

**UNIVERSITY OF SOUTH ALABAMA  
BOARD OF TRUSTEES**

**STANDING COMMITTEES**

**2010-2013**

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Dr. Steven H. Stokes  
Mr. James A. Yance

**ENDOWMENT AND INVESTMENTS COMMITTEE:**

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Mr. E. Thomas Corcoran  
Mr. J. Cecil Gardner  
President V. Gordon Moulton  
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Dr. Steven H. Stokes

**UNIVERSITY OF SOUTH ALABAMA  
BOARD OF TRUSTEES**

**DECEMBER 9, 2010**

**10:30 A.M.**

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

**REVISED AGENDA**

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## MEMORANDUM

UNIVERSITY OF SOUTH ALABAMA

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November 29, 2010

TO: USA Board of Trustees

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

Enclosed are the unapproved minutes for the September 17, 2010, meeting of the USA Board of Trustees. Please review them for amendment or approval during the December 9 meeting of the Board.

BRM:mgc

Enclosure

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

**Revised Draft**

**September 17, 2010  
10:30 a.m.**

A meeting of the University of South Alabama Board of Trustees was duly convened by Mr. James A. Yance, Chair Pro Tempore, on Friday, September 17, 2010, at 10:32 a.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present: Trustees Scott Charlton, Steven Furr, Samuel Jones, Donald Langham, Bettye Maye, Christie Miree, Bryant Mixon, James Nix, John Peek, Ken Simon, Steven Stokes and James Yance.

Members Absent: Trustees Cecil Gardner, Arlene Mitchell, Joseph Morton, Bob Riley and Larry Striplin.

Administration and Others: President Gordon Moulton; Drs. Michael Boyd, Joseph Busta, Jim Connors, Joel Erdmann, Ron Franks, David Johnson, Tom Meyer, John Russell, Robert Shearer, John Smith and David Stearns; Messrs. Terry Albano, Ken Davis, Joe Gottfried, Stan Hammack, Ben Hannah, Abe Mitchell, Norman Pitman, Steven Stokes and Scott Weldon; and Mss. Kaila Mattson, Mary Gottfried, Stephanie Morris, Geri Moulton, Kim Proctor (SGA), Maxey Roberts and Kristi Johnson (USAF), Kathy Shearer, Angelia Stokes and Jean Tucker.

Press: Mss. Renee Busby (*Press-Register*) and Daniela Werner (*Vanguard*).

Upon the call to order, Chairman Yance called for adoption of the revised agenda to include an Executive Session for a period up to 30 minutes to take place at the end of the meeting agenda concerning litigation. On motion by Mr. Peek, seconded by Mr. Langham, the revised agenda was unanimously approved. Chairman Yance called for consideration of **ITEM 1**, the minutes of the June 10, 2010, meeting of the Board of Trustees and the June 9, 2010, meeting of the Committee of the Whole. On motion by Mayor Nix, seconded by Mr. Peek, the minutes were adopted unanimously.

Regarding **ITEM 2**, the President's Report, President Moulton introduced Dr. Tom Meyer, Vice Chair of the Faculty Senate and Mss. Maxey Roberts and Kristi Johnson representing the USA Foundation. President Moulton reported a record fall enrollment and noted that the credentials of the freshman class have improved from the previous fall semester. He said cancellations in student housing are helping alleviate wait-list needs. He added that a more detailed report would be presented later in the meeting.

President Moulton provided an update on the 2010-2011 football season, reporting the first win of the season over Pikeville (KY) on September 4. He talked about the next game on September 18 against Nicholls State and the Wiregrass Classic on September 25 in Dothan, during which the Jags would play Edward Waters College (FL). He called upon Dr. Erdmann, who introduced USA's Head Coach for Men's Golf Mr. Ben Hannan. Mr. Hannan briefly addressed the Board.



President Moulton updated the Board on the progress of construction projects including the Student Recreation Center, Shelby Hall (College of Engineering and School of Computer and Information Sciences), the Visual Arts' glass studio, campus portals, the new dining hall, and Moulton Tower and Alumni Plaza, which would be dedicated on October 8. He talked about the possibility of trying a Thursday/Friday format for regular, quarterly Board meetings and welcomed feedback from Trustees.

Chairman Yance called for a report of health affairs items. Dr. Furr, Chair of the Health Affairs Committee, recommended approval of **ITEM 3** as follows. On motion by Dr. Charlton, seconded by Mayor Nix, the resolution was approved unanimously:

**RESOLUTION**

**USA HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS FOR MAY, JUNE, JULY AND AUGUST 2010**

**WHEREAS**, the Medical Staff appointments and reappointments for May, June, July and August 2010 for the University of South Alabama Hospitals are recommended for approval by the Medical Executive Committees and the Executive Committee of the University of South Alabama Hospitals,

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

Dr. Furr introduced **ITEM 4** as follows (refer to **APPENDIX A** for copies of policies and other authorized documentation). Ms. Tucker explained that the amendments outlined would effect the integration of the newly formed *USA Healthcare Management, LLC*, within the USA Health Services Foundation. On motion by Dr. Charlton, seconded by Mayor Nix, the resolution was approved unanimously:

**RESOLUTION**

**SECOND ADDENDUM TO THE AFFILIATION AGREEMENT BETWEEN THE UNIVERSITY OF SOUTH ALABAMA AND THE UNIVERSITY OF SOUTH ALABAMA HEALTH SERVICES FOUNDATION**

**WHEREAS**, the University of South Alabama ("University") and the University of South Alabama Health Services Foundation ("USAHSF") previously entered into that certain Affiliation Agreement Between the University of South Alabama and the University of South Alabama Health Services Foundation, dated October 1, 1976 ("Original Affiliation Agreement"), which was subsequently amended January 2, 2004 ("First Amended Affiliation Agreement") (together, the "Amended Affiliation Agreement"), and

**WHEREAS**, on June 10, 2010, the Board of Trustees of the University determined it in the best interest of the University, in furtherance of the purposes for which it was created, for USA HealthCare Management, LLC ("HCM") to be created for the purpose of managing and operating, on behalf of and as agent for the University, substantially all of the health care enterprises of the University, and which is intended to operate as an integral part of the University, and

**WHEREAS**, the University, USAHSF, and HCM desire to amend the Amended Affiliation Agreement to provide for the changes in connection therewith and the operation of the HCM as an integral part of the University and a component of the University of South Alabama Academic Medical Center,

**THEREFORE, BE IT RESOLVED**, that the Board of Trustees of the University of South Alabama hereby approves the Second Addendum to Affiliation Agreement as set forth and attached hereto.

Mr. Hammack presented **ITEM 5**, a report on the activities of the Division of Health Sciences and the USA Health System. He discussed the Certificate of Need (CON) process the University is subject to for state approval of the planned expansion of Children's and Women's Hospital, as well as the bid process for construction. The project would add 200,000 square feet to the existing facility. Mr. Hammack thanked the USA Foundation Board for its cooperation with the USA Board of Trustees to make the project a reality in difficult economic times. President Moulton noted that two of the 8 bids received were from local firms. Mr. Hammack stated the CON Board provided positive feedback on the cost efficiency of USA's project as compared to UAB's CON request.

Dr. Boyd presented **ITEM 6**, a report on the USA Mitchell Cancer Institute (MCI). He gave background about the *Dr. Phillip Rubin Chair of Oncology* professorship, which centers on early career development of young faculty. He called upon Dr. John Russell, Chief of Radiation Oncology Services, to introduce recent faculty recruits Drs. Roger Ove and Suzanne Russo, Professors in Radiation Oncology Services. Drs. Ove and Russo thanked the Board for the opportunity to serve at MCI and nurture its academic mission. They recognized the efforts of Dr. Phil Rubin for making these opportunities possible.

Chairman Yance called for presentation of academic and student affairs items. Ms. Miree, Academic and Student Affairs Committee Chair, called upon Dr. Johnson to address **ITEM 7**, a report of academic affairs activities. As slides were viewed by the Board, Dr. Johnson shared fall enrollment statistics, including a record 15,007 students registered, 2,819 graduate students, 3,774 new students, and a record 2,800 students living on campus. He stated that USA freshman ACT scores increased to an average of 22.1, exceeding the state and national averages. Dr. Smith reported that the demand for student housing is beyond what the University can currently accommodate. He said that the new residence hall is predicted to be open for the 2011 fall semester.

Dr. Johnson introduced chemistry major Miss Kaila Mattson, a senior who, in 2007, represented Wisconsin in the America's Junior Miss program. In the spring, Miss Mattson was awarded the prestigious Barry M. Goldwater Scholarship. Miss Mattson discussed her decision for coming to the University of South Alabama and the opportunities availed to her through USA programs and the Goldwater scholarship, including a 10-week study-abroad program in Germany. She gave credit to her Chemistry advisor for unrivaled guidance. Miss Mattson participates in the USA Honors Program as well.

Drs. Johnson and Franks discussed developments relative to the Gulf oil spill and outlined the University's involvement in recovery efforts via grant awards to fund environmental, economic, and psychological impact studies, as well as training seminars for volunteers to help victims of the oil spill. Among the grants received was \$5 million from BP for USA's Dauphin Island Sea Lab. Also discussed was funding received by the five Gulf states affected by the spill.

Ms. Miree called upon Dr. Smith to address **ITEM 8**, a report of student affairs activities. Dr. Smith reported that 1,900 students, faculty, and staff have enrolled in USA's dining plan. He commended the dining staff for coordination efforts and said that customer satisfaction is positive. He reported the resignation of USA Police Chief Normand Gamache, noting that his wife Dr. Lois Wims, former

Associate Dean of the College of Arts and Sciences, had taken a position in New York. He said a search is under way to fill the position of Police Chief.

Chairman Yance called for consideration of budget, finance and audit items. On behalf of Mayor Nix, Chair of the Budget and Finance Committee and the Audit Committee, Mr. Scott Weldon discussed **ITEM 9** reports titled *Monthly Fund Financial Reports for April, May, and June 2010*; *Quarterly GASB Financial Statement for the Nine Months Ended June 2010*; and *Summary Comparison of Fund Financial Reports to GASB Financial Statements, June 30, 2010 and 2009*. There was no discussion.

Ms. Tucker addressed **ITEMS 10 and 11**, which follow respectively. On motion by Mr. Peek, seconded by Ms. Maye, **ITEM 10** was approved unanimously. On motion by Mr. Peek, seconded by Mr. Langham, **ITEM 11** was approved unanimously.

**RESOLUTION  
EXECUTION OF NOTICE OF FEDERAL INTEREST IN A USA SPECIALIZED LABORATORY**

WHEREAS, the University of South Alabama has been awarded a federal grant from the National Center for Research Resources of the National Institutes of Health to partially fund the construction of a Specialized Laboratory, and

WHEREAS, applicable regulations require use of the building be restricted for a period of up to 20 years to those purposes documented in the application approved by the agency that promulgated the subject award 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 Specialized Laboratory as proposed under the approved grant award to sustain and support existing, well-regarded research programs and to provide space for an expanding program focused on select agent pathogens that pose significant threats to human health and security,

THEREFORE, IT RESOLVED, that the Board of Trustees authorizes the University President to execute, file, and record such documents as necessary to affirm the federal interests in the Specialized Laboratory as required under applicable federal regulations.

**RESOLUTION  
EXECUTION OF NOTICE OF FEDERAL INTEREST IN OFFICE AND LABORATORY SPACE ON THE SECOND AND THIRD FLOORS  
OF THE MEDICAL SCIENCES BUILDING**

WHEREAS, the University of South Alabama has been awarded a federal grant from the National Institutes of Health to partially fund interior completion of office and laboratory space located on the second and third floor of the Medical Sciences Building, and

WHEREAS, applicable regulations require use of the specific space be restricted for a period of up to 20 years to those purposes documented in the application approved by the agency that promulgated the subject award 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 has completed the office and laboratory under the terms of the award,

**THEREFORE, BE IT RESOLVED**, that the Board of Trustees hereby ratifies and affirms the execution, filing, and recording by the President of the University of such documents as necessary to affirm the federal interests in specific office and laboratory space on the second and third floors of the Medical Sciences Building, as required under applicable federal regulations.

Concerning **ITEM 12** as follows, it was noted that a thorough discussion had taken place at the Committee of the Whole meeting on September 16. On motion by Mayor Nix, seconded by Dr. Stokes, the resolution was approved unanimously.

**RESOLUTION**

**SALE OF MEDICAL RESEARCH BUILDING AND GROUND LEASE TO ALABAMA DEPARTMENT OF FORENSIC SCIENCES**

**WHEREAS**, the Alabama Department of Forensic Sciences ("ADFS") has occupied space at the University of South Alabama Medical Center ("USAMC") since 1983 and wishes to expand its operations at the USAMC campus, having obtained external funding for purposes of expansion, and

**WHEREAS**, the Medical Research Building ("Building") on the campus of the USAMC has been identified by ADFS as an appropriate space for its expansion, and ADFS has determined that the best use of the external funds would be to purchase the Building and lease the real property on which it is built on a long term basis for a nominal cost, and

**WHEREAS**, an appraisal was obtained which indicated that the value of the Building is Four Hundred Eighty-Eight Thousand Dollars (\$488,000), and the parties have agreed upon that figure as the sale price, and

**WHEREAS**, pursuant to the University's Land Sale/Lease Policy and Procedure, the attached Agreement for Purchase and Sale and the attached Lease Agreement have been negotiated by USA and ADFS and set forth the terms of the purchase and sale of Building and the terms of the ground lease to which the Board of Trustees of the University agrees, and

**WHEREAS**, the Board of Trustees has determined that the sale of the Building and ground lease under the negotiated terms and conditions would be in the best interests of the University,

**THEREFORE, BE IT RESOLVED**, that the Board of Trustees of the University of South Alabama approves and authorizes the sale of the Building and lease of the real property by the President of the University pursuant to the terms and conditions set forth in the Purchase and Sale Agreement and Lease Agreement attached hereto.

President Moulton presented **ITEM 12.A** as follows. On motion by Mr. Langham, seconded by Mayor Nix, the resolution was approved unanimously.

**RESOLUTION**

**ARCHITECT FOR STUDENT CENTER RENOVATION**

**WHEREAS**, the University of South Alabama has a growing enrollment, and

**WHEREAS**, the quality of student life is strongly enhanced by an excellent student center, and

**WHEREAS**, the recruitment of students is strongly enhanced by a high-quality student center, and

**WHEREAS**, the current student center, built in 1971, is in need of renovation, and

**WHEREAS**, other adjacent renovations and improvements will be completed in 2011, and

WHEREAS, the summer of 2011 is the best time to begin renovations, and

WHEREAS, Harvey Gandler, Architect, has a history of successfully designing similar projects on campus,

THEREFORE, BE IT RESOLVED, that the Board of Trustees authorizes the President to approve awarding the design contract for the Student Center renovation to Harvey Gandler if his fee proposal, design plan and staffing plan are judged by the President to be satisfactory.

