT	8,989.38	5,691.47	169.16	0.00	9,158.54	5,691.47
EQUIPMENT MAINTENANCE AND REPAIR	23,548.02	26,409.48	10.00	0.00	23,558.02	26,409.48
BUILDING & EQUIPMENT RENTAL	4,619.17	3,862.44	241.96	854.16	4,861.13	4,716.60
UTILITIES	75,000.00	75,000.00	0.00	0.00	75,000.00	75,000.00
TELEPHONE	4,694.32	4,863.14	7,269.25	6,894.22	11,963.57	11,757.36
INSURANCE AND BONDS	4,362.00	4,023.00	0.00	0.00	4,362.00	4,023.00
CONTRACT SERVICES	133,667.67	123,699.72	25,582.33	29,438.48	159,250.00	153,138.20
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
RENT	0.00	0.00	19,980.00	19,980.00	19,980.00	19,980.00
OBsolete INVENTORY	702.74	10.96	0.00	0.00	702.74	10.96
GENERAL EXPENSES	48,399.96	46,567.57	8,923.52	5,890.29	57,323.48	52,457.86
CHARGE CARD AND FACULTY						
STAFF DISCOUNTS	105,064.66	135,304.87	10,050.29	8,616.81	115,114.95	143,921.68
INSTITUTIONAL COST ALLOCATION	260,196.96	243,144.00	43,926.96	43,917.00	304,123.92	287,061.00
TOTAL EXPENDITURES	<u>1,586,502.86</u>	<u>1,505,313.97</u>	<u>230,025.07</u>	<u>211,813.47</u>	<u>1,816,527.93</u>	<u>1,717,127.44</u>
TRANSFERS AMONG FUNDS-						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:						
OTHER TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
RENEWAL AND REPLACEMENT	(250,000.00)	(170,000.00)	0.00	0.00	(250,000.00)	(170,000.00)
RETIREMENT REIMBURSEMENT	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	<u>(250,000.00)</u>	<u>(170,000.00)</u>	<u>0.00</u>	<u>0.00</u>	<u>(250,000.00)</u>	<u>(170,000.00)</u>
EXCESS REVENUES OVER EXPENDITURES	\$ 347,956.65	\$ 234,073.97	\$ 107,977.01	\$ 67,042.40	\$ 455,933.66	\$ 301,116.37
AND MANDATORY TRANSFERS						

BROOKLEY CENTER
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2008
WITH COMPARATIVE FIGURES FOR 2007

	ADMINISTRATION	INVESTMENT HOUSING	GOLF SHOP	RECREATION CENTER	FOOD SERVICE	TOTAL AUXILIARY SERVICES
REVENUES:						
SALES-FOOD & MERCHANDISE	\$ 0.00	0.00	\$ 39,754.78	0.00	0.00	\$ 39,754.78
LESS: COST OF GOODS SOLD	0.00	0.00	31,219.67	0.00	0.00	31,219.67
DISCOUNTS	0.00	0.00	4,135.31	0.00	0.00	4,135.31
GROSS PROFIT	0.00	0.00	4,399.80	0.00	0.00	4,399.80
FEES	274.00	0.00	394,070.91	0.00	48,096.16	442,167.07
RENTALS	27,966.00	691,981.20	0.00	0.00	0.00	691,981.20
OTHER	2,627.51	2,016.17	478.04	0.00	0.00	2,484.21
FACILITY ASSESSMENT FEE	50,004.00	0.00	0.00	0.00	0.00	0.00
NET REVENUES	80,901.51	693,997.37	398,948.75	0.00	48,096.16	1,141,042.28
EXPENDITURES:						
OPERATING EXPENDITURES:						
SALARIES	709,000.66	83,631.24	220,483.08	0.00	0.00	304,114.32
EMPLOYEE BENEFITS	250,892.35	30,044.43	71,184.14	0.00	0.00	101,228.57
SUPPLIES	65,521.30	500.52	73,677.04	0.00	0.00	74,177.56
TRAVEL	3,492.32	0.00	462.42	0.00	0.00	462.42
CONTRACT SERVICE	158,830.86	38,765.81	53,073.42	0.00	1,920.00	93,759.23
BUILDING MAINTENANCE & REPAIR	11,623.07	43,412.71	2,216.56	0.00	3,199.77	48,829.04
UTILITIES	19,467.00	27,864.62	41,517.36	0.00	86.54	69,468.52
EQUIPMENT MAINTENANCE & REPAIR	142,744.36	81,046.45	33,747.11	0.00	54,348.79	189,142.35
BUILDING & EQUIPMENT RENTAL	3,089.85	47,703.52	47,703.52	0.00	7,132.83	57,917.52
TELEPHONE	2,775.33	3,081.17	28,290.25	0.00	2,346.24	30,638.49
INSURANCE AND BONDS	16,345.18	76.40	1,204.56	0.00	6.72	1,287.86
RECEPTIONS	51,650.00	0.00	732.00	0.00	2,115.00	2,847.00
ADVERTISING	1,507.10	205.00	260.00	0.00	0.00	465.00
BAD DEBT EXPENSE	2,829.95	980.36	6,429.77	0.00	186.68	7,596.81
GENERAL EXPENSES	0.00	0.00	0.00	0.00	0.00	0.00
EXPENSE OFFSET	82,284.26	1,672.52	22,333.97	0.00	6,623.61	32,630.10
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
OPERATING COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OPERATING EXPENDITURES	(1,514,379.93)	424,026.38	0.00	15,143.80	60,575.20	499,745.38
EXCESS REVENUES OVER EXPENDITURES	5,673.66	735,307.61	603,315.20	15,143.80	140,541.36	1,494,307.99
OTHER EXPENDITURES:	75,227.85	(41,310.24)	(204,366.45)	(15,143.80)	(92,445.22)	(353,265.71)
EQUIPMENT						
OTHER COST ALLOCATIONS	3,995.85	1,818.99	1,975.00	0.00	0.00	3,793.99
TOTAL OTHER EXPENDITURES	0.00	0.00	0.00	0.00	0.00	0.00
TRANSFERS AMONG FUNDS -	3,995.85	1,818.99	1,975.00	0.00	0.00	3,793.99
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	(71,232.00)	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:						
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	2,662.40	0.00	0.00	2,662.40
TOTAL TRANSFERS	(71,232.00)	0.00	2,662.40	0.00	0.00	2,662.40
EXCESS REVENUES OVER EXPENDITURES (DEFICIT)	\$ 0.00	\$ (43,129.23)	\$ (203,679.05)	\$ (15,143.80)	\$ (92,445.22)	\$ (354,397.30)

BROOKLEY CENTER
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2008
WITH COMPARATIVE FIGURES FOR 2007

	CONTINUING EDUCATION	EDUCATIONAL LEASING	UNIVERSITY SERVICE	TOTAL EDUCATIONAL SERVICES	BROOKLEY CENTER TOTAL 09/30/08	BROOKLEY CENTER TOTAL 09/30/07
REVENUES:						
SALES-FOOD & MERCHANDISE	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 39,754.78	\$ 43,868.71
LESS: COST OF GOODS SOLD	303.42	0.00	0.00	303.42	31,523.09	(4,536.54)
DISCOUNTS	4,536.05	0.00	0.00	4,536.05	8,671.36	9,213.23
GROSS PROFIT	(4,839.47)	0.00	0.00	(4,839.47)	(439.67)	39,192.02
FEES	402,494.72	495,136.44	0.00	897,631.16	1,340,072.23	1,225,862.31
RENTALS	13,200.00	418.00	0.00	13,618.00	733,595.20	758,081.25
OTHER	4,315.50	0.00	0.00	4,315.50	9,437.22	10,735.31
FACILITY ASSESSMENT FEE	0.00	0.00	0.00	0.00	50,004.00	0.00
NET REVENUES	415,170.75	495,554.44	0.00	910,725.19	2,132,868.98	2,033,870.89
EXPENDITURES:						
OPERATING EXPENDITURES:						
SALARIES	0.00	0.00	0.00	0.00	1,013,114.98	986,606.08
EMPLOYEE BENEFITS	0.00	0.00	0.00	0.00	352,120.92	322,478.41
SUPPLIES	18,854.49	6,604.46	0.00	25,458.95	165,157.81	124,166.41
TRAVEL	0.00	0.00	0.00	0.00	3,954.74	4,005.72
CONTRACT SERVICE	12,401.30	3,657.52	0.00	16,058.82	266,648.91	256,622.94
BUILDING MAINTENANCE & REPAIR	28,033.90	5,602.88	0.00	33,636.78	94,088.89	81,293.79
GROUND MAINTENANCE	144.81	682.32	0.00	827.13	89,762.65	93,101.23
UTILITIES	135,153.06	102,865.85	0.00	238,018.91	549,905.62	530,859.38
EQUIPMENT MAINTENANCE & REPAIR	8,616.78	6,491.49	0.00	15,108.27	76,115.64	67,812.25
BUILDING & EQUIPMENT RENTAL	0.00	0.00	0.00	0.00	33,411.82	31,860.03
TELEPHONE	0.32	0.00	0.00	0.32	17,633.18	19,662.02
INSURANCE AND BONDS	7,680.00	0.00	0.00	7,680.00	62,177.00	56,816.00
RECEPTIONS	495.00	0.00	0.00	495.00	2,467.10	900.00
ADVERTISING	22,877.44	0.00	0.00	22,877.44	33,304.20	28,763.27
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	48,275.85	28,695.49	0.00	76,971.34	191,885.70	180,027.48
EXPENSE OFFSET	(34,050.00)	0.00	0.00	(34,050.00)	(34,050.00)	(34,038.00)
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	(219,866.04)	(219,866.04)	(219,866.04)	(194,490.00)
OPERATING COST ALLOCATIONS	302,875.99	257,444.59	454,313.97	1,014,634.55	0.00	0.00
TOTAL OPERATING EXPENDITURES	551,358.94	412,044.60	234,447.93	1,197,851.47	2,697,833.12	2,566,467.01
EXCESS REVENUES OVER EXPENDITURES	(136,188.19)	83,509.84	(234,447.93)	(287,128.28)	(565,164.14)	(532,596.12)
OTHER EXPENDITURES:						
EQUIPMENT	12,887.96	3,773.99	0.00	16,661.95	24,451.79	14,834.70
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	12,887.96	3,773.99	0.00	16,661.95	24,451.79	14,834.70
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	(71,232.00)	(71,232.00)
NON-MANDATORY:						
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	2,662.40	2,137.87
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	(68,569.60)	(69,094.13)
EXCESS REVENUES OVER						
EXPENDITURES (DEFICIT)	\$ (149,076.15)	\$ 79,735.85	\$ (234,447.93)	\$ (303,768.23)	\$ (658,165.53)	\$ (616,524.95)

FOOD SERVICE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2008
WITH COMPARATIVE FIGURES FOR 2007

	09/30/08	09/30/07
REVENUES:		
COMMISSION INCOME	\$ 199,287.01	\$ 159,971.88
TOTAL REVENUES	<u>199,287.01</u>	<u>159,971.88</u>
EXPENDITURES:		
SALARIES	0.00	0.00
EMPLOYEE BENEFITS	0.00	0.00
SUPPLIES	(3.86)	48.01
EQUIPMENT MAINTENANCE AND REPAIR	26,972.67	35,490.84
UTILITIES	65,000.04	64,992.00
TELEPHONE	179.92	16.64
MEMBERSHIPS AND DUES	600.00	270.00
CONTRACT SERVICES	11,014.96	12,324.60
INSURANCE AND BONDS	11,865.00	10,003.00
EQUIPMENT	243.97	0.00
BUILDING MAINTENANCE AND REPAIR	5,436.81	4,732.00
INDIRECT COST	16,182.00	16,170.00
GENERAL EXPENSE	<u>3,645.31</u>	<u>153.03</u>
TOTAL EXPENDITURES	<u>141,136.82</u>	<u>144,200.12</u>
TRANSFERS AMONG FUNDS-		
ADDITIONS/(DEDUCTIONS):		
NON-MANDATORY:		
OTHER TRANSFERS	<u>(45,000.00)</u>	<u>0.00</u>
TOTAL TRANSFERS	<u>(45,000.00)</u>	
EXCESS REVENUES OVER		
EXPENDITURES AND MANDATORY		
TRANSFERS (DEFICIT)	<u>\$ 13,150.19</u>	<u>\$ 15,771.76</u>

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2008
WITH COMPARATIVE FIGURES FOR 2007

	CENTRAL HOUSING	HOUSING PROGRAMMING	WASHERS AND DRYERS	OLD SHELL ROAD HOUSING	HILLSDALE MARRIED STUDENT	SMALL GROUP HOUSING
REVENUES:						
RENTAL INCOME	\$ 0.00	\$ 0.00	\$ 132,200.00	\$ 0.00	\$ 500,381.27	\$ 366,267.87
BAD DEBT RECOVERY	6,436.84	0.00	0.00	0.00	2,521.70	0.00
OTHER	335.40	0.00	0.00	0.00	22,338.88	70,002.80
TOTAL REVENUES	6,772.24	0.00	132,200.00	0.00	525,241.85	436,270.67
EXPENDITURES:						
SALARIES	383,854.74	96,059.58	0.00	0.00	299,313.54	79,460.08
EMPLOYEE BENEFITS	116,215.23	470.98	0.00	0.00	108,497.01	15,972.32
CONTRACT LABOR	0.00	0.00	0.00	0.00	808.00	1,423.47
CONTRACT SERVICES	1,722.50	0.00	49,606.00	0.00	19,957.71	25,100.59
TRAVEL	4,407.58	783.38	0.00	0.00	0.00	0.00
RECEPTIONS	(95.15)	31,462.34	0.00	0.00	0.00	0.00
SUPPLIES	18,305.77	595.45	0.00	119.07	27,613.74	12,701.81
CABLE	108,556.59	0.00	0.00	0.00	1,434.91	0.00
TELEPHONE	1,525.52	0.00	0.00	0.00	1,991.74	919.01
UTILITIES	0.00	0.00	0.00	0.00	28,232.28	1,414.83
INSURANCE AND BONDS	2,196.00	0.00	0.00	0.00	13,976.00	8,112.00
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	380.32	2,881.00
BUILDING MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	217.87	706.70
EQUIPMENT	609.76	201.42	0.00	0.00	0.00	5,689.94
EQUIPMENT RENTAL	311.38	0.00	0.00	0.00	5,031.35	0.00
EQUIPMENT MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	909.10	0.00
GROUND MAINTENANCE	933.75	0.00	0.00	0.00	0.00	0.00
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	70,680.57	4,375.03	200.00	0.00	16,502.17	2,002.00
ADMINISTRATIVE OVERHEAD	291,999.04	0.00	0.00	0.00	0.00	51,955.04
ADMINISTRATIVE EXPENSES	(994,451.04)	(130,190.45)	41,611.75	0.00	4,498.57	104,591.64
TOTAL EXPENDITURES	6,772.24	3,757.73	91,417.75	119.07	529,364.31	312,930.43
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	(607,032.00)
TOTAL MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	(607,032.00)
NON-MANDATORY:						
RENEWALS AND REPLACEMENTS	0.00	0.00	0.00	0.00	0.00	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	3,757.73	0.00	0.00	0.00	0.00
TOTAL NON-MANDATORY TRANSFERS	0.00	3,757.73	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	0.00	3,757.73	0.00	0.00	0.00	(607,032.00)
EXCESS REVENUES OVER EXPENDITURES						
AND TRANSFERS (DEFICIT)	\$ 0.00	\$ 0.00	\$ 40,782.25	\$ (119.07)	\$ (4,122.46)	\$ (483,691.76)

* Includes \$543,493.25 transfer to Renewals and Replacements for renovations.

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2008
WITH COMPARATIVE FIGURES FOR 2007

	GAMMA DORMS	BETA DORMS	DELTA DORMS	EPSILON DORMS	TOTAL HOUSING 09/30/08	TOTAL HOUSING 09/30/07
REVENUES:						
RENTAL INCOME	\$ 980,253.56	\$ 604,101.28	\$ 2,311,006.39	\$ 602,365.93	\$ 5,496,576.30	\$ 5,851,990.74
BAD DEBT RECOVERY	0.00	0.00	0.00	0.00	8,958.54	5,825.19
OTHER	6,953.30	7,595.38	35,721.87	20,976.85	163,924.48	248,504.09
TOTAL REVENUES	987,206.86	611,696.66	2,346,728.26	623,342.78	5,669,459.32	6,106,320.02
EXPENDITURES:						
SALARIES	180,919.62	48,419.84	238,476.82	168,367.30	1,494,871.52	1,459,281.09
EMPLOYEE BENEFITS	49,682.49	13,472.57	59,167.96	32,312.98	395,791.54	366,381.03
CONTRACT LABOR	150.00	357.00	70,436.08	357.00	73,531.55	50,817.51
CONTRACT SERVICES	28,679.73	16,237.78	88,308.79	66,553.32	296,166.42	252,350.96
TRAVEL	0.00	0.00	0.00	0.00	5,190.96	5,564.13
RECEPTIONS	0.00	443.75	0.00	0.00	31,810.94	24,131.54
SUPPLIES	12,217.94	9,083.37	73,455.98	26,299.46	180,392.59	197,919.76
CABLE	0.00	0.00	0.00	0.00	109,991.50	124,582.97
TELEPHONE	34,435.58	15,176.84	86,061.96	16,870.81	166,981.46	169,310.22
UTILITIES	0.00	0.00	0.00	0.00	29,647.11	33,315.58
INSURANCE AND BONDS	13,585.00	6,945.00	20,492.00	6,097.00	71,403.00	70,030.00
BAD DEBT EXPENSE	1,702.19	25.00	5,809.35	140.00	10,937.86	17,649.75
BUILDING MAINTENANCE AND REPAIR	7,413.50	4,504.88	437.50	175.00	13,455.45	11,318.49
EQUIPMENT	198.16	0.00	(77,858.00)	5,390.00	(65,768.72)	46,458.90
EQUIPMENT RENTAL	0.00	0.00	428.65	0.00	5,771.38	7,035.89
EQUIPMENT MAINTENANCE AND REPAIR	0.00	0.00	270.69	0.00	1,179.79	11,990.52
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	933.75	595.36
GENERAL EXPENSES	54,999.54	34,068.08	224,818.44	(1,240.40)	406,405.43	1,337.95
ADMINISTRATIVE OVERHEAD	295,482.00	139,605.04	425,267.04	142,092.00	1,346,400.16	423,474.85
ADMINISTRATIVE EXPENSES	215,931.16	122,585.92	476,847.99	158,574.46	0.00	1,299,332.00
TOTAL EXPENDITURES	895,396.91	410,925.07	1,692,421.25	621,988.93	4,565,093.69	4,572,878.50
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	(63,976.00)	(45,760.00)	(266,160.00)	(142,664.00)	(1,125,592.00)	(1,126,648.00)
TOTAL MANDATORY TRANSFERS	(63,976.00)	(45,760.00)	(266,160.00)	(142,664.00)	(1,125,592.00)	(1,126,648.00)
NON-MANDATORY:						
RENEWALS AND REPLACEMENTS	(259,698.25)	0.00	(283,795.00)	0.00	(543,493.25)	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	3,757.73	155.00
TOTAL NON-MANDATORY TRANSFERS	(259,698.25)	0.00	(283,795.00)	0.00	(539,735.52)	155.00
TOTAL TRANSFERS	(323,674.25)	(45,760.00)	(549,955.00)	(142,664.00)	(1,665,327.52)	(1,126,493.00)
EXCESS REVENUES OVER EXPENDITURES	\$ (231,864.30)	\$ 155,011.59	\$ 104,352.01	\$ (141,310.15)	\$ (560,961.89)	\$ 406,948.52
AND TRANSFERS (DEFICIT)						



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

Basic Financial Statements and Supplementary Information
on Federal Awards Programs

September 30, 2008

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

Basic Financial Statements
September 30, 2008 and 2007

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

Management's Discussion and Analysis (Unaudited)

September 30, 2008 and 2007

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, 2008 and 2007 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 number 1 to the basic financial statements, the University of South Alabama Professional Liability Trust Fund and the University of South Alabama General Liability Trust Fund 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, 2008, 2007, and 2006, the University had total assets of \$862,666,000, \$707,687,000, and \$545,649,000, respectively; total liabilities of \$454,339,000, \$323,171,000, and \$234,291,000, respectively; and net assets of \$408,327,000, \$384,516,000, and \$311,358,000, respectively. University net assets increased \$23,811,000 during the year ended September 30, 2008 compared to increases of \$73,158,000 and \$55,402,000 in the years ended September 30, 2007 and 2006, respectively.

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, 2008 and 2007. 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, 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, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

Assets included in the statement of net assets are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments, and patient accounts receivable. Of these amounts, cash and cash equivalents, investments, and patient accounts receivable comprise approximately 12%, 65%, and 9%, respectively, of current assets at September 30, 2008. Noncurrent assets at September 30, 2008 consist primarily of capital assets and restricted investments.

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2008 and 2007

The Condensed Schedule of Net Assets at September 30, 2008, 2007, and 2006 follows (in thousands):

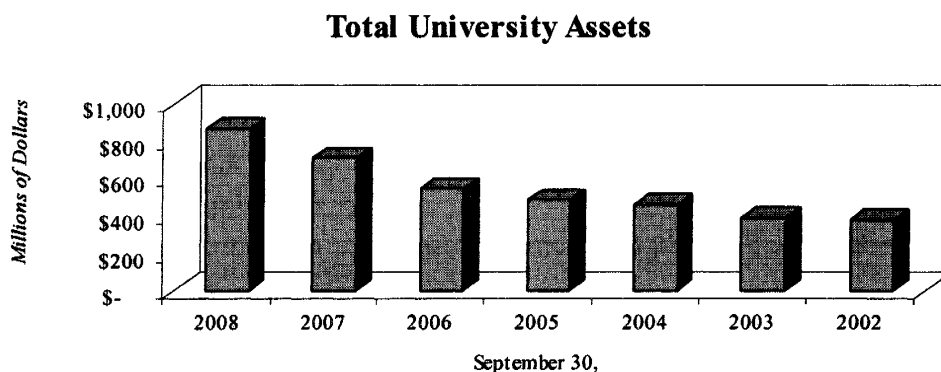
Condensed Schedule of Net Assets			
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Current	\$ 287,430	271,983	223,412
Capital assets	353,829	286,890	247,875
Other noncurrent	221,407	148,814	74,362
Total assets	<u>\$ 862,666</u>	<u>707,687</u>	<u>545,649</u>
Liabilities:			
Current	\$ 90,773	80,389	71,071
Noncurrent	363,566	242,782	163,220
Total liabilities	<u>\$ 454,339</u>	<u>323,171</u>	<u>234,291</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 186,986	163,688	137,642
Restricted, nonexpendable	24,165	16,828	12,612
Restricted, expendable	23,071	35,955	25,966
Unrestricted	174,105	168,045	135,138
Total net assets	<u>\$ 408,327</u>	<u>384,516</u>	<u>311,358</u>

University cash, cash equivalents, and investments (current and noncurrent) increased between September 30, 2008 and 2007 by \$88,101,000 to \$423,748,000. This increase is due primarily to the issuance of additional bonded indebtedness during 2008. This follows a significant increase between 2006 and 2007, which resulted from cash generated by increases in state appropriations, the issuance of additional bonded indebtedness, investment income and gifts to the University.

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2008 and 2007

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



Noncurrent liabilities consist primarily of bonded indebtedness and notes payable. Long-term debt (including the current portion of long-term debt) increased from \$199,799,000 to \$316,326,000 between September 30, 2007 and 2008 primarily as a result of the issuance of additional bonded indebtedness and the sale of two swaptions by the University.

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.

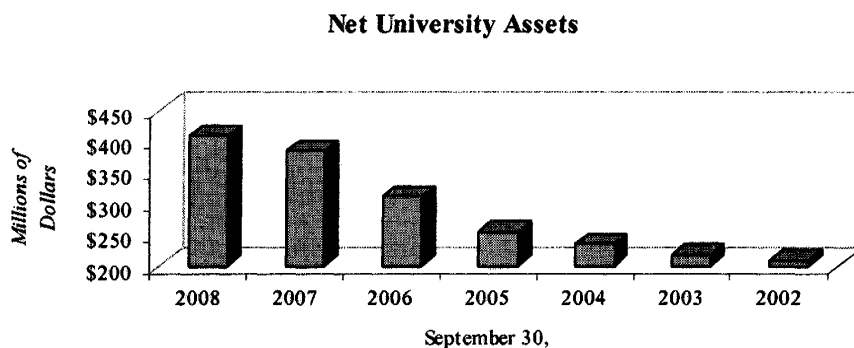
Restricted expendable net assets are subject to externally imposed restrictions governing their use. The funds are restricted primarily for debt service, capital projects, student loans, and scholarship purposes.

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.

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2008 and 2007

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



Net assets invested in capital assets, net of related debt, increased approximately \$23,298,000 from September 30, 2007 to 2008. This increase was due primarily to increases in construction activity (net of bond funds used for construction) and other capital asset additions. Restricted expendable net assets decreased to \$23,071,000 at September 30, 2008 primarily due to the expenditure of funds restricted for use by the Mitchell Cancer Institute. Unrestricted net assets increased from \$168,045,000 to \$174,105,000 between 2007 and 2008.

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 education 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.