Mayor Nix called for consideration of **ITEM 13** as follows. President Moulton stated that negotiations with the USA Foundation (USAF) about the acquisition of USA Brookley Center have been favorable. He said proceeds from the transaction will enable the University to move forward with the expansion of USA Children's and Women's Hospital. He conveyed appreciation to Ms. Maxey Roberts, USAF Managing Director and Board member, as well as all USAF Directors, for helping the University achieve this important goal. On motion by Mr. Langham, seconded by Dr. Furr, the resolution was approved unanimously.

**RESOLUTION  
SALE OF USA BROOKLEY CENTER CAMPUS**

WHEREAS, the University of South Alabama ("University") owns land and buildings known as the USA Brookley Center Campus (approximately 327.11 acres), and

WHEREAS, the subject property currently houses a golf course, conference facilities, office facilities and housing, all of which are being utilized by the University in furtherance of its mission, and

WHEREAS, given the current fiscal constraints imposed on the University by the economy of the state and the country, the Board of Trustees of the University believed it to be in the best interest of the Institution to explore the possibility of a sale of this property, with a lease of the property back to the University at a nominal fee for its continued use, and other such conditions as would benefit the University, and

WHEREAS, the Board of Trustees of the University of South Alabama authorized the President of the University to proceed with exploring the possibility of sale of the land and buildings which make up the area known as USA Brookley Center Campus, pursuant to the laws of the State of Alabama, and report to the Board for approval as provided in the "Policy and Procedure by which the University of South Alabama Would Sell or Lease Real Property or Interest Owned by the University of South Alabama," and

WHEREAS, the sale of the land and buildings was bid pursuant to the above-referenced Policy and Procedure with the sole bid response being from the University of South Alabama Foundation (the "Foundation") which offered to purchase the land and buildings for Twenty Million Dollars (\$20,000,000), and

WHEREAS, the attached Purchase and Sale Agreement was negotiated by USA and the Foundation and sets forth the terms of said purchase and sale to which the Board of Trustees of the University agrees,

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama approves and authorizes the President of the University to proceed with the sale of the land and buildings which make up the area known as USA Brookley Center Campus pursuant to the terms and conditions set forth in the Purchase and Sale Agreement attached hereto.

President Moulton introduced Ms. Roberts for a report on the timber industry and investments by the USA Foundation. On behalf of the USA Foundation Board of Directors, Ms. Roberts expressed enthusiasm about the Foundation's most recent investment in acquiring the Brookley property. As Trustees viewed photos and informational slides, Ms. Roberts discussed the planting, growth, and

harvest of timber, and provided data on the returns of timber investments compared with S & P and equity investment returns. In summary, she submitted that timber maintains its value and provides constant cash flow, and responded to questions.

President Moulton noted that **ITEM 14**, the KPMG audit report, had been presented in detail during the Committee of the Whole meeting.

Mr. Ken Davis presented **ITEM 15**, a report on an independent audit of the USA Foundation Consolidated Financial Statements and the Disproportionate Share Hospital (DSH) Funds Combined Financial Statements, June 2010 and 2009. He indicated the results of both audits were the same as reported the previous year. There was no discussion.

Chairman Yance called for consideration of endowment and investment items. Mr. Albano addressed **ITEM 16**, a report of the performance presentations made by investment managers during the September 16 Committee of the Whole meeting. He noted that, for the 2010 fiscal year, the endowment outperformed its relative index by 2.18 percent. The return through August 2010 was 3.49 percent vs. a relative index of 1.31 percent. Mr. Albano introduced Mr. Norman Pitman for an update on the University's international and small-cap investments. Mr. Albano discussed performance results since inception, noting an outperformance of .53 percent with a return of 2.53 percent vs 2.00 percent.

Mr. Albano presented **ITEM 17** as follows, noting that annual assessment of the University's endowment and non-endowment investment policies by the Board of Trustees is required by the Southern Association of Colleges and Schools (SACS), USA's primary accrediting agency. He reminded the Trustees that policy revisions were adopted in 2009, and stated no recommendations for change are proposed for the present time. On motion by Ms. Maye, seconded by Dr. Charlton, the resolution was approved unanimously.

#### RESOLUTION

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

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

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

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

President Moulton welcomed Mr. Joe Gottfried, retired Athletics Director; wife, Mary; and daughter, Susan and commented on Mr. Gottfried's long history at the University of South Alabama. He read **ITEM 17.A** as follows and, on motion by Mr. Langham, seconded by Mayor Nix, the resolution was approved unanimously. Mr. Gottfried thanked the Board and President Moulton for the recognition given him and for their enthusiastic support of USA Athletics through the years.

**RESOLUTION  
NAMING OF *JOSEPH E. GOTTFRIED DRIVE***

**WHEREAS**, the University of South Alabama seeks to recognize persons who have contributed to its growth and development, and

**WHEREAS**, the naming of facilities and campus streets offers opportunities to honor and memorialize such individuals for their significant roles in the history of the University, and

**WHEREAS**, Mr. Joseph E. Gottfried joined the University of South Alabama as assistant athletics director in 1981 and assumed the leadership role of athletics director in 1984, serving USA for a total of 28 years before retiring,

**THEREFORE, BE IT RESOLVED**, in recognition of Mr. Joseph E. Gottfried's dedication to the University of South Alabama, the Board of Trustees authorizes the President to name the new street leading from Jack Brunson Drive to the Football Field House as *Joseph E. Gottfried Drive*.

President Moulton called upon Dr. Robert Shearer, retired Executive Assistant to the President, and wife, Kathy, to join him for presentation of **ITEM 17.B** as follows. On motion by Mr. Langham, seconded by Ms. Miree, the resolution was approved unanimously. Dr. Shearer shared appreciation for a rewarding career at the University of South Alabama and for friendships with administrative and faculty colleagues and Board members.

**RESOLUTION  
COMMENDATION OF DR. ROBERT A. SHEARER**

**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. Robert A. Shearer joined the USA faculty in 1986 as a Professor of Management in the Mitchell College of Business, and

**WHEREAS**, Dr. Shearer, as a tenured business law professor, was one of the outstanding teachers in the Mitchell College of Business, and

**WHEREAS**, Dr. Shearer established a continuing record of scholarly publications and was a nationally recognized consultant in the areas of conflict resolution and partnering, and

**WHEREAS**, Dr. Shearer also served as Executive Assistant to the President from 1998 until his retirement in July 2010, and

**WHEREAS**, Dr. Shearer served with professionalism in his teaching and administrative duties, working equally well with administrators, faculty and students, and

**WHEREAS**, during his tenure at the University, he chaired and served on numerous committees and provided unique insight, guidance, and direction in the growth and success of the University, and

**WHEREAS**, Dr. Shearer offered his time selflessly to the University in support of its academics, arts, and athletics, and successfully employed his partnering/facilitating skills for many projects pursued by the University, and

**WHEREAS**, Dr. Shearer has been a valued advisor, mentor, and friend to untold numbers of students and colleagues at USA, as well as a constant source of unwavering support and irrepressible humor,

THEREFORE, BE IT RESOLVED, that the Board of Trustees expresses its appreciation to Dr. Robert A. Shearer for his many contributions to the University of South Alabama and offers its best wishes upon his retirement from the Institution and in his current and future endeavors.

President Moulton presented **ITEM 18** as follows, noting the many contributions of Dr. Steven Stokes, the most recent being his service as Chair Pro Tempore of the Board of Trustees for a three-year term ending June 2010. President Moulton recognized Dr. Stokes, family Mrs. Angelia Stokes and son, Steven, asking them to join Dr. Stokes for the reading of the resolution. On motion by Ms. Maye, seconded by Dr. Charlton, the Board cast unanimous approval of naming Dr. Stokes *Chair Pro Tempore Emeritus*. President Moulton enlisted Steven's assistance in unveiling a portrait of Dr. Stokes. Dr. Stokes addressed fellow Trustees and guests, crediting local artist Ms. Stephanie Morris for her talents, and sharing heartfelt gratitude for the opportunity to serve his alma mater and for bestowing upon him this distinguished honor.

#### RESOLUTION

##### COMMENDATION OF TRUSTEE STEVEN H. STOKES, M.D., AS *CHAIR PRO TEMPORE EMERITUS*

WHEREAS, Dr. Steven H. Stokes has served faithfully as a member of the Board of Trustees of the University of South Alabama since his appointment in 1993, and

WHEREAS, Dr. Stokes served as Chair Pro Tempore of the Board of Trustees from June 2007 through June 2010, and

WHEREAS, Dr. Stokes previously served the Board as Vice Chair from 2004 through 2007, and

WHEREAS, Dr. Stokes also served as a member of the USA Foundation Board of Directors and the USA Research and Technology Corporation Board of Directors, and

WHEREAS, Dr. Stokes, during his tenure as a member of the Board, among other responsibilities, has served as a member of the Health Affairs, Endowment and Investments, Long-Range Planning, and Executive committees, and

WHEREAS, Dr. Stokes' dynamic and insightful leadership, especially in the medical field, was critical to the development and progress of major University initiatives, including the USA Mitchell Cancer Institute, the USA Children's & Women's Hospital expansion project, Campaign USA, the Jaguar football and marching band programs, and many others, and

WHEREAS, Dr. Stokes' generous support of the University of South Alabama, the Angelia and Steven H. Stokes Endowed Scholarship in Creative Writing, the USA Mitchell Cancer Institute, the Dr. Robert A. Kreisberg Gifted Medical Scholars Endowment, and the USA College of Medicine, brings his total giving to the University, including matching funds, to more than \$2.4 million, and

WHEREAS, Dr. Stokes, through his long-standing stewardship, wisdom, guidance and philanthropy, has played a prominent role in advancing the interests of all University of South Alabama constituencies,

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama expresses its sincere appreciation to Dr. Steven H. Stokes for his many contributions and invaluable service to the Board, to the entire University community, and to the people of the state of Alabama, all of whom have benefitted from his wisdom, dedication, service and generosity, by conferring upon him the honorary title of *Chair Pro Tempore Emeritus* of the University of South Alabama Board of Trustees.



Chairman Yance called for a motion to convene an Executive Session. On motion by Mr. Peek, seconded by Dr. Charlton, the Board unanimously agreed to convene an Executive Session.

Upon the conclusion of the Executive Session, the meeting was reconvened and, there being no further business, adjourned at 12:02 p.m.

Attest to:

Respectfully Submitted:

---

Bettye R. Maye, Secretary

---

James A. Yance, Chair Pro Tempore

**UNIVERSITY OF SOUTH ALABAMA  
BOARD OF TRUSTEES**

**Revised Draft**

**COMMITTEE OF THE WHOLE**

**September 16, 2010**

**2:30 p.m.**

A meeting of the Committee of the Whole was duly convened by Mr. James A. Yance, Chair Pro Tempore, on Thursday, September 16, 2010, at 2:30 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present: Trustees Scott Charlton, Steven Furr, Donald Langham, Bettye Maye, Christie Miree, James Nix, John Peek, Ken Simon, Steven Stokes and James Yance.

Members Absent: Trustees Cecil Gardner, Sam Jones, Arlene Mitchell, Bryant Mixon, Joseph Morton, Bob Riley and Larry Striplin.

Administration and Others: President Gordon Moulton; Drs. Joe Busta, Ron Franks, David Johnson, Julie Estis and Tom Meyer (Faculty Senate), John Smith, and David Stearns; Messrs. Terry Albano, Mike Douglass and Charles Gerber (Gerber/Taylor), Stan Hammack, Bryan Horner (Private Advisors), Douglas Lane (Douglas C. Lane), Bill Moore (Communfund), Mark Peach (KPMG), and Charles Perry (Arlington Partners); and Mss. Paige Daniels (Arlington Partners) and Jean Tucker.

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

Chairman Yance called to order the meeting of the Committee of the Whole and thanked Trustees and guests for being present. He suggested that specific attention be placed on **ITEMS 12, 13, 14, 16 and 17.A**, and invited the discussion of any other agenda item if an interest was expressed.

Mr. Mark Peach, KPMG partner, presented **ITEM 14**, a report of the KPMG audit process. The Committee viewed a written summary of the audit process in progress as Mr. Peach outlined key points. He discussed the audit schedule, noting that work began in July. He explained the foremost areas of risk that will be examined by the KPMG team. He noted plans to meet with the Committee again in December for a post-audit report.

Chairman Yance called upon Mr. Albano to address **ITEM 16**, the annual presentation by investment managers concerning endowment performance. He introduced endowment managers for brief reports; written summaries were distributed. Represented were Mr. Bill Moore of Commonfund; Mr. Charles Perry and Ms. Paige Daniels of Arlington Partners; Messrs. Mike Douglass and Charles Gerber of Gerber/Taylor; Mr. Douglas Lane of the firm of Douglas C. Lane; and Mr. Bryan Horner of Private Advisors. Each was given the opportunity to discuss investment results and provide perspective on the economic outlook.

Mr. Hammack presented **ITEM 12** (for copies of resolutions, policies, and other authorized documentation, refer to the USA Board of Trustees meeting minutes, September 17, 2010), a resolution authorizing the sale of a building at the Medical Center campus and the lease of the corresponding real property to the Alabama Department of Forensic Sciences (ADFS) as outlined in the purchase and sale agreement and the lease agreement. Mr. Hammack noted the building has existed for 25 years. He briefed the Committee on plans by the ADFS for utilization of the space. On motion duly made and seconded, the Committee unanimously agreed to recommend approval by the full Board.

President Moulton presented **ITEM 13**, a resolution authorizing the President to proceed with the sale of the land and buildings that make up the USA Brookley Center Campus as detailed in the purchase and sale agreement. On motion duly made and seconded, the Committee unanimously agreed to recommend approval by the full Board.

President Moulton presented **ITEM 17.A**, a resolution authorizing the naming of the street leading to the Football Field House *Joseph E. Gottfried Drive* in recognition of Mr. Gottfried's many years of service to the University of South Alabama as Athletics Director. The Committee unanimously agreed to recommend approval by the full Board.

Trustees and guests were encouraged to participate in the dedication of the Student Recreation Center following the Committee of the Whole meeting at 4:00 p.m.

There being no further business, the meeting was adjourned at 3:42 p.m.