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2008 and 2007

The Condensed Schedule of Revenues, Expenses, and Changes in Net Assets for the years ended September 30, 2008, 2007, and 2006 follows (in thousands):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues:			
Tuition and fees	\$ 54,823	49,579	47,236
Net patient service revenue	201,603	205,337	201,373
Federal, state and private grants and contracts	77,245	74,874	78,217
Other	47,660	45,803	47,533
	<u>381,331</u>	<u>375,593</u>	<u>374,359</u>
Operating expenses:			
Salaries and benefits	370,749	333,688	317,626
Supplies and other services	123,782	111,297	109,653
Other	39,565	35,977	35,336
	<u>534,096</u>	<u>480,962</u>	<u>462,615</u>
Operating loss	<u>(152,765)</u>	<u>(105,369)</u>	<u>(88,256)</u>
Nonoperating revenues (expenses):			
State appropriations	139,737	120,388	101,203
Investment income (loss)	(4,257)	19,534	9,418
Other, net	12,332	14,855	23,250
Net nonoperating revenues	<u>147,812</u>	<u>154,777</u>	<u>133,871</u>
Income (loss) before capital contributions and additions to endowment	(4,953)	49,408	45,615
Capital contributions and additions to endowment	<u>28,764</u>	<u>23,750</u>	<u>9,787</u>
Increase in net assets	23,811	73,158	55,402
Beginning net assets	<u>384,516</u>	<u>311,358</u>	<u>255,956</u>
Ending net assets	<u>\$ 408,327</u>	<u>384,516</u>	<u>311,358</u>

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

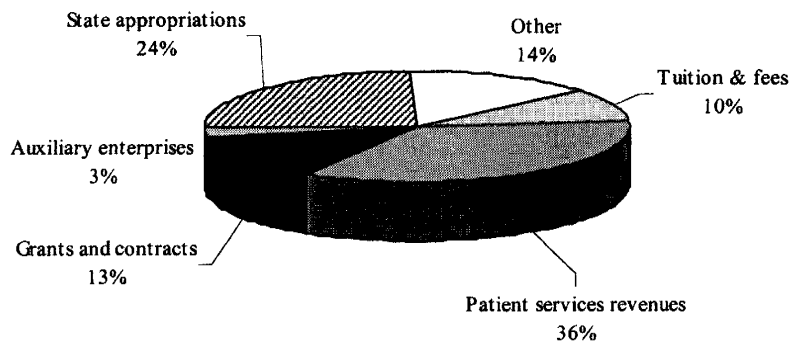
Management's Discussion and Analysis (Unaudited)

September 30, 2008 and 2007

In 2008, 2007, and 2006, approximately 36%, 38%, and 38%, 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 24% of total revenues in fiscal 2008. Also in 2008 tuition and fees charged to students and grants and contracts (federal, state and private) represented approximately 10% and 13% of total revenues, respectively.

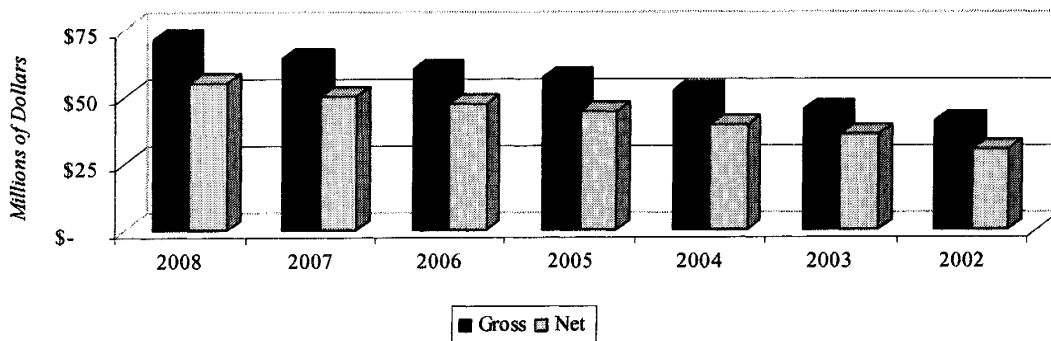
A summary of University revenues for the year ended September 30, 2008 is presented below:

Total Revenues



Tuition and fees have increased in each of the last six years. These increases are due to increases in tuition and fee rates charged to students as well as to an increase in the number of students enrolled. Additionally, tuition and fees as a percent of total operating revenue continue to increase, from 9.5% of operating revenues in 2002 to 14% in 2008. Tuition and fees, gross and net of scholarship allowances, for the past seven fiscal years are as follows:

Tuition and Fee Revenues

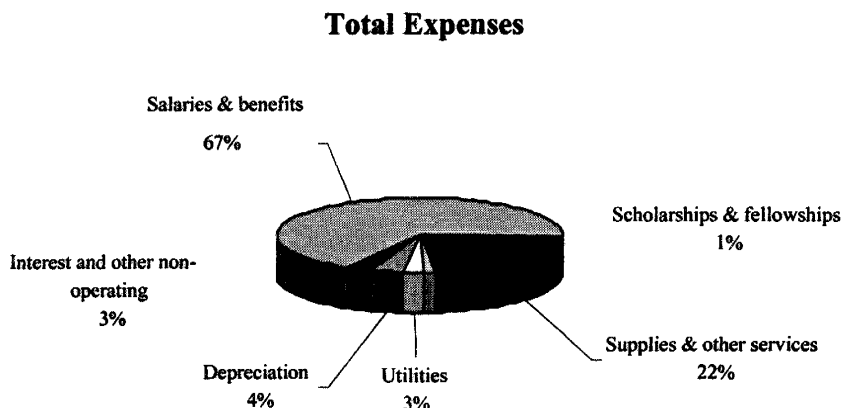


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UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2008 and 2007

Further, additions to endowment increased from \$3,843,000 in 2007 to \$9,496,000 in 2008 primarily due to increased gifts as a result of the University's comprehensive fund raising campaign. As a result of significant fluctuations in financial markets conditions, net investment income (loss) increased from \$9,418,000 in 2006 to \$19,534,000 in 2007. In 2008, net investment income (loss) decreased by approximately \$23,791,000 to a net 2008 loss of \$4,257,000. Included in this amount are unrealized market losses of \$13,771,000 in 2008.

University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2008 is presented below.



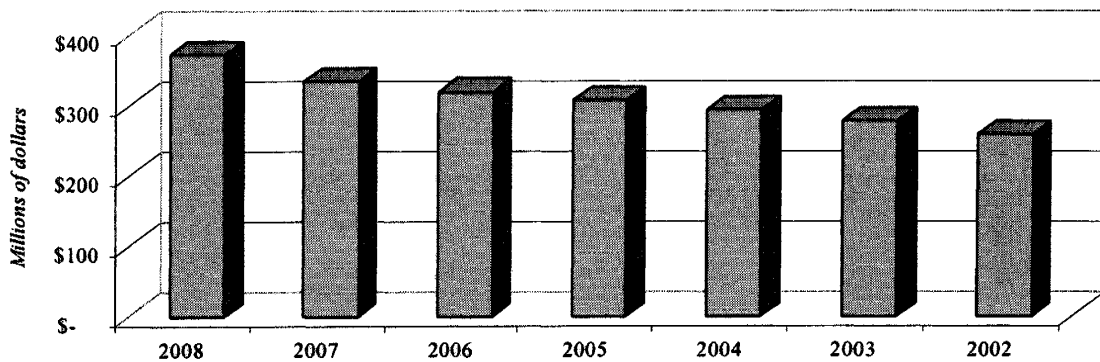
While the University reports its expenses on a natural expense classification basis, functional classifications represent expenses categorized based on the function within the University. Such University functions include instruction, research, public service, academic support, student services, institutional 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 16 to the basic financial statements.

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2008 and 2007

In 2008, 2007, and 2006, approximately 69% of the University's total operating expenses were salaries and benefits. Salaries and benefits have steadily increased over the last five years, resulting primarily from increases in salary rates to faculty and staff, as shown as follows:

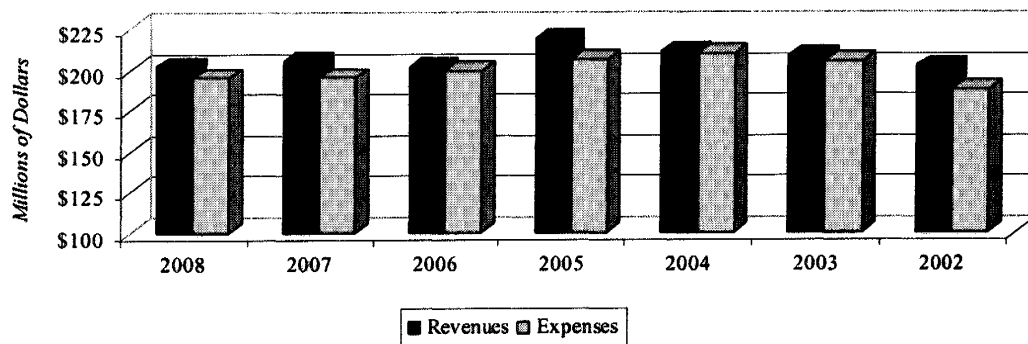
Total Salaries and Benefits Expense



For the years ended September 30, 2008, 2007, and 2006, the University reported an operating loss of approximately \$152,765,000, \$105,369,000, and \$88,256,000, respectively. Net operating losses are offset by state appropriations, which are reported as nonoperating revenue. After adding state appropriations and other nonoperating revenues and expenses, (primarily capital contributions and additions to endowment) the total increase in net assets was approximately \$23,811,000, \$73,158,000, and \$55,402,000, for the years ended September 30, 2008, 2007, and 2006, respectively.

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

Hospital Operating Revenues and Expenses



(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2008 and 2007

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 \$87,000,000 in 2008. Significant capital asset additions in fiscal 2008 include the Nursing and Allied Health Building, the Mitchell Cancer Institute and numerous ongoing construction projects at the University and Hospitals. Significant projects in fiscal 2006 and 2007 included Building II in the USA Technology and Research Park, JagTran (the campus shuttle system), Meisler Hall and ongoing projects. In 2007, Buildings II and III in the USA Technology and Research Park were sold to the USA Research and Technology Corporation. The proceeds from this sale were approximately \$11,986,000. At September 30, 2008, the University has outstanding commitments of approximately \$68,372,000 for various capital projects.

During 2007, the University sold the Health Services Building to the USA Research and Technology Corporation and also sold 100 lots in the Hillsdale area of campus to a third party. The University recognized a gain on the disposal of these assets of approximately \$3,739,000.

In September 2008, the University issued the University Facilities Revenue and Capital Improvement Bonds, Series 2008, with a face value of \$112,885,000. The net proceeds of these bonds, issued at a premium of approximately \$132,000, will be used to fund an expansion of the USA Children's and Women's Hospital as well as other construction and capital improvements at the University.

In January 2007, the University issued the University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, with a face value of \$100,000,000. The proceeds of these bonds, issued at a premium of approximately \$6,780,000, were used to refund the University Tuition Revenue Refunding Bonds, Series 1996 and will be used to fund construction and other capital improvements at the University.

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.

During the year ended September 30, 2008, the University's bond credit rating was upgraded by Moody's Investors Services from A2 to A1. This represents the first upgrade of the University's bond credit rating since 2004. The University also received a rating of A+ from Standard and Poor's Rating Services.

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

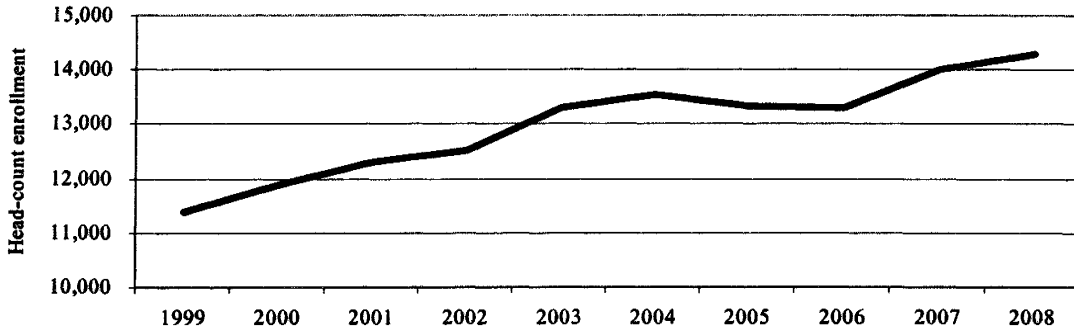
Management's Discussion and Analysis (Unaudited)

September 30, 2008 and 2007

Economic Outlook

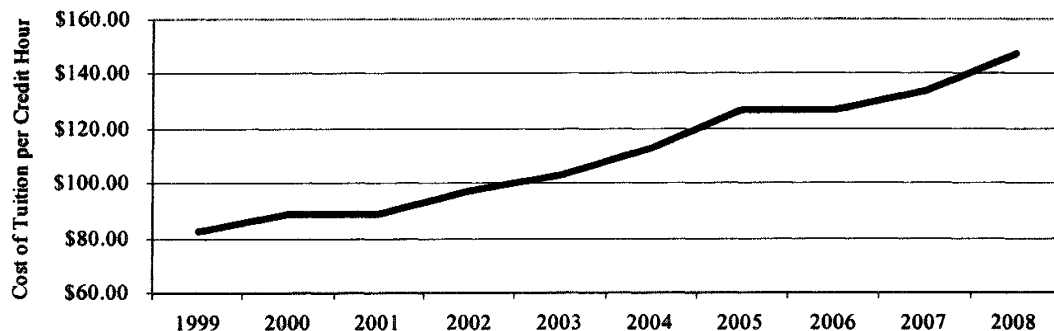
Student enrollment and tuition have both increased significantly over the past ten years. The University has experienced an increase in enrollment of approximately 25%, or 2,900 students, between 1999 and 2008, from 11,385 in 1999 to 14,279 for the 2008 fall semester. The enrollment trend for the University between 1999 and 2008 is as follows:

Enrollment - Ten Year Summary



In that same time period, in-state tuition per credit hour has increased by approximately 78%. Similar increases have been experienced in out-of-state tuition, College of Medicine tuition, fees and housing fees. The trend of in-state tuition per credit hour between 1999 and 2008 is as follows:

Tuition per Credit Hour



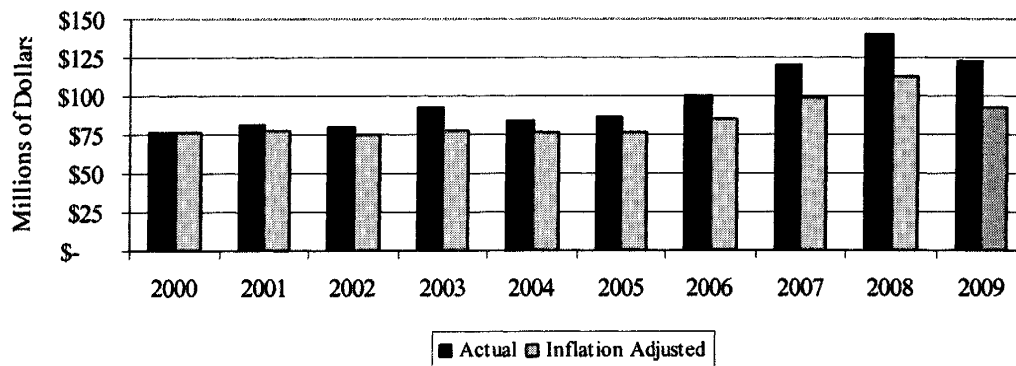
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UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2008 and 2007

While enrollment and tuition have both increased in recent years, state appropriations have historically been relatively flat. However, in the 2008, 2007 and 2006 fiscal years, the University experienced increases of 16.1%, 19.0% and 17.2%, respectively, or approximately \$19,349,000, \$19,185,000 and \$14,581,000, respectively, in state appropriations. These increases are unusually high and are not expected to continue. For the 2009 fiscal year, the University's appropriation decreased 12.8% or approximately \$17,882,000. Additionally, the University is aware that additional reductions in its 2009 appropriation are possible, as well as projected additional decreases in the 2010 fiscal year.

The ten year history of State Appropriations for the University is as follows:

State Appropriations - Ten Year History



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. Recent declines in financial markets have had a significant impact on the value of the University's endowment. 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.

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 2009 beyond those unknown variables having a global effect on virtually all types of business operations.



KPMG LLP
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Jackson, MS 39201

Independent Auditors' Report on Basic Financial Statements and Schedule of Expenditures of Federal Awards

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, 2008 and 2007, 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 2008 and 2007 consolidated financial statements of the University of South Alabama Foundation, which represents 82%, 100% and (14)%, respectively, of the 2008 assets, net assets and revenues, gains and other support of the aggregate discretely presented component units and 84%, 99% and 37%, respectively, of the 2007 assets, net assets and revenues, gains and other support of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based on the report of the other auditors.

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, 2008 and 2007, 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, 2008 and 2007, 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 14, 2008, 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.

The management's discussion and analysis on pages 1 through 11 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2008 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the 2008 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2008 basic financial statements taken as a whole.

KPMG LLP

November 14, 2008

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

Statements of Net Assets

September 30, 2008 and 2007

(In thousands)

	<u>2008</u>	<u>2007</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 34,914	51,864
Investments	187,947	153,292
Net patient accounts receivable, (net of allowance for doubtful accounts of \$45,650 and \$42,447)	26,018	30,950
Accounts receivable, affiliates	15,329	11,521
Accounts receivable, other	14,485	17,577
Notes receivable, net	837	787
Prepaid expenses, inventories, and other	7,900	5,992
Total current assets	<u>287,430</u>	<u>271,983</u>
Noncurrent assets:		
Restricted cash and cash equivalents	95,893	5,820
Restricted investments	103,889	123,050
Investments	1,105	1,621
Accounts receivable	7,237	7,235
Notes receivable, net	4,887	5,623
Other noncurrent assets	8,396	5,465
Capital assets, net	353,829	286,890
Total noncurrent assets	<u>575,236</u>	<u>435,704</u>
Total assets	<u>862,666</u>	<u>707,687</u>
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	58,588	49,606
Deferred revenue	26,228	24,744
Deposits	990	668
Current portion of long-term debt	4,967	5,371
Total current liabilities	<u>90,773</u>	<u>80,389</u>
Noncurrent liabilities:		
Long-term debt, less current portion	311,359	194,428
Other long-term liabilities	52,207	48,354
Total noncurrent liabilities	<u>363,566</u>	<u>242,782</u>
Total liabilities	<u>454,339</u>	<u>323,171</u>
Net assets:		
Invested in capital assets, net of related debt	186,986	163,688
Restricted, nonexpendable:		
Scholarships	10,741	7,172
Other	13,424	9,656
Restricted, expendable:		
Scholarships	4,698	4,541
Other	18,373	31,414
Unrestricted	174,105	168,045
Total net assets	<u>\$ 408,327</u>	<u>384,516</u>

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statements of Financial Position

June 30, 2008 and 2007

(In thousands)

Assets	2008	2007
Cash and cash equivalents	\$ 1,337	1,713
Investments:		
Securities, at fair value	120,133	142,709
Timber and mineral properties	154,462	150,364
Real estate	9,792	18,794
Other	5,500	5,500
Other assets	452	488
Total assets	\$ 291,676	319,568
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 82	20
Other liabilities	646	779
Total liabilities	728	799
Net assets:		
Unrestricted	87,273	88,012
Temporarily restricted	34,739	59,707
Permanently restricted	168,936	171,050
Total net assets	290,948	318,769
Total liabilities and net assets	\$ 291,676	319,568

See accompanying notes to basic financial statements.

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

Statements of Financial Position

September 30, 2008 and 2007

(In thousands)

Assets	2008	2007
Current assets:		
Cash and cash equivalents	\$ 846	690
Patient accounts receivable (net of allowance for uncollectible accounts of approximately \$5,281 and \$5,745)	10,747	10,949
Other current assets	1,269	1,621
Total current assets	12,862	13,260
Interest in assets of University of South Alabama Professional Liability Trust Fund	20,928	19,236
Property and equipment, net	2,604	2,769
Total assets	\$ 36,394	35,265
Liabilities and Net Assets (Deficit)		
Current liabilities:		
Accounts payable	\$ 1,978	2,035
Accrued payroll	—	30
Current portion of notes payable	570	935
Due to affiliates	15,069	11,137
Total current liabilities	17,617	14,137
Notes payable, less current portion	—	570
Estimated professional liability costs	20,928	19,236
Total liabilities	38,545	33,943
Unrestricted net assets (deficit)	(2,151)	1,322
Total liabilities and net assets (deficit)	\$ 36,394	35,265

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statements of Net Assets
September 30, 2008 and 2007
(In thousands)

	<u>2008</u>	<u>2007</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,505	649
Investments	3,265	988
Rent receivable	147	—
Tenant expense reimbursements	14	120
Total current assets	<u>4,931</u>	<u>1,757</u>
Noncurrent assets:		
Intangible assets, net	245	122
Capital assets, net	24,052	22,547
Total noncurrent assets	<u>24,297</u>	<u>22,669</u>
Total assets	<u>29,228</u>	<u>24,426</u>
Liabilities:		
Current liabilities:		
Deposits, other current liabilities, and accrued expenses	556	358
Payable to University of South Alabama	11	—
Deferred rent income	137	23
Current portion of note payable	858	465
Total current liabilities	<u>1,562</u>	<u>846</u>
Noncurrent liabilities:		
Notes payable, excluding current portion	26,173	22,492
Total noncurrent liabilities	<u>26,173</u>	<u>22,492</u>
Total liabilities	<u>27,735</u>	<u>23,338</u>
Net assets (deficit):		
Invested in capital assets, net of related debt	(259)	(459)
Unrestricted	1,752	1,547
Total net assets	<u>\$ 1,493</u>	<u>1,088</u>

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, 2008 and 2007

(In thousands)

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Tuition and fees (net of scholarship allowances of \$16,483 and \$14,401)	\$ 54,823	49,579
Net patient service revenue	201,603	205,337
Federal grants and contracts	22,378	23,088
State grants and contracts	8,238	6,822
Private grants and contracts	46,629	44,964
Auxiliary enterprises (net of scholarship allowances of \$510 and \$432)	16,866	16,633
Other operating revenues	30,794	29,170
Total operating revenues	<u>381,331</u>	<u>375,593</u>
Operating expenses:		
Salaries and benefits	370,749	333,688
Supplies and other services	123,782	111,297
Scholarships and fellowships	4,997	4,295
Utilities	14,400	12,623
Depreciation and amortization	20,168	19,059
Total operating expenses	<u>534,096</u>	<u>480,962</u>
Operating loss	<u>(152,765)</u>	<u>(105,369)</u>
Nonoperating revenues (expenses):		
State appropriations	139,737	120,388
Investment income (loss)	(4,257)	19,534
Interest expense	(8,089)	(7,654)
Other nonoperating revenues	27,018	27,401
Other nonoperating expenses	(6,597)	(4,892)
Net nonoperating revenues	<u>147,812</u>	<u>154,777</u>
Income (loss) before capital contributions and additions to endowment	(4,953)	49,408
Capital contributions and grants	19,268	19,907
Additions to endowment	9,496	3,843
Increase in net assets	23,811	73,158
Net assets:		
Beginning of year	384,516	311,358
End of year	<u>\$ 408,327</u>	<u>384,516</u>

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, 2008
(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Net realized and unrealized gains (losses) on investments	\$ 3,011	(18,258)	(2,528)	(17,775)
Rents, royalties and timber sales	4,536	—	70	4,606
Interest and dividends	1,663	1,586	7	3,256
Gifts	—	7	170	177
Other income	5	24	—	29
Required match of donor contributions	(167)	—	167	—
Interfund interest	(513)	513	—	—
Net assets released from program restrictions	8,840	(8,840)	—	—
Total revenues, gains, and other support	<u>17,375</u>	<u>(24,968)</u>	<u>(2,114)</u>	<u>(9,707)</u>
Expenditures:				
Program services:				
Faculty support	2,521	—	—	2,521
Scholarships	1,016	—	—	1,016
Other	6,262	—	—	6,262
Total program service expenditures	<u>9,799</u>	<u>—</u>	<u>—</u>	<u>9,799</u>
Management and general	2,007	—	—	2,007
Other investment expense	2,900	—	—	2,900
Depreciation and depletion expense	3,408	—	—	3,408
Total expenditures	<u>18,114</u>	<u>—</u>	<u>—</u>	<u>18,114</u>
Decrease in net assets	(739)	(24,968)	(2,114)	(27,821)
Net assets – beginning of year	<u>88,012</u>	<u>59,707</u>	<u>171,050</u>	<u>318,769</u>
Net assets – end of year	<u>\$ 87,273</u>	<u>34,739</u>	<u>168,936</u>	<u>290,948</u>

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, 2007

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues, gains, and other support:				
Net realized and unrealized gains on investments	\$ 16,505	13,642	274	30,421
Rents, royalties and timber sales	5,997	—	74	6,071
Interest and dividends	965	2,263	12	3,240
Gifts	—	—	6,271	6,271
Other income	32	—	—	32
Required match of donor contributions	(1)	—	1	—
Interfund interest	(643)	643	—	—
Net assets released from program restrictions	5,720	(5,720)	—	—
Total revenues, gains, and other support	<u>28,575</u>	<u>10,828</u>	<u>6,632</u>	<u>46,035</u>
Expenditures:				
Program services:				
Faculty support	2,448	—	—	2,448
Scholarships	1,031	—	—	1,031
Other	3,532	—	—	3,532
Total program service expenditures	<u>7,011</u>	<u>—</u>	<u>—</u>	<u>7,011</u>
Management and general	2,278	—	—	2,278
Other investment expense	1,693	—	—	1,693
Depreciation and depletion expense	6,786	—	—	6,786
Total expenditures	<u>17,768</u>	<u>—</u>	<u>—</u>	<u>17,768</u>
Increase in net assets	10,807	10,828	6,632	28,267
Net assets – beginning of year	<u>77,205</u>	<u>48,879</u>	<u>164,418</u>	<u>290,502</u>
Net assets – end of year	<u>\$ 88,012</u>	<u>59,707</u>	<u>171,050</u>	<u>318,769</u>