Attest to:

Respectfully Submitted:

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Bettye R. Maye, Secretary

---

James A. Yance, Chair Pro Tempore

**RESOLUTION**

**EXECUTIVE COMMITTEE OF THE BOARD OF TRUSTEES**

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

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

Mr. James A. Yance

Dr. Steven P. Furr

Ms. Bettye R. Maye

Mr. J. Cecil Gardner

The Honorable Samuel L. Jones

Mr. John M. Peek

Dr. Steven H. Stokes

**RESOLUTION**

**EXECUTIVE COMMITTEE OF THE BOARD OF TRUSTEES**

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

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

Mr. James A. Yance

Dr. Steven P. Furr

Ms. Bettye R. Maye

Mr. J. Cecil Gardner

The Honorable Samuel L. Jones

Mr. John M. Peek

Dr. Steven H. Stokes

**RESOLUTION**

**USA HOSPITALS**  
**MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS**  
**FOR SEPTEMBER, OCTOBER AND NOVEMBER 2010**

**WHEREAS**, the Medical Staff appointments and reappointments for September, October and November 2010 for the University of South Alabama Hospitals are recommended for approval by the Medical Executive Committees and the Executive Committee of the University of South Alabama Hospitals,

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

UNIVERSITY OF SOUTH ALABAMA

NOV 11 2010

STANLEY K. HAMMACK  
VICE PRESIDENT  
HEALTH SYSTEM



UNIVERSITY OF SOUTH ALABAMA  
TELEPHONE: (251) 471-7118  
2451 FILLINGIM STREET, SUITE 3040  
MOBILE, ALABAMA 36617-2293  
FAX: (251) 471-7751

**MEMORANDUM**

**TO:** V. Gordon Moulton  
President

**FROM:**  Stan Hammack

**DATE:** November 10, 2010

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

**For Approval:**

**University of South Alabama Hospitals:**

USA Hospitals Medical Staff Bylaws Revisions – Delineated Clinical Privileges & Appointments

USA Hospital Medical Staff Rules and Regulations Revisions – Patient Dissatisfaction With Physician and Primary Physician Involvement

USA Hospitals Medical Staff Rules and Regulations Revisions – Physician Requirements Credentials Report – September, October and November 2010

SKH:eb

Attachments

**UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK**  
**MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS**  
**FOR BOARD OF TRUSTEES APPROVAL**  
September, October and November 2010

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

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Allen-Johnson, Jennifer C., M.D.	Reappt.	Courtesy	Pediatrics	No Priv's	N/A	N/A	N/A	N/A	N/A
Angerholzer, Susan L., P.A.	Reappt.	Affiliate	Surgery	Reappt.	Affiliate	Surgery	N/A	N/A	N/A
Baker, Susan L., M.D.	Reappt.	Active	OB/GYN	Reappt.	Active	OB/GYN	Reappt.	Active	OB/GYN
Baldy, Maureen T., D.M.D.	Reappt.	Affiliate	Surgery	No Priv's	N/A	N/A	N/A	N/A	N/A
Baliem, Wilma D., ACNP-BC	Reappt.	Affiliate	Internal Medicine	Reappt.	Affiliate	Internal Med.	N/A	N/A	N/A
Baranano, Edward C., M.D.	Reappt.	Courtesy	Surgery	Reappt.	Courtesy	Surgery	N/A	N/A	N/A
Barton, Patton M., M.D.	Reappt.	Courtesy	OB/GYN	Reappt.	Courtesy	OB/GYN	N/A	N/A	N/A
Bernacik, Eva, P.A.	Reappt.	Affiliate	Surgery	Reappt.	Affiliate	Surgery	N/A	N/A	N/A
Beverly, Tonia M., AuD	New Appt.	Affiliate	Surgery	New Appt	Affiliate	Surgery	N/A	N/A	N/A
Blair-Elortegui, Judy V., M.D.	Reappt.	Active	Internal Medicine	Reappt.	Active	Internal Med.	Reappt.	Active	Int. Medicine
Blair-Elortegui, Judy V., M.D.	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics
Bose, William J., M.D.	Reappt.	Courtesy	Orthopaedics	Reappt.	Courtesy	Orthopaedics	N/A	N/A	N/A
Boyd, Jimmy L. Jr., P.A.	Reappt.	Affiliate	Orthopaedics	Reappt.	Affiliate	Orthopaedics	N/A	N/A	N/A
Brannan, John P., M.D.	Reappt.	Active	Radiology	Reappt.	Active	Radiology	Reappt.	Active	Radiology
Brevard, Sidney B., M.D.	New Appt.	Active	Surgery	New Appt	Active	Surgery	New Appt.	Active	Surgery
Brown, Mark S., M.D.	No Priv's	N/A	N/A	Reappt.	Courtesy	Surgery	N/A	N/A	N/A
Brutkiewicz, Barbara , CRNP	Reappt.	Affiliate	Pediatrics	No Priv's	N/A	N/A	N/A	N/A	N/A
Bunch, Dennis, R.N.	Reappt.	Affiliate	Radiology	No Priv's	N/A	N/A	N/A	N/A	N/A
Bunner, Dianne L., CRNP	Reappt.	Affiliate	Pediatrics	No Priv's	N/A	N/A	N/A	N/A	N/A
Burke, Christina A., P.A.	Reappt.	Affiliate	Internal Medicine	Reappt.	Affiliate	Internal Med.	N/A	N/A	N/A
Busbee, Benjamin R., M.D.	Reappt.	Courtesy	OB/GYN	No Priv's	N/A	N/A	N/A	N/A	N/A
Busby, Melanie D., P.A.	Reappt.	Affiliate	Orthopaedics	Reappt.	Affiliate	Orthopaedics	N/A	N/A	N/A
Cameron, Daniel G., M.D.	Reappt.	Active	Internal Medicine	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine
Camp, Pamela R., ACNP-BC	Reappt.	Affiliate	Internal Medicine	Reappt.	Affiliate	Internal Med.	N/A	N/A	N/A
Carpenter, David C., M.D.	Reappt.	Active	OB/GYN	Reappt.	Active	OB/GYN	N/A	N/A	N/A
Clark, Melanie H., M.D.	New Appt.	Active	Radiology	New Appt	Active	Radiology	New Appt.	Active	Radiology
Clarkson, David R., M.D.	Reappt.	Active	Internal Medicine	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine
Clements, Lloyd Scott, M.D.	Reappt.	Active	Pediatrics	No Priv's	N/A	N/A	Reappt.	Active	Pediatrics



**UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK**  
**MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS**  
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**September, October and November 2010**

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

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Cole, Jason H., M.D.	Reappt.	Courtesy	Int. Medicine	Reappt.	Courtesy	Int. Medicine	N/A	N/A	N/A
Contreras, Carlo M., M.D.	New Appt.	Active	Surgery	New Appt	Active	Surgery	New Appt.	Active	Surgery
Cook, Amy L., CRNP	Reappt.	Affiliate	Pediatrics	No Priv's	N/A	N/A	N/A	N/A	N/A
Crews, LaDonna M., M.D.	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics
Crocker, Percy V., M.D.	Reappt.	Courtesy	Surgery	No Priv's	N/A	N/A	N/A	N/A	N/A
Daniels, Larkin J., M.D.	Reappt.	Courtesy	Surgery	Reappt.	Courtesy	Surgery	N/A	N/A	N/A
Davis, Angela A., R.N.	New Appt.	Affiliate	Internal Medicine	New Appt	Affiliate	Int. Medicine	N/A	N/A	N/A
Diegmann, Fred F., M.D.	Reappt.	Courtesy	OB/GYN	No Priv's	N/A	N/A	N/A	N/A	N/A
DiPalma, Jack, M.D.	Reappt.	Active	Internal Medicine	Reappt.	Active	Internal Med.	Reappt.	Active	Int. Medicine
Douglas, Mark J., M.D.	New Appt.	Courtesy	Surgery	No Priv's	N/A	N/A	N/A	N/A	N/A
Duncan, Clinton E., P.A.	Reappt.	Affiliate	Orthopaedics	Reappt.	Affiliate	Orthopaedics	N/A	N/A	N/A
Eyrich, George A., M.D.	No Priv's	N/A	N/A	Reappt.	Courtesy	Int. Medicine	N/A	N/A	N/A
Formwalt, David J., Psy.D	Reappt.	Affiliate	Internal Medicine	Reappt.	Affiliate	Int. Medicine	N/A	N/A	N/A
Franklin, Alan J., M.D.	Reappt.	Active	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
Gandy, Roy E., M.D.	Reappt.	Active	Surgery	Reappt.	Active	Surgery	Reappt.	Active	Surgery
Green, William K., M.D.	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine
Hamlin, Gretchen P., C.R.N.P.	Reappt.	Affiliate	CEC	N/A	N/A	N/A	N/A	N/A	N/A
Hamlin, Gretchen P., C.R.N.P.	Reappt.	Affiliate	OB/GYN	Reappt.	Affiliate	OB/GYN	N/A	N/A	N/A
Hamm, Charles R., Jr., M.D.	Reappt.	Active	Pediatrics	Reappt.	Courtesy	Pediatrics	Reappt.	Active	Pediatrics
Hanes, Charles R.II., M.D.	Reappt.	Courtesy	OB/GYN	No Priv's	N/A	N/A	N/A	N/A	N/A
Hannon, Jeffrey K., M.D.	Reappt.	Active	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
Hartman, Catherine S., CRNP	Reappt.	Affiliate	Pediatrics	No Priv's	N/A	N/A	N/A	N/A	N/A
Harwood, Brent M., D.P.M.	Reappt.	Affiliate	Orthopaedics	Reappt.	Affiliate	Orthopaedics	N/A	N/A	N/A
Hart, Eugene L., M.D.	Reappt.	Active	Pathology	Reappt.	Active	Pathology	Reappt.	Active	Pathology
Hayes, Casey C., R.D.H.	New Appt.	Affiliate	Surgery	No Priv's	N/A	N/A	N/A	N/A	N/A
Hayes, Dorothy J., R.N.	Reappt.	Affiliate	OB/GYN	Reappt.	Affiliate	OB/GYN	N/A	N/A	N/A
Haynes, Johnson Jr., M.D.	Reappt.	Active	Internal Medicine	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine

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	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Herrera, Jorge L., M.D.	Reappt.	Courtesy	Int. Medicine	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine
Higgs, William R., M.D.	Reappt.	Active	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
Holston, Joseph T., AuD	New Appt.	Affiliate	Surgery	New Appt	Affiliate	Surgery	N/A	N/A	N/A
Horton, Amanda M., C.R.N.A.	New Appt.	Affiliate	Anesthesia	New Appt	Affiliate	Anesthesia	N/A	N/A	N/A
Howell, John B.III, M.D.	Reappt.	Courtesy	OB/GYN	Reappt.	Courtesy	OB/GYN	N/A	N/A	N/A
Hupp, Saunders L., M.D.	No Priv's	N/A	N/A	Reappt.	Active	Surgery	N/A	N/A	N/A
Hutchens, Dennis W., M.D.	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesia
Johnsten, Mary E., P.A.	Reappt.	Affiliate	Surgery	No Priv's	N/A	N/A	N/A	N/A	N/A
Jones, Richard E. III, M.D.	Reappt.	Courtesy	Pediatrics	Reappt.	Courtesy	Pediatrics	N/A	N/A	N/A
Jubran, Ihab, M.D.	Reappt.	Active	Pediatrics	No privs	N/A	N/A	Reappt.	Active	Pediatrics
Jurasek, Meleah A., CRNP	Reappt.	Affiliate	Pediatrics	No Priv's	N/A	N/A	N/A	N/A	N/A
Justice, Wiley H., M.D.	New Appt.	Active	Surgery	New Appt	Active	Surgery	New Appt.	Active	Surgery
Kays, Arlene J., R.N.	Reappt.	Affiliate	OB/GYN	Reappt.	Affiliate	OB/GYN	N/A	N/A	N/A
Kohaut, Edward C., M.D.	Reappt.	Active	Pediatrics	No Priv's	N/A	N/A	Reappt.	Active	Pediatrics
LaFleur, John C., M.D.	Reappt.	Active	OB/GYN	Reappt.	Active	OB/GYN	Reappt.	Active	OB/GYN
Lane, Daniel R., M.D.	Reappt.	Active	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
Laskay, Kathleen M., CRNP	Reappt.	Affiliate	Pediatrics	No Priv's	N/A	N/A	N/A	N/A	N/A
Lightfoot, William M., M.D.	Reappt.	Courtesy	Surgery	Reappt.	Courtesy	Surgery	N/A	N/A	N/A
Little, Walter K., Jr., D.D.S.	New Appt.	Affiliate	Surgery	No Priv's	N/A	N/A	N/A	N/A	N/A
Madison, Betty G., CRNP	Reappt.	Affiliate	Pediatrics	No Priv's	N/A	N/A	N/A	N/A	N/A
Maertens, Paul, M.D.	Reappt.	Active	Neurology	Reappt.	Active	Neurology	Reappt.	Active	Neurology
Magnone, Mario, M.D.	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine
Manci, Elizabeth A., M.D.	Reappt.	Active	Pathology	Reappt.	Active	Pathology	Reappt.	Active	Pathology
Mason, Daran J., M.D.	New Appt.	Courtesy	Surgery	New Appt	Courtesy	Surgery	N/A	N/A	N/A
Mayer, David C., M.D.	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics	N/A	N/A	N/A
McCoy, Amy M., M.D.	New Appt.	Active	OB/GYN	No Priv's	N/A	N/A	N/A	N/A	N/A
McGee, Gregory S., M.D.	Reappt.	Courtesy	Surgery	Reappt.	Courtesy	Surgery	N/A	N/A	N/A

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	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
McMaster, Amy E., C.R.N.A.	New Appt.	Affiliate	Anesthesia	New Appt	Affiliate	Anesthesia	N/A	N/A	N/A
McMullan, Eddrice M., M.D.	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesia
Michalski, Joseph P., M.D.	Reappt.	Active	Internal Medicine	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine
Miller, Theresa P., P.A.	Reappt.	Affiliate	Pediatrics	Reappt.	Affiliate	Pediatrics	N/A	N/A	N/A
Murphy, Patrick L., M.D.	No Priv's	N/A	N/A	Reappt.	Courtesy	Internal Med.	N/A	N/A	N/A
Myers, Lori A., M.D.	No Priv's	N/A	N/A	New Appt	Active	Emg. Medicine	New Appt.	Active	Emg. Medicine
Myrick, Gregory R., M.D.	No Priv's	N/A	N/A	New Appt	Active	Emg. Medicine	New Appt.	Active	Emg. Medicine
Naritoku, Dean K., M.D.	Reappt.	Active	Neurology	Reappt.	Active	Neurology	Reappt.	Active	Neurology
Neely, Megan M., RDH	Reappt.	Affiliate	Surgery	No Priv's	N/A	N/A	N/A	N/A	N/A
Norris, Florence, R.N.	New Appt.	Affiliate	Int. Med.	New Appt	Affiliate	Int. Med	N/A	N/A	N/A
O'Dowd, John M., M.D.	No Priv's	N/A	N/A	Reappt.	Courtesy	Int. Medicine	N/A	N/A	N/A
O'Gorman, Ronald B., M.D.	Reappt.	Active	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
Ove, Roger, M.D.	New Appt.	Active	Radiology	New Appt	Active	Radiology	New Appt.	Active	Radiology
Overschmidt, Carrie S., MSCCC-A	New Appt.	Affiliate	Surgery	New Appt	Affiliate	Surgery	N/A	N/A	N/A
Owens, Sheri A., M.D.	Reappt.	Active	OB/GYN	Reappt.	Courtesy	OB/GYN	Reappt.	Active	OB/GYN
Park, Christopher A., M.D.	Reappt.	Active	Surgery	Reappt.	Courtesy	Surgery	N/A	N/A	N/A
Pearsall, Albert, M.D.	Reappt.	Active	Orthopaedics	Reappt.	Active	Orthopaedics	Reappt.	Active	Orthopaedics
Revere, Cherie J. CRNP	No Priv's	N/A	N/A	Reappt.	Affiliate	Internal Med.	N/A	N/A	N/A
Rich, Leonard S., M.D.	Reappt.	Active	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
Roberson-Trammell, Katrina L., M.D.	Reappt.	Active	Pediatrics	No Priv's	N/A	N/A	Reappt.	Active	Pediatrics
Roca, Theresa P., M.D.	Reappt.	Courtesy	Pediatrics	Reappt.	Courtesy	Pediatrics	N/A	N/A	N/A
Rodriguez, Manuel D., D.O.	New Appt.	Active	Int. Medicine	New Appt	Active	Int. Medicine	New Appt.	Active	Int. Medicine
Rogers, Vera R., R.N.	Reappt.	Affiliate	OB/GYN	Reappt.	Affiliate	OB/GYN	N/A	N/A	N/A
Rosenbaum, Michael S., Ph.D.	Reappt.	Affiliate	Internal Medicine	Reappt.	Affiliate	Internal Med.	N/A	N/A	N/A
Ross, April M., M.D.	New Appt.	Active	Pediatrics	No Priv's	N/A	N/A	New Appt.	Active	Pediatrics
Roveda, Kelly P., M.D.	Reappt.	Active	Pathology	Reappt.	Active	Pathology	Reappt.	Active	Pathology

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	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Rubenstein, Howard J., M.D.	Reappt.	Courtesy	Family Medicine	Reappt.	Courtesy	Family Med.	N/A	N/A	N/A
Rutecki, Gregory W., M.D.	Reappt.	Active	Internal Medicine	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine
Sambula, Alfreda M., R.N.	New Appt.	Affiliate	Internal Medicine	New Appt	Affiliate	Int. Medicine	N/A	N/A	N/A
Schroeder Melissa G., M.D.	New Appt.	Courtesy	Int. Medicine	New Appt	Active	Int. Medicine	New Appt.	Active	Int. Medicine
Self, John A., CRNA	New Appt.	Affiliate	Anesthesia	New Appt	Affiliate	Anesthesia	N/A	N/A	N/A
Self, Lauren C., M.D.	New Appt.	Courtesy	OB/GYN	No Priv's	N/A	N/A	N/A	N/A	N/A
Semple, Henry C., M.D.	New Appt.	Courtesy	Surgery	No Priv's	N/A	N/A	N/A	N/A	N/A
Setzler, Roger M., M.D.	Reappt.	Courtesy	Orthopaedics	Reappt.	Courtesy	Orthopaedics	N/A	N/A	N/A
Sforzini, Michael J., M.D.	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine
Shaw, David M., M.D.	No Priv's	N/A	N/A	Reappt.	Courtesy	Internal Med.	N/A	N/A	N/A
Shaw, Dewey P., M.D.	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesia
Shoemaker Megan Carlyle, P.A.	Reappt.	Affiliate	Surgery	Reappt.	Affiliate	Surgery	N/A	N/A	N/A
Simons, Brenda W., CRNP	Reappt.	Affiliate	Pediatrics	No Priv's	N/A	N/A	N/A	N/A	N/A
Sindel, Lawrence J., M.D.	Reappt.	Active	Pediatrics	No Priv's	N/A	N/A	N/A	N/A	N/A
Soter-Pearsall, Desiree A., M.D.	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine
Stella, Felicia B., M.D.	Reappt.	Courtesy	OB/GYN	No Priv's	N/A	N/A	N/A	N/A	N/A
Stover, Philip R., M.D.	Reappt.	Courtesy	Pediatrics	No Priv's	N/A	N/A	N/A	N/A	N/A
Terry, Andrew P., M.D.	New Appt.	Courtesy	Surgery	No Priv's	N/A	N/A	N/A	N/A	N/A
Terry, William J., M.D.	Reappt.	Courtesy	Surgery	No Priv's	N/A	N/A	N/A	N/A	N/A
Thompson, Jack H., M.D.	Reappt.	Active	Pediatrics	Reappt.	Courtesy	Pediatrics	N/A	N/A	N/A
Thrasher, Barbara M., CRNP	Reappt.	Affiliate	Pediatrics	No Priv's	N/A	N/A	N/A	N/A	N/A
Tucker, Joseph, M.D.	Reappt.	Active	Pathology	Reappt.	Active	Pathology	Reappt.	Active	Pathology
Val Gallas, John M., M.D.	Reappt.	Courtesy	OB/GYN	No Priv's	N/A	N/A	N/A	N/A	N/A
Vick, Valerie L., M.D.	New Appt.	Courtesy	Surgery	No Priv's	N/A	N/A	N/A	N/A	N/A
Vidal, Rosa A., M.D.	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics
Voelkel, Christina L., M.D.	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine	Reappt.	Active	Int. Medicine
Walker, Teresa G., M.D.	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesia

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK  
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS  
FOR BOARD OF TRUSTEES APPROVAL  
September, October and November 2010

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

[illegible]

**UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK  
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS  
FOR BOARD OF TRUSTEES APPROVAL  
September, October and November 2010**

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

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
<b><u>Change in Status</u></b>									
Brown, Barry L., M.D.	Added Priv.	Courtesy	Surgery	N/A	N/A	N/A	N/A	N/A	N/A
Mullenix, Christopher D., M.D.	Added Priv.	Courtesy	Surgery	Added Priv.	Courtesy	Surgery	N/A	N/A	N/A
Ottis, Richard L., M.D.		Active	OB/GYN	Added MC	Active	OB/GYN	N/A	N/A	N/A
<b><u>Resigned/Relocated</u></b>									
<b><u>Name</u></b>	<b><u>Reason</u></b>		<b><u>Date</u></b>	<b><u>Dept.</u></b>					
Atwell, George, M.D.	Relocated to	Enterprise, AL	8/31/2010	Eng. Med.					
Costello, Melissa W., M.D.	Resigned		9/20/2010	Eng. Med.					
Crowder, James Billy, CRNA	Retired		3/1/2010	Anesthesia					
Eilzey, Julie, CRNP	Resigned		2/1/2008	Peds/Neo					
Fowler, Jack H., CRNA	Resigned		9/8/2010	Anesthesia					
Gordillo, Roberto P., M.D.	Relocated		9/30/2010	Pediatrics					
Holley, Jarrod A., CRNA	Deceased		9/23/2010	Anesthesia					
Laycock, David G., M.D.	Resigned		10/7/2010	Pediatrics					
McNair, William S., M.D.	Resigned		10/31/2010	EM					
Porter, Kathy B., M.D.	Resigned		8/13/2010	OB/GYN					
Rao, Aarati, M.D.	Resigned		6/1/2010	Pediatrics					
Taylor, Burt F., M.D.	Resigned		9/8/2010	Orthopaedic					
Taylor, Sherri K., M.D.	Relocated to	California	7/31/2010	OB/GYN					
Walker, Andrew B., M.D.	Resigned		10/31/2009	Surgery					

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


SEPTEMBER, OCTOBER & NOVEMBER 2010

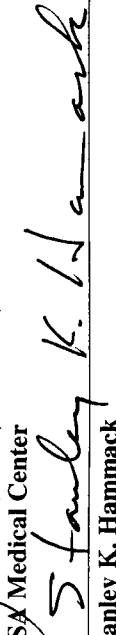
**LEGEND:**

New Appt. Reappt.	New application for medical staff privileges recommended for approval. Reappointment application for medical staff privileges recommended for approval.
No Privs. Change in Status	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 **** Additional Privileges Requested – Deep Sedation

**RECOMMENDED BY:**

  
Katherine Savells, M.D., President, Medical Staff  
USA Children's & Women's Hospital

 11/18/10  
Jack DiPalma, M.D., President, Medical Staff  
USA Medical Center

  
Stanley K. Hammack  
Vice President, USA Health Systems

## USA Children's and Women's Hospital

### Registered Nurses Designated to Perform Medical Screening Examinations

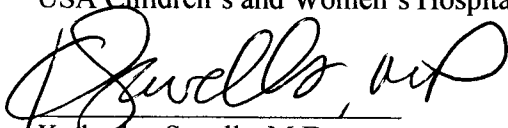
November 2010

Karen Aldrich, RN  
Melanie Arnold, RN  
Mary Ann Asmus, RN  
Heather Barber, RN  
Anne Birch, RN  
Mary Ellen Bouvier, RN  
Leslie Carley, RN  
Tracy Crawford, RN  
Lorie Davis, CRNP  
Mallory Davis, RN  
Susan Davis, RN  
Cheryl Dees, RN  
Jessica Douglas, RN  
Judy Fleming, RN  
Denise Fobes, RN  
Virginia Ford, RN  
Lisa Forsberg, RN  
Marjorie Friedman, RN  
Jacqualine Gonner, CRNP  
Gretchen Hamlin, CRNP  
Naomi Hatfield, RN  
Susanne Heck, RN  
Amy Hewes, RN

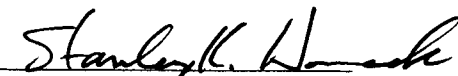
Kristie Johnson, RN  
Amanda Jones, RN  
April Kuhn, RN  
Ashleigh Lay, RN  
Stephanie Macon, RN  
Mary Lucy Mattei, RN  
Erin McGowan, RN  
Cynthia Messer, CNM  
Camelia Mudreac, RN  
Jennifer Nolan, RN  
Erin Perniciaro, RN  
Deborah Reynolds, RN  
Dinah Rice, RN  
Amy Robinson, RN  
Regina Rodgers, RN  
Deborah Russell, RN  
Leslie Sheldon, RN  
Christina Thompson, RN  
Cassie Turner, RN  
Diana Watts, RN  
Teneshia Washington, RN  
Bobbie Wilson, RN  
Amy Adams Zirlott, RN

  
Becky DeVillier

Hospital Administrator  
USA Children's and Women's Hospital

  
Katherine Savells, M.D.

President of Medical Staff  
USA Children's and Women's Hospital

  
Stanley K. Hammack  
Vice President  
USA Health System



**RESOLUTION**

**USA HOSPITALS MEDICAL STAFF BYLAWS AND RULES AND REGULATIONS  
REVISIONS OF OCTOBER AND NOVEMBER 2010**

**WHEREAS**, revisions of USA Hospitals Medical Staff Bylaws and Rules and Regulations approved October 2010 and November 2010 by the Medical Staffs and Executive Committee are recommended for approval by the University of South Alabama Hospitals,

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

## **Proposed Changes to USA Hospitals Medical Staff Bylaws**

Strike through indicates deletion. Underline and bold indicates addition.

### **ARTICLE VII, DELINEATED CLINICAL PRIVILEGES**

#### **Section 7.04 Temporary Privileges**

##### **B. Important Patient Need**

- d. Conditions. Temporary privileges for important patient needs specified in this subsection may be granted following receipt and verification of (a) current Alabama license or **in situations defined by the Alabama Board of Medical Examiners an appropriate license i.e. full, unrestricted and current license from any other state or territory (ABME Administrative Code Chapter 540-X-16. The Practice of Medicine or Osteopathy Across State Lines)** approval by the State of Alabama of limited licensure, (b) proof of current malpractice coverage, (c) National Practice Data Bank information, (d) **completed privilege checklist and when available a** delineation of privileges from the practitioner's primary hospital, and (e) letter from the ~~Department Chair at the applicant's primary hospital~~ attesting to clinical competence.

### **ARTICLE XIII, APPOINTMENTS**

#### **Section 13.02 Submission of Application**

The following information must be provided:

- L. **Names and addresses of three (3) professional references in the same professional discipline with personal knowledge of the applicant's ability to practice.** ~~Names and addresses of three (3) professional references.~~ Professional references shall not include relatives by blood or marriage.

### **ARTICLE VIII, APPOINTMENTS**

#### **Section 13.04 Processing of Application**

- A. The information reported by the applicant shall be verified with primary source documentation or sources approved by accreditation bodies. References and other information shall be obtained as appropriate. In all cases, **time-sensitive information (See Medical Staff Credentialing Office Policy 6.0)** must be verified no more than 120 days prior to the credentialing decision by the BOT. It shall be the applicant's responsibility and burden of proof to provide information to support the requested status and privileges and to resolve any doubts that arise during the review of the application forms and related documents. An application shall be deemed complete when all information provided has been verified and all necessary documentation has been provided or obtained. The completed application shall be forwarded by the MSO to the appropriate Department Chair.

## **Proposed Changes to USA Hospitals Medical Staff Rules and Regulations**

### **3.1.7 Patient dissatisfaction with physician**

If a patient or surrogate is dissatisfied with the care rendered by an attending physician, he/she may request that the attending physician withdraw from the patient's care. Another attending physician will be found by the Chair of the attending physician's department. **The physician shall maintain the care for that patient until another attending is located to assume responsibility for the patient.**

### **3.3.4 Primary attending physician involvement**

The primary attending physician's involvement in the patient's care must be documented at least daily as evidenced by **the attending's** signature of resident's/fellow's note and a brief written note.

**Proposed changes to the USA Hospitals Medical Staff Rules and Regulations  
November 2010**

Strikethrough indicates deletion. Underline indicates addition.

**7.0 Emergency Department / Evaluation Center**

**7.1 Physician requirements**

~~CW — A Licensed Independent Practitioner (LIP) or a Certified Registered Nurse Practitioner (CRNP) with appropriate clinical privileges will assess the patients in need of emergency care and determine appropriate management. The CRNP must review all cases with the LIP and the LIP must sign the patient's medical record.~~

**CW** **Evaluation Center:** A physician or advanced practice registered nurse, with appropriate clinical privileges will perform a medical screening examination, based on the patient's presenting signs and symptoms, to determine the existence of an emergency medical condition. If an advanced practice registered nurse performs the medical screening examination, he/she must review the examination findings with the physician and the physician must sign the patient's medical record.

**OB Evaluation Area:** A physician or advanced practice registered nurse, with appropriate clinical privileges may perform a medical screening examination, based on the patient's presenting signs and symptoms, to determine the existence of an emergency medical condition. Additionally, a registered nurse, with medical screening examination competency validation and approved by the MEC/BOT, may perform the medical screening examination based on the patient's presenting signs and symptoms, to determine the existence of an emergency medical condition. The registered nurse will contact the physician or advanced practice registered nurse to review the medical screening examination findings and the physician or advanced practice registered nurse will determine subsequent care.