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 Assets

Years ended September 30, 2008 and 2007

(In thousands)

	<u>2008</u>	<u>2007</u>
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 67,484	66,917
Other revenue	7,857	8,281
Total unrestricted revenues, gains and other support	<u>75,341</u>	<u>75,198</u>
Expenses:		
Salaries and benefits	46,212	43,479
General and administrative	17,748	15,945
Provision for uncollectible accounts	13,459	12,631
Depreciation and amortization	993	945
Interest	65	138
Total expenses	<u>78,477</u>	<u>73,138</u>
Operating income (loss)	(3,136)	2,060
Nonoperating gains	<u>180</u>	<u>215</u>
Revenues over (under) expenses	(2,956)	2,275
Contributions restricted for debt service, received and expended within the same year	1,000	1,000
Transfer of capital to University of South Alabama College of Medicine	<u>(1,517)</u>	<u>(3,041)</u>
Change in unrestricted net assets	(3,473)	234
Unrestricted net assets at beginning of year	<u>1,322</u>	<u>1,088</u>
Unrestricted net assets (deficit) at end of year	<u>\$ (2,151)</u>	<u>1,322</u>

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended September 30, 2008

(In thousands)

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Rental income	\$ 2,879	1,955
Tenant reimbursements	29	161
Total operating revenues	<u>2,908</u>	<u>2,116</u>
Operating expenses:		
Building management and operating expenses	532	428
Depreciation and amortization	681	646
Legal and administrative fees	32	17
Insurance	57	68
Total operating expenses	<u>1,302</u>	<u>1,159</u>
Operating income	<u>1,606</u>	<u>957</u>
Nonoperating revenues (expenses):		
Investment income	82	37
Interest expense	(1,426)	(765)
Donations	140	—
Other	3	—
Net nonoperating expenses	<u>(1,201)</u>	<u>(728)</u>
Increase in net assets	405	229
Net assets:		
Beginning of year	<u>1,088</u>	<u>859</u>
End of year	<u>\$ 1,493</u>	<u>1,088</u>

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, 2008 and 2007

(In thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts related to tuition and fees	\$ 57,061	51,535
Receipts from and on behalf of patients and third-party payers	206,743	201,628
Receipts from grants and contracts	79,517	72,694
Receipts related to auxiliary enterprises	16,823	14,860
Payments to suppliers and vendors	(141,907)	(107,874)
Payments to employees and related benefits	(366,379)	(332,995)
Payments for scholarships and fellowships	(5,451)	(4,251)
Other operating receipts	31,856	27,476
Net cash used in operating activities	<u>(121,737)</u>	<u>(76,927)</u>
Cash flows from noncapital financing activities:		
State appropriations	139,737	120,388
Endowment gifts	9,361	3,843
Agency funds received	625	943
Agency funds disbursed	(280)	(871)
Stafford and PLUS loans received	76,739	62,840
Stafford and PLUS loans disbursed	(76,857)	(63,070)
New loans issued to students	(113)	(823)
Student loan repayments	299	634
Other nonoperating revenues	26,476	22,203
Other nonoperating expenses	(5,173)	(4,776)
Net cash provided by noncapital financing activities	<u>170,814</u>	<u>141,311</u>
Cash flows from capital and related financing activities:		
Capital contributions and grants	19,268	19,907
Purchases of capital assets	(89,417)	(67,400)
Proceeds from sale of capital assets	68	6,591
Proceeds from issuance of capital debt	120,085	106,780
Principal payments on capital debt	(5,281)	(29,625)
Interest payments on capital debt	(7,860)	(5,441)
Net cash provided by capital and related financing activities	<u>36,863</u>	<u>30,812</u>
Cash flows from investing activities:		
Interest and dividends on investments	11,590	17,924
Purchases of investments	(392,507)	(337,919)
Proceeds from sales of investments	368,100	244,323
Net cash used in investing activities	<u>(12,817)</u>	<u>(75,672)</u>
Net increase in cash and cash equivalents	73,123	19,524
Cash and cash equivalents (unrestricted and restricted):		
Beginning of year	<u>57,684</u>	<u>38,160</u>
End of year	<u>\$ 130,807</u>	<u>57,684</u>

(Continued)

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

Statements of Cash Flows

Years ended September 30, 2008 and 2007

(In thousands)

	<u>2008</u>	<u>2007</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (152,765)	(105,369)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	20,168	19,059
Changes in assets and liabilities, net:		
Student receivables	(1,042)	96
Net patient accounts receivable	3,628	(2,917)
Grants and contracts receivables	1,742	(268)
Student loan program receivables	444	(190)
Other receivables	8,345	2,403
Prepaid expenses, inventories, and other	1,035	(1,529)
Accounts payable and accrued liabilities	(8,445)	9,024
Deferred revenue	5,153	2,764
Net cash used in operating activities	<u>\$ (121,737)</u>	<u>(76,927)</u>
Noncash investing, noncapital financing, and capital and related financing transactions:		
Increase (decrease) in fair value of investments recognized as a component of investment income	\$ (13,771)	2,404
Additional maturity on capital appreciation bonds payable recorded as interest expense	1,813	1,468
Gifts of capital and other assets	60	—
Pledges of operating and capital gifts	412	2,414
Capitalization of construction period interest	1,537	848
Increase (decrease) in accounts payable related to capital assets	(2,226)	522

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

September 30, 2008 and 2007

(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, 2008 and 2007, 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 14 for further discussion of this entity).

(b) Professional Liability and General Liability Trust Funds

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. The medical malpractice liability of the University is maintained and managed in a separate professional liability trust fund (the PLTF) in which the University and USAHSF 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 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

(Continued)

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

Notes to Basic Financial Statements

September 30, 2008 and 2007

governed by the University Board of Trustees through the University president. As such, PLTF and GLTF are reported as blended component units.

(c) *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, 2008 and 2007 were \$9,627,000 and \$7,011,000, 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, 2008 and 2007 are discretely presented following the statements of net assets and statements of revenues, expenses, and changes in net assets of the University.

(d) *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 \$40,745,000 and \$40,059,000 for the years ended September 30, 2008 and 2007, 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, 2008 and 2007 are discretely presented following the statements of net assets and statements of revenues, expenses, and changes in net assets of the University.

(e) *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

(Continued)

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

Notes to Basic Financial Statements

September 30, 2008 and 2007

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.

(f) *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.

(g) *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.

(h) *Cash and Cash Equivalents*

Cash and cash equivalents are defined as petty cash, demand accounts 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.

(i) *Investments and Investment Income*

Investments are recorded at fair value. The fair value of alternative investments (limited partnerships, private equity securities, etc.) 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 partnership 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.)

(Continued)

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

Notes to Basic Financial Statements

September 30, 2008 and 2007

The liquidity crisis that originally was linked principally to the sub-prime lending markets has spread to other corners of the credit markets in the U.S. and internationally. It is not possible at this time to predict the full impact or duration of the existing illiquid credit market conditions. The unstable market conditions and the resulting uncertainties contribute to additional risks associated with certain significant investment valuation estimates. Management continues to monitor the composition of its portfolio to assess the potential impact of these market conditions on the valuation of its investments.

(j) 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.

(k) 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.

(l) 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.

(Continued)

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

Notes to Basic Financial Statements

September 30, 2008 and 2007

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, 2008 and 2007, no impairments were recorded.

(m) 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 11) are deferred and recognized as revenue over the term of the lease using the straight-line method.

The time value component of the payment to the University resulting from the sale of two swaptions by the University with respect to the outstanding Series 2004 and 2006 bonds is deferred and recognized as investment income over the term of the swaption (see note 5).

(n) Classification of Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt represents 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.

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UNIVERSITY OF SOUTH ALABAMA
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(o) *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.

(p) *Donor Restricted Endowments*

The University is subject to the "Uniform Management of Institutional Funds Act (UMIFA)" 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 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.

(q) *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.

(r) *Gifts and Pledges*

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

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(s) 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.

(t) Net Patient Service Revenue

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.

(u) 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.

(v) Compensated Absences

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

(w) Reclassifications

Certain amounts in the 2007 basic financial statements have been reclassified in order to conform to the 2008 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.

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(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, 2008, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately \$7,833,381,000. The University had cash and cash equivalents totaling \$130,807,000 and \$57,684,000 at September 30, 2008 and 2007, respectively.

(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 UMIFA as well as any requirements placed on them by contract or donor agreements.

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

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Investments of the University, by type, at fair value, are as follows at September 30, 2008 and 2007 (in thousands).

	<u>2008</u>	<u>2007</u>
U.S. Treasury notes	\$ 14,977	14,402
U.S. federal agency notes	188,810	103,572
Commercial paper	14,231	100,554
Pooled equity mutual funds	44,229	35,938
Pooled debt mutual funds	15,328	12,710
Managed income alternative investments (limited partnerships, private equity securities, and other)	12,858	10,532
Other	2,508	255
	<u>\$ 292,941</u>	<u>277,963</u>

At September 30, 2008 and 2007, \$3,849,000 and \$5,182,000, 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, 2008 is as follows:

	<u>Credit rating</u>	<u>Percentage of total investments</u>
Federal Home Loan Mortgage Corporation	AAA	27.3%
Federal Home Loan Bank Corporation	AAA	15.0
G. E. Capital Corporation	Aaa	3.4
Federal National Mortgage Association	AAA	1.5
Common – Bond Fund	AA	3.6
Federal Farm Credit Banks Funding Corporation	AAA	1.0
Government National Mortgage Association	AAA	0.1

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September 30, 2008 and 2007

The University's exposure to credit risk and concentration of credit risk at September 30, 2007 is as follows:

	<u>Credit rating</u>	<u>Percentage of total investments</u>
Federal Home Loan Mortgage Corporation	AAA	16.4%
Federal Home Loan Bank Corporation	AAA	14.2
G. E. Capital Corporation	A-1+	10.7
UBS Finance	A-1+	9.0
AIG Funding Corporation	A-1+	7.7
Federal National Mortgage Association	AAA	6.2
American Express Credit Corporation	A-1	5.2
Common – Bond Fund	AA	4.6
Citigroup Funding, Inc.	A-1+	3.5
Federal Farm Credit Banks Funding Corporation	AAA	0.4
Government National Mortgage Association	AAA	0.1

Interest Rate Risk

At September 30, 2008, the maturity dates of the University's debt investments were as follows (in thousands):

	<u>Fair value</u>	<u>Years to maturity</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
U.S. Treasury notes	\$ 14,977	4,810	10,167	—	—
U.S. federal agency notes	188,810	169,011	18,012	324	1,463
Commercial paper	14,231	14,231	—	—	—
Pooled debt mutual funds	15,328	—	15,328	—	—
	<u>\$ 233,346</u>	<u>188,052</u>	<u>43,507</u>	<u>324</u>	<u>1,463</u>

At September 30, 2007, the maturity dates of the University's debt investments were as follows (in thousands):

	<u>Fair value</u>	<u>Years to maturity</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
U.S. Treasury notes	\$ 14,402	3,240	11,162	—	—
U.S. federal agency notes	103,572	86,232	16,187	757	396
Commercial paper	100,554	100,554	—	—	—
Pooled debt mutual funds	12,710	—	—	12,710	—
	<u>\$ 231,238</u>	<u>190,026</u>	<u>27,349</u>	<u>13,467</u>	<u>396</u>

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Because the debt mutual funds had a weighted average maturity of 4.8 and 6.5 years, the investments were presented in the 1-5 year and the 6-10 year maturity category at September 30, 2008 and 2007, respectively.

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 are no CMOs in the University's investment portfolio at September 30, 2008 or 2007.

At September 30, 2008, restricted investments consist of \$50,079,000 related to unspent bond proceeds and \$53,810,000 related to investments included in the PLTF and GLTF to pay insurance liability claims. At September 30, 2007, restricted investments consist of \$73,181,000 related to unspent bond proceeds and \$49,869,000 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 marketable equity securities totaling \$120,133,000 and \$142,709,000, at June 30, 2008 and 2007, respectively.

Investment income (loss) was comprised of the following for the years ended June 30, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Unrealized gains (losses)	\$ (19,142)	28,451
Realized gains	1,367	1,970
Timber sales	3,813	5,373
Interest and dividends	3,256	3,240
Rents	520	549
Royalties	273	149
	<u>\$ (9,913)</u>	<u>39,732</u>

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Investment related expenses in the amount of \$350,000 and \$339,000, respectively, are included in the USA Foundation's management and general expenses in the accompanying 2008 and 2007 consolidated statements of activities and changes in net assets.

Real estate at June 30, 2008 and 2007 consisted of the following property held (in thousands):

	<u>2008</u>	<u>2007</u>
Land and land improvements – held for investment	\$ 8,658	16,525
Building and building improvements – held for investment, net of depreciation	<u>1,134</u>	<u>2,269</u>
	<u>\$ 9,792</u>	<u>18,794</u>

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.

In the fiscal year ended June 30, 2008, the Foundation sold three parcels of real estate totaling approximately 53 acres, including the former Wright Campus consisting of approximately 32 acres, for \$9,367,000. The Foundation recognized a gain on the sale of real estate in the amount of \$396,000.

Investments at June 30, 2008, 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.

(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.

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Terms

A summary of the transactions is as follows:

<u>Issue</u>	<u>Date of issue</u>	<u>Option expiration date</u>	<u>Effective date of swap</u>	<u>Termination date</u>	<u>Payment amount</u>
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 option is exercised, the University would begin to make payments on the notional amount, currently \$46,245,000 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 contract, 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 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 option, the swaption would be canceled and the University would have no further obligation under this agreement.

Financial Statement Presentation

A swaption is considered a hybrid instrument and consists of two components, a time value, and an intrinsic value. The intrinsic value of the swaption represents the value of the counterparty's option if it were exercised immediately. The time value of the swaption is the difference between the total value and the intrinsic value and represents the probability weighted, discounted values of a range of future possible outcomes. The time and intrinsic values at the date of execution of this transaction are as follows:

	<u>2004 Bonds</u>	<u>2006 Bonds</u>
Time value	\$ 520,000	1,741,000
Intrinsic value	1,468,000	5,599,000
	<u>\$ 1,988,000</u>	<u>7,340,000</u>

The time value of the payment to the University is considered deferred investment income and is being amortized to investment income through the expiration date of the option. For the year ended September 30, 2008, \$237,000 was amortized and that amortization is included as investment income in the statement of revenues, expenses, and changes in net assets.

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The intrinsic value of the payment to the University is considered a borrowing, and as such is included in long-term debt on the University's 2008 statement of net assets. Interest is being accrued on, and added to, the borrowing through the expiration date of the option. For the year ended September 30, 2008, \$269,000 was accrued and is included in interest expense in the 2008 statement of revenues, expenses, and changes in net assets.

Fair Value

At September 30, 2008, the derivative transactions had a fair value of \$(12,290,000).

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, 2008, the swap counterparty was rated Aa3 by Moody's Investors Services and AA- by Fitch Ratings.

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, 2008, no events of termination have occurred.

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(6) Capital Assets

(a) University of South Alabama

A summary of the University's capital asset activity for the year ended September 30, 2008 follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets not being depreciated:					
Land	\$ 29,271	55	—	(39)	29,287
Construction-in-progress	64,828	65,291	(11,868)	—	118,251
	<u>94,099</u>	<u>65,346</u>	<u>(11,868)</u>	<u>(39)</u>	<u>147,538</u>
Capital assets being depreciated:					
Land improvements	21,888	—	104	—	21,992
Buildings, fixed equipment, and infrastructure	298,751	1,431	10,786	—	310,968
Other equipment	99,147	17,762	978	(2,095)	115,792
Library materials	40,519	2,652	—	—	43,171
	<u>460,305</u>	<u>21,845</u>	<u>11,868</u>	<u>(2,095)</u>	<u>491,923</u>
Less accumulated depreciation for:					
Land improvements	(10,747)	(1,076)	—	—	(11,823)
Buildings, fixed equipment, and infrastructure	(159,404)	(8,124)	—	—	(167,528)
Other equipment	(68,165)	(8,345)	—	1,943	(74,567)
Library materials	(29,198)	(2,516)	—	—	(31,714)
	<u>(267,514)</u>	<u>(20,061)</u>	<u>—</u>	<u>1,943</u>	<u>(285,632)</u>
Capital assets being depreciated, net	<u>192,791</u>	<u>1,784</u>	<u>11,868</u>	<u>(152)</u>	<u>206,291</u>
Capital assets, net	<u>\$ 286,890</u>	<u>67,130</u>	<u>—</u>	<u>(191)</u>	<u>353,829</u>

At September 30, 2008, the University had commitments of approximately \$68,372,000 related to various construction projects.

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A summary of the University's capital asset activity for the year ended September 30, 2007 follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets not being depreciated:					
Land	\$ 28,490	994	—	(213)	29,271
Construction-in-progress	45,671	47,118	(27,961)	—	64,828
	<u>74,161</u>	<u>48,112</u>	<u>(27,961)</u>	<u>(213)</u>	<u>94,099</u>
Capital assets being depreciated:					
Land improvements	17,470	45	4,373	—	21,888
Buildings, fixed equipment, and infrastructure	287,227	3,051	22,916	(14,443)	298,751
Other equipment	88,341	14,234	672	(4,100)	99,147
Library materials	38,039	2,480	—	—	40,519
	<u>431,077</u>	<u>19,810</u>	<u>27,961</u>	<u>(18,543)</u>	<u>460,305</u>
Less accumulated depreciation for:					
Land improvements	(9,910)	(837)	—	—	(10,747)
Buildings, fixed equipment, and infrastructure	(156,819)	(7,671)	—	5,086	(159,404)
Other equipment	(62,966)	(9,021)	—	3,822	(68,165)
Library materials	(27,668)	(1,530)	—	—	(29,198)
	<u>(257,363)</u>	<u>(19,059)</u>	<u>—</u>	<u>8,908</u>	<u>(267,514)</u>
Capital assets being depreciated, net	<u>173,714</u>	<u>751</u>	<u>27,961</u>	<u>(9,635)</u>	<u>192,791</u>
Capital assets, net	<u>\$ 247,875</u>	<u>48,863</u>	<u>—</u>	<u>(9,848)</u>	<u>286,890</u>

At September 30, 2007, the University had commitments of approximately \$55,408,000 related to various construction projects.

During the year ended September 30, 2007, the University sold Buildings II and III in the USA Technology and Research Park to the Corporation for proceeds of approximately \$11,986,000 and recognized a gain of approximately \$2,638,000.

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(b) USA Research and Technology Corporation

Changes in capital assets for the years ended September 30, 2008 and 2007 are as follows:

2008					
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land improvements	\$ 1,828	122	—	—	1,950
Buildings	22,228	1,874	—	—	24,102
Other equipment	—	173	—	—	173
	<u>24,056</u>	<u>2,169</u>	<u>—</u>	<u>—</u>	<u>26,225</u>
Less accumulated depreciation for:					
Land improvements	(292)	(89)	—	—	(381)
Buildings	(1,217)	(566)	—	—	(1,783)
Other equipment	—	(9)	—	—	(9)
	<u>(1,509)</u>	<u>(664)</u>	<u>—</u>	<u>—</u>	<u>(2,173)</u>
Capital assets, net	<u>\$ 22,547</u>	<u>1,505</u>	<u>—</u>	<u>—</u>	<u>24,052</u>

2007					
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land improvements	\$ 1,524	306	(2)	—	1,828
Buildings	9,051	13,175	2	—	22,228
Other equipment	1	—	—	(1)	—
	<u>10,576</u>	<u>13,481</u>	<u>—</u>	<u>(1)</u>	<u>24,056</u>
Less accumulated depreciation for:					
Land improvements	(215)	(77)	—	—	(292)
Buildings	(660)	(557)	—	—	(1,217)
Other equipment	(1)	—	—	1	—
	<u>(876)</u>	<u>(634)</u>	<u>—</u>	<u>1</u>	<u>(1,509)</u>
Capital assets, net	<u>\$ 9,700</u>	<u>12,847</u>	<u>—</u>	<u>—</u>	<u>22,547</u>

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(7) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the years ended September 30, 2008 and 2007 follows (in thousands):

2008						
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Note payable	\$ 1,456	—	(1,456)	—	—	—
Bonds payable	198,155	121,898	(3,819)	316,234	4,875	311,359
Capital lease payable	188	—	(96)	92	92	—
Total long-term debt	199,799	121,898	(5,371)	316,326	4,967	311,359
Other long-term liabilities	58,562	29,280	(22,372)	65,470	13,263	52,207
Total noncurrent liabilities	\$ 258,361	151,178	(27,743)	381,796	18,230	363,566
2007						
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Note payable	\$ 2,871	—	(1,415)	1,456	1,456	—
Bonds payable	118,821	107,325	(27,991)	198,155	3,820	194,335
Capital lease payable	277	—	(89)	188	95	93
Total long-term debt	121,969	107,325	(29,495)	199,799	5,371	194,428
Other long-term liabilities	60,150	23,693	(25,281)	58,562	10,208	48,354
Total noncurrent liabilities	\$ 182,119	131,018	(54,776)	258,361	15,579	242,782

Other long-term liabilities primarily consist of self-insurance liabilities and liabilities related to compensated absences. Amounts due within one year are included in accounts payable and accrued liabilities.

(8) Note and Bonds Payable

(a) University of South Alabama

Note Payable

Note payable consisted of the following at September 30, 2008 and 2007 (in thousands):

	2008	2007
Compass Bank limited obligation note, repaid in September 2008, unsecured	\$ —	1,456

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Bonds Payable

Bonds payable consisted of the following at September 30, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
University Tuition Revenue Bonds, Series 1999 Current Interest, 3.70% to 4.35%, payable through November 2010	\$ 10,625	13,075
University Tuition Revenue Bonds, Series 1999 Capital Appreciation, 4.70% to 5.25%, payable November 2011 through November 2018	31,821	30,276
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, 2.00% to 5.00%, payable through March 2024	46,245	47,525
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	112,885	—
Borrowing arising from swaption, Series 2004 Bonds	1,524	—
Borrowing arising from swaption, Series 2006 Bonds	5,813	—
	<u>308,913</u>	<u>190,876</u>
Plus unamortized premium	8,354	8,566
Less unamortized discount	(69)	(75)
Less unamortized debt extinguishment costs	(964)	(1,212)
	<u>\$ 316,234</u>	<u>198,155</u>

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 mature beginning 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 begin maturing in August 2009 and are redeemable beginning in August 2018.

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 time value and an intrinsic value. The intrinsic value of the payment is considered a borrowing and 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 footnote five for a complete description of this transaction.

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During the years ended September 30, 2008 and 2007, the maturity value of the Capital Appreciation Bonds increased \$1,544,000 and \$1,468,000, respectively, over the original principal amount of \$19,810,000, reflecting accretion of interest.

During the year ended September 30, 2007, the University refunded the Series 1996 bonds with a portion of the proceeds from the issuance of the Series 1996 bonds. The 2006 refunding transaction resulted in an accounting loss totaling \$924,000, which has been deferred and is being amortized using the straight-line method through 2016. Aggregate cash flows from the refunding date through contractual maturity of the Series 1996 bonds totals approximately \$28,826,000, while aggregate cash flows from the portion of the refunding Series 2006 bonds applicable to the refunding totaled approximately \$48,588,000 through the maturity date of the Series 2006 bonds, resulting in a negative net cash flow differential for the refunding of approximately \$19,762,000. The economic gain (generally referred to as the present value of the net cash flow differential discounted at the effective interest rate of the new debt) on the 2006 refunding transaction totals approximately \$1,328,000.

Approximately \$34,852,000 of proceeds from the issuance of the Series 2006 Bonds remained unspent at September 30, 2008 (\$4,363,000 is included in restricted cash and cash equivalents and \$30,489,000 is included in restricted investments in the 2008 statement of net assets) and are restricted for capital purposes as outlined in the indenture.

Approximately \$110,325,000 of proceeds from the issuance of the Series 2008 Bonds remained unspent at September 30, 2008 (\$90,735,000 is included in restricted cash and cash equivalents and \$19,590,000 is included in restricted investments in the 2008 statement of net assets) and are restricted for capital purposes as outlined in the indenture.

The University defeased certain indebtedness during 1978 and 1984 by depositing funds in escrow trust accounts sufficient to provide for the subsequent payment of principal and interest on the defeased indebtedness. Neither the assets of the escrow trust accounts nor the defeased indebtedness is included in the accompanying statements of net assets. There was no principal outstanding on defeased debt at September 30, 2008.

The University is subject to restrictive covenants, primarily certain operating ratios and other restrictive covenants, related to certain note and bonds payable. At September 30, 2008, management believes the University was in compliance with such financial covenants.