**UNIVERSITY OF SOUTH ALABAMA HOSPITALS**  
**MEDICAL STAFF MEETING**  
**October 12, 2010**

**MINUTES**

The quarterly meeting of the Medical Staff of the University of South Alabama Hospitals was held in the John Counts Room of the Mitchell Center on Tuesday, October 12, 2010. Stan Hammack, Vice President for Health System, called the meeting to order at 6:45 p.m.

A roster of attendance is available in the Medical Staff Credentials Office.

Mr. Hammack introduced Dr. Leonard Rich, President of the Medical Society of Mobile County. Dr. Rich presented an overview of the Medical Society of Mobile County (MSMC) activities. The Society has been organized for the purpose of bringing together members of the medical profession in Mobile County facilitating continuing medical education and community outreach programs among its members. MSMC is supported through annual membership dues from more than 1000 physicians. The current USA Physician discounted dues of \$350.00 will increase to \$700.00 in 2011 due to decreased membership. An additional 33 members are needed to reach the required 50% participation to receive a discounted rate.

Dr. Leonard Rich introduced Dr. Charles Rodning, President Elect., for The Medical Society of Mobile County. Dr. Rodning presented a slide show giving an overview of what the organization has to offer to its members.

Mr. Hammack introduced Dr. Allen Perkins, Chairman, Dept. of Family Medicine. Dr. Perkins discussed the Healthcare Reform Act, ACO's and what it means to the University of South Alabama hospitals and clinics. Dr. Perkins presented a slide show giving an overview of County Medical Society, Pending Crisis of Cost and the Congressional Budget Office (CBO).

Dr. Perkins gave a brief explanation of the following revisions to the Medical Staff Bylaws, Rules and Regulations: Article VII Delineated Clinical Privileges- Section 7.04, Article XIII Appointments- Section 13.02, and Article VIII Appointments- Section 13.04. Rules and Regulations: 3.1.7 Patient dissatisfaction with physician and 3.3.4 Primary attending physician involvement. Motion to approve revisions was accepted by the Medical Staff in attendance.

Stan Hammack discussed the groundbreaking scheduled for November 2010 for the new tower addition at USA Children's & Women's hospital. The bids received have come in under the expected amount. There were seven pre-qualified bidders that have met the bid criteria. Mr. Hammack introduced Cynthia Hyde, Chief Information Officer, who will be putting all the USA Hospitals information systems together.

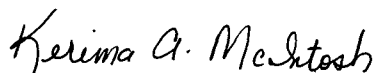
Beth Anderson, Administrator of University of South Alabama Medical Center, gave a brief summary of the recent Joint Commission survey findings. She also announced that Lisa Mestas is the new Clinical Administrator and Chief Nursing Officer. The vacated OR nurse manager position will be posted in the near future. In addition, Ms. Anderson discussed the new parking arrangements for the Mastin Building, the G.I. lab expansion and the plans to relocate cardiology clinic and the Nuclear Camera to the basement.

Dr. Richards, Chair of the USA Dept. of Surgery, discussed a report by the American Burn Association reviewing mortality and cost data from all Burn Centers in the US during the years from 2007 to June of 2009. He reported that the USA Burn Center, when compared to other centers, had the lowest mortality for the largest per cent of burns with the lowest costs. Both are excellent and desired outcomes.

Dr. Ronald D. Franks, Vice President for Health Sciences discussed the LCME visit and gave an overview of the preliminary findings. Concerns by the LCME were addressed and a favorable review was given.

With no further business, the meeting adjourned at 7:40 p.m.

Respectfully submitted,



Kerima A. McIntosh  
Medical Credentialing Specialist

**RESOLUTION**  
**PROFESSORS EMERITUS**

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

**ACADEMIC AFFAIRS:**

Paul H. Pietri, Ph.D., Professor of Management

**COLLEGE OF MEDICINE:**

John B. Bass, Jr., M.D., University Distinguished Professor of Medicine

Roger Lane, Ph.D., Associate Professor of Biochemistry and Molecular Biology

John E. Oakes, Ph.D., Professor of Microbiology and Immunology

Kenneth R. Rettig, M.D., Professor of Pediatrics

Wladimir Wertelecki, M.D., Professor of Medical Genetics and Pediatrics

Herbert H. Winkler, Ph.D., Louise Lenoir Locke Distinguished Professor  
of Microbiology/Immunology

**PAT CAPPS COVEY COLLEGE OF ALLIED HEALTH PROFESSIONS:**

James Wall, Ph.D. Professor of Physical Therapy

and,

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

**WHEREAS**, in accordance with University policy, the respective faculty committees, Departmental Chair, College Dean, and the Senior Vice President for Academic Affairs or Vice President for Health Sciences, and the President have duly recommended the aforementioned faculty retirees,

**THEREFORE, BE IT RESOLVED**, that the Board of Trustees of the University of South Alabama, in a seated meeting held on December 9, 2010, hereby appoints these individuals to the rank of Professor Emeritus or Associate Professor Emeritus with the rights and privileges thereunto appertaining, and

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



## MEMORANDUM

UNIVERSITY OF SOUTH ALABAMA  
OFFICE OF ACADEMIC AFFAIRS


REC'D  
OFFICE OF THE PRESIDENT

NOV 08 2010

UNIVERSITY OF SOUTH ALABAMA

exc to D. Johnson  
11/4/10 shg

November 3, 2010

TO: Gordon Moulton  
FROM: G. David Johnson   
RE: Professor Emeritus Recommendation

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In accordance with the recommendation of the faculty and Chair of the Department of Management and Dean of the Mitchell College of Business, I recommend that the retired University of South Alabama faculty listed below be granted the status of *Professor Emeritus* effective upon approval of you and the Board of Trustees.

- Dr. Paul H. Pietri, Professor of Management, Retired May, 2010

A resolution for the Board of Trustees is attached.

GDJ/njc



OCT 21 2010



## MEMORANDUM

UNIVERSITY OF SOUTH ALABAMA

UNIVERSITY OF SOUTH ALABAMA

HEALTH SCIENCES DIVISION

TO: V. Gordon Moulton  
President

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

DATE: October 20, 2010

SUBJECT: Resolution for *Emeritus* Professor Appointments/*Emeriti* Associate Professor Appointment

Attached is the request from Dr. Samuel J. Strada, Dean of the College of Medicine and Richard E. Talbott, Dean of the Pat Capps Covey College of Allied Health Professions, requesting that the following retired faculty be appointed as *Emeriti* Professors:

College of Medicine:

John Bass, Jr., M.D.  
John E. Oakes, Ph.D.  
Kenneth R. Rettig, M.D.  
Wladimir Wertelecki, M.D.  
Herbert H. Winkler, Ph.D.

Pat Capps Covey College of Allied Health Professions:

James C. Wall, Ph.D.

and as *Emeritus* Associate Professor:

Roger Lane, Ph.D.

I fully support the requests of Drs. Strada and Talbott and I am forwarding the information to you for your approval and for approval by the Board of Trustees.

/cwc

**RESOLUTION**  
**SABBATICAL AWARDS**

**WHEREAS**, in accordance with University policy, proposals for Sabbatical Awards have been reviewed and recommended by the respective faculty committees, Departmental Chair, College Dean, and by the Senior Vice President for Academic Affairs and President,

**THEREFORE, BE IT RESOLVED**, that the University of South Alabama Board of Trustees approves said Sabbatical Awards on this date, December 9, 2010, for the 2011-2012 academic year.

<u><b>NAME</b></u>	<u><b>DISCIPLINE</b></u>	<u><b>TIME PERIOD</b></u>
Dr. J. Scott Carter	Mathematics/Statistics	Spring 2012
Ms. Debra L. Chapman	Computer/Information Sciences	Spring 2012
Mr. Jason Guynes	Visual Arts	Spring 2012
Dr. Jeffrey P. Landry	Computer/Information Sciences	Fall 2011
Dr. Brenda C. Litchfield	Professional Studies	Spring 2012
Dr. Becky R. McLaughlin	English	Spring 2012
Dr. Clarence L. Mohr	History	Fall 2011
Dr. J. Keith Nicholls	Political Science	Fall 2011
Dr. Julie Z. Sneath	Marketing	Spring 2012
Dr. Lisa A. Turner	Psychology	Academic Year 2011-2012



NOV 1 2010

UNIVERSITY OF SOUTH ALABAMA




MEMORANDUM

UNIVERSITY OF SOUTH ALABAMA

OFFICE OF ACADEMIC AFFAIRS

November 11, 2010

TO: V. Gordon Moulton  
FROM: G. David Johnson   
SUBJECT: Sabbatical Recommendation for Academic Year 2011-2012

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I recommend that the individuals whose names are listed below be granted a sabbatical for the period of time as indicated.

Dr. J. Scott Carter	Mathematics/Statistics	Spring 2012
Ms. Debra L. Chapman	Computer and Information Sciences	Spring 2012
Mr. Jason Guynes	Visual Art	Spring 2012
Dr. Jeffrey P. Landry	Computer and Information Sciences	Fall 2011
Dr. Becky R. McLaughlin	English	Spring 2012
Dr. Brenda C. Litchfield	Professional Studies	Spring 2012
Dr. Clarence L. Mohr	History	Fall 2011
Dr. J. Keith Nicholls	Political Science/Criminal Justice	Fall 2011
Dr. Julie Z. Sneath	Marketing	Spring 2012
Dr. Lisa A. Turner	Psychology	AY 2011-2012

Teaching coverage has been addressed in a satisfactory manner for all recommended proposals. The cost to the University will be \$18,669. Proposals have been reviewed and recommended at the discipline and college level. Full applications and supporting materials are available in the Office of Academic Affairs. A brief summary of each request is attached.

GDJ/ms

**RESOLUTION**

**SELECTION OF CONSTRUCTION COMPANY  
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 President was authorized to engage the firm TRO Jung/Brannen as the design architect for this project at the November 2, 2008, Board of Trustees meeting, and

**WHEREAS**, the University received construction bids from seven (7) pre-qualified contractors, and

**WHEREAS**, the University Administration, after evaluating the bids and notifying the Board of Trustees, awarded the bid to Doster Construction Company, Inc., of Birmingham, Alabama, for construction of the building,

**THEREFORE, BE IT RESOLVED**, that the Board of Trustees hereby approves and ratifies the awarding of the construction bid for the addition to the Children's and Women's Hospital to Doster Construction Company, Inc.



REC'D  
OFFICE OF THE PRESIDENT

NOV 17 2010

UNIVERSITY OF SOUTH ALABAMA

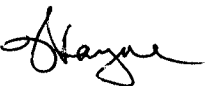
UNIVERSITY OF SOUTH ALABAMA  
Vice President for Financial Affairs  
AD 170

## MEMORANDUM

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TO: President V. Gordon Moulton

COPIES: Mr. Stan Hammack  
Ms. Jean Tucker  
Mr. Chris Willis

FROM: M. Wayne Davis 

SUBJECT: Approval of Construction Contract for  
USA Children's and Women's Hospital Expansion

DATE: November 17, 2010

The construction bids for the addition to the Children's and Women's Hospital were received on September 28, 2010, as shown on the attached bid sheet summary. The lowest bid was made by Doster Construction Company in the amount of \$44,647,000. This bid was awarded on November 15, 2010, after notification was made to the Board of Trustees.

With your consent, we will place this item on the agenda for the December 9, 2010, Board meeting for final approval and ratification.

MWD/cbm

Attachment

BID TABULATION SHEET									
PROJECT: University of South Alabama Children's & Women's Hospital Patient Tower Addition									
USA 2007006 & ADPH B-09-114									
DATE: September 28, 2010 • Base Bid time: 2:00 PM • Alternate Bid time and opening of all bids: 4:00 PM									
BID OPENING LOCATION: USA-Children's & Women's Hospital - 1700 Center Street, CWEB-2 Building - Atlanta Room									
Mobile, Alabama									
GENERAL CONTRACTORS									
ALLOTTED OWNERS BUDGET	BRICE BUILDING CO. LLC	DOSTER CONSTRUCTION	ELKINS CONSTRUCTORS	FLINTCO INC.	HOAR CONSTRUCTION	M.J. HARRIS, INC.	WHITE-SPUNNER	YATES CONSTRUCTION	
\$52,000,000	201 Sunset Parkway Birmingham, AL 35211	2100 International Park Dr. Birmingham, AL 35243	701 West Adams Street Jacksonville, FL 32204	2179 Hillside Circle Memphis, TN 38133	Two Metrolinx, Ste 400 Birmingham, AL 35209	One Riverchase Dr., Suite 300 Birmingham, AL 35209	21010 W-45 Service Rd S Mobile, AL 36693	JESCO-YATES, JV One Gully Avenue Philadelphia, MS 39250	
1. GO ALL LICENSE # ON ENVELOPE	Yes - #44826	Yes - #6514	Yes - #57028	NA	Yes - #17285	Yes - #21216	Yes - #13302	Yes - Jesco #13177	
2. NOTATIONS ON ENVELOPES	Yes - See Below	Yes - See Below	None	NA	Yes - See Below	Yes - See Below	Yes - See Below	Yes - Yates #13404	
3. NOTATIONS LETTER	Yes	Yes	Yes	NA	Yes	Yes	Yes	None	
4. BID BOND ATTACHED	Yes	Yes	Yes	NA	Yes	Yes	Yes	Yes	
5. BID BOND COMPANY	Traveler Casualty & Surety Company of America	Safeco Insurance Company of America	Continental Casualty Company	NA	Federal Insurance Company	Arch Insurance Company	Hardford Fire Insurance Company	Fidelity & Deposit Company of Maryland	
6. ACKNOWLEDGE ADDENDA 1-3	Yes	Yes	Yes	NA	Yes	Yes	Yes	Yes	
7. SUBCONTRACTOR LIST BY 8 PM	Yes	Yes	Yes	NA	Yes	Yes	No	Yes	
8. BASE BID AMOUNT	\$ 40,000,000.00	\$ 40,750,000.00	\$ 39,470,000.00	NO BID	\$ 39,400,000.00	\$ 42,400,000.00	\$ 41,300,000.00	\$ 43,831,000.00	
9. NOTATIONS ON ENVELOPE	\$ -	\$ (1,345,000.00)	\$ -		\$ (850,000.00)	\$ (820,000.00)	\$ (869,000.00)	\$ -	
10. ADJUSTED BASE BID	\$ 40,000,000.00	\$ 39,405,000.00	\$ 39,470,000.00		\$ 39,345,000.00	\$ 42,300,000.00	\$ 40,647,000.00	\$ 43,831,000.00	
11. BID ALTERNATE # 1	\$ 90,000.00	\$ (175,000.00)	\$ 180,000.00		\$ 131,000.00	\$ (847,000.00)	\$ 103,000.00	\$ 204,000.00	
12. NOTATIONS ON ENVELOPE	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -	
13. ADJUSTED BID ALTERNATE # 1	\$ 90,000.00	\$ (175,000.00)	\$ 180,000.00		\$ 131,000.00	\$ (478,000.00)	\$ 103,000.00	\$ 204,000.00	
14. BID ALTERNATE # 2	\$ 485,000.00	\$ 685,000.00	\$ 587,000.00		\$ -	\$ 818,000.00	\$ 500,000.00	\$ 602,000.00	
15. NOTATIONS ON ENVELOPE	\$ -	\$ (321,000.00)	\$ -		\$ -	\$ -	\$ -	\$ -	
16. ADJUSTED BID ALTERNATE # 2	\$ 485,000.00	\$ 364,000.00	\$ 587,000.00		\$ 887,300.00	\$ 284,000.00	\$ 800,000.00	\$ 802,000.00	
17. BID ALTERNATE # 3	\$ 207,000.00	\$ 362,000.00	\$ 303,000.00		\$ 278,000.00	\$ -	\$ 278,000.00	\$ 285,000.00	
18. NOTATIONS ON ENVELOPE	\$ -	\$ (916,000.00)	\$ -		\$ -	\$ -	\$ -	\$ -	
19. ADJUSTED BID ALTERNATE # 3	\$ 207,000.00	\$ 337,000.00	\$ 303,000.00		\$ 278,000.00	\$ 284,000.00	\$ 278,000.00	\$ 285,000.00	
20. BID ALTERNATE # 4	\$ 130,000.00	\$ 133,000.00	\$ 116,000.00		\$ 124,000.00	\$ 144,000.00	\$ 125,000.00	\$ 117,000.00	
21. NOTATIONS ON ENVELOPE	\$ -	\$ (83,000.00)	\$ -		\$ -	\$ -	\$ -	\$ -	
22. ADJUSTED BID ALTERNATE # 4	\$ 130,000.00	\$ 130,000.00	\$ 116,000.00		\$ 124,000.00	\$ 144,000.00	\$ 125,000.00	\$ 117,000.00	
23. BID ALTERNATE # 5	\$ 2,225,000.00	\$ 2,182,000.00	\$ 2,042,000.00		\$ 2,186,000.00	\$ 2,327,000.00	\$ 2,200,000.00	\$ 1,824,000.00	
24. NOTATIONS ON ENVELOPE	\$ -	\$ (844,000.00)	\$ -		\$ -	\$ -	\$ -	\$ -	
25. ADJUSTED BID ALTERNATE # 5	\$ 2,225,000.00	\$ 2,138,000.00	\$ 2,042,000.00		\$ 2,186,000.00	\$ 2,327,000.00	\$ 2,200,000.00	\$ 1,824,000.00	
26. BID ALTERNATE # 6	\$ 2,128,000.00	\$ 2,110,000.00	\$ 1,985,000.00		\$ 2,105,000.00	\$ 2,068,000.00	\$ 2,076,000.00	\$ 1,832,000.00	
27. NOTATIONS ON ENVELOPE	\$ -	\$ (841,000.00)	\$ -		\$ -	\$ -	\$ -	\$ -	
28. ADJUSTED BID ALTERNATE # 6	\$ 2,128,000.00	\$ 2,068,000.00	\$ 1,985,000.00		\$ 2,105,000.00	\$ 2,068,000.00	\$ 2,076,000.00	\$ 1,832,000.00	
29. BID ALTERNATE # 7	\$ 130,000.00	\$ 98,000.00	\$ 107,000.00		\$ 84,000.00	\$ 134,000.00	\$ 85,000.00	\$ 183,000.00	
30. NOTATIONS ON ENVELOPE	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -	
31. ADJUSTED BID ALTERNATE # 7	\$ 130,000.00	\$ 98,000.00	\$ 107,000.00		\$ 84,000.00	\$ 134,000.00	\$ 85,000.00	\$ 183,000.00	
32. TOTAL W/ ALL BID ALTERNATES	\$ 46,847,000.00	\$ 44,847,000.00	\$ 45,368,000.00		\$ 44,886,300.00	\$ 47,320,000.00	\$ 46,043,000.00	\$ 48,746,000.00	
(2nd Low Bidder)									

This is a true and correct documentation of bids received September 28, 2010, for the referenced project

TRO JungBrammen, Inc.  
Paul Scott Langland, AIA  
Associate Principal

Sworn to and subscribed before me this 28th day of September, 2010, at the County of Baldwin, State of Alabama.  
MY COMMISSION EXPIRES: May 2, 2013  
FORWARDED THROUGH NOTARY PUBLIC'S OFFICES

# SAGROUP LLC

P.O. Box 82109 • Mobile, AL 36689  
Phone 251.461.1468 • Fax 251.461.1486

November 10, 2010

Mr. Alan Chandler  
Healthcare Group Manager  
Doster Construction Company, Inc.  
2100 International Park Drive  
Birmingham, Alabama 35243

Re: Notice to Proceed  
University of South Alabama  
Children's & Women's Hospital, New Patient Tower  
Mobile, Alabama

Dear Alan,

You are hereby notified to commence with the WORK as described in the project plans and specifications dated August 6, 2010, for the above-referenced project.

---

~~This Notice to Proceed is issued on November 15, 2010, and in accordance with the Contract dated October 14, 2010, completion date being November 15, 2012 for Phase I (base bid and alternates 1-7), and completion date being July 14, 2013 for Phase II work; unless extended by change order as allowed by contract.~~

---

If you have any questions, please call.

Sincerely,

SAGroup, LLC



Dow Bark  
Project Director

Positive Owner Representation

**RESOLUTION**  
**ELECTION OF DIRECTOR**  
**OF THE USA RESEARCH AND TECHNOLOGY CORPORATION**

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

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

**WHEREAS**, due to a Director’s resignation, the Board of Directors of the Corporation has nominated for consideration and election by the Board of Trustees of the University Mr. Donald L. Langham for completion of a four (4) year term which ends in June 2012, and Mr. Langham has 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 Director of the USA Research and Technology Corporation Mr. Donald L. Langham for a term beginning upon election and ending in June 2012.




UNIVERSITY OF SOUTH ALABAMA  
Vice President for Financial Affairs  
AD 170

REC'D  
OFFICE OF THE PRESIDENT  
NOV 19 2010  
UNIVERSITY OF SOUTH ALABAMA

## MEMORANDUM

---

TO: President V. Gordon Moulton  
FROM: M. Wayne Davis   
SUBJECT: Agenda Item for December 9, 2010, Board of Trustees Meeting  
DATE: November 19, 2010

Attached is a resolution for consideration by the Budget and Finance Committee concerning the election of a director of the USA Research and Technology Corporation. As you know, the bylaws of the Corporation authorized it to nominate directors and submit the list of names to the University of South Alabama Board of Trustees for approval and election.

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 resolution by the Board of Trustees.

MWD/cbm

Attachment

# **I N D E X** **JULY 2010**

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## Financial Report Highlights July 31, 2010

### 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 ten months ended, July 31, 2010 and 2009 are as follows (in thousands):

	At and for the ten months ended	
	7-31-10	7-31-09
<b>Total assets, by fund</b>		
Current	\$ 232,402	\$ 193,811
Loan	4,825	4,783
Endowment	102,332	85,966
Plant	631,284	606,243
<b>Fund Balances, by fund</b>		
Current	\$ 19,432	\$ 29,612
Loan	451	450
Endowment	92,831	76,557
Plant	293,417	293,562
<b>Other balance sheet highlights</b>		
Cash and investments	\$ 260,328	\$ 263,922
Receivable, primarily patient care	117,564	105,106
Bonds and notes payable	330,847	305,123

	For the ten months ended	
	7-31-10	7-31-09
<b>Selected operating highlights (current funds)</b>		
Tuition and fees	\$ 77,402	\$ 66,777
State appropriations	83,352	90,376
Hospital revenues	242,979	246,256
Gifts, grants and contracts	94,343	75,943
Instruction and academic support	107,200	106,757
Research and public service	60,516	56,010
Hospital expenses	255,991	262,289
Net current fund decrease	(8,006)	(19,409)

### 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

While enrollment and tuition have increased in recent years, the University is experiencing a significant decrease in state appropriations in the fiscal 2010 year. Additionally, the University is subject to declines in general economic conditions in the United States and 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 additional negative impact on other aspects of the University's operations.

UNIVERSITY OF SOUTH ALABAMA  
BALANCE SHEETS  
JULY 2010 AND 2009

ASSETS		2010	2009	LIABILITIES AND FUND BALANCES		2010	2009
<b>CURRENT FUNDS:</b>				<b>CURRENT FUNDS:</b>			
UNRESTRICTED:				UNRESTRICTED:			
CASH AND CASH EQUIVALENTS	\$	136,273.84	138,587.38	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$	48,897,694.77	47,957,112.13
INVESTMENTS		68,318,145.12	45,766,787.80	DEFERRED REVENUES		47,177,966.19	40,019,308.48
ACCOUNTS RECEIVABLE - PATIENTS (LESS ALLOWANCE				DUE TO OTHER FUNDS		115,001,431.96	73,720,563.87
FOR DOUBTFUL ACCOUNTS OF \$45,173,836.45				DEPOSITS HELD IN CUSTODY		651,712.89	572,383.83
FOR 2010 AND \$45,321,700.29 FOR 2009)				OTHER DEPOSITS		986,641.69	551,587.12
DEPOSITS		117,563,759.52	105,105,584.84	FUND BALANCES:			
INVENTORIES AT COST		35,000.00	35,000.00	ALLOCATED FOR:			
PREPAID EXPENSES		4,476,304.52	5,317,367.03	HOSPITALS	(40,949,397.25)		(31,712,845.89)
		23,379,150.27	18,023,790.62	AUXILIARY ENTERPRISES	1,710,805.19		1,648,391.54
				ENCUMBRANCES	2,964,813.98		2,891,332.76
				SELF-SUPPORTING ACTIVITIES	43,510,003.03		45,379,730.98
				UNALLOCATED	(6,063,039.18)		(6,640,447.15)
				TOTAL FUND BALANCES	1,193,185.77		1,566,162.24
				TOTAL UNRESTRICTED	213,908,633.27		174,387,097.67
<b>TOTAL UNRESTRICTED</b>		<b>213,908,633.27</b>	<b>174,387,097.67</b>				
<b>RESTRICTED FUNDS:</b>				<b>RESTRICTED FUNDS:</b>			
CASH AND CASH EQUIVALENTS		7,209,937.44	9,031,589.57	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		50,248.53	35,463.85
INVESTMENTS		7,458.21	11,529.80	OTHER DEPOSITS		1,170.00	1,170.00
UNBILLED COSTS AND ACCOUNTS RECEIVABLE		11,275,752.78	10,381,282.96	DEFERRED REVENUES		202,748.02	1,342,089.27
				FUND BALANCES		18,238,981.88	18,045,679.01
				TOTAL RESTRICTED		18,483,148.43	19,424,402.13
<b>TOTAL RESTRICTED</b>		<b>18,493,148.43</b>	<b>19,424,402.13</b>	<b>TOTAL CURRENT FUNDS</b>		<b>232,401,781.70</b>	<b>193,811,499.80</b>
<b>TOTAL CURRENT FUNDS</b>		<b>232,401,781.70</b>	<b>193,811,499.80</b>				
<b>LOAN FUNDS:</b>				<b>LOAN FUNDS:</b>			
CASH AND CASH EQUIVALENTS		1,152,885.06	703,145.36	REFUNDABLE GOVERNMENT ADVANCES		4,374,048.83	4,333,038.93
NOTES RECEIVABLE (LESS ALLOWANCE FOR				FUND BALANCES:			
DOUBTFUL ACCOUNTS OF \$490,934.85 FOR				UNIVERSITY FUNDS, UNRESTRICTED		451,033.57	450,074.35
2010 AND \$500,533.16 FOR 2009)				TOTAL FUND BALANCES		451,033.57	450,074.35
<b>TOTAL LOAN FUNDS</b>		<b>3,672,197.34</b>	<b>4,079,967.92</b>	<b>TOTAL LOAN FUNDS</b>		<b>4,825,082.40</b>	<b>4,783,113.28</b>
		<b>4,825,082.40</b>	<b>4,783,113.28</b>				
<b>ENDOWMENT FUNDS:</b>				<b>ENDOWMENT FUNDS:</b>			
CASH AND CASH EQUIVALENTS		25,188,445.51	21,348,289.95	DEFERRED REVENUES		1,493,946.00	1,792,319.00
INVESTMENTS		72,055,276.08	59,674,272.48	BONDS PAYABLE		8,006,315.00	7,616,634.00
REAL ESTATE HELD FOR RESALE		1,338,429.00	1,338,429.00	FUND BALANCES:			
PREPAID-LIFE ESTATE		3,749,519.00	3,605,307.00	RESTRICTED NONEXPENDABLE		26,790,900.26	24,729,291.39
				UNRESTRICTED EXPENDABLE		66,040,511.33	51,828,054.04
				TOTAL FUND BALANCES		92,831,411.59	76,557,345.43
				<b>TOTAL ENDOWMENT FUNDS</b>		<b>102,331,672.59</b>	<b>85,966,298.43</b>
<b>TOTAL ENDOWMENT FUNDS</b>		<b>102,331,672.59</b>	<b>85,966,298.43</b>				
<b>PLANT FUNDS:</b>				<b>PLANT FUNDS:</b>			
CASH AND CASH EQUIVALENTS		7,616,455.14	77,361,530.95	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		553,076.46	1,102,376.07
INVESTMENTS		78,643,193.76	49,886,219.93	DEFERRED REVENUES		6,440,436.29	6,419,406.16
ACCOUNTS RECEIVABLE		1,627,464.00	1,946,236.00	OTHER DEPOSITS		25,791.63	27,791.67
NOTES RECEIVABLE		0.00	254,936.16	BONDS PAYABLE		330,847,134.62	305,122,852.73
DUE FROM OTHER FUNDS		115,001,431.96	73,720,563.87	CAPITAL LEASE OBLIGATIONS		0.00	8,515.88
PREPAID EXPENSES		4,767,879.56	4,932,925.39				
CAPITAL LEASE RECEIVABLE		1,176,623.31	1,133,383.30				
INVESTMENT IN PLANT:							
LAND		29,232,252.32	29,232,252.32				
LAND IMPROVEMENTS		11,398,434.26	9,105,049.58				
BUILDINGS, ACCUM DEPREC AND IMPROVEMENTS		248,686,223.73	131,202,020.12				
OTHER EQUIPMENT, BOOKS AND FILMS		58,574,715.64	50,546,962.36				
CONSTRUCTION IN PROGRESS		74,559,084.66	176,919,451.06				
<b>TOTAL PLANT FUNDS</b>		<b>631,283,758.34</b>	<b>606,243,431.04</b>				
<b>TOTAL ASSETS</b>		<b>970,842,295.03</b>	<b>890,804,342.55</b>				
				<b>TOTAL LIABILITIES AND FUND BALANCES</b>		<b>970,842,295.03</b>	<b>890,804,342.55</b>