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Debt Service on Long-Term Obligations

Total debt service by fiscal year is as follows as of September 30, 2008 (in thousands):

	Debt service on bonds			
	Principal	Interest	Additional maturity	Total
2009	\$ 4,785	12,480	(1,998)	15,267
2010	5,715	12,700	(2,100)	16,315
2011	5,410	12,464	(2,207)	15,667
2012	6,995	12,324	(2,143)	17,176
2013	7,295	12,219	(2,039)	17,475
2014 – 2018	45,994	60,430	(6,223)	100,201
2019 – 2023	56,635	54,904	(49)	111,490
2024 – 2028	54,695	41,568	—	96,263
2029 – 2033	65,659	27,159	—	92,818
2034 – 2038	72,489	9,199	—	81,688
Subtotal	325,672	255,447	(16,759)	564,360
Plus (less):				
Additional maturity	(16,759)			
Unamortized bond premium	8,354			
Unamortized bond discount	(69)			
Unamortized debt extinguishment cost	(964)			
Total	\$ 316,234			

The principal amount of debt service due on bonds at September 30, 2008 includes \$13,469,000 representing additional maturity value on Series 1999 Capital Appreciation Bonds. These bonds mature in years 2011 through 2019 and are noninterest bearing. Also included in the principal amount of debt service due on bonds at September 30, 2008, is \$3,290,000 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 financial statements as it accretes.

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(b) USA Research and Technology Corporation

Notes Payable

Notes payable consisted of the following at September 30, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Whitney National Bank commercial mortgage note, 6.0%, payable through 2014	\$ 9,178	9,528
Wachovia Bank, N.A. construction loan convertible into promissory note, one-month LIBOR plus 0.85% (6.515% at September 30, 2007)	—	13,429
Wachovia Bank, N.A. promissory note, one-month LIBOR plus 0.85% (4.776% at September 30, 2008), payable through 2028	17,853	—
	<u>\$ 27,031</u>	<u>22,957</u>

The note payable to Whitney National Bank is secured by all funds of the Corporation on deposit with Whitney National Bank, an interest in the ground lease with respect to the parcel of land on which Building I stands, an interest in Building I, an interest in the tenant lease for Building I, and an interest in income received from rental of Building I. The note has a ten-year term and amortization is based on a twenty-year term.

The construction loan payable to Wachovia 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 maximum amount that might be borrowed under the construction loan was \$18,000,000. The loan was an interest-only loan until May 1, 2008, at which time the loan was converted to a fully amortizing promissory note with a twenty-year term. The Corporation has entered into two derivative instruments, an interest rate cap of 6.1% on the construction loan and 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 construction loan was and 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 Wachovia 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. At September 30, 2008, the Corporation's management believes the Corporation was in compliance with its debt covenants.

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Debt Service on Long-Term Obligations

At September 30, 2008, total debt service by fiscal year is as follows (in thousands):

Debt service on note and loan			
	Principal	Interest	Total
2009	\$ 858	1,624	2,482
2010	912	1,570	2,482
2011	969	1,513	2,482
2012	1,029	1,453	2,482
2013	1,095	1,387	2,482
2014 – 2018	10,781	4,221	15,002
2019 – 2023	5,045	2,755	7,800
2024 – 2028	6,342	965	7,307
Total	\$ 27,031	15,488	42,519

Derivative Transactions

On February 27, 2007, the Corporation entered into two derivative transactions with Wachovia Bank, N.A. The first transaction was an interest rate cap entered into in connection with the construction loan. The second transaction is a “receive variable, pay fixed” interest rate swap entered into in connection with the promissory note that came into effect upon conversion of the construction loan into a permanent loan on May 1, 2008.

Objectives of the derivative transactions. The Corporation utilized the interest rate cap to limit its variable rate exposure on the construction loan and utilizes the interest rate swap to convert its variable rate on the promissory note to a synthetic fixed rate.

Terms. The construction loan and the associated interest rate cap were entered into on July 17, 2007 and February 27, 2007, respectively. The interest rate cap terminated on May 1, 2008 when the loan was converted into a promissory note. The interest rate cap’s notional amount was equal to the construction loan balance and was limited to a maximum of \$18,000,000. The construction loan bore variable rate interest equal to the one-month London Interbank Offered Rate (LIBOR) plus 0.85%. When the variable rate exceeded 6.1%, the cap operated to cause the counterparty, Wachovia Bank, N.A., to pay the Corporation the difference between the variable rate and 6.1%. For the year ended September 30, 2008, the Corporation received \$6,345 under the interest rate cap agreement, which is reflected as a reduction of interest expense.

The promissory note came into effect on May 1, 2008 upon conversion of the construction loan. Also, on May 1, 2008, the interest rate swap associated with the loan became effective. 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, Wachovia Bank, N.A., a fixed payment of 6.1% 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

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plus 0.85%. For the year ended September 30, 2008, the Corporation paid \$206,104 under the interest rate swap agreement, which is reflected as an increase in interest expense.

Fair value. The interest rate swap had a fair value at September 30, 2008 of \$(1,315,000).

Credit risk. As of September 30, 2008, 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 fair value of the derivatives. The counterparty was rated AA- by Standard & Poor's Ratings Services as of September 30, 2008.

Termination risk. The interest rate swap contracts uses 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. Due to recent economic conditions, Wachovia Bank, N. A. is currently experiencing some financial difficulties and recently announced a proposed merger with Well Fargo & Company. Under the proposed transaction, Well Fargo & Company will acquire all of Wachovia Bank, N.A. and all its businesses and obligations including its preferred equity and indebtedness, and all its banking deposits. Due to inherent uncertainties, there is a risk that the merger will not be completed and Wachovia Bank, N.A. may not be able to perform under its obligations as the counterparty. At September 30, 2008, 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 net 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.

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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, 2008, debt service requirements by fiscal year of the variable rate debt and net derivative payments, assuming current interest rates remain the same are as follows (in thousands):

	Variable rate loan		Interest rate	
	Principal	Interest	swap, net	Total
2009	\$ 484	842	233	1,559
2010	515	818	227	1,560
2011	547	793	220	1,560
2012	581	766	212	1,559
2013	618	738	204	1,560
2014 – 2018	3,721	3,194	885	7,800
2019 – 2023	5,045	2,158	598	7,801
2024 – 2028	6,342	756	210	7,308
Total	\$ 17,853	10,065	2,789	30,707

(9) Capital Lease Obligation

In September 2006, the University signed a three-year purchase agreement as a method of financing the purchase of certain computer equipment for the USA Hospitals.

Future minimum capital lease payments at September 30, 2008, are as follows (in thousands):

Year ending September 30:	
2009	\$ 94
	94
Less amounts representing interest	(2)
Net minimum lease payments	\$ 92

(10) 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

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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 through 2006 and settled through 2005. The cost report for USA Children's and Women's Hospital has been audited through 2007 and settled through 2006. The cost report for USA Knollwood Hospital has been audited and settled through March 2006 and settled through September 2004. Revenue from the Medicare program accounted for approximately 15% of the Hospitals' net patient service revenue for the years ended September 30, 2008 and 2007, 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 and settled for all fiscal years through 2006. Revenue from the Blue Cross program accounted for approximately 20% and 18% of the Hospitals' net patient service revenue for the years ended September 30, 2008 and 2007, respectively.

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

The 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 29% and 32% of the Hospitals' net patient service revenue for the years ended September 30, 2008 and 2007, respectively.

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, 2008 and 2007 follows (in thousands):

	<u>2008</u>	<u>2007</u>
Gross patient service revenue	\$ 399,945	370,976
Less provision for contractual and other adjustments	125,674	97,998
Less provision for bad debts	72,668	67,641
	<u>\$ 201,603</u>	<u>205,337</u>

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Changes in estimates related to prior cost reporting periods resulted in an increase of approximately \$2,082,000 in net patient service revenue for the year ended September 30, 2008.

(11) 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. University management does not anticipate that this option will be exercised by the Infirmary.

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):

- Years one through five of the initial lease term – \$1,000,000 annually
- Years six through ten of the initial lease term – \$1,250,000 annually
- Years eleven through fifteen of the initial lease term – \$1,500,000 annually
- Years sixteen through thirty 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-one 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

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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 has been recorded as a capital lease receivable, both current and noncurrent, in the accompanying basic financial statements of the University. The capital equipment lease is being amortized through fiscal 2011 at a fixed rate of 3.75%. Future receipts from this capital lease are expected as follows:

Year ending September 30:	
2009	\$ 515,000
2010	515,000
2011	<u>257,000</u>
	1,287,000
Less amounts representing interest	<u>(61,000)</u>
Total capital lease receivable	<u>\$ 1,226,000</u>

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-eight years are approximately \$41,393,000. 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 \$6,721,000, will be deferred and amortized over the ninety-nine year lease term.

(12) 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.

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All employees covered by this retirement plan must contribute 5% of their eligible earnings to TRS. An actuary employed by the TRS Board of Control establishes the employer-matching amount annually. During 2008, 2007 and 2006, the University made total contributions of \$30,252,000, \$22,023,000, and \$18,468,000 (100% of the required contributions), respectively, to TRS on behalf of participants, which represents 11.06%, 9.36%, and 8.17%, respectively, of each participant's gross earnings. The University's payroll for all employees was approximately \$288,477,000 and \$264,021,000 in 2008 and 2007, respectively. Total payroll for University employees participating in the Teachers' Retirement System of Alabama was approximately \$257,466,000 and \$235,285,000 in 2008 and 2007, 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 \$951,000 and \$907,000 in 2008 and 2007, respectively, representing 457 and 427 employees participating in this Plan.

(b) *Compensated Absences*

Regular University employees accumulate vacation and sick leave, subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon termination of employment, employees are paid all unused accrued vacation at their regular rate of pay up to a maximum of two times their annual accumulation rate. The accompanying statements of net assets include accruals for vacation pay of approximately \$16,197,000 and \$15,105,000 at September 30, 2008 and 2007, respectively. 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*

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, 2008 and 2007, the University's expense related to PEEHIP was \$4,842,000 and \$5,167,000, respectively.

(13) Risk Management

The University and USAHSF participate in the professional liability trust fund and the University participates 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.

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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, 2008 and 2007. 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 participates in a self-insured health plan, administered by an unaffiliated entity. Administrative fees paid by the University for such services were approximately \$1,521,000 and \$1,296,000 in 2008 and 2007, 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, 2008 and 2007 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 33,956	35,854
Liabilities incurred and other additions	43,382	41,200
Claims, administrative fees paid and other reductions	<u>(40,055)</u>	<u>(43,098)</u>
Balance, end of year	\$ <u>37,283</u>	<u>33,956</u>

(14) Other Related Party

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. SAMSF reimburses the University for certain administrative expenses and other related support services. Total amounts received for such expenses were approximately \$1,556,000 and \$1,326,000 in 2008 and 2007, respectively, and are reflected as private grants and contracts in the accompanying statements of revenues, expenses, and changes in net assets.

(15) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2008 and 2007, the University had been awarded approximately \$52,337,000 and \$48,103,000, 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.

(Continued)

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

Notes to Basic Financial Statements

September 30, 2008 and 2007

(b) Letter of Credit

In connection with the Hospitals' participation in the State of Alabama Medicaid Program, the University has established a \$1,400,000 irrevocable standby letter of credit with Wachovia Bank. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds were advanced under this letter during the years ended September 30, 2008 and 2007.

(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 statement of revenues, expenses, and changes in net assets of the University.

(d) Rent Supplement Agreement

During the 2008 fiscal year, the University entered into an irrevocable rent supplement agreement with the Corporation and a financial institution. The agreement requires 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(b)). As of September 30, 2008, no amounts were payable pursuant to this agreement.

(e) State Bond Issues

The State of Alabama has made allocations to the University from bonds issues in prior years. Pursuant to these allocations, approximately \$21,332,000 is available to the University for certain future construction costs. The allocations have not been reflected in the accompanying financial statements.

(f) USA Research and Technology Corporations Leases

The Corporation leases space in Building I to a single tenant under an operating lease. The lease has a ten-year initial term with two five-year renewal options. Under the lease, the tenant must also pay, or reimburse to the Corporation for expenses paid by the Corporation, property taxes on the building, common area maintenance, utilities, and general liability and property damage insurance. In 2009, the lease calls for a one-time increase in monthly rent of 4%. Beginning on November 1, 2008, after providing a one-year advance notice, the tenant has the annual noncumulative option to terminate up to 10% of the square footage covered under the lease. Such advance notice was not received by November 1, 2007 or 2008.

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 51,662 and 45,034 square feet at September 30, 2008 and 2007, 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

(Continued)

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

Notes to Basic Financial Statements

September 30, 2008 and 2007

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 had three and two ground leases in place at September 30, 2008 and 2007, respectively. One lease is for a forty-year initial term with twenty-year and fifteen-year renewal options. The second lease is for a thirty-year initial term with four five-year renewal options. The first and second leases were in effect for the whole of each of the years ended September 30, 2008 and 2007. The third lease was entered into on March 14, 2008 and has a thirty-eight and one-half year initial term with twenty-year and fifteen-year renewal options.

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

2009	\$ 3,476
2010	3,337
2011	3,188
2012	2,750
2013	2,107
2014 - 2046	<u>10,189</u>
	<u>\$ 25,047</u>

(16) Functional Information

Operating expenses by functional classification for the years ended September 30, 2008 and 2007 are listed below (in thousands). In preparing the basic financial statements, all significant transactions and balances among accounts have been eliminated.

	<u>2008</u>	<u>2007</u>
Instruction	\$ 115,044	104,904
Research	21,275	20,224
Public service	39,202	42,140
Academic support	13,557	11,901
Student services	23,249	20,653
Institutional support	29,992	26,913
Operation and maintenance of plant	24,934	18,804
Scholarships	1,425	1,218
Hospital	229,162	194,336
Auxiliary enterprises	16,088	15,576
Depreciation and amortization	20,168	19,059
Other	<u>—</u>	<u>5,234</u>
	<u>\$ 534,096</u>	<u>480,962</u>

(Continued)

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

Notes to Basic Financial Statements

September 30, 2008 and 2007

(17) Significant New Accounting Pronouncements

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 addresses accounting and reporting standards for pollution remediation obligations, which are obligations with respect to current operations and will be effective for the year ending September 30, 2009. In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 requires that certain intangible assets be classified and reported as capital assets and will be effective for the year ending September 30, 2010. In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 establishes standards for the reporting of land and other real estate held as investments and will be effective for the year ending September 30, 2009. In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments and will be effective for the year ending September 30, 2010.

The effect of the implementation of GASB Statements Nos. 49, 51, 52 and 53 on the University has not been determined.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND OMB CIRCULAR A-133 REPORTS**

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

Federal grantor/pass-through grantor/ program or cluster title	Federal CFDA number	Pass-through entity identifying number	Federal expenditures
Student Financial Aid Cluster*:			
U.S. Department of Education:			
Federal Pell Grant Program	84.063		\$ 9,331,972
Federal Supplemental Educational Opportunity Grant Program	84.007		466,356
Federal Family Educational Loan Program	84.032		64,474,598
Federal Work Study Program	84.033		264,498
Academic Competitiveness Grant	84.375		151,775
National Science and Mathematics Access to Retain Talent Grant	84.376		128,650
Total Student Financial Aid Cluster			74,817,849
Research and Development Cluster*:			
Direct awards:			
U.S. Department of Health and Human Services:			
Biological Response to Environmental Health Hazard	93.113		499,726
Research Related to Deafness and Communicative Disorders	93.173		107,719
Comparative Medicine	93.306		139,459
Minority Health and Health Disparities Research	93.307		797,156
International Research and Research Training	93.989		14,410
Cancer Cause and Prevention Research	93.393		289,229
Cancer Detection and Diagnosis Research	93.394		59,370
Cancer Treatment Research	93.395		137,009
Cancer Biology Research	93.396		330,198
Allergy, Immunology and Transplantation Research	93.855		605,885
Cardiovascular Diseases Research	93.837		1,507,187
Health Activities Recommendation Panel	93.203		6,433
Lung Diseases Research	93.838		4,215,735
Diabetes Endocrinology and Metabolism Research	93.847		206,406
Biomedical Research and Research Training	93.859		272,035
Extramural Research Programs in Neurosciences and Neurological Disorders	93.853		186,385
Microbiology and Infectious Diseases Research	93.856		1,233,784
National Center for Research Resources	93.389		253,716
Aging Research	93.866		(209)
Specially Selected Health Projects	93.888		(2,399)
National Science Foundation:			
Mathematical and Physical Sciences	47.049		275,828
Geosciences	47.050		129,613
Engineering Grants	47.041		12,811
Computer and Information Science and Engineering	47.070		72,145
Biological Sciences	47.074		17,943
Social, Behavioral, and Economic Sciences	47.075		4,152
Polar Programs	47.078		13,708
National Aeronautics and Space Administration:			
Technology Transfer	43.002		1,190,509
Environmental Protection Agency:			
Office of Research and Development Consolidated Research/ Training/Fellowships	66.511		746,704
U.S. Department of Commerce:			
Habitat Conservation	11.463		1,224,079
Applied Meteorological Research	11.468		796,713
Marine Fisheries Initiative	11.433		17,275
U.S. Department of Defense:			
Military Medical Research and Development	12.420		158,984

(Continued)

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

Federal grantor/pass-through grantor/ program or cluster title	Federal CFDA number	Pass-through entity identifying number	Federal expenditures
U.S. Department of Energy: Basic Energy Sciences University and Science	81.049		\$ 33,555
U.S. Department of Transportation: Highway Planning and Construction	20.205		161,013
University Transportation Centers Program	20.701		17,905
U.S. Department of Interior: National Cooperative Geologic Mapping Program	15.810		3,795
Conservation Grants Private Stewardship for Imperiled Species	15.632		12,446
U.S. Department of Justice: Developing, Testing and Demonstrating Promising New Programs	16.541		232,455
Total direct awards			<u>15,980,867</u>
Pass-through awards:			
Pass-through from National Institutes of Health**:			
Alabama Department of Public Health	93.283	C60114233	2,721
Columbia University	93.242	RO1 MH075026-02	49,438
Columbia University	93.853	70190	1,002
Duke University Medical Center	93.395	7U10CA76001-4	392
University of Colorado	93.838	FY07.032.008	90,006
M. D. Anderson Cancer Center	93.389	20526-98010395	461,070
University of Alabama Birmingham	93.113	UAB LINK NO -238575-04	18,208
University of Miami	93.853	UO1 NS0404060	8,802
University of Texas	93.853	116447/115709-02	35,304
University of Texas	93.855	U1 UO1 A1071283-03	108,088
National Childhood Cancer Foundation	93.395	UO1 CA98543-04 /AGREE#9854	(8,625)
Rhode Island Hospital	93.854	RO1 NS39131-01	2,393
Westat, Inc.	93.395	No2-CM-97024	6,858
Yale University	93.853	AO5648	162,266
Rockefeller University	93.839	5RO1HL019278-29	(645)
Rho, Inc	93.839	CHECK #23854	26,226
Mayo Foundation for Medical Research	93.853	SWISS	584
University of Alabama at Birmingham	93.856	5401 A141025-09	(139)
Pass-through from Administration for Children and Family**:			
Alabama Council for Developmental Disabilities	93.630	80040	72,145
Pass-through from National Science Foundation:			
University of Georgia	47.074	RR100-391/8920207	25,307
University of Georgia	47.050	1021RR100513 -3506498	31,074
University of Alabama in Huntsville	47.076	SUB2005-291	31,545
Alabama A&M University	47.076	AAMURI-08-C-0009	25,000
Tuskegee University	47.076	34-21530-038-621	69,874
University of Alabama	47.076	06-006	2,988
Bigelow Laboratory for Ocean Sciences	47.078	BLOS 2003-2	45,523
Pass-through from National Aeronautics and Space Administration:			
University of Alabama in Huntsville	43.002	SUB2005-152-A5	18,721
University of Mississippi	43.002	08-08-025	48,294
Pass-through from U.S. Veterans Administration:			
Civil Consultants, Inc.	64.201	70358	12,673

(Continued)

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

Federal grantor/pass-through grantor/ program or cluster title	Federal CFDA number	Pass-through entity identifying number	Federal expenditures
Pass-through from U.S. Department of Commerce:			
Alabama Department of Conservation and Natural Resources	11.454	80182	\$ 208,889
Prince William Sound Science Center	11.472	04-PWSSC 07-46-0	28,820
University of Mississippi	11.430	08-04-068	17,556
University of Southern Mississippi	11.417	USM-GRO2639/ OMNIBUS-R/SP	12,680
Pass-through from National Oceanographic and Atmospheric Association:			
Prince William Sound Science Center	11.472	04-PWSSC 06-52-07	4,778
Pass-through from U.S. Department of Transportation:			
Kilgore Consulting Management	20.215	DTFH61-01-R-00063	4,781
Pass-through from Environmental Protection Agency:			
Mobile Water and Sewer Service	66.606	MOBILE WATER	(9,425)
Pass-through from U. S. Department of Interior:			
Alabama Historical Commission	15.904	AL-06-003	92,916
Louisiana State University	15.235	SUBCONTRACT C164107	21,248
Pass-through from U.S. Department of Defense:			
Trinity University	12.800	FA9550-06-1-1029	51,805
Aerostar Environmental Services, Inc.	12.104	0407-524-31	88,540
Auburn University	12.431	04-ME-420950-USA	962
Pass-through from U.S. Department of Housing and Urban Development:			
Washington County Commission	14.228	CDBG/HUD	6,643
Total pass-through awards			1,877,286
Total Research and Development Cluster			17,858,153
Other federal assistance:			
Direct awards:			
U.S. Department of Education:			
TRIO Talent Search	84.044		297,837
TRIO Upward Bound	84.047		198,109
Transition to Teaching	84.350		227,777
U.S. Department of Health and Human Services:			
Advanced Education Nursing Grant Programs*	93.247		3,350,449
Basic Nurse Education and Practice Grants	93.359		202,677
Health Resources and Services Administration**:			
Grants for Residency Training for General Pediatrics	93.884		217,570
Telehealth Network Grants	93.211		210
HIV Demonstration Program for Children	93.153		317,290
Professional Nurse Traineeships	93.358		244,684
Project Grants for Renovation or Construction	93.887		15,378,565
Center for Disease Control and Prevention**:			
Centers for Disease Control and Prevention	93.283		11,761
U.S. Department of Housing and Urban Development:			
Community Development Block Grants	14.246		(797)
National Science Foundation:			
Education and Human Resources	47.076		98,395
Biological Sciences	47.074		47,108

(Continued)

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

Federal grantor/pass-through grantor/ program or cluster title	Federal CFDA number	Pass-through entity identifying number	Federal expenditures
Americorp: Corporation of National and Community Service	94.006		\$ 23,105
U.S. Department of Commerce: Coastal Zone Management Estuarine Research	11.420		6,618
U.S. Department of Transportation: National Motor Carrier Safety	20.218		408,908
Total direct awards			<u>21,030,266</u>
Pass-through awards:			
Pass-through from U.S. Department of Education:			
Alabama Department of Education	84.027	80035	20,000
Alabama Department of Education	84.323	C7U0133	82,090
Alabama Department of Education	84.357	370684-005503	
		-170030-1	310,145
Auburn University	84.287	08-TPI-222015-USA	16,675
Alabama Commission of Higher Education	84.367	50406	188,440
National Writing Project	84.928	NAT'L WRITING PROJECT	55,595
Pass-through from NASA:			
University of Alabama in Huntsville	43.002	SUB2005	18,467
Pass-through from National Institutes of Health**:			
Mayo Foundation for Medical Research	93.853	RO1 NS039987-7	1,993
Medical Library Association	93.879	CHECK #12461	2,286
SEA National Network of Libraries	93.879	80203	1,821
Moorehouse School of Medicine	93.004	US2MP002001-03-4	15,387
University of Maryland Baltimore	93.879	070106-MOA	3,505
United Way of Central Alabama	93.917	RW-USAF-0809	16,968
Pass-through from States Administration on Aging**:			
South Alabama Regional Planning Commission	93.051	80273	4,435
Pass-through from Administration for Children and Families:			
University of Alabama	93.658	80055	55,543
Pass-through from Health Resources Services Administration**:			
Alabama Department of Public Safety	93.289	C70119129	38,272
Alabama Department of Public Health	93.889	C80117142	538,285
Alabama Department of Public Health	93.289	C60114173	260,277
Alabama Department of Public Health	93.926	C80117121	20,000
Florida State University	93.969	R00891	58,881
Pass-through from National Science Foundation:			
University of Alabama at Birmingham	47.076	0602359-011-A1	25,620
Pass-through from U.S. Department of Justice:			
Alabama Department of Public Safety	16.579	60429	(373)
Alabama Department of Public Safety	16.579	17PGCP5042	1,844
Pass-through from U. S. Small Business Administration:			
University of Alabama at Birmingham	59.037	SBA FY2007-2008	127,529

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2008

Federal grantor/pass-through grantor/ program or cluster title	Federal CFDA number	Pass-through entity identifying number	Federal expenditures
Pass-through from U.S. Department of Defense: University of Alabama Birmingham	12.002	DOD 07-70	\$ 23,599
Total pass-through awards			<u>1,887,284</u>
Total other federal assistance			<u>22,917,550</u>
Total federal expenditures			\$ <u>115,593,552</u>

* Denotes major program.

** Denotes a subagency of the U.S. Department of Health and Human Services.

See accompanying notes to schedule of expenditures of federal awards.

See accompanying independent auditors' report on supplementary information.

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

Notes to Schedule of Expenditures of Federal Awards

September 30, 2008

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of University of South Alabama (the University) and is presented in accordance with U.S. generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Expenditures listed in the accompanying schedule of expenditures of federal awards, except for Perkins Loans, Federal Family Educational Loan (FFEL) Programs, Health Professional Student Loans, Loans to Disadvantaged Students and Health Education Assistance Loans (HEAL), represent actual expenditures incurred under the accrual basis of accounting for the year ended September 30, 2008. The loan programs representing loans made by the University are included in notes receivable in the accompanying 2008 statement of net assets and consist of the following:

Perkins Loan Program	\$ 4,415,267
Loans to Disadvantaged Students	1,727
Health Professional Student Loans	<u>103,380</u>
	4,520,374
Less outstanding balance of loans granted in previous years	<u>(4,520,374)</u>
New loans granted to eligible students of the University	<u>\$ —</u>

The FFEL and HEAL federal awards represent loans received by students of the University during fiscal year 2008 which were not made by the University. Accordingly, FFEL and HEAL amounts are not reflected in the University's basic financial statements.

(2) Contingencies

These federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the University's continued participation in specific programs.

(3) Federal Family Education Loan Programs

During fiscal year ended September 30, 2008, the University processed the following amount of new loans under the Federal Family Education Loan Program:

	<u>CFDA #</u>	<u>Amount expended</u>
Subsidized Stafford loans	84.032	\$ 25,246,435
Unsubsidized Stafford loans	84.032	36,441,749
Parents' Loans for Undergraduate Students	84.032	<u>2,786,414</u>
Total		<u>\$ 64,474,598</u>

(Continued)

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

Notes to Schedule of Expenditures of Federal Awards

September 30, 2008

(4) Administrative Cost Allowance

The accompanying schedule of expenditures of federal awards includes administrative costs for the Federal Work Study program of \$45,680.

(5) Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the University provided federal awards to subrecipients under the following programs:

	<u>Federal CFDA #</u>	<u>Amounts expended</u>
Direct awards:		
Habitat Conservation	11.463	\$ 550,407
National Motor Carrier Safety	20.218	40,000
Office of Research and Development Consolidated Research/ Training/Fellowships	66.511	306,001
Highway Planning and Construction	20.205	(21,230)
Technology Transfer	43.002	437,728
Mathematical and Physical Sciences	47.049	9,010
Transition to Teaching	84.350	69,873
International Research and Research Training	93.989	43,171
Cancer Biology Research	93.396	65,287
Biological Sciences	47.074	96
HIV Demonstration Program for Children	93.153	4,838
Applied Meteorological Studies	11.468	58,157
Minority Health and Health Disparities Research	93.307	109,979
Biomedical Research and Research Training	93.859	31,683
University Transportation Centers Program	20.701	2,500
Pass-through awards:		
Health Resources Services Administration/Alabama Department of Public Health	93.926	20,000
U.S. Department of Education/Alabama Commission of Higher Education	84.367	288,257
U.S. Department of Education/Alabama Department of Education	84.357	5,142
U.S. Veterans Administration/Civil Consultants, Inc.	64.201	3,000
		<u>\$ 2,023,899</u>

(6) Matching

Under the Federal Work Study Program and Federal Supplemental Educational Opportunity Grant Program, the University matched \$66,721 and \$148,269, respectively, in funds awarded to students for the year ended September 30, 2008 in addition to the Federal share of expenditures included in the accompanying schedule of expenditures of federal awards.



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

The Board of Trustees
University of South Alabama:

We have audited the basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of and for the year ended September 30, 2008, and have issued our report thereon dated November 14, 2008. We did not audit the 2008 consolidated financial statements of the University of South Alabama Foundation, which represents 82%, 100%, and (14)%, respectively, of the assets, net assets and revenues, gains and other support of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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*.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 14, 2008



KPMG LLP
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One Jackson Place
188 East Capitol Street
Jackson, MS 39201

**Independent Auditors' Report on Compliance With Requirements Applicable
to Each Major Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133**

The Board of Trustees
University of South Alabama:

Compliance

We have audited the compliance of the University of South Alabama (the University) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* (Compliance Supplement) that are applicable to each of its major federal programs for the year ended September 30, 2008, except the requirements discussed in the second paragraph of this report. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We did not audit the University's compliance with requirements governing maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments for the Federal Perkins Loan program in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement. Those requirements govern functions performed by Affiliated Computer Services, Inc. (ACS). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. ACS's compliance with the requirements governing the functions that it performs for the University for the year ended September 30, 2008 was examined by accountants for the servicer in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the accountants for the servicer's examination of ACS's compliance with such requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.



In our opinion, the University complied, in all material respects, with the requirements referred to in the first paragraph above that are applicable to each of its major federal programs for the year ended September 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2008-01.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Requirements governing maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments for the Federal Perkins Loan program in the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement are performed by ACS. Internal control over compliance related to such functions for the year ended September 30, 2008 was reported on by accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the accountants for the servicer's testing of the University's internal control over compliance related to such functions.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response, and accordingly, we express no opinion on it.



This report is intended solely for the information and use of the board of trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 14, 2008

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

I – Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes x no

Significant deficiency(ies) identified that are:
not considered to be material weaknesses?

_____ yes x none reported

Noncompliance material to financial statements noted?

_____ yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes x no

Significant deficiency(ies) identified that are:
not considered to be material weaknesses?

_____ yes x none reported

Type of auditors' report issued on compliance for
major programs:

Unqualified

Any audit findings disclosed that are required to be reported
in accordance with section 510(a) of Circular A-133?

 x yes _____ no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program Cluster</u>
84.063, 84.007, 84.032, 84.033, 84.375, 84.376	Student Financial Aid Cluster
Various	Research and Development Cluster
93.247	U.S. Department of Health and Human Services / Advanced Education Nursing Grant Programs
Dollar threshold used to distinguish between type A and type B programs:	<u> \$ 3,000,000 </u>
Auditee qualified as low-risk auditee?	<u> x </u> yes _____ no

(Continued)

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

**Section II – Findings Related to Financial Statements Reported in
Accordance with *Government Auditing Standards***

There were no findings related to the financial statements reported in accordance with *Government Auditing Standards*.

(Continued)

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

Section III – Federal Award Findings and Questioned Costs relating to Federal Awards

Finding No. 2008-01 Allowable Costs / Activities Allowed

Federal Agency:

U.S. Department of Health and Human Services

CFDA Number:

93.247

Program:

Advanced Education Nursing Grants

Award Numbers:

5D09HP05319-03-00
5D09HP00231-07-00
1D09HP07984-01-00
1D09HP07971-01-00
6D09HP07965-01-01
5D09HP07319-02-00
5D09HP07330-02-00
5D09HP07329-02-00
5D09HP07325-02-00
5D09HP05321-02-00
1D09HP05319-01-00
5D09HP05321-03-00

Award Years:

July 1, 2007 through June 30, 2009

Criteria

OMB Circular A-21 (A-21) establishes principles for determining the costs applicable to activities performed by educational institutions under grants, contracts, and other agreements with the Federal Government. In accordance with A-21, direct costs charged to Federal grants must be for allowable costs.

Condition

During our testwork related to the Advanced Education Nursing Grants Program, we noted that certain costs charged to these grants were unallowable. The amount of costs determined to be unallowable was \$33,140, which includes \$2,455 of indirect costs. Total program costs totaled \$3,350,449 for the year ended September 30, 2008.

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

Questioned Costs

\$33,140 (unallowable costs)

Context

The grant documents allowed for fringe benefits to be charged to the Federal grants. The University charged tuition and scholarships offered as a fringe benefit as a direct cost to the Federal grants. However, the summary information for the program in the Catalog of Federal Domestic Assistance (CFDA) stated that student support through stipends, tuition, and fees was not eligible for support under this Federal program and therefore these costs were unallowable.

Cause and Effect

Management of the University was unaware that tuition and scholarships are not allowable as fringe benefits. As a result, Federal funds were expended for unallowable purposes.

Recommendation

We recommend that management strengthen the University's processes and controls to ensure that the CFDA program information is reviewed in conjunction with the grant documents in determining allowable costs.

Management Views

Management concurs with the finding. Management will strengthen controls over disbursements related to tuition by providing education to the Business Office that reviews these transactions. The Grants and Contracts Accounting Office will review new grants to determine whether tuition is allowable, and if not, will review the account monthly to verify that no tuition is charged.

University of South Alabama

Summary Comparison of Fund Financial Reports to

GASB Statement 34 Financial Statements

September 30, 2002 Through 2008

Year Ended September 30,

Net increase (decrease) in current unrestricted

Add:

Debt service

Equipment

Depreciation

Other funds, net

Net increase in net assets

- GASB Statement 34/35

**Detailed Reconciliation of Fund Financial Reports
to GASB 34 Financial Statements**

Year Ended September 30, 2008

Net increase from operating (current unrestricted) funds - fund format		\$ 1,302,243
Add back:		
Debt service:		
Principal payment on long term debt	\$ 5,287,134	
Actual payment of principal and interest in in excess of amounts transferred (timing issue)	<u>4,590,345</u>	9,877,479
Equipment purchases		22,674,581
Depreciation of buildings and equipment:		
Computed depreciation	(20,167,588)	
Non-capitalized plant fund expenditures	(4,418,392)	
Transfers of funded depreciation	<u>8,700,224</u>	(15,885,756)
		17,968,547
Add:		
Plant fund income/transfers (net) not previously combined with operating:		3,527,725
Other fund income not previously combined with operating:		
Endowment fund gifts, investment gain and other, net	4,058,697	
Loan fund	25,883	
Restricted fund	(1,040,339)	
Other transfers, net	<u>(729,513)</u>	2,314,728
Net increase in net assets - GASB Statement No. 34 Format		<u><u>\$ 23,811,000</u></u>

**Detailed Reconciliation of Fund Financial Reports to
GASB Statement No. 34 Financial Statements**

Year Ended September 30, 2007

Net increase from operating (current unrestricted) funds - fund format	\$	3,721,883
Add back:		
Debt service:		
Principal payment on long term debt	\$	6,899,969
Actual payment of principal and interest in in excess of amounts transferred (timing issue)		<u>(498,820)</u>
		6,401,149
Equipment purchases		21,018,457
Depreciation of buildings and equipment:		
Computed depreciation		(19,058,759)
Non-capitalized plant fund expenditures		(4,213,969)
Transfers of funded depreciation		<u>29,680,064</u>
		6,407,336
		37,548,825
Add:		
Plant fund income/transfers (net) not previously combined with operating:		22,747,172
Other fund income not previously combined with operating:		
Endowment fund gifts, investment gain and other, net		13,444,313
Loan fund		42,935
Restricted fund		1,067,291
Other transfers, net		<u>(1,692,536)</u>
		12,862,003
Net increase in net assets - GASB Statement No. 34 Format	\$	<u><u>73,158,000</u></u>

**Detailed Reconciliation of Fund Financial Reports to
GASB Statement No. 34 Financial Statements**

Year Ended September 30, 2006

Net increase from operating (current unrestricted) funds - fund format	\$ 10,190,822
Add back:	
Debt service:	
Principal payment on long term debt	\$ 6,263,751
Actual payment of principal and interest in in excess of amounts transferred (timing issue)	<u>319,478</u> 6,583,229
Equipment purchases	11,456,341
Depreciation of buildings and equipment:	
Computed depreciation	(18,459,716)
Non-capitalized plant fund expenditures	(4,969,131)
Transfers of funded depreciation	<u>19,089,883</u> (4,338,964)
Add:	23,891,428
Plant fund income/transfers (net) not previously combined with operating:	14,526,183
Other fund income not previously combined with operating:	
Endowment fund gifts, investment gain and other, net	5,746,046
Loan fund	(22,285)
Restricted fund	11,254,678
Other transfers, net	<u>5,950</u> 16,984,389
Net increase in net assets - GASB Statement No. 34 Format	<u><u>\$ 55,402,000</u></u>

**Detailed Reconciliation of Fund Financial Reports to
GASB Statement No. 34 Financial Statements**

Year Ended September 30, 2005

Net increase from operating (current unrestricted) funds - fund format	\$	639,470
Add back:		
Debt service:		
Principal payment on long term debt	\$	5,922,085
Actual payment of principal and interest in in excess of amounts transferred (timing issue)		<u>970,426</u>
		6,892,511
Equipment purchases		10,556,620
Depreciation of buildings and equipment:		
Computed depreciation		(18,660,569)
Non-capitalized plant fund expenditures		(5,744,883)
Transfers of funded depreciation		<u>16,165,144</u>
		(8,240,308)
		9,848,293
Add:		
Plant fund income/transfers (net) not previously combined with operating:		6,293,990
Other fund income not previously combined with operating:		
Endowment fund gifts, investment gain and other, net		2,346,229
Loan fund		(104,245)
Restricted fund		3,543,207
Other transfers, net		<u>(81,474)</u>
		5,703,717
Net increase in net assets - GASB Statement No. 34 Format	\$	<u><u>21,846,000</u></u>

**Detailed Reconciliation of Fund Financial Reports to
GASB Statement No. 34 Financial Statements**

Year Ended September 30, 2004

Net increase from operating (current unrestricted) funds - fund format	\$	4,805,701
Add back:		
Debt service:		
Principal payment on long term debt - (except 1993 bond payoff)	\$	6,273,812
Actual payment of principal and interest in in excess of amounts transferred (timing issue)		<u>3,868,513</u>
Equipment purchases		8,088,299
Depreciation of buildings and equipment:		
Computed depreciation		(17,934,421)
Non-capitalized plant fund expenditures		(5,768,359)
Transfers of funded depreciation		<u>(8,499,925)</u>
		8,262,588
Add:		
Plant fund income/transfers (net) not previously combined with operating:		8,191,189
Other fund income not previously combined with operating:		
Endowment fund gifts, investment gain and other, net		3,840,675
Loan fund balance reclassification		(4,779,278)
Loan fund		(46,217)
Restricted fund		41,357
Other transfers, net		<u>(535,777)</u>
Net increase in net assets - GASB Statement No. 34 Format	\$	<u><u>15,918,000</u></u>

**Detailed Reconciliation of Fund Financial Reports to
GASB Statement No. 34 Financial Statements**

Year Ended September 30, 2003

Net increase from operating (current unrestricted) funds - fund format		\$ (5,420,432)
Add back:		
Debt service:		
Principal payment on long term debt	\$ 8,464,040	
Actual payment of principal and interest in in excess of amounts transferred (timing issue)	<u>(2,131,108)</u>	6,332,932
Equipment purchases		5,324,265
Depreciation of buildings and equipment:		
Computed depreciation	(17,431,909)	
Non-capitalized plant fund expenditures	(4,227,457)	
Transfers of funded depreciation	<u>13,908,736</u>	<u>(7,750,630)</u>
		(1,513,865)
Add:		
Plant fund income (net) not previously combined with operating:		5,251,321
Other fund income not previously combined with operating:		
Endowment fund gifts and investment gain, net	5,051,957	
Endowment fund transfer (to) from Current Unrestricted Fund	122,783	
Loan fund	(292,614)	
Restricted fund	141,655	
Other transfers, net	<u>109,763</u>	<u>5,133,544</u>
Net increase in net assets - GASB Statement No. 34 Format		<u><u>\$ 8,871,000</u></u>

**Detailed Reconciliation of Fund Financial Reports to
GASB Statement No. 34 Financial Statements**

Year Ended September 30, 2002

Net increase from operating (current unrestricted) funds - fund format		\$ 4,167,774
Add back:		
Debt service:		
Principal payment on long term debt	\$ 7,137,128	
Actual payment of principal and interest in in excess of amounts transferred (timing issue)	<u>(1,635,119)</u>	5,502,009
Equipment purchases		10,486,087
Depreciation of buildings and equipment:		
Computed depreciation	(16,163,736)	
Non-capitalized plant fund expenditures	(1,452,039)	
Transfers of funded depreciation	<u>18,790,433</u>	1,174,658
		21,330,528
Add:		
Plant fund income (net) not previously combined with operating:		10,446,462
Other fund income not previously combined with operating:		
Endowment fund gifts and investment gain, net	(96,453)	
Endowment fund transfer (to) from Current Unrestricted Fund	(1,774,186)	
Loan fund	63,320	
Restricted fund	111,259	
Other transfers, net	<u>70</u>	(1,695,990)
Net increase in net assets - GASB Statement No. 34 Format		<u><u>\$ 30,081,000</u></u>



UNIVERSITY OF SOUTH ALABAMA

**Communication to the Budget and Finance Committee of the
Board of Trustees**

September 30, 2008



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

November 14, 2008

Budget and Finance Committee of the
Board of Trustees
University of South Alabama

Members of the Committee:

We have audited the basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of September 30, 2008 and issued our report thereon dated November 14, 2008. Under our professional standards, we are providing you with the attached information related to the conduct of our audit.

Our Responsibility Under Professional Standards

We are responsible for forming and expressing an opinion about whether the basic financial statements that have been prepared by management with the oversight of the Budget and Finance Committee of the Board of Trustees, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or the Budget and Finance Committee of the Board of Trustees of their responsibilities.

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

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

Significant Accounting Policies

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



University of South Alabama
Communication to the Budget and
Finance Committee of the Board of Trustees
November 14, 2008
Page 2

Unusual Transactions

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

Qualitative Aspects of Accounting Practices

We discuss with those charged with governance our judgments about the quality, not just the acceptability, of the University's accounting policies as applied in its financial reporting. Since the primary responsibility for establishing a university's accounting policies rests with management, management is generally an active participant in these discussions. The discussion generally includes such matters as the consistency of the University's accounting policies and their application, and the understandability and completeness of the University's basic financial statements, which include related disclosures.

Management Judgments and Accounting Estimates

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

Management's estimates of the allowances for uncollectible accounts and contractual adjustments are based on, among other things, analyses of historical trends, the aging and mix of accounts receivable at year-end and expected third-party payor payment rates. Estimated professional and general liability costs and self-insurance reserves for employee health insurance are based on, among other things, reviews of occurrences accumulated by incident reporting systems, discussions with risk management professionals, actuarial valuations and consideration of recent developments.

We evaluated the key factors and assumptions used in developing these accounting estimates to determine that they are reasonable in relation to the financial statements of the University taken as a whole.

Uncorrected Misstatements

There were no uncorrected misstatements related to the University's basic financial statements.

Other Information in Documents Containing Audited Financial Statements

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



University of South Alabama
Communication to the Budget and
Finance Committee of the Board of Trustees
November 14, 2008
Page 3

Disagreements with Management

There were no disagreements with management on financial accounting, and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the University's basic financial statements.

Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended September 30, 2008.

Material Written Communications

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

- 1.) Engagement letters and
- 2.) Management representation letters

* * * *

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

Very truly yours,

KPMG LLP

July 1, 2008

Mr. M. Wayne Davis
Vice President for Financial Affairs
University of South Alabama
307 University Boulevard North, AD 328
Mobile, Alabama 36688-0002

Dear Wayne:

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

Objectives and Limitations of Services

Financial Statement Audit Services

We will issue written reports upon our audit of the University's financial statements as set forth in Appendix I.

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

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

Our report will be addressed to the University's Board of Trustees. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

Internal Control over Financial Reporting and Compliance and Other Matters

In planning and performing our audit of the financial statements, we will consider the University's internal control in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. In accordance with *Government Auditing Standards*, we are required to communicate that the limited purpose of our consideration of internal control may not meet the needs of some users who require additional information about internal control. We can provide other services to provide you with additional information on internal control which we would be happy to discuss with you at your convenience.

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

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the University's internal control and we are not obligated to search for significant deficiencies or material weaknesses as part of our audit of the financial statements, this report will include any significant deficiencies and material weaknesses to the extent they come to our attention. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. This report will also include illegal acts and fraud, unless clearly inconsequential, and material violations of grants, contracts, and abuse. It will indicate that it is intended solely for the information and use of the Budget and Finance Committee and management of the University and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards*, we will also issue a management letter to communicate immaterial violations of grants and contracts and abuse that comes to our attention, unless clearly inconsequential.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud or illegal acts directly to parties outside the auditee.

OMB Circular A-133 Audit Services

We will also perform audit procedures with respect to the University's major federal programs in accordance with the provisions of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133). OMB Circular A-133 includes specific audit

requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts, and grants that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of OMB Circular A-133, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with laws, regulations, contracts, and grants applicable to each of the University's major programs. The tests of internal control performed in accordance with OMB Circular A-133 are less in scope than would be necessary to render an opinion on internal control.

Compliance with laws, regulations, contracts, and grants applicable to federal programs is the responsibility of management. We will perform tests of the University's compliance with certain provisions of laws, regulations, contracts, and grants we determine to be necessary based on the *OMB Circular A-133 Compliance Supplement (Compliance Supplement)*. The procedures outlined in the *Compliance Supplement* are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

As required by OMB Circular A-133, we will prepare a written report which provides our opinion on the schedule of expenditures of federal awards in relation to the University's financial statements. In addition, we will prepare a written report (A-133 report) which 1) provides our opinion on compliance with laws, regulations, contracts, and grants that could have a direct and material effect on a major federal program and 2) communicates our consideration of internal control over major federal programs. The A-133 report will indicate that it is intended solely for the information and use of the Budget and Finance Committee and management of the University and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

Offering Document

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

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

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

Our Responsibility to Communicate with the Budget and Finance Committee

We will report to the Budget and Finance Committee, in writing, the following matters:

- Corrected misstatements arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the University's financial reporting process. In this context, corrected misstatements are proposed corrections of the financial statements that were recorded by management and, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- Any disagreements with management or other significant difficulties encountered in performance of our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

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

If, in performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the audit committee our reasons for modification or withdrawal.

Management Responsibilities

The management of the University is responsible for the fair presentation, in accordance with U.S generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the University complies with laws, regulations, contracts, and grants applicable to its activities, and for informing us of any known material violations of such laws and regulations. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all significant deficiencies and material

weaknesses in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management of the University also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the University's personnel. As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with provisions of laws, regulations, contracts and grants applicable to federal programs as discussed above, OMB Circular A-133 also requires the University to prepare a:

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

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

Certain provisions of OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental audit cost arising from such selection. The University agrees to notify KPMG LLP (KPMG) of any such request by a granting agency and to work with KPMG to modify the terms of this letter as necessary to accommodate such a request.

In accordance with *Government Auditing Standards*, as part of our planning of the audit we will consider the results of previous audits and follow up on known significant findings and recommendations that directly relate to the objectives of the audit. To assist us, management agrees to identify previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and to identify corrective actions taken to address significant findings and recommendations prior to September 30, 2008.

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

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAGAS or A-133 report within thirty days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the report, the report will indicate the status of management's responses.

Management is responsible for the distribution of the reports issued by KPMG. In accordance with *Government Auditing Standards*, the reports issued citing *Government Auditing Standards* are to be made available for public inspection.

Dispute Resolution

Any dispute or claim arising out of or relating to this Engagement Letter or the services provided hereunder, or any other audit or attest services provided by or on behalf of KPMG or any of its subcontractors or agents to the University or at its request, shall be submitted first to non-binding mediation (unless either party elects to forego mediation by initiating a written request for arbitration) and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution then in effect ("CPR Arbitration Rules"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. By operation of this provision, the parties agree to forego litigation over such disputes in any court of competent jurisdiction.

Mediation, if selected, may take place at a location to be designated by the parties using Mediation Procedures of the International Institute for Conflict Prevention and Resolution, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in New York, New York. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in CPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm and enforce any final award entered in arbitration, in any court of competent jurisdiction. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.

Other Matters

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

fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

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

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

KPMG member firms located outside the United States and other third-party service providers operating under our supervision may also participate in providing the services described in this letter.

The work papers for this engagement are the property of KPMG. Pursuant to *Government Auditing Standards*, we are required to make certain work papers available in a full and timely manner to regulatory agencies upon request for their reviews of audit quality and for use by their auditors. In addition, we may be requested to make certain work papers available to regulators pursuant to authority given to it by law or regulation. Access to the requested work papers will be provided under supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to regulatory agencies. These regulatory agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement for the University in judicial or administrative proceedings to which KPMG is not a party, the University shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

Other Government Auditing Standards Matters

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

We will also assist management in drafting the financial statements and notes. In accordance with *Government Auditing Standards*, we are required to confirm that management accepts responsibility for the financial statements and notes and, therefore, has a responsibility to be in a position in fact and appearance to make an informed judgment about them and that management will:

- Designate a qualified management-level individual to be responsible and accountable for overseeing the drafting of the financial statements.
- Establish and monitor the performance of the engagement to ensure that it meets management's objectives.
- Make any decisions that involve management functions related to the engagement and accept full responsibility for such decisions.
- Evaluate the adequacy of the financial statements and notes.

Additional Reports and Fees for Services

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

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

* * * * *

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

In accordance with your instructions, we have forwarded a copy of this letter to the Chairman of the Budget and Finance Committee and the President.

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

Very truly yours,

KPMG LLP



Mark P. Peach
Partner

cc: V. Gordon Moulton, *President*
The Honorable James P. Nix, *Chairman of the Budget and Finance Committee*

University of South Alabama
July 1, 2008
Page 9 of 10

ACCEPTED:

UNIVERSITY OF SOUTH ALABAMA

M. Wayne Davis

Mr. M. Wayne Davis

Vice President for Financial Affairs

7/15/08
Date

Appendix I

Fees for Services

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

Audit of financial statements of University of South Alabama as of and for the year ended September 30, 2008 and other reports detailed below	\$395,000
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Other Reports:

The reports that we will issue as part of this engagement are as follows:

- Reports issued in connection with OMB Circular A-133
- Debt covenant compliance report
- Debt agreed upon procedures report
- University of South Alabama Health Services Foundation
- South Alabama Medical Science Foundation
- USA Research and Technology Corporation
- USA Professional Liability Trust Fund
- USA General Liability Trust Fund
- NCAA agreed upon procedures report

The above estimate is based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred. The fees assume that you will provide routine client assistance activities such as preparation of financial statements, certain account analyses, document retrieval and confirmation preparation. The fees also assume a commitment of 1,400 hours of internal audit assistance related to the audit. The fees also assume no significant changes in operations. Progress billings will be sent every two weeks and are due within thirty days upon receipt.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

July 1, 2008

PRIVATE

Mr. M. Wayne Davis
Vice President for Financial Affairs
University of South Alabama
307 University Boulevard North, AD 328
Mobile, Alabama 36688-0002

Dear Wayne:

This letter sets forth our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will apply the following agreed-upon procedures related to assist The Board of Trustees and Management of the University of South Alabama (the University) in evaluating the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the Statement of Investments Held by Trustee Pursuant to the Bond Resolutions relating to the University Tuition Revenue Bonds, Series 1999, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, and University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, as of September 30, 2008 and for the year then ended.