UNIVERSITY OF SOUTH ALABAMA  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE TEN MONTHS ENDED JULY 31, 2010

	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	220,103,624.03						
HOSPITALS REVENUES	250,155,502.48						
AUXILIARY ENTERPRISES REVENUES	11,624,206.39						
GRANTS AND CONTRACTS:							
FEDERAL		35,798,714.25					
STATE AND LOCAL		4,809,451.17					
PRIVATE		2,960,409.89					
GOVERNMENT APPROPRIATIONS:							
FEDERAL							
STATE			4,631.67	1,394,204.05	3,697,105.00	28,699.93	
INVESTMENT INCOME/GAINS/LOSS					473,624.27		
INSURANCE PROCEEDS							
INTEREST ON LOANS RECEIVABLE					38,383.33	36,145.30	
GIFTS AND BEQUESTS			52,233.78	2,770,361.87	302,640.50		
EXPENDED FOR PLANT FACILITIES (INCLUDING \$2,238,259.08 CURRENT FUNDS EXPENDITURES)							28,897,725.41
RETIREMENT OF INDEBTEDNESS							5,715,000.00
PROCEEDS FROM SALE OF CAPITAL ASSETS							
OTHER SOURCES		12,391,990.45		6,222.88	732,538.77		414,478.19
TOTAL REVENUES AND OTHER ADDITIONS	481,883,332.90	55,960,565.76	56,865.45	4,170,788.80	5,244,291.87	64,845.23	35,027,203.60
EXPENDITURES AND OTHER DEDUCTIONS:							
EDUCATIONAL AND GENERAL EXPENDITURES	201,510,848.07	49,778,511.78					
HOSPITALS EXPENDITURES	252,129,582.06						
AUXILIARY ENTERPRISES EXPENDITURES	10,925,680.90						
INDIRECT COSTS RECOVERED		4,246,156.34					
REFUNDED TO GRANTORS		16,697.91					
RETIREMENT OF INDEBTEDNESS						5,715,000.00	
ADMINISTRATIVE AND COLLECTION COSTS			1,324.49				
EXPENDED FOR PLANT FACILITIES (INCLUDING \$1,500,984.27 FOR NON-CAPITALIZED EXPENDITURES)					28,160,450.60	9,163,340.92	20,761,739.30
INTEREST ON INDEBTEDNESS							
DEPRECIATION EXPENSES OF PLANT FACILITIES							
DISPOSAL OF PLANT							84,195.51
LOSS ON DISPOSAL OF PLANT			14,439.22	296,586.65		150,218.29	
OTHER DEDUCTIONS			15,763.71	296,586.65	28,160,450.60	15,028,559.21	20,845,934.81
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	484,566,121.03	54,041,366.03					
TRANSFERS AMONG FUNDS-ADDITIONS/(DEDUCTIONS):							
MANDATORY:							
PRINCIPAL AND INTEREST	(14,288,111.48)				(1,241,492.59)	15,689,407.18	(159,803.11)
FINANCIAL AID MATCHING	(60,204.00)	80,204.00					
NON-MANDATORY:							
FUNDED DEPRECIATION	(4,924,361.60)						
MOBILE RACING COMMISSION	(83,117.06)						
PLANT ADDITIONS AND REPLACEMENTS	(4,381,254.00)					137,127.75	
ENDOWMENT FUND	(2,554,911.57)						
OTHER TRANSFERS	(97,172.56)						
TOTAL TRANSFERS	(26,389,132.27)	137,764.31		2,500,264.32		256,466.75	(1,278,948.75)
		(1,051,589.89)		849,428.30		16,083,001.68	(1,438,751.86)
		(853,601.57)		3,349,690.62			
NET INCREASE (DECREASE) FOR THE PERIOD	(9,071,920.40)	1,065,598.16	41,101.74	7,223,892.77	(13,667,365.33)	1,119,287.70	12,742,516.93
FUND BALANCES AT OCTOBER 1, 2009	10,265,106.17	17,173,383.72	409,931.83	85,607,518.82	96,284,642.69	5,431,985.78	191,506,251.57
FUND BALANCES AT JULY 31, 2010	1,193,185.77	18,238,981.88	451,033.57	92,831,411.59	82,617,277.36	6,551,273.48	204,248,768.50

\*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$1,908,191.80 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, 2010  
WITH COMPARATIVE FIGURES FOR 2009

	MONTH ENDED JULY 31, 2010			JULY 31, 2009	
	UNRESTRICTED	RESTRICTED	TOTAL		
REVENUES:					
TUITION AND FEES	\$ 77,401,546.39	\$	77,401,546.39	\$	66,776,695.74
STATE APPROPRIATIONS	76,175,827.70		76,175,827.70		82,524,231.30
MOBILE RACING COMMISSION	83,117.08		83,117.08		157,488.18
FEDERAL GRANTS AND CONTRACTS	3,547,286.15	41,085,139.08	44,632,425.23		28,170,480.61
STATE GRANTS AND CONTRACTS (INCLUDING INDIRECT COST RECOVERED OF \$330,744.61)					
PRIVATE GIFTS, GRANTS, AND CONTRACTS (INCLUDING INDIRECT COSTS RECOVERED OF \$368,125.68)	479,334.42	3,890,468.96	4,469,803.38		4,421,645.52
INVESTMENT INCOME	42,795,834.17	2,444,944.62	45,240,778.79		43,350,946.58
SALES AND SERVICES OF EDUCATIONAL ACTIVITIES	334,356.59		334,356.59		2,151,765.00
HOSPITALS - SALES AND SERVICES	3,403,030.42		3,403,030.42		3,288,708.41
- STATE APPROPRIATIONS	242,979,470.18		242,979,470.18		246,256,411.84
AUXILIARY ENTERPRISES - SALES AND SERVICES	7,176,032.30		7,176,032.30		7,851,543.30
OTHER SOURCES	11,624,206.39	2,257,959.12	11,624,206.39		11,852,792.57
TOTAL CURRENT REVENUES	15,883,291.13	18,141,250.25	13,564,535.74		13,564,535.74
	481,883,332.90	49,775,511.78	531,658,844.68		510,367,225.79
EXPENDITURES AND TRANSFERS:					
EDUCATIONAL AND GENERAL:					
INSTRUCTION	76,552,395.79	15,735,692.31	92,288,088.10		93,551,751.61
RESEARCH	6,589,458.09	11,008,444.97	17,597,903.06		18,303,839.97
PUBLIC SERVICE	41,413,715.84	1,504,208.56	42,917,924.40		37,705,396.20
ACADEMIC SUPPORT	14,808,235.04	103,382.35	14,911,617.39		13,205,506.64
STUDENT SERVICES	19,588,400.50	887,112.76	20,475,513.26		19,731,130.85
INSTITUTIONAL SUPPORT	21,707,583.81	868,376.71	22,575,960.52		22,321,114.84
OPERATION AND MAINTENANCE OF PLANT	17,408,178.60	8,774,952.67	26,183,131.27		21,459,226.51
SCHOLARSHIPS	3,444,880.40	10,896,371.45	14,341,251.85		10,305,138.49
EDUCATIONAL AND GENERAL	201,510,848.07	49,775,511.78	251,286,359.85		236,584,104.91
MANDATORY TRANSFERS FOR:					
PRINCIPAL AND INTEREST	9,105,848.42		9,105,848.42		9,955,299.82
FINANCIAL AID MATCHING	60,204.00		60,204.00		57,482.00
TOTAL EDUCATIONAL AND GENERAL	210,676,900.49	49,775,511.78	260,452,412.27		246,596,886.73
HOSPITALS (INCLUDING DEBT SERVICE OF \$3,861,576.18)					
	255,991,153.24		255,991,153.24		262,285,977.18
AUXILIARY ENTERPRISES:					
EXPENDITURES					
MANDATORY TRANSFERS FOR:					
PRINCIPAL AND INTEREST	10,925,690.90		10,925,690.90		11,223,267.45
NON-MANDATORY TRANSFERS FOR:					
OTHER TRANSFERS	1,320,686.88		1,320,686.88		1,171,238.88
TOTAL AUXILIARIES	(4,446.00)		(4,446.00)		(15,202.35)
TOTAL EXPENDITURES AND TRANSFERS	12,241,831.78	0.00	12,241,831.78		12,378,303.98
	478,909,990.51	49,775,511.78	528,685,502.29		521,264,167.89
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS):					
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUES					
REFUNDED TO GRANTORS		1,935,897.64	1,935,897.64		1,322,224.09
FUNDED DEPRECIATION		(16,697.91)	(16,697.91)		(1,843.12)
MOBILE RACING COMMISSION	(4,924,361.60)		(4,924,361.60) *		(5,825,075.00)
PLANT ADDITIONS AND REPLACEMENTS	(83,117.06)		(83,117.06)		(157,468.18)
ENDOWMENT FUND	(4,404,471.25)		(4,404,471.25)		(4,525,289.07)
OTHER TRANSFERS	(2,554,911.57)	137,764.31	(2,417,147.26)		(2,460,688.46)
TOTAL TRANSFERS	(78,401.31)	(991,365.88)	(1,069,767.19)		3,237,543.13
	(2,045,262.79)	1,065,598.16	(10,979,664.63)		(8,511,596.61)
NET INCREASE/(DECREASE) IN FUND BALANCES	\$ (9,071,920.40)	\$ 1,065,598.16	\$ (8,006,322.24)	\$	(19,405,538.71)

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

\*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$1,908,191.60 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 12.07% 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.
- University Facilities Revenue Capital Improvement Bonds, Series 2010, 3.81% payable through August 2030.

**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, 2010  
WITH COMPARATIVE FIGURES FOR 2009

	REVENUES	EXPENDITURES	TRANSFERS	EXCESS REVENUES OVER EXPENDITURES AND OTHER CHANGES (DEFICIT)	
				07/31/10	07/31/09
BOOKSTORE	\$ 4,844,055.67	\$ 4,914,199.07	\$ 0.00	\$ (70,143.40)	\$ 25,189.82
BROOKLEY CENTER	1,644,784.50	1,890,642.00	0.00	(245,857.50)	(423,303.04)
FOOD SERVICES-CAMPUS	239,979.71	126,339.27	0.00	113,640.44	80,673.85
HOUSING	4,895,386.51	3,994,510.56	(1,316,240.88)	(415,364.93)	(208,072.04)
TOTAL	\$ 11,624,206.39	\$ 10,925,690.90	\$ (1,316,240.88)	\$ (617,725.39)	\$ (525,511.41)

**BOOKSTORE**  
**STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES**  
**FOR THE TEN MONTHS ENDED JULY 31, 2010**  
**WITH COMPARATIVE FIGURES FOR 2009**

	07/31/10	07/31/09
<b>REVENUES:</b>		
SALES	\$ 4,769,074.99	\$ 5,078,373.07
LESS: DEPARTMENTAL DISCOUNTS	4,389.98	4,756.84
COST OF GOODS SOLD	<u>3,474,020.08</u>	<u>3,766,859.95</u>
GROSS PROFIT	1,290,664.93	1,306,756.28
CASH OVER/(SHORT)	64.46	(1,062.53)
GRADUATION (NET)	34,702.95	39,832.40
BAD DEBT RECOVERY	0.00	0.00
OTHER	<u>40,213.27</u>	<u>34,069.31</u>
NET REVENUES:	<u>1,365,645.61</u>	<u>1,379,595.46</u>
<b>EXPENDITURES:</b>		
SALARIES	633,867.61	576,217.38
EMPLOYEE BENEFITS	209,620.57	179,331.16
SUPPLIES	22,571.36	28,912.09
TRAVEL	4,346.97	4,054.61
EQUIPMENT	4,110.92	5,006.65
EQUIPMENT MAINTENANCE AND REPAIR	21,129.36	23,701.48
BUILDING & EQUIPMENT RENTAL	13,592.26	4,351.75
UTILITIES	62,500.00	62,500.00
TELEPHONE	9,611.51	5,650.25
INSURANCE AND BONDS	4,232.00	4,436.00
CONTRACT SERVICES	141,222.28	136,348.61
BAD DEBT EXPENSE	0.00	0.00
RENT	0.00	13,320.00
OBSOLETE INVENTORY	0.00	2,204.83
GENERAL EXPENSES	42,517.43	40,380.18
CHARGE CARD AND FACULTY		
STAFF DISCOUNTS	21,878.44	23,402.35
INSTITUTIONAL COST ALLOCATION	<u>244,588.30</u>	<u>244,588.30</u>
TOTAL EXPENDITURES	<u>1,435,789.01</u>	<u>1,354,405.64</u>
<b>TRANSFERS AMONG FUNDS-</b>		
ADDITIONS/(DEDUCTIONS):		
MANDATORY:		
PRINCIPAL AND INTEREST	0.00	0.00
NON-MANDATORY:		
OTHER TRANSFERS	0.00	0.00
RENEWAL AND REPLACEMENT	0.00	0.00
RETIREMENT REIMBURSEMENT	0.00	0.00
TOTAL TRANSFERS	<u>0.00</u>	<u>0.00</u>
<b>EXCESS REVENUES OVER EXPENDITURES</b>		
<b>AND MANDATORY TRANSFERS</b>	<u>\$ (70,143.40)</u>	<u>\$ 25,189.82</u>

**BROOKLEY CENTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES**  
**FOR THE TEN MONTHS ENDED JULY 31, 2010**  
**WITH COMPARATIVE FIGURES FOR 2009**