- a. We will compare the amounts shown on the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions in Exhibit A to the annual trustee statements of cash and investment transactions provided to us by the bond trustee and ensure that they agree.
- b. We will compare the amounts shown on the Statement of Investments Held by Trustee Pursuant to the Bond Resolutions in Exhibit B to the annual trustee statements of cash and investment transactions provided to us by the bond trustee and ensure that they agree.
- c. We will obtain a schedule of general student fees (tuition) collected during the year ended September 30, 2008, and compare that amount to the general student fees recorded in the University's general ledger and ensure that they agree.

At the conclusion of the engagement, management agrees to supply us with a representation letter that, among other things, will confirm management's responsibility for the sufficiency of the agreed-upon procedures for its purposes and the fair presentation of the specified elements,

accounts, or items of the financial statements in conformity with U.S. generally accepted accounting principles.

Our engagement to apply agreed-upon procedures will be performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which our report is being prepared or for any other purpose.

Because the agreed-upon procedures referred to above do not constitute an audit, we will not express an opinion on any of the elements, accounts, or items of management's Statement of Changes in Cash and Investments Held by Trustee. Our report will include a statement to that effect. In addition, we have no obligation to perform any procedures beyond those referred to above.

Our report will include a list of the procedures performed (or reference thereto) and the related findings. Our report will also contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you. We have no responsibility to update our report for events and circumstances occurring after the date of such report.

Our report is intended solely for the use of University management, and is not intended for use by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. If you request that additional specified users of the report be added, we will require that they acknowledge, in writing, their agreement with the procedures and their responsibility for the sufficiency of the procedures for their purposes.

During the course of our procedures, we may consider it necessary to perform additional procedures in order to accomplish the stated purposes of the procedures described. Any such additional procedures will be outlined in our draft report, which will be reviewed by University management prior to final issuance, in order to ensure that the procedures were sufficient to accomplish the purposes of the University. If we are unable to complete the agreed-upon procedures referred to above, we will discuss the matter with University management during the engagement. In such circumstances, we may conclude that we will not issue a report as a result of this engagement.

By approving this engagement, you agree to release KPMG and its personnel from any claims, liabilities, costs, and expenses relating to our services under this letter, except to the extent determined to have resulted from the intentional or deliberate misconduct of KPMG personnel. In the event KPMG is required pursuant to subpoena or other legal process to produce its documents relating to engagements for the University in judicial or administrative proceedings to which KPMG is not a party, the University shall reimburse KPMG for its professional time and expense, including reasonable attorney's fees, incurred in responding to such requests.

University of South Alabama
July 1, 2008
Page 3

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

Very truly yours,

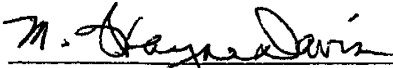
KPMG LLP



Mark P. Peach
Partner

ACCEPTED:

University of South Alabama



Mr. M. Wayne Davis
Vice President for Financial Affairs

7/15/08
Date

July 18, 2008

Mr. John P. Pannelli, CPA
Assistant Vice President, Medical Financial Affairs
University of South Alabama Health Services Foundation
307 University Boulevard, CSAB 269
Mobile, AL 36688-0002

Dear John:

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

Objectives and Limitations of Services

Audit Services

We will issue a written report upon our audit of the Foundation's financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America, with the objective of expressing an opinion as to whether the presentation of the financial statements, taken as a whole, conforms with U.S. generally accepted accounting principles.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

Mr. John P. Pannelli
July 18, 2008
Page 2

Our report will be addressed to the board of directors of the Foundation. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report(s) or withdraw from the engagement.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we will consider the Foundation's internal control in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

The objective of our audit of the financial statements is not to report on the Foundation's internal control and we are not obligated to search for significant deficiencies or material weaknesses as part of our audit of the financial statements. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Registration Statements and Other Offering Documents

Should the Foundation wish to include or incorporate by reference these financial statements and our audit report(s) thereon into a future filing under the Securities Act of 1933, or an exempt offering, prior to our consenting to include or incorporate by reference our report(s) on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the registration statement or other offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future filings or other offering documents will be determined at the time the services are to be performed. Nevertheless, we can confirm in this letter that fees for offering document services are charged at 100% of our standard rates.

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

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

Our Responsibility to Communicate with the Board of Directors

While the objective of our audit of the financial statements is not to report on the Foundation's internal control and we are not obligated to search for significant deficiencies or material weaknesses as part of our audit of the financial statements, we will communicate, in writing, significant deficiencies or material weaknesses to the board of directors to the extent they come to our attention.

We will report to the board of directors, in writing, the following matters:

- Corrected misstatements arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the Foundation's financial reporting process. In this context, corrected misstatements are proposed corrections of the financial statements that were recorded by management and, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- Any disagreements with management or other significant difficulties encountered in performance of our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

We will also read minutes, if any, of board of directors meetings for consistency with our understanding of the communications made to the board of directors and determine that the board of directors has received copies of all material written communications between ourselves and management. We will also determine that the board of directors has been informed of i) the initial selection of, or the reasons for any

Mr. John P. Pannelli
July 18, 2008
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change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

To the extent that they come to our attention, we will inform the board of directors and management about any material errors and any instances of fraud or illegal acts. Further, to the extent they come to our attention, we will also communicate to the board of directors fraud that involves senior management or that, in our judgment, causes a material misstatement of the financial statements and illegal acts that come to our attention, unless they are clearly inconsequential.

If, during the performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the board of directors our reasons for withdrawal.

Management Responsibilities

The management of the Foundation is responsible for the fair presentation, in accordance with U.S. generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the Foundation complies with laws and regulations applicable to its activities, and for informing us of any known material violations of such laws and regulations. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all significant deficiencies or material weaknesses in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management of the Foundation also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the Foundation's personnel. As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated

Mr. John P. Pannelli
July 18, 2008
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by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon taken as a whole. Because of the importance of management's representations to the effective performance of our services, the Foundation will release KPMG LLP (KPMG) and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any known misrepresentations in the representation letter referred to above.

Dispute Resolution

Any dispute or claim arising out of or relating to this Engagement Letter or the services provided hereunder, or any other audit or attest services provided by or on behalf of KPMG or any of its subcontractors or agents to the Foundation or at its request, shall be submitted first to non-binding mediation (unless either party elects to forego mediation by initiating a written request for arbitration) and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution then in effect ("CPR Arbitration Rules"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. By operation of this provision, the parties agree to forego litigation over such disputes in any court of competent jurisdiction.

Mediation, if selected, may take place at a location to be designated by the parties using Mediation Procedures of the International Institute for Conflict Prevention and Resolution, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in New York, New York. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in CPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm and enforce any final award entered in arbitration, in any court of competent jurisdiction. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.

Mr. John P. Pannelli
July 18, 2008
Page 6

Other Matters

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

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

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

* * * *

The work papers for this engagement are the property of KPMG. In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement for the Foundation in judicial or administrative proceedings to which KPMG is not a party, the Foundation shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

Services and Fees for Services

Appendix I to this letter lists the services for this engagement and our fees for professional services to be performed.

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

* * * *

Our engagement herein is for the provision of annual audit services for the financial statements and for the periods described in Appendix I, and it is understood that such services are provided as a single engagement. Pursuant to our arrangement as reflected in this letter we will provide the services set forth

Mr. John P. Pannelli
July 18, 2008
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in Appendix I as a single engagement for each of the Foundation's subsequent fiscal years until either the board of directors or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by the management of the Foundation.

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

Very truly yours,

KPMG LLP

A handwritten signature in black ink, appearing to read "Ashley", written in a cursive style.

Ashley E. Willson
Partner, Healthcare

Mr. John P. Parnelli
July 18, 2008
Page 8

ACCEPTED:

UNIVERSITY OF SOUTH ALABAMA HEALTH SERVICES FOUNDATION



John P. Parnelli / Assistant Vice President, Medical Financial Affairs

8/1/08

Date

Appendix I

Fees for Services

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

Audit of the financial statements of University of
Alabama Health Services Foundation as of and
for the year ending September 30, 2008

Fee included in University of
South Alabama overall fee

Our commitment to maintain historical fee levels assumes management's responsibility for providing us with all financial records and related information on a timely basis. The failure to do so, or the extensive audit adjustment of such records and information, may cause us to delay our report, modify our procedures, increase related fees or terminate the engagement.

The Foundation agrees to provide us with reasonable assistance including, but not limited to, preparation of analyses and schedules supporting the financial statements and, assistance in retrieving source documents. The cost of professional services related to assisting the Foundation in preparing any such records for audit and/or adjusting such records for the impact of misstatements is not included in our stated fee commitment.

Our standard practice is to submit regular progress billings over the course of the engagement, generally beginning with our submission of this engagement letter to you for execution.

Circumstances encountered during our performance of these services that warrant additional time or expense could cause us to be able to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

In addition, expenses are billed for reimbursement. Expenses for such items include travel, telephone, postage, typing, printing, and reproduction of financial statements.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill the Foundation the amount incurred at the time the goods or services are purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the Foundation. Instead, KPMG applied such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to the Foundation.



KPMG LLP
Suite 1100
One Jackson Place
186 East Capitol Street
Jackson, MS 39201

Telephone 601 354 3701
Fax 601 354 3746
Internet www.us.kpmg.com

July 18, 2008

Mr. Robert K. Davis
Assistant Vice President for Financial Affairs
University of South Alabama
307 University Boulevard, AD328
Mobile, AL 36688-0002

Dear Ken:

This letter (the Engagement Letter) confirms our understanding of our engagement to provide professional services to University of South Alabama Professional Liability Trust Fund and University of South Alabama General Liability Program (collectively, the Trust Funds).

Objectives and Limitations of Services

Audit Services

We will issue a written report upon our audit of the Trust Funds' financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America, with the objective of expressing an opinion as to whether the presentation of the financial statements, taken as a whole, conforms with U.S. generally accepted accounting principles.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements.



Mr. Robert K. Davis
July 18, 2008
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performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements. Our report will be addressed to the board of directors of the Trust Funds. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report(s) or withdraw from the engagement.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we will consider the Trust Funds' internal control in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

The objective of our audit of the financial statements is not to report on the Trust Funds' internal control and we are not obligated to search for significant deficiencies or material weaknesses as part of our audit of the financial statements. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Registration Statements and Other Offering Documents

Should the Trust Funds wish to include or incorporate by reference these financial statements and our audit report(s) thereon into a future filing under the Securities Act of 1933, or an exempt offering, prior to our consenting to include or incorporate by reference our report(s) on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the registration statement or other offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future filings or other offering documents will be determined at the time the services are to be performed. Nevertheless, we can confirm in this letter that fees for offering document services are charged at 100% of our standard rates.



Mr. Robert K. Davis
July 18, 2008
Page 3

Should the Trust Funds wish to include or incorporate by reference these financial statements and our audit report(s) thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our report(s) on such financial statements, and we are not otherwise associated with the offering document, then the Trust Funds agree to include the following language in the offering document:

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

Our Responsibility to Communicate with the Board of Directors

While the objective of our audit of the financial statements is not to report on the Trust Funds' internal control and we are not obligated to search for significant deficiencies or material weaknesses as part of our audit of the financial statements, we will communicate, in writing, significant deficiencies or material weaknesses to the board of directors to the extent they come to our attention.

We will report to the board of directors, in writing, the following matters:

- Corrected misstatements arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the Trust Funds' financial reporting process. In this context, corrected misstatements are proposed corrections of the financial statements that were recorded by management and, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- Any disagreements with management or other significant difficulties encountered in performance of our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

We will also read minutes, if any, of board of directors meetings for consistency with our understanding of the communications made to the board of directors and determine that the board of directors has received copies of all material written communications between ourselves and management. We will also determine that the board of directors has been informed of i) the initial selection of, or the reasons for any



Mr. Robert K. Davis
July 18, 2008
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change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

To the extent that they come to our attention, we will inform the board of directors and management about any material errors and any instances of fraud or illegal acts. Further, to the extent they come to our attention, we will also communicate to the board of directors fraud that involves senior management or that, in our judgment, causes a material misstatement of the financial statements and illegal acts that come to our attention, unless they are clearly inconsequential.

If, during the performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the board of directors our reasons for withdrawal.

Management Responsibilities

The management of the Trust Funds is responsible for the fair presentation, in accordance with U.S. generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the Trust Funds comply with laws and regulations applicable to its activities, and for informing us of any known material violations of such laws and regulations. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all significant deficiencies or material weaknesses in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management of the Trust Funds also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the Trust Funds' personnel. As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated



Mr. Robert K. Davis
July 18, 2008
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by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon taken as a whole. Because of the importance of management's representations to the effective performance of our services, the Trust Funds will release KPMG LLP (KPMG) and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any known misrepresentations in the representation letter referred to above.

Dispute Resolution

Any dispute or claim arising out of or relating to this Engagement Letter or the services provided hereunder, or any other audit or attest services provided by or on behalf of KPMG or any of its subcontractors or agents to the Trust Funds or at its request, shall be submitted first to non-binding mediation (unless either party elects to forego mediation by initiating a written request for arbitration) and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution then in effect ("CPR Arbitration Rules"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. By operation of this provision, the parties agree to forego litigation over such disputes in any court of competent jurisdiction.

Mediation, if selected, may take place at a location to be designated by the parties using Mediation Procedures of the International Institute for Conflict Prevention and Resolution, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in New York, New York. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in CPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm and enforce any final award entered in arbitration, in any court of competent jurisdiction. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.



Mr. Robert K. Davis
July 18, 2008
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Other Matters

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

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

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

The work papers for this engagement are the property of KPMG. In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement for the Trust Funds in judicial or administrative proceedings to which KPMG is not a party, the Trust Funds shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

Services and Fees for Services

Appendix I to this letter lists the services for this engagement and our fees for professional services to be performed.

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

Our engagement herein is for the provision of annual audit services for the financial statements and for the periods described in Appendix I, and it is understood that such services are provided as a single engagement. Pursuant to our arrangement as reflected in this letter we will provide the services set forth



Mr. Robert E. Davis
July 18, 2008
Page 7

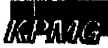
in Appendix I as a single engagement for each of the Trust Funds' subsequent fiscal years until either the board of directors or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by the management of the Trust Funds.

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

Very truly yours,

KPMG LLP

Ashley E. Willson
Partner, Healthcare



Mr. Robert K. Davis
July 18, 2008
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ACCEPTED:

**UNIVERSITY OF SOUTH ALABAMA
PROFESSIONAL LIABILITY TRUST FUND**

**UNIVERSITY OF SOUTH ALABAMA
GENERAL LIABILITY PROGRAM**

Robert K. Davis / Assistant Vice President for Financial Affairs

10/13/08

Date

Appendix F

Fees for Services

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

Audit of the financial statements of University of South Alabama Professional Liability Trust Fund as of and for the year ending September 30, 2008

Fee included in University of South Alabama overall fee

Audit of the financial statements of University of South Alabama General Liability Program as of and for the year ending September 30, 2008

Fee included in University of South Alabama overall fee

Our commitment to maintain historical fee levels assumes management's responsibility for providing us with all financial records and related information on a timely basis. The failure to do so, or the extensive audit adjustment of such records and information, may cause us to delay our report, modify our procedures, increase related fees or terminate the engagement.

The Trust Funds agree to provide us with reasonable assistance including, but not limited to, preparation of analyses and schedules supporting the financial statements and, assistance in retrieving source documents. The cost of professional services related to assisting the Trust Funds in preparing any such records for audit and/or adjusting such records for the impact of misstatements is not included in our stated fee commitment.

Our standard practice is to submit regular progress billings over the course of the engagement, generally beginning with our submission of this engagement letter to you for execution.

Circumstances encountered during our performance of these services that warrant additional time or expense could cause us to be able to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

In addition, expenses are billed for reimbursement. Expenses for such items include travel, telephone, postage, typing, printing, and reproduction of financial statements.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill the Trust Funds the amount incurred at the time the goods or services are purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the Trust Funds. Instead, KPMG applied such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to the Trust Funds.

July 1, 2008

University of South Alabama
Attn: Mr. R. Ken Davis
Associate Vice President for Finance
307 University Boulevard North, AD 380
Mobile, Alabama 36688-0002

Dear Ken:

This letter (the Engagement Letter) confirms our understanding of our engagement to provide professional services to USA Research and Technology Corporation (the Corporation).

Objectives and Limitations of Services

Audit Services

We will issue a written report upon our audit of the Corporation's financial statements as set forth in Appendix I.

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

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinion on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

Our report will be addressed to the Board of Directors of the Corporation. We cannot provide assurance that an unqualified opinion will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

Internal Control over Financial Reporting and Compliance and Other Matters

In planning and performing our audit of the financial statements, we will consider the Corporation's internal control in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. In accordance with *Government Auditing Standards*, we are required to communicate that the limited purpose of our consideration of internal control may not meet the needs of some users who require additional information about internal control. We can provide other services to provide you with additional information on internal control which we would be happy to discuss with you at your convenience.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Corporation's compliance with certain provisions of laws, regulations, contracts and grants, violations of which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on overall compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on Corporation's internal control and we are not obligated to search for significant deficiencies or material weaknesses as part of our audit of the financial statements, this report will include any significant deficiencies and material weaknesses to the extent they come to our attention. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. This report will also include illegal acts and fraud, unless clearly inconsequential, and material violations of grants, contracts, and abuse. It will indicate that it is intended solely for the information and use of the Board of Directors and management of the Corporations and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards*, we will also issue a management letter to communicate immaterial violations of grants and contracts and abuse that comes to our attention, unless clearly inconsequential.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud or illegal acts directly to parties outside the auditee.

Our Responsibility to Communicate with the Board of Directors

We will report to the board of directors, in writing, the following matters:

- Corrected misstatements arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the Corporation's financial reporting process. In this context,

corrected misstatements are proposed corrections of the financial statements that were recorded by management and, in our judgment, may not have been detected except through the auditing procedures performed.

- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- Any disagreements with management or other significant difficulties encountered in performance of our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

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

If, in performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the audit committee our reasons for modification or withdrawal.

Management Responsibilities

The management of the Corporation is responsible for the fair presentation, in accordance with U.S. generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the Corporation complies with laws, regulations, contracts, and grants applicable to its activities, and for informing us of any known material violations of such laws and regulations. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all significant deficiencies and material weaknesses, in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management of the Corporation also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the Corporation's personnel. As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

In accordance with *Government Auditing Standards*, as part of our planning of the audit we will consider the results of previous audits and follow up on known significant findings and recommendations that directly relate to the objectives of the audit. To assist us, management agrees to identify previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and to identify corrective actions taken to address significant findings and recommendations prior to September 30, 2008.

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

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAGAS report within thirty days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the report, the GAGAS report will indicate the status of management's responses.

Management is responsible for the distribution of the reports issued by KPMG. In accordance with *Government Auditing Standards*, the reports issued citing *Government Auditing Standards* are to be made available for public inspection.

Dispute Resolution

Any dispute or claim arising out of or relating to this Engagement Letter or the services provided hereunder, or any other audit or attest services provided by or on behalf of KPMG or any of its subcontractors or agents to the Corporation or at its request, shall be submitted first to non-binding mediation (unless either party elects to forego mediation by initiating a written request for arbitration) and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution then in effect ("CPR Arbitration Rules"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. By operation of this provision, the parties agree to forego litigation over such disputes in any court of competent jurisdiction.

Mediation, if selected, may take place at a location to be designated by the parties using Mediation Procedures of the International Institute for Conflict Prevention and Resolution, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in New York, New York. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in CPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of

these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm and enforce any final award entered in arbitration, in any court of competent jurisdiction. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.

Other Matters

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

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

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

The work papers for this engagement are the property of KPMG. Pursuant to *Government Auditing Standards*, we are required to make certain work papers available in a full and timely manner to regulatory agencies upon request for their reviews of audit quality and for use by their auditors. In addition, we may be requested to make certain work papers available to regulators pursuant to authority given to it by law or regulation. Access to the requested work papers will be provided under supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to regulatory agencies. These regulatory agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents relating to this engagement for the Corporation in judicial or administrative proceedings to which KPMG is not a party, the Corporation shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

Other Government Auditing Standards Matters

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

We will also assist management in drafting the financial statements and notes. In accordance with *Government Auditing Standards*, we are required to confirm that management accepts responsibility for the

USA Research and Technology Corporation
July 1, 2008
Page 6 of 8

financial statements and notes and, therefore, has a responsibility to be in a position in fact and appearance to make an informed judgment about them and that management will:

- Designate a qualified management-level individual to be responsible and accountable for overseeing the drafting of the financial statements.
- Establish and monitor the performance of the engagement to ensure that it meets management's objectives.
- Make any decisions that involve management functions related to the engagement and accept full responsibility for such decisions.
- Evaluate the adequacy of the financial statements and notes.

Additional Reports and Fees for Services

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

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

* * * * *

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

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

Very truly yours,

KPMG LLP



Mark P. Peach
Partner

USA Research and Technology Corporation
July 1, 2008
Page 7 of 8

ACCEPTED:

USA RESEARCH AND TECHNOLOGY CORPORATION

M. Wayne Davis
~~Mr. R. Wayne Davis~~ *Mr. M. Wayne Davis*
~~Associate Vice President for Finance~~ *Vice President, Secretary and Treasurer*

7/13/08
Date

Appendix I

Fees for Services

Based upon our discussions with and representations of management, our fees for services we will perform are covered in a separate Engagement Letter covering all University of South Alabama related entities. We will issue the following report:

Audit of financial statements of USA Research and
Technology Corporation as of and for the year ended
September 30, 2008

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

UNIVERSITY OF SOUTH ALABAMA



OFFICE OF THE PRESIDENT

TELEPHONE: (251) 460-6111
MOBILE, ALABAMA 36688-0002

November 14, 2008

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

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University), and its aggregate discretely presented component units as of and for the years ended September 30, 2008 and 2007, for the purpose of expressing an opinion as to whether the basic financial statements and its aggregate discretely presented component units present fairly, in all material respects, the financial position, and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the basic financial statements of financial position, changes in financial position, and cash flows in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting. Further, we understand the purpose of your testing of transactions and records from the University's federal programs was to obtain reasonable assurance that the University had complied, in all material respects, with the requirements of laws, regulations, contracts, and grants that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2008.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits:

1. The basic financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.

2. We have made available to you:
 - a. All financial records and related data.
 - b. All minutes of meetings of the (legislative body, finance board, and other appropriate committees), or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. All peer review organization (PRO), fiscal intermediary, and third-party payor reports and information.
3. Except as disclosed to you in writing, there have been no communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with, laws and regulations in any jurisdiction (including those related to the Medicare and Medicaid antifraud and abuse statutes), deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the basic financial statements. R/KD
4. There are no:
 - a. Violations or possible violations of laws or regulations, such as those attributed to the Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Anti-Kickback Statute, Limitations on Certain Physician Referrals (commonly known as the "Stark Law") and the False Claims Act, in any jurisdiction, whose effects should be considered for disclosure in the basic financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SFAS No. 5.
 - d. Material transactions that have not been properly recorded in the accounting records underlying the basic financial statements.

- e. Events that have occurred subsequent to the date of the statement of financial position and through the date of this letter that would require adjustment to or disclosure in the basic financial statements.
- 5. We believe that the effects of the uncorrected financial statement misstatements, if any, summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole.
- 6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the basic financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

- 7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management
 - b. Employees who have significant roles in internal control over financial reporting, or
 - c. Others where the fraud could have a material effect on the basic financial statements.
- 8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
- 9. We have no knowledge of any officer or trustee of the University, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate or mislead you during your audit.
- 10. The following have been properly recorded or disclosed in the basic financial statements:

- a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments and amounts receivable from or payable to related parties. We understand that the term “related party” refers to affiliates of the University; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; management; members of the immediate families of University management; and other parties with which the University may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.
 - b. Guarantees, whether written or oral, under which the University is contingently liable.
 - c. Significant affiliation relationships requiring disclosure.
 - d. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.
 - e. Agreements to repurchase assets previously sold, including sales with recourse.
 - f. Changes in accounting principle affecting consistency.
 - g. All assets and liabilities under the University’s control.
 - h. Significant relationships with affiliated organizations, and the financial statements of those organizations, where required.
11. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated. There are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed in the footnotes to the financial statements.
12. The University has identified and properly accounted for all non-exchange transactions.

13. The University has complied with all aspects of laws, regulations, contracts, grants and donor restrictions that would have a material effect on the basic financial statements in the event of noncompliance.
14. The University's reporting entity includes all entities that are component units of the University. Such component units have been properly presented as either blended or discrete. The basic financial statements disclose all other joint ventures and other related organizations.
15. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the basic financial statements:
 - a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;
 - b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and
 - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
16. The University is responsible for the identification of and compliance with all aspects of laws, regulations, donor restrictions, and provisions of contracts and grant agreements that have a direct and material effect on the basic financial statements in the event of noncompliance, including legal and contractual provisions for reporting specific activities in separate funds and has disclosed those aspects of laws, regulations, contracts, grants, and donor restrictions to you.
17. Deposits and investment securities are properly classified and reported.
18. The University has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
19. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the University's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined

in Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*.

20. We believe that all material expenditures that have been deferred to future periods will be recoverable.
21. In accordance with *Government Auditing Standards*, we have identified to you the significant findings and recommendations, if any, from previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of this audit and have accurately communicated to you the related corrective actions taken to address the findings.
22. The basic financial statements properly classify all funds and activities.
23. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
24. The University has complied with all tax and debt limits and with all debt related covenants.
25. The University has presented all required supplementary information. This information has been measured and prepared within prescribed guidelines.
26. The University has complied with all applicable laws and regulations in adopting, approving and amending budgets.
27. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.
28. Receivables reported in the basic financial statements represent valid claims against debtors arising on or before the date of the statement of net assets and have been appropriately reduced to their estimated net realizable value.

29. The University is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The amounts reported, which include alternative investments, represent the University's best estimate of fair value of investments required to be reported under the Statement. The University also has disclosed the methods and significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at amortized cost.
30. All funds that meet the quantitative criteria in GASB Statement No. 34 for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.
31. Expenses have been appropriately classified in or allocated to functions and programs in the statement of revenues, expenses and changes in net assets and allocations have been made on a reasonable basis.
32. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
33. Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.
34. Special and extraordinary items are appropriately classified and reported.
35. The University has identified and made the appropriate disclosures for all derivative instruments not reported at fair value in the financial statements in accordance with GASB Technical Bulletin 03-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*.
36. Billings to third-party payors comply in all material respects with applicable coding guidelines (e.g., ICD-9-CM and CPT-4) and laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse) and only reflect charges for goods and services that were medically necessary, ordered in writing by a treating physician, properly approved by regulatory bodies (for example, the Food and Drug Administration), if required, and properly rendered.

37. Amounts advanced to related organizations represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.
38. Management is responsible for the accuracy and propriety of all cost reports filed and all required Medicare, Medicaid, and similar cost reports have been properly filed. All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient related and properly allocated to applicable payors. The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report. Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based on historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the entity is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.
39. For investments in alternative investments (including hedge funds, real estate ventures, private equity funds, etc.), management has performed an evaluation to determine whether the investment should be consolidated or accounted for under the equity, fair value, or cost method. Such evaluation included the consideration of various factors, including the legal form of the investment (limited partnership, limited liability corporation, limited liability partnership, trust arrangements, etc.), the level of ownership in the investment, and the frequency with which the unit value is published and purchase and sale transactions are permitted.
40. We agree with the findings of specialists in evaluating the reserves related to the Professional Liability and General Liability Trust Funds and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
41. Provision, when material has been made for:
- a. Losses to be sustained from inability to fulfill any sales commitments.

- b. Estimated loss to be sustained as a result of retroactive adjustments by third-party payors under reimbursement agreements that are subject to examination, including denied claims, changes to DRG assignments or other classification criteria affecting reimbursement.
 - c. Loss to be sustained as a result of adjustments resulting from review of Medicare or other payor claim data by the PRO or other payors' reviewers with which the Company has agreements.
 - d. Losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.
 - e. Losses to be sustained as a result of other-than-temporary declines in the fair value of investments.
 - f. Liabilities for physician and medical services provided to members covered under capitation arrangements. The recorded liability includes both claims received and unpaid as well as an estimate of the claims incurred but not reported and loss to be sustained for commitments to provide medical services to enrollees under capitation agreements.
42. Management has taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that we have reported.

Additionally, we confirm, to the best of our knowledge and belief, the following representations made to you during your A-133 audit:

43. The University is responsible for complying, and has complied, with the requirements of OMB Circular A-133.
44. The University has prepared the schedule of expenditures of federal awards in accordance with the requirements of OMB Circular A-133 and has included all expenditures made during the year ended September 30, 2008 for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

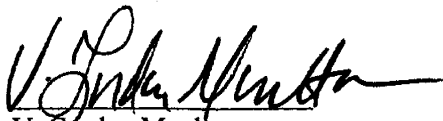
45. The University is responsible for complying, and has complied, with the requirements of laws and regulations, and the provisions of contracts and grant agreements related to each of its federal programs. The University has disclosed to you any interpretations of any compliance requirements that have varying interpretations.
46. The University is responsible for establishing and maintaining, and has established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that federal awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on a federal program.
47. We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over compliance that we have identified which could adversely affect the University's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, and the provisions of contracts and grant agreements. Under standards established by the American Institute of Certified Public Accountants, a "control deficiency" in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A "significant deficiency" is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. A "material weakness" is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.
48. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud in the administration of federal programs. We have no knowledge of any fraud or suspected fraud affecting the entity's federal programs involving:
 - a. Management, including management involved in the administration of federal programs
 - b. Employees who have significant roles in internal control over the administration of federal programs

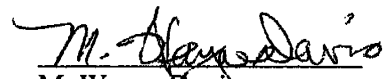
- c. Others where the fraud could have a material effect on compliance with laws and regulations, and provisions of contract and grant agreements related to its federal programs.
- 49. The University has identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
- 50. The University has made available all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities related to major federal programs.
- 51. The University has identified and disclosed to you all questioned costs and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.
- 52. The University has made available all documentation related to the compliance requirements, including information related to federal financial reports and claims for advances and reimbursements for major federal programs.
- 53. The University is in compliance with documentation requirements contained on the requirements promulgated by the sponsoring Federal agencies for all costs charged to federal awards, including both direct costs and indirect costs charged through indirect cost rate proposals. Costs charged to federal awards are considered allowable under the same requirements.
- 54. Federal financial reports and claims for advances and reimbursements are supported by the accounting records from which the financial statements have been prepared.
- 55. The copies of federal financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
- 56. The University has monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133. The University has issued management decisions on a timely basis after receipt of subrecipient audit reports that identified non-compliance with laws, regulations, or the provisions of contracts or grant agreements and has ensured that subrecipients have taken appropriate and timely corrective action on such findings.

57. The University has considered the results of subrecipient audits and has made any necessary adjustments to its own accounting records.
58. The University is responsible for, and has accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133.
59. If applicable, the University has provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
60. The University has accurately completed Part I of the data collection form.
61. The University has advised you of all contracts or other agreements with service organizations.
62. If applicable, the University has disclosed to you all communications from its service organizations relating to noncompliance at the service organizations.
63. The University has disclosed any known noncompliance occurring subsequent to September 30, 2008.
64. The University has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent to September 30, 2008.
65. We believe that the amount recorded as due from the Health Service Foundation is fully collectible.

Very truly yours,

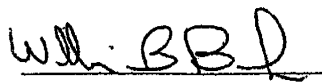
University of South Alabama

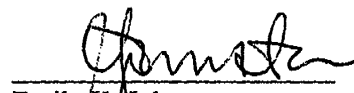

V. Gordon Moulton
President

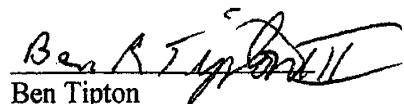

M. Wayne Davis
Vice President of Financial Affairs

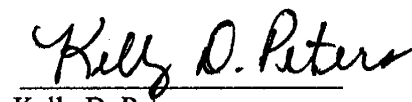

Robert K. Davis
Associate Vice President for Financial
Affairs & Director of Tax Accounting


G. Scott Weldon
Controller


William B. Bush
Assistant Vice President for Hospital Affairs/CFO


Emily K. Johnston
Director, Financial Aid


Ben Tipton
Associate Controller, Grants & Contracts
Accounting


Kelly D. Peters
Associate Controller

UNIVERSITY OF SOUTH ALABAMA



OFFICE OF THE PRESIDENT

TELEPHONE: (251) 460-6111
MOBILE, ALABAMA 36688-0002

November 14, 2008

KPMG LLP
Suite 1100 One Jackson Place
188 East Capitol Street
Jackson, Mississippi 39201

Ladies and Gentlemen:

In connection with your engagement to apply agreed-upon procedures, which were agreed to by the Board of Trustees and managements of the University of South Alabama, solely to assist us in evaluating the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the Statement of Investments Held by Trustee Pursuant to the Bond Resolutions relating to the University Tuition Revenue Refunding and Capital Improvement Bonds, Series 1996, University Tuition Revenue Bonds, Series 1999, and University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, and University Facilities Revenue Capital Improvement Bonds 2008, as of September 30, 2008 and for the year then ended, we confirm:

1. Our understanding that you were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the subject matter referred to above. Accordingly, you did not express such an opinion. Had additional procedures been performed, other matters might have come to your attention that would have been reported to us.

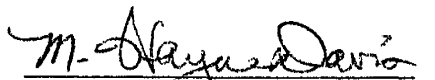
Further, we confirm that, to the best of our knowledge and belief, the following representations made to you during your agreed-upon procedures engagement:

2. We are responsible for the subject matter.
3. We are responsible for the fair presentation of the subject matter prepared and described in the engagement letter dated July 1, 2008 as of and for the year ended September 30, 2008.
4. We are responsible for selecting the criteria and for determining that such criteria is appropriate for our purposes.

5. We have made available to you all related financial records and data.
6. We have advised you of all actions taken at meetings of the Board of Trustees, and committees of the Board of Trustees that may affect the subject matter.
7. We have reviewed a draft of your report of findings dated November 14, 2008, and we are not aware of any significant errors or misstatements contained in that report, and the procedures referred to in the draft report are those we requested and were agreed to by the other specified parties.
8. We take responsibility for the sufficiency (nature, timing and extent) of the agreed-upon procedures for our purposes.
9. Your procedures were limited to those which we determined would best meet our informational needs and may not necessarily disclose all significant errors, irregularities, including fraud or defalcation, or illegal acts, that may exist.
10. Your report is intended solely for use by us and the other specified parties, and is not intended for use by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes.
11. We have responded fully to all inquiries made to us by you during your engagement.
12. We have communicated to you all known matters contradicting the subject matter.
13. No procedures have been performed since the date of your report and you have no responsibility to update your procedures.
14. There have been no communications from regulatory agencies that would affect the subject matter or the assertion.
15. The University has complied with all aspects of contractual agreements that would have a material effect on the subject matter or the assertion in the event of noncompliance.
16. There are no material transactions that have not been properly recorded as part of the subject matter.

Page 3

Very truly yours,


M. Wayne Davis
M. Wayne Davis
Vice President of Financial Affairs

UNIVERSITY OF SOUTH ALABAMA

HEALTH SERVICES FOUNDATION
ADMINISTRATIVE OFFICES



TELEPHONE: (251) 470-1671
MASTIN BLDG., ROOM 614 • 2451 FILLINGIM STREET
MOBILE, ALABAMA 36617-2293
FAX: (251) 471-7843

November 14, 2008

KPMG LLP
One Jackson Place, Suite 110
188 East Capitol Street
Jackson, MS 39201

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the statements of financial position of University of South Alabama Health Services Foundation (the Foundation), a component unit of the University of South Alabama, as of September 30, 2008 and 2007, and the related statements of operations and changes in unrestricted net assets, and cash flows for the years then ended, for the purpose of expressing an opinion as to whether these financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Foundation in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you:
 - a. All financial records and related data.
 - b. All minutes of the meetings of directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. All fiscal intermediary, and third-party payor reports and information.
3. Except as disclosed to you in writing, there have been no:
 - a. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction (including those related to the Medicare and Medicaid antifraud and

abuse statutes), deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.

- b. False statements affecting the Foundation's financial statements made to the Foundation's internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audits.
4. There are no:
- a. Violations or possible violations of laws or regulations, such as those related to the Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Anti-Kickback Statute, Limitations on Certain Physician Referrals (commonly referred to as the "Stark law"), and the False Claims Act, in any jurisdiction, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SFAS No. 5.
 - d. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
 - e. Events that have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to or disclosure in the financial statements.
5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriations of assets involve the theft of an entity's assets where the effect of the theft causes the basic financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
- a. Management
 - b. Employees who have significant roles in internal control over financial reporting, or
 - c. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
8. The Foundation has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
9. We have no knowledge of any officer or director of the Foundation, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate or mislead you during your audit.
10. There are no deficiencies, significant deficiencies, or material weaknesses in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the Foundation's ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a "significant deficiency" and a "material weakness" in accordance with the definitions in Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*.
11. The following have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments and amounts receivable from or payable to related parties.

The term "related party" refers to affiliates of the enterprise; entities for which investments in their equity securities would, absent the election of the fair value option under SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, be required to be accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

- b. Guarantees, whether written or oral, under which the Foundation is contingently liable, including guarantee contracts and indemnification agreements pursuant to FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.
 - c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position (SOP) 94-6, *Disclosure of Certain Significant Risks and Uncertainties*.

Significant estimates are estimates at the balance sheet date, which could change materially within the next year. Concentrations refer to volumes of business, revenues, available

sources of supply, or markets or geographic areas for which it is reasonably possible that events could occur which would significantly disrupt normal finances within the next year.

- d. Significant common ownership or management control relationships requiring disclosure.
 - e. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.
 - f. Agreements to repurchase assets previously sold, including sales with recourse.
 - g. Changes in accounting principle affecting consistency.
 - h. The existence of and transactions with joint ventures and other related organizations.
 - i. Declines in values of certain investments that are considered not to be other-than-temporary in accordance with EITF Issue No. 03-01. *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*.
 - j. Significant relationships with affiliated organizations, and the financial statements of those organizations, where required.
 - k. All assets and liabilities under the Foundation's control.
 - l. Rights to the assets held by a recipient organization (unless the recipient organization was explicitly granted variance power) as either an interest in the net assets of the recipient organization, a beneficial interest or a receivable.
12. The Foundation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
13. The Foundation has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
14. The Foundation is responsible for compliance with the laws, regulations, donor restrictions, and provisions of contracts and grant agreements applicable to the Foundation. The Foundation has identified and disclosed to you all laws, regulations, donor restriction, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.
15. Billings to third party payors comply in all material respects with applicable coding guidelines (e.g., ICD-9-CM and CPT-4) and laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse) and only reflect charges for goods and services that were medically necessary, ordered in writing by a treating physician, properly approved by regulatory bodies (for example, the Food and Drug Administration), if required, and properly rendered.
16. Receivables reported in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

17. Amounts advanced to related organizations represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.
18. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:
 - a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;
 - b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and
 - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
19. The Foundation has appropriately grouped long-lived assets together for purposes of assessing impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. We have reviewed long-lived assets, including amortizable intangible assets, to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable. Provision has been made for any material adjustments to long-lived assets including amortizable intangible assets.
20. We are responsible for making the fair value measurements and disclosures included in the financial statements, including determining the fair value of investments for which a readily determinable fair value does not exist. As part of fulfilling this responsibility, we have established an accounting and financial reporting process for determining the fair value measurements and disclosures, considered the appropriateness of valuation methods, adequately supported any significant assumptions used, and ensured that the presentation and disclosure of the fair value measurements are in accordance with generally accepted accounting principles. We believe the assumptions and methods used by us, including those used by specialists engaged by us, are appropriate in the circumstances and the resulting valuations and disclosures are reasonable.
21. We believe that all material expenditures that have been deferred to future periods will be recoverable.
22. The Foundation is in compliance with bond indentures or other debt agreements.
23. Provision, when material, has been made for:
 - a. Losses to be sustained from inability to fulfill any sales commitments.
 - b. Estimated loss to be sustained as a result of retroactive adjustments by third-party payors under reimbursement agreements that are subject to examination, including denied claims, changes to DRG assignments or other classification criteria affecting reimbursements.
 - c. Losses to be sustained as a result of adjustments resulting from review of Medicare or other payor claim data by the payors' reviewers with which the Foundations has agreements.

- d. Losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.
 - e. Losses to be sustained as a result of the reduction of excess or obsolete inventories to their estimated net realizable value.
 - f. Losses to be sustained as a result of other-than-temporary declines in the fair value of investments.
 - g. Liabilities for physician and medical services provided to members covered under capitation arrangements. The recorded liability includes both claims received and unpaid as well as an estimate of the claims incurred but not reported and loss to be sustained for commitments to provide medical services to enrollees under capitation agreements.
 - h. Audit adjustments by fiscal intermediaries, third party payors, and other regulatory agencies.
24. All sales transactions entered into by the Foundation are final and there are no side agreements with customers, or other terms in effect, which allow for the return of merchandise, except for defectiveness or other conditions covered by usual and customary warranties.
25. The Foundation has properly accounted for and disclosed those arrangements in which goods and services, or both, are to be delivered separately in a bundled sales arrangement in accordance with EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*.
26. The Foundation financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.
27. The Foundation is not subject to the requirements of OMB Circular A-133 or 45 CFR Section 74.26, *Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations, and Commercial Organizations; and Certain Grants and Agreements with States, Local Governments and Indian Tribal Governments*, as it did not expend more than \$500,000 in.
28. We have evaluated all transactions involving special purpose entities to determine that the accounting for such transactions is in accordance with U.S. generally accepted accounting principles.
- a. AICPA Audit and Accounting Guide Health Care Organizations
 - b. Conditions pursuant to paragraph 35 or SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*.
 - c. EITF Issue No. 90-15, *Impact of Nonsubstantive Lessors. Residual Value Guarantees, and Other Provisions in Leasing Transactions*.
 - d. EITF Issue No. 96-21, *Implementation in Accounting for Leasing Transactions involving Special-Purpose Entities*.

- c. EITF Issue No. 97-2, Application of SFAS No. 94 and APB Opinion No. 16 to *Physician Practice management (PPM) Entities and Certain other Entities with Contractual Management Arrangements*.
 - f. EITF Topic D-14, *Transactions Involving Special-Purpose Entities*.
29. We agree with the findings of specialists in evaluating the estimated professional and general liability costs and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
30. The Foundation has been recognized as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986 as an organization described in Section 501(c) of the Code, as evidenced by our determination letter dated February 8, 1978, a copy of which has been furnished to you. Since the date of our determination letter, no changes have occurred in the organization or operation of the Organization that would affect our tax exempt status. Based on our determination letter, we have been classified as a public charity, a under Section 509(a) of the Internal Revenue Code, and since the date of our determination letter, no changes have occurred in the organization or its operations that would change this classification. Provision has been made, where material, for any federal, state or local income, excise, employment, property, sales and use, or other tax liability.
31. We have complied with all other material provisions of the Internal Revenue code of 1986, as amended.
32. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with accounting principles generally accepted in the United States of America (GAAP). We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the Foundation's current period financial statements (and our assessment of internal control over financial reporting), and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements (and our assessment of internal control over financial reporting) is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.
33. The Foundation has classified net assets as unrestricted, temporarily restricted or permanently restricted based on our assessment of the donor's intention, as specified in original donor correspondence where available. Where not available, we used other corroborating evidential matter including minutes of the Board, accounting records and financial statements. To the extent that we were unable to review original donor correspondence to determine the amount of the original gift and donor additions, our determination of such amount was based on our best estimate considering the relevant facts and circumstances. Amounts classified as temporarily restricted are subject to donor-imposed purpose or time restrictions which precluded us from expending such amounts or recognizing such amounts as unrestricted as of September 30, 2008. Amounts classified as permanently restricted are subject to donor-imposed or statutory restrictions which require these amounts to be held in perpetuity. In addition, we have classified appreciation and income related to such donations in accordance with relevant donor or statutory restrictions. Losses on investments of

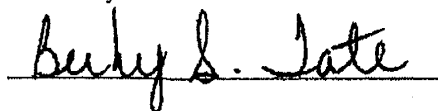
a donor-restricted endowment fund have been classified in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*.

34. The Foundation has a reasonable basis for allocation of functional expenses.

Further, we confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.

Very truly yours,

University of South Alabama Health Services Foundation

A handwritten signature in cursive script, reading "Becky S. Tate", written over a horizontal line.

Becky S. Tate
Chief Executive Officer

A handwritten signature in cursive script, reading "John P. Pannelli", written over a horizontal line.

John P. Pannelli
Assistant V.P., Medical Financial Affairs

UNIVERSITY OF SOUTH ALABAMA



OFFICE OF
RISK MANAGEMENT AND INSURANCE

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FAX: (251) 460-6074

November 14, 2008

KPMG LLP
One Jackson Place, Suite 110
188 East Capitol Street
Jackson, MS 39201

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the statements of financial position – modified cash basis of University of South Alabama General Liability Program (the Program), a component unit of the University of South Alabama, as of September 30, 2008 and 2007, and the related statements of activities – modified cash basis for the years then ended, for the purpose of expressing an opinion as to whether these financial statements present fairly, in all material respects, the financial position and related activities of the Program in conformity with the modified cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with the modified cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
2. We have made available to you:
 - a. All financial records and related data.
 - b. All minutes of the meetings of committee members or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. Except as disclosed to you in writing, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no reportable conditions in the design or operation of internal control over financial reporting which could adversely affect the Program's ability to record, process,

summarize, and report financial data, and we have identified no material weaknesses in internal control over financial reporting.

5. There are no:
 - a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SFAS No. 5.
 - d. Material transactions that have not been properly recorded in the accounting records underlying the basic financial statements.
 - e. Events that have occurred subsequent to the date of the statement of financial position – modified cash basis and through the date of this letter that would require adjustment to or disclosure in the basic financial statements.
6. The Program has no losses to be sustained as a result of other-than-temporary declines in the fair value of investments.
7. The Program has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
8. Deposits and investment securities are properly classified and reported.
9. The Program is responsible for the identification of and compliance with all aspects of laws, regulations, contracts, or grants that could have a material effect on the basic financial statement amounts in the event of noncompliance including legal contractual provisions for reporting specific activities in separate funds and has disclosed those aspects of laws, regulations, contracts, or grants to you.
10. The Program has complied, in all material respects, with applicable laws, regulations, contracts, and grants that could have a material effect on the basic financial statements in the event of noncompliance.
11. The following have been properly recorded or disclosed in the basic financial statements:
 - a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments and amounts receivable from or payable to related parties.

The term "related party" refers to affiliates of the enterprise; entities for which investments in their equity securities would, absent the election of the fair value option under SFAS No. 159, *The Fair Value Option for Financial Assets and*

Financial Liabilities, be required to be accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

- b. Guarantees, whether written or oral, under which the Program is contingently liable, including guarantee contracts and indemnification agreements pursuant to FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.
 - d. Agreements to repurchase assets previously sold, including sales with recourse.
 - e. Changes in accounting principle affecting consistency.
 - f. The existence of and transactions with joint ventures and other related organizations.
12. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the basic financial statements:
- a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;
 - b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and
 - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
13. The basic financial statements properly classify all funds and activities.
14. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

15. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with U.S. generally accepted accounting principles.
16. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management
 - b. Employees who have significant roles in internal control over financial reporting, or
 - c. Others where the fraud could have a material effect on the basic financial statements.
17. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.
18. We have no knowledge of any officer or of the Policy Committee of the Program, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate or mislead you during your audit.
19. Receivables reported in the basic financial statements represent valid claims against debtors for sales or other charges arising on or before the statement of financial position – modified cash basis and have been appropriately reduced to their estimated net realizable value.
20. We are responsible for making the fair value measurements and disclosures included in the financial statements, including determining the fair value of investments for which a readily determinable fair value does not exist. As part of fulfilling this responsibility, we have established an accounting and financial reporting process for determining the fair value measurements and disclosures, considered the appropriateness of valuation methods, adequately supported any significant assumptions used, and ensured that the presentation and disclosure of the fair value measurements are in accordance with generally accepted accounting principles. We believe the assumptions and methods used by us, including those used by specialists engaged by us, are appropriate in the circumstances and the resulting valuations and disclosures are reasonable.
21. All funds that meet the quantitative criteria in GASB Statement No. 34 for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.

22. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
23. Revenues are appropriately classified in the statement of activities – modified cash basis within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
24. Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.
25. Special and extraordinary items are appropriately classified and reported.
26. The financial statements disclose all of the amounts of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.
27. We agree with the findings of specialists in evaluating the funding requirement and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
28. Data used actuarially projecting ultimate unpaid claims and claims adjustment expenses is complete and accurate, and is reconciled to the underlying accounting records.

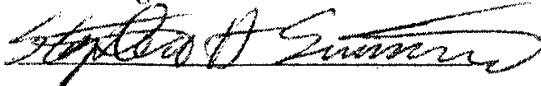
Further, we confirm that we are responsible for the fair presentation in the financial statements of financial position, and related activities in conformity with the modified cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Very truly yours,

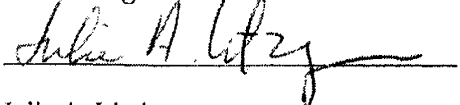
University of South Alabama General Liability Program



M. Wayne Davis
Risk Management Committee Member

 11/17/08

Stephen H. Simmons
Risk Management Committee Member



Julie A. Litzinger
Program Administrator

UNIVERSITY OF SOUTH ALABAMA

OFFICE OF
RISK MANAGEMENT AND INSURANCE



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November 14, 2008

KPMG LLP
One Jackson Place, Suite 110
188 East Capitol Street
Jackson, MS 39201

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the statements of financial position – modified cash basis of University of South Alabama Professional Liability Trust Fund (the Trust Fund), a component unit of the University of South Alabama, as of September 30, 2008 and 2007, and the related statements of activities – modified cash basis for the years then ended, for the purpose of expressing an opinion as to whether these financial statements present fairly, in all material respects, the financial position and related activities of the Trust Fund in conformity with the modified cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with the modified cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
2. We have made available to you:
 - a. All financial records and related data.
 - b. All minutes of the meetings of committee members or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. Except as disclosed to you in writing, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no reportable conditions in the design or operation of internal control over financial reporting which could adversely affect the Trust Fund's ability to record,

process, summarize, and report financial data, and we have identified no material weaknesses in internal control over financial reporting.

5. There are no:
 - a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SFAS No. 5.
 - d. Material transactions that have not been properly recorded in the accounting records underlying the basic financial statements.
 - e. Events that have occurred subsequent to the date of the statement of financial position – modified cash basis and through the date of this letter that would require adjustment to or disclosure in the basic financial statements.
6. The Trust Fund has no losses to be sustained as a result of other-than-temporary declines in the fair value of investments.
7. The Trust Fund has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
8. Deposits and investment securities are properly classified and reported.
9. The Trust Fund is responsible for the identification of and compliance with all aspects of laws, regulations, contracts, or grants that could have a material effect on the basic financial statement amounts in the event of noncompliance including legal contractual provisions for reporting specific activities in separate funds and has disclosed those aspects of laws, regulations, contracts, or grants to you.
10. The Trust Fund has complied, in all material respects, with applicable laws, regulations, contracts, and grants that could have a material effect on the basic financial statements in the event of noncompliance.
11. The following have been properly recorded or disclosed in the basic financial statements:
 - a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments and amounts receivable from or payable to related parties.

The term "related party" refers to affiliates of the enterprise; entities for which investments in their equity securities would, absent the election of the fair value option under SFAS No. 159, The Fair Value Option for Financial Assets and

Financial Liabilities, be required to be accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

- b. Guarantees, whether written or oral, under which the Trust Fund is contingently liable, including guarantee contracts and indemnification agreements pursuant to FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.
 - d. Agreements to repurchase assets previously sold, including sales with recourse.
 - e. Changes in accounting principle affecting consistency.
 - f. The existence of and transactions with joint ventures and other related organizations.
12. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the basic financial statements:
- a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;
 - b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and
 - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
13. The basic financial statements properly classify all funds and activities.
14. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

15. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

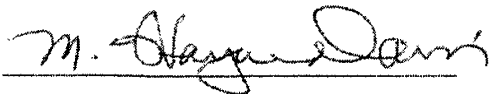
16. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
- a. Management
 - b. Employees who have significant roles in internal control over financial reporting, or
 - c. Others where the fraud could have a material effect on the basic financial statements.
17. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.
18. We have no knowledge of any officer or of the Policy Committee of the Trust Fund, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate or mislead you during your audit.
19. Receivables reported in the basic financial statements represent valid claims against debtors for sales or other charges arising on or before the statement of financial position – modified cash basis and have been appropriately reduced to their estimated net realizable value.
20. We are responsible for making the fair value measurements and disclosures included in the financial statements, including determining the fair value of investments for which a readily determinable fair value does not exist. As part of fulfilling this responsibility, we have established an accounting and financial reporting process for determining the fair value measurements and disclosures, considered the appropriateness of valuation methods, adequately supported any significant assumptions used, and ensured that the presentation and disclosure of the fair value measurements are in accordance with generally accepted accounting principles. We believe the assumptions and methods used by us, including those used by specialists engaged by us, are appropriate in the circumstances and the resulting valuations and disclosures are reasonable.
21. All funds that meet the quantitative criteria in GASB Statement No. 34 for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.

22. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
23. Revenues are appropriately classified in the statement of activities – modified cash basis within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
24. Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.
25. Special and extraordinary items are appropriately classified and reported.
26. The financial statements disclose all of the amounts of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.
27. We agree with the findings of specialists in evaluating the funding requirement and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
28. Data used actuarially projecting ultimate unpaid claims and claims adjustment expenses is complete and accurate, and is reconciled to the underlying accounting records.

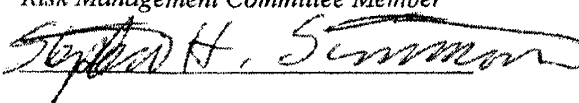
Further, we confirm that we are responsible for the fair presentation in the financial statements of financial position, and related activities in conformity with the modified cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Very truly yours,

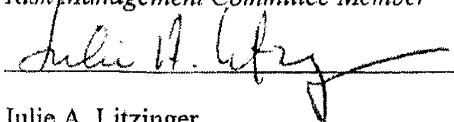
University of South Alabama Professional Liability Trust Fund



M. Wayne Davis
Risk Management Committee Member

 11/17/08

Stephen H. Simmons
Risk Management Committee Member



Julie A. Litzinger
Trust Fund Administrator

UNIVERSITY OF SOUTH ALABAMA



TELEPHONE: (251) 460-6111
MOBILE, ALABAMA 36688-0002

OFFICE OF THE PRESIDENT

November 14, 2008

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

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the basic financial statements of the USA Research and Technology Corporation (the Corporation) as of and for the years ended September 30, 2008 and 2007, for the purpose of expressing opinions as to whether the basic financial statements present fairly, in all material respects, the financial position, and the respective changes in financial position and cash flows, where applicable, in conformity with United States generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the basic financial statements of financial position, changes in financial position, and cash flows in conformity with United States generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits:

1. The basic financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.
2. We have made available to you:
 - a. All financial records and related data.

- b. All minutes of meetings of (legislative body, finance board, appropriate committees), or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3. Except as disclosed to you in writing, there have been no communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the basic financial statements.
- 4. There are no reportable conditions in the design or operation of internal control over financial reporting which could adversely affect the Corporation's ability to record, process, summarize and report financial data, and we have identified no material weaknesses in internal control over financial reporting.
- 5. There are no:
 - a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the basic financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SFAS No. 5.
 - d. Material transactions that have not been properly recorded in the accounting records underlying the basic financial statements.
 - e. Events that have occurred subsequent to the date of the statement of net assets and through the date of this letter that would require adjustment to or disclosure in the basic financial statements.
- 6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to

deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the basic financial statements not to be presented in conformity with United States generally accepted accounting principles.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management
 - b. Employees who have significant roles in internal control over financial reporting, or
 - c. Others where the fraud could have a material effect on the basic financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
9. The Corporation has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
10. We have no knowledge of any officer or director of the Corporation, or any other person acting under the direction thereof, taking any action to fraudulently influence, coerce, manipulate or mislead you during your audit.
11. The following have been properly recorded or disclosed in the basic financial statements:
 - a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments and amounts receivable from or payable to related parties. We understand that the term "related party" refers to affiliates of the Corporation; trusts for the benefit of employees; key administrative and financial personnel and other members of University management or businesses they represent or have an interest in; members of the immediate families of University management; and other parties with which the Corporation may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the

management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

- b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.
 - c. Agreements to repurchase assets previously sold, including sales with recourse.
 - d. Changes in accounting principle affecting consistency.
 - e. Significant affiliation relationships requiring disclosure.
 - f. All assets and liabilities under the Corporation's control.
 - g. The Corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed in the footnotes to the basic financial statements.
12. The Corporation has complied with all aspects of laws, regulations, contracts, grants and donor restrictions that would have a material effect on the basic financial statements in the event of noncompliance.
13. Management is responsible for compliance with the laws, regulations, donor restrictions, and provisions of contracts and grant agreements applicable to the Corporation. Management has identified and disclosed to you all laws, regulations, donor restriction, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.
14. We are responsible for making the fair value measurements and disclosures included in the financial statements, including determining the fair value of investments for which a readily determinable fair value does not exist. As part of fulfilling this responsibility, we have established an accounting and financial reporting process for determining the fair value measurements and disclosures, considered the appropriateness of valuation methods, adequately supported any significant assumptions used, and ensured that the presentation and disclosure of the fair value measurements are in accordance with generally accepted accounting principles. We believe the assumptions and methods used by us, including

those used by specialists engaged by us, are appropriate in the circumstances and the resulting valuations and disclosures are reasonable.

15. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the Corporation's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*.
16. Provision, when material, has been made for:
 - a. Losses to be sustained from inability to fulfill any sales commitments.
 - b. Losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.
 - c. Losses to be sustained as a result of the reduction of excess or obsolete inventories to their estimated net realizable value.
 - d. Losses to be sustained as a result of other-than-temporary declines in the fair value of investments.
17. The Corporation has been recognized as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986 as an organization described in Section 501(c)(3) of the Code, as evidenced by our determination letter dated May 21, 2004, a copy of which has been furnished to you. Since the date of our determination letter, no changes have occurred in the organization or operation of the Corporation that would affect our tax exempt status.
18. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles (GAAP). We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the Corporation's current period basic financial statements, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the basic financial statements is not material. Furthermore,

we do not believe the impact of the application of these policies and practices will be material to the basic financial statements in future periods.

19. The Corporation has a reasonable basis for allocation of functional expenses.
20. In accordance with *Government Auditing Standards*, we have identified to you the significant findings and recommendations from previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of this audit and have accurately communicated to you the related corrective actions taken to address the findings.
21. The Corporation is not subject to the requirements of OMB Circular A-133 as it did not expend more than \$500,000 in federal awards during the year ended September 30, 2008.
22. Management has reviewed, approved, and taken responsibility for accrual adjustments.
23. Management has taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that we have reported.
24. Management has a process to track the status of audit findings and recommendations.
25. The Corporation has identified and properly accounted for all nonexchange transactions.
26. The Corporation does not have any unrecorded financial instruments with off-balance-sheet risk or credit risk.
27. There are no material unrecorded environmental remediation liabilities that must be recorded and/or disclosed in the Corporation's financial statements.
28. The basic financial statements properly classify all funds and activities.
29. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
30. The Corporation has complied with all tax and debt limits and with all debt related covenants.
31. The Corporation has complied with all applicable laws and regulations in adopting, approving and amending budgets.

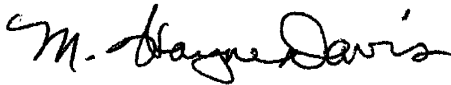
32. Receivables reported in the basic financial statements represent valid claims against debtors arising on or before the date of the statement of net assets and recorded valuation allowances are necessary, appropriate, and properly supported.
33. All funds that meet the quantitative criteria in GASB Statement No. 34 for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.
34. Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.
35. Special and extraordinary items are appropriately classified and reported.

Very truly yours,

USA Research and Technology Corporation



V. Gordon Moulton
President



M. Wayne Davis
Secretary-Treasurer



R. Ken Davis
Associate Vice President of Financial Affairs



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

Independent Auditors' Report

The Board of Trustees
University of South Alabama:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of and for the year ended September 30, 2008, and have issued our report thereon dated November 14, 2008. We did not audit the 2008 consolidated financial statements of the University of South Alabama Foundation, which represents 82%, 100%, and (14)%, respectively, of the 2008 assets, net assets, and revenues, gains and other support of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based on the report of the other auditors.

In connection with our audit, nothing came to our attention that caused us to believe that the University failed to comply with the terms, covenants, provisions, or conditions of Article X of the Trust Indenture, dated February 15, 1996, with The Bank of New York Trust Company, N.A. (the Bank), authorizing the issuance of \$31,680,000 of University Tuition Revenue Refunding and Capital Improvement Bonds, Series 1996, on March 4, 1999, authorizing the issuance of \$40,130,000 of University Tuition Revenue Bonds, Series 1999, on March 15, 2004, authorizing the issuance of \$51,080,000 of University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, on December 1, 2006, authorizing the issuance of \$100,000,000 of University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, and on September 25, 2008, authorizing the issuance of \$112,885,000 University Facilities Revenue Capital Improvement Bonds, Series 2008, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of trustees and management of the University of South Alabama and management of The Bank of New York Trust Company, N.A. and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 14, 2008



UNIVERSITY OF SOUTH ALABAMA

**Independent Accountants' Report on Applying Agreed-Upon
Procedures in Connection with, University Tuition Revenue Refunding
and Capital Improvement Bonds, Series 1996, University Tuition
Revenue Bonds, Series 1999, University Tuition Revenue Refunding
and Capital Improvement Bonds, Series 2004, University Tuition Revenue Refunding
and Capital Improvement Bonds, Series 2006, and University Facilities Revenue Capital
Improvement Bonds, Series 2008**

September 30, 2008



KPMG LLP
Suite 1800
420 20th Street North
Birmingham, AL 35203

Independent Accountants' Report on Applying Agreed-Upon Procedures

The Board of Trustees and Management
University of South Alabama:

We have performed the procedures enumerated below, which were agreed to by members of management of the University of South Alabama (the University), solely to assist you in evaluating the accompanying Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions relating to the University Tuition Revenue and Refunding and Capital Improvement Bonds, Series 1996, University Tuition Revenue Bonds, Series 1999, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, and University Facilities Revenue Capital Improvement Bonds, Series 2008, as of September 30, 2008 and for the year then ended. The University's management is responsible for the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

- a. We compared the amounts shown on the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions in Exhibit A to the annual trustee statements of cash and investment transactions provided to us by the bond trustee and found them to be in agreement.
- b. We compared the amounts shown on the Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions in Exhibit B to the annual trustee statements of cash and investment transactions provided to us by the bond trustee and found them to be in agreement.
- c. We obtained a schedule of general student fees (tuition) earned during the year ended September 30, 2008 (not included herein), which approximated \$56,956,000 and compared that amount to the general student fees recorded in the University's general ledger and found them to be in agreement.

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



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

KPMG LLP

November 14, 2008

UNIVERSITY OF SOUTH ALABAMA

Statement of Changes in Cash and Investments
Held by Trustee Pursuant to the Bond Resolutions

University Tuition Revenue Refunding and Capital Improvement Bonds,
Series 1996, University Tuition Revenue Bonds, Series 1999, University
Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, University
Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, and
University Facilities Revenue Capital Improvement Bonds, Series 2008

Year ended September 30, 2008
(In thousands)

Cash and investment transactions:

Cash receipts:

Deposits from University of South Alabama for interest and retirement of bonds	\$	11,554
Deposits from proceeds related to the Series 2008 bond issuance		110,655
Interest income and realized investment gains		1
Proceeds from sale of investments		5,003
		<u>127,213</u>

Cash disbursements:

Principal payments		3,730
Interest payments		8,175
Transfers to University of 2008 bond proceeds		110,304
Other transfers		5
Purchases of investments		5,004
		<u>127,218</u>

Net change in cash and investments during the year

(5)

Total cash and investments held by trustee:

Beginning of year		<u>5</u>
End of year	\$	<u><u>—</u></u>

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

UNIVERSITY OF SOUTH ALABAMA

Statement of Cash and Investments
Held by Trustee Pursuant to the Bond Resolutions

University Tuition Revenue Refunding and Capital Improvement Bonds,
Series 1996, University Tuition Revenue Bonds, Series 1999, University
Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, University
Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, and
University Facilities Revenue Capital Improvement Bonds, Series 2008

September 30, 2008

(In thousands)

Cash and investments, at cost:

Total cash and investments

\$

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

Report on the

University of South Alabama

Mobile, Alabama

October 1, 2005 through September 30, 2007

Filed: November 28, 2008



Department of
Examiners of Public Accounts
50 North Ripley Street, Room 3201
P.O. Box 302251
Montgomery, Alabama 36130-2251
Website: www.examiners.alabama.gov

Ronald L. Jones, Chief Examiner

09-013

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State of Alabama
Department of
Examiners of Public Accounts

P.O. Box 302251, Montgomery, AL 36130-2251
50 North Ripley Street, Room 3201
Montgomery, Alabama 36104-3833
Telephone (334) 242-9200
FAX (334) 242-1775

Ronald L. Jones
Chief Examiner

Honorable Ronald L. Jones
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-14, we submit this report on the University of South Alabama for the period October 1, 2005 through September 30, 2007.

SCOPE AND OBJECTIVES

This report encompasses an examination of the University of South Alabama (the "University") for compliance with applicable laws and regulations of the State of Alabama. The objective of the examination was to determine whether the University had complied with these applicable laws and regulations.

The firm of KPMG LLP, Independent Public Accountants, conducted the financial audits for the fiscal years ended September 30, 2006 and September 30, 2007.

CONTENTS OF REPORT

This report includes the following segments:

1. **Report to the Chief Examiner** – contains items pertaining to state legal compliance, agency operations and other matters.
2. **Additional Information** – includes basic information related to the University (Exhibit 1).

COMMENTS

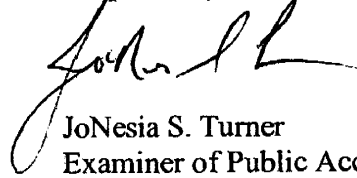
The University of South Alabama is a corporate body authorized by the *Code of Alabama 1975*, Section 16-55-1 to 16-55-9. The University offers programs of instruction, research, public service, and health care in Mobile as well as an instructional site in Fairhope.

The examination consisted of a review of overall compliance of the University with applicable Alabama laws and regulations and was performed by evaluating University procedures and testing samples of transactions. Nothing came to our attention to indicate that the University had not complied with the applicable Alabama laws and regulations.

Sworn to and subscribed before me this
the 13th day of November, 2008.

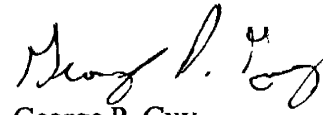
Mervine O. Wallace
Notary Public

Respectfully submitted,


JoNesia S. Turner
Examiner of Public Accounts

Sworn to and subscribed before me this
the 13th day of November, 2008.

Mervine O. Wallace
Notary Public


George P. Guy
Examiner of Public Accounts

Sworn to and subscribed before me this
the 13th day of November, 2008.

Barbara A. Brantley
Notary Public


Phillippe J. Streeter
Examiner of Public Accounts

NOTARY PUBLIC STATE OF ALABAMA AT LARGE
MY COMMISSION EXPIRES: Dec 24, 2008
BONDED THRU NOTARY PUBLIC UNDERWRITING

rb

Board Members and Officials
October 1, 2005 through September 30, 2007

Board Members			Term Expires
Hon. Bob Riley	President, Ex-Officio	Governor, State of Alabama 600 Dexter Avenue Montgomery, AL 36130	
Dr. Joseph B. Morton	Ex-Officio	State Superintendent of Education P. O. Box 302101 Montgomery, AL 36104-3833	
Hon. Donald L. Langham	Chairman until June 2007	2901 Blue Ridge Drive, E Mobile, AL 36693	2009
Hon. Steven H. Stokes, M.D.	Chairman beginning June 2007	P. O. Box 5609 Dothan, AL 36302	2017
	Vice-Chairman until June 2007		
Hon. James A. Yance	Vice-Chairman beginning June 2007	29100 Yance Lane Loxley, AL 36551	2009
Hon. Bettye R. Maye	Secretary	1600 East 4th Avenue York, AL 36925	2017
Hon. James P. Nix	Member	415 Myrtle Street Fairhope, AL 36532	2009
Hon. Mayer Mitchell	Member	(Deceased)	
Hon. Arlene Mitchell	Member	2502 South Delwood Drive Mobile, AL 36606	2009

Board Members and Officials
October 1, 2005 through September 30, 2007

Board Members			Term Expires
Hon. Larry P. Langford	Member	716 Richard Arrington, Jr. Boulevard, N, Room 240 Birmingham, AL 35203	Resigned September 2006
Hon. Jack R. Brunson	Member	(Deceased)	
Hon. Scott A. Charlton	Member	107 Lakewood Drive Enterprise, AL 36330	2009
Hon. J. L. Chestnut, Jr.	Member	P. O. Box 1290 Selma, AL 36702-1290	2013
Hon. J. Cecil Gardner	Member	P. O. Box 31013 Mobile, AL 36652-3103	2013
Hon. Samuel L. Jones	Member	P. O. Box 1827 Mobile, AL 36633	2013
Hon. Christie D. Miree	Member	241 Ralph McGill Boulevard, NE BIN 10104 Atlanta, GA 30308-3374	2013
Hon. Bryant Mixon	Member	2767 Campground Road Ozark, AL 36360	2013
Hon. Steven P. Furr	Member	214 Plantation Trace Jackson, AL 36545	2017
Hon. John M. Peek	Member	416 South Three Notch Street Andalusia, AL 36420	2017
Hon. Larry D. Striplin, Jr.	Member	P. O. Box 321429 Birmingham, AL 35233	2017

Board Members and Officials
October 1, 2005 through September 30, 2007

Officials

Mr. V. Gordon Moulton	President	University of South Alabama President's Office AD 122 Mobile, AL 36688-0002
Mr. M. Wayne Davis	Vice-President for Finance	University of South Alabama AD 170 Mobile, AL 36688-0002
Mr. William Bush	Assistant Vice-President for Hospital Financial Affairs	USA Medical Center 2451 Fillingim Street Mobile, AL 36617

RESOLUTION

TRIBUTE TO TRUSTEE J. L. CHESTNUT, JR.

WHEREAS, Mr. J. L. Chestnut, Jr., served as a member of the Board of Trustees of the University of South Alabama from the time of his appointment in 2001 until his death on September 30, 2008, and

WHEREAS, Mr. Chestnut, at the time of his death, was a member of the Academic and Student Affairs and Health Affairs Committees, and

WHEREAS, Mr. Chestnut, a successful attorney in Selma, Alabama, brought to his position as a USA Trustee a background rich in cultural diversity and humanitarian causes, and

WHEREAS, Mr. Chestnut, through his national stature and prominent role as an advocate for civil rights in the United States for more than four decades, was widely admired and respected, and

WHEREAS, Mr. Chestnut inspired countless numbers of young people to enter the legal profession to champion the causes for which he fought, and

WHEREAS, in addition to his role as an exemplary and progressive leader in his local community, the state, and nation, Mr. Chestnut was a devoted family man, and

WHEREAS, Mr. Chestnut's keen insight, sparkling wit, and friendship will be missed by a multitude of friends and colleagues,

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama acknowledges the legacy of Mr. J. L. Chestnut, Jr., and pays tribute to his memory for his many humanitarian contributions and his service to the Board, to the University community, and to the people of the state of Alabama and the nation, all of whom have benefitted from his wisdom, dedication, service, and generosity, and

BE IT FURTHER RESOLVED, that the Board extends heartfelt sympathy to Mrs. Vivian Chestnut and to all members of the Chestnut family.

RESOLUTION
COMMENDATION OF DR. PATSY C. COVEY

WHEREAS, the University of South Alabama seeks to honor exceptional administrators and faculty who have devoted a substantial part of their careers to serving and teaching others, and who have distinguished themselves throughout their professional careers, and

WHEREAS, Dr. Patsy C. Covey joined the USA staff in June 1975 as Chair of the Department of Medical Technology, and soon was appointed as Director of Allied Health Professions on September 1, 1976, while maintaining successive positions as Assistant and Associate Professor of Medical Technology, and

WHEREAS, on October 1, 1980, Dr. Covey was named Dean of the College of Allied Health Professions, and, in September 1983, was promoted to full professor in the Department of Medical Technology, which became the Department of Biomedical Sciences for which she served as Acting Chair effective February 1, 1987, in addition to fulfilling her roles as Dean and Professor, and

WHEREAS, Dr. Covey assumed the role of Interim Senior Vice President for Academic Affairs on October 1, 1997, while also maintaining her responsibilities as Dean and Professor, and

WHEREAS, on March 15, 2000, Dr. Covey was permanently appointed to the position of Senior Vice President for Academic Affairs, the duties of which she executed with unsurpassed professionalism, and

WHEREAS, during her tenure, Dr. Covey worked diligently to advance many University initiatives, including a succession of institutional self-study processes for accreditation renewal by the Southern Association of Colleges and Schools; creation of the USA Honors Program; development of guidelines for increased student recruitment and retention; and development of the *University of South Alabama Strategic Plan for Racial and Ethnic Diversity*, and

WHEREAS, Dr. Covey has served on numerous University councils and committees, such as the President's Administrative Council, and

WHEREAS, Dr. Covey selflessly dedicated 33 years of service to the University of South Alabama and is known within the University community as a committed associate, a mentor, and caring friend,

THEREFORE, BE IT RESOLVED, that the Board of Trustees expresses its appreciation to Dr. Patsy C. Covey for her many contributions to the University of South Alabama, and offers its best wishes upon her retirement.

RESOLUTION

COMMENDATION OF DR. DALE T. ADAMS

WHEREAS, the University of South Alabama seeks to honor exceptional administrators and faculty who have devoted a substantial part of their careers to serving others, and who have distinguished themselves throughout their professional careers, and

WHEREAS, Dr. Dale T. Adams joined the University of South Alabama staff on September 20, 1989, as Dean of Student Services, with a concurrent appointment as Assistant Professor in the College of Education's Department of Behavioral Studies and Educational Technology, and

WHEREAS, Dr. Adams was granted tenure on September 1, 1995, and

WHEREAS, on January 1, 1996, he was named Vice President for Student Affairs, while simultaneously serving as Dean of Students until January 2003, and

WHEREAS, Dr. Adams served for many years as faculty advisor to the USA Athletics Department and as USA's faculty representative to the National Collegiate Athletic Association, and

WHEREAS, during his tenure, Dr. Adams served on numerous councils and committees of the University, including the President's Administrative Council, and

WHEREAS, Dr. Adams' involvement was essential to the success of major University endeavors, including construction of a new state-of-the-art student recreation center; construction of student apartments on campus; and creation of the football and marching band programs at USA, and

WHEREAS, Dr. Adams has been a valued advisor, mentor, and friend to untold numbers of students and colleagues at USA, and a constant source of support, enthusiasm, good humor, and inspiration,

THEREFORE, BE IT RESOLVED, that the Board of Trustees expresses its appreciation to Dr. Dale T. Adams for his many contributions to the University of South Alabama and offers its best wishes upon his retirement from the Institution and in all future endeavors.