	ADMINISTRATION	INVESTMENT HOUSING	GOLF SHOP	FOOD SERVICE	TOTAL AUXILIARY SERVICES
<b>REVENUES:</b>					
SALES-FOOD & MERCHANDISE	\$ 0.00	\$ 0.00	\$ 28,793.75	\$ 0.00	\$ 28,793.75
LESS: COST OF GOODS SOLD	0.00	0.00	24,437.84	0.00	24,437.84
DISCOUNTS	0.00	0.00	(216.81)	0.00	(216.81)
GROSS PROFIT	0.00	0.00	4,572.72	0.00	4,572.72
FEES	25.00	0.00	280,715.88	36,435.13	317,151.01
RENTALS	23,330.00	579,101.22	0.00	0.00	579,101.22
OTHER	6,229.07	100.00	42.53	0.00	142.53
FACILITY ASSESSMENT FEE	41,670.00	0.00	0.00	0.00	0.00
NET REVENUES	71,254.07	579,201.22	285,331.13	36,435.13	900,967.46
<b>EXPENDITURES:</b>					
OPERATING EXPENDITURES:					
SALARIES	485,282.32	48,541.20	146,399.12	0.00	192,940.32
EMPLOYEE BENEFITS	177,746.76	10,638.41	48,962.87	0.00	59,601.28
SUPPLIES	48,686.31	766.69	28,192.04	873.18	29,831.91
TRAVEL	1,596.86	0.00	0.00	0.00	0.00
CONTRACT SERVICE	52,853.74	76,411.11	63,421.24	3,982.99	143,815.34
BUILDING MAINTENANCE & REPAIR	5,423.15	47,436.56	3,770.82	419.77	51,628.95
GROUND MAINTENANCE	20,984.86	17,017.08	19,225.25	0.00	36,242.33
UTILITIES	99,484.57	88,332.69	6,096.49	44,741.23	137,170.41
EQUIPMENT MAINTENANCE & REPAIR	1,571.84	4,565.99	27,972.12	3,294.94	35,833.05
BUILDING & EQUIPMENT RENTAL	42,488.51	0.00	20,841.99	2,346.24	23,188.23
TELEPHONE	12,732.22	0.00	588.02	1.84	589.86
INSURANCE AND BONDS	54,134.00	0.00	732.00	1,988.00	2,720.00
RECEPTIONS	0.00	0.00	0.00	0.00	0.00
ADVERTISING	13,886.13	2,669.83	2,346.76	250.00	5,266.59
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	14,537.72	1,248.57	17,185.52	859.14	19,293.23
EXPENSE OFFSET	0.00	0.00	0.00	0.00	0.00
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	0.00	0.00	0.00
OPERATING COST ALLOCATIONS	(981,033.92)	269,089.48	0.00	38,441.36	307,530.84
TOTAL OPERATING EXPENDITURES	70,365.07	562,717.61	385,734.04	97,199.69	1,045,650.34
EXCESS REVENUES OVER EXPENDITURES	889.00	16,483.61	(100,402.91)	(60,763.56)	(144,882.86)
<b>OTHER EXPENDITURES:</b>					
EQUIPMENT	889.00	3,596.40	0.00	0.00	3,596.40
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	889.00	3,596.40	0.00	0.00	3,596.40
TRANSFERS AMONG FUNDS -					
ADDITIONS/(DEDUCTIONS):					
MANDATORY:					
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:					
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	0.00
EXCESS REVENUES OVER EXPENDITURES (DEFICIT)	\$ 0.00	\$ 12,887.21	\$ (100,402.91)	\$ (60,763.56)	\$ (148,279.26)

**BROOKLEY CENTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES**  
**FOR THE TEN MONTHS ENDED JULY 31, 2010**  
**WITH COMPARATIVE FIGURES FOR 2009**

	CONTINUING EDUCATION	EDUCATIONAL LEASING	UNIVERSITY SERVICE	TOTAL EDUCATIONAL SERVICES	BROOKLEY CENTER TOTAL 07/31/10	BROOKLEY CENTER TOTAL 07/31/09
<b>REVENUES:</b>						
SALES-FOOD & MERCHANDISE	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 28,793.75	\$ 32,558.35
LESS: COST OF GOODS SOLD	0.00	0.00	0.00	0.00	24,437.84	20,789.86
DISCOUNTS	435.25	0.00	0.00	435.25	218.44	2,929.15
GROSS PROFIT	(435.25)	0.00	0.00	(435.25)	4,137.47	8,859.34
FEES	148,743.81	409,815.70	0.00	558,559.51	875,735.52	1,013,394.24
RENTALS	0.00	0.00	0.00	0.00	602,431.22	620,118.28
OTHER	89,740.07	42.34	0.00	89,782.41	96,154.01	53,273.46
FACILITY ASSESSMENT FEE	0.00	0.00	0.00	0.00	41,870.00	41,870.00
NET REVENUES	238,048.63	409,858.04	0.00	647,906.67	1,620,128.22	1,737,315.32
<b>EXPENDITURES:</b>						
OPERATING EXPENDITURES:						
SALARIES	30,866.08	0.00	0.00	30,866.08	709,088.72	780,290.09
EMPLOYEE BENEFITS	9,598.07	0.00	0.00	9,598.07	246,946.11	257,489.17
SUPPLIES	13,765.29	6,807.66	0.00	20,572.95	98,091.17	87,817.75
TRAVEL	0.00	0.00	0.00	0.00	1,596.86	1,856.69
CONTRACT SERVICE	6,614.91	4,173.45	0.00	10,788.36	207,457.44	201,162.99
BUILDING MAINTENANCE & REPAIR	5,021.15	11,430.48	0.00	16,451.63	73,501.73	72,229.84
GROUND MAINTENANCE	10.78	0.00	0.00	10.78	57,237.97	68,748.59
UTILITIES	121,858.87	90,449.48	0.00	212,308.35	448,943.33	501,640.29
EQUIPMENT MAINTENANCE & REPAIR	432.57	294.75	0.00	727.32	38,132.21	50,302.28
BUILDING & EQUIPMENT RENTAL	0.00	0.00	0.00	0.00	65,676.74	24,403.38
TELEPHONE	0.00	0.00	0.00	0.00	13,322.08	18,186.07
INSURANCE AND BONDS	4,880.00	0.00	0.00	4,880.00	61,534.00	62,794.00
RECEPTIONS	0.00	0.00	0.00	0.00	0.00	1,051.50
ADVERTISING	16,671.18	0.00	0.00	16,671.18	35,833.90	25,150.90
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	5,369.31	35,800.87	0.00	41,170.18	75,001.13	154,496.38
EXPENSE OFFSET	0.00	0.00	0.00	0.00	0.00	(28,375.00)
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	0.00	0.00	(276,183.30)	(183,221.70)
OPERATING COST ALLOCATIONS	201,817.14	163,375.77	(276,183.30)	653,503.08	0.00	0.00
TOTAL OPERATING EXPENDITURES	416,705.35	312,332.46	289,310.17	741,164.68	1,857,180.09	2,096,023.22
EXCESS REVENUES OVER EXPENDITURES	(178,656.72)	97,525.58	(12,126.87)	(93,258.01)	(237,051.87)	(358,707.90)
<b>OTHER EXPENDITURES:</b>						
EQUIPMENT	4,320.23	0.00	0.00	4,320.23	8,805.63	18,969.89
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	4,320.23	0.00	0.00	4,320.23	8,805.63	18,969.89
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	(59,360.00)
NON-MANDATORY:						
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	13,734.75
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	0.00	(45,625.25)
EXCESS REVENUES OVER EXPENDITURES (DEFICIT)	\$ (182,976.95)	\$ 97,525.58	\$ (12,126.87)	\$ (97,578.24)	\$ (245,857.50)	\$ (423,303.04)

FOOD SERVICE  
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES  
FOR THE TEN MONTHS ENDED JULY 31, 2010  
WITH COMPARATIVE FIGURES FOR 2009

	07/31/10	07/31/09
REVENUES:		
COMMISSION INCOME	\$ 239,979.71	\$ 200,204.76
TOTAL REVENUES	<u>239,979.71</u>	<u>200,204.76</u>
EXPENDITURES:		
SALARIES	0.00	0.00
EMPLOYEE BENEFITS	0.00	0.00
SUPPLIES	1,083.13	310.73
EQUIPMENT MAINTENANCE AND REPAIR	32,504.41	25,148.09
UTILITIES	54,166.70	54,166.70
TELEPHONE	72.88	250.00
MEMBERSHIPS AND DUES	0.00	0.00
CONTRACT SERVICES	8,384.53	8,944.53
INSURANCE AND BONDS	11,149.00	12,269.00
EQUIPMENT	0.00	0.00
BUILDING MAINTENANCE AND REPAIR	4,754.00	4,228.00
INDIRECT COST	13,485.00	13,485.00
GENERAL EXPENSE	<u>739.62</u>	<u>728.86</u>
TOTAL EXPENDITURES	<u>126,339.27</u>	<u>119,530.91</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>\$ 113,640.44</u>	<u>\$ 80,673.85</u>

HOUSING  
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE TEN MONTHS ENDED JULY 31, 2010  
WITH COMPARATIVE FIGURES FOR 2009

	CENTRAL HOUSING	HOUSING PROGRAMMING	WASHERS AND DRYERS	OLD SHELL ROAD HOUSING	HILLSDALE MARRIED STUDENT	SMALL GROUP HOUSING
REVENUES:						
RENTAL INCOME	\$ 0.00	\$ 0.00	\$ 120,180.00	\$ 0.00	\$ 67,388.35	\$ 319,930.55
BAD DEBT RECOVERY	1,598.25	0.00	0.00	0.00	386.69	0.00
OTHER	595.00	0.00	0.00	0.00	4,229.85	46,995.04
TOTAL REVENUES	<u>2,193.25</u>	<u>0.00</u>	<u>120,180.00</u>	<u>0.00</u>	<u>72,004.89</u>	<u>366,925.59</u>
EXPENDITURES:						
SALARIES	323,282.22	77,559.69	0.00	0.00	115,095.33	72,636.18
EMPLOYEE BENEFITS	101,276.44	39.69	0.00	0.00	44,711.22	11,720.92
CONTRACT LABOR	0.00	0.00	0.00	0.00	0.00	8,191.63
CONTRACT SERVICES	2,219.50	0.00	57,171.00	0.00	8,725.63	19,110.35
TRAVEL	4,999.76	385.00	0.00	0.00	0.00	0.00
RECEPTIONS	282.85	21,359.54	0.00	0.00	0.00	0.00
SUPPLIES	24,517.18	829.86	0.00	0.00	4,871.05	13,992.24
CABLE	89,966.33	0.00	0.00	0.00	36.56	0.00
TELEPHONE	329.35	0.00	0.00	0.00	923.74	760.80
UTILITIES	0.00	0.00	0.00	0.00	7,601.59	439.44
INSURANCE AND BONDS	1,464.00	0.00	0.00	0.00	4,427.00	7,629.00
BUILDING MAINTENANCE AND REPAIR	5,855.15	0.00	0.00	0.00	0.00	674.00
EQUIPMENT	722.74	0.00	0.00	0.00	1,880.00	3,447.42
EQUIPMENT RENTAL	1,491.23	0.00	0.00	0.00	0.00	0.00
EQUIPMENT MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	3,040.31	396.03
MAJOR MAINTENANCE	0.00	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	63,135.93	656.56	0.00	0.00	5,545.24	1,205.00
ADMINISTRATIVE EXPENSES	306,038.00	0.00	0.00	0.00	0.00	54,466.00
TOTAL EXPENDITURES	<u>(923,387.43)</u>	<u>(96,384.34)</u>	<u>37,731.55</u>	<u>0.00</u>	<u>4,079.11</u>	<u>94,838.77</u>
TRANSFERS AMONG FUNDS -	<u>2,193.25</u>	<u>4,446.00</u>	<u>94,902.55</u>	<u>0.00</u>	<u>200,936.78</u>	<u>289,507.78</u>
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	(607,032.00)
TOTAL MANDATORY TRANSFERS	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(607,032.00)</u>
NON-MANDATORY:						
RENEWALS AND REPLACEMENTS	0.00	0.00	0.00	0.00	0.00	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	4,446.00	0.00	0.00	0.00	0.00
TOTAL NON-MANDATORY TRANSFERS	<u>0.00</u>	<u>4,446.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
TOTAL TRANSFERS	<u>0.00</u>	<u>4,446.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(607,032.00)</u>
EXCESS REVENUES OVER EXPENDITURES	\$ 0.00	\$ 0.00	\$ 25,277.45	\$ 0.00	\$ (128,931.89)	\$ (529,614.19)
AND TRANSFERS (DEFICIT)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 25,277.45</u>	<u>\$ 0.00</u>	<u>\$ (128,931.89)</u>	<u>\$ (529,614.19)</u>

HOUSING  
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE TEN MONTHS ENDED JULY 31, 2010  
WITH COMPARATIVE FIGURES FOR 2009

	GAMMA DORMS	BETA DORMS	DELTA DORMS	EPSILON DORMS	TOTAL HOUSING 07/31/10	TOTAL HOUSING 07/31/09
REVENUES:						
RENTAL INCOME	\$ 929,010.88	\$ 584,585.95	\$ 2,054,145.29	\$ 686,760.48	\$ 4,762,001.30	\$ 4,599,124.85
BAD DEBT RECOVERY	0.00	0.00	0.00	0.00	1,984.94	5,691.59
OTHER	7,565.15	6,555.50	33,589.90	31,869.83	131,400.27	135,544.79
TOTAL REVENUES	<u>936,575.83</u>	<u>591,141.45</u>	<u>2,087,735.19</u>	<u>718,630.31</u>	<u>4,895,386.51</u>	<u>4,740,361.23</u>
EXPENDITURES:						
SALARIES	175,282.73	71,013.48	195,177.87	111,627.20	1,141,674.70	1,105,370.45
EMPLOYEE BENEFITS	35,024.54	15,809.69	42,125.42	11,348.52	262,056.44	276,882.05
CONTRACT LABOR	5,254.16	5,600.00	34,220.68	15,501.53	68,768.00	22,806.93
CONTRACT SERVICES	12,315.59	16,633.71	54,234.38	22,402.20	192,812.36	191,777.78
TRAVEL	0.00	0.00	0.00	0.00	5,384.76	6,246.46
RECEPTIONS	0.00	0.00	0.00	0.00	21,642.39	17,302.69
SUPPLIES	4,814.41	15,670.90	94,776.97	32,723.00	192,195.61	136,540.86
CABLE	0.00	0.00	0.00	0.00	90,002.89	89,125.35
TELEPHONE	38,317.36	15,457.17	85,716.81	25,586.80	167,092.03	162,477.50
UTILITIES	0.00	0.00	0.00	0.00	8,041.03	15,747.02
INSURANCE AND BONDS	12,762.00	6,550.00	19,349.00	5,729.00	57,910.00	69,739.00
BUILDING MAINTENANCE AND REPAIR	1,823.11	518.82	2,181.28	3,905.00	14,957.36	2,908.52
EQUIPMENT	2,111.56	0.00	0.00	3,555.00	11,716.72	48,838.88
EQUIPMENT RENTAL	0.00	0.00	986.86	389.80	2,867.89	4,645.67
EQUIPMENT MAINTENANCE AND REPAIR	190.00	0.00	1,798.12	1,150.00	6,574.46	3,592.42
GROUPS MAINTENANCE	0.00	0.00	0.00	0.00	0.00	800.00
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	51,607.00	42,695.40	133,413.94	42,407.73	340,666.80	337,820.25
ADMINISTRATIVE OVERHEAD	309,541.04	146,132.00	445,351.04	148,619.04	1,410,147.12	1,346,400.16
ADMINISTRATIVE EXPENSES	195,796.19	111,155.11	432,383.22	143,787.82	0.00	0.00
TOTAL EXPENDITURES	<u>844,839.69</u>	<u>447,236.28</u>	<u>1,541,715.59</u>	<u>568,732.64</u>	<u>3,994,510.56</u>	<u>3,839,021.99</u>
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	(153,142.88)	(45,760.00)	(266,160.00)	(248,592.00)	(1,320,686.88)	(1,111,878.88)
TOTAL MANDATORY TRANSFERS	<u>(153,142.88)</u>	<u>(45,760.00)</u>	<u>(266,160.00)</u>	<u>(248,592.00)</u>	<u>(1,320,686.88)</u>	<u>(1,111,878.88)</u>
NON-MANDATORY:						
RENEWALS AND REPLACEMENTS	0.00	0.00	0.00	0.00	0.00	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	4,446.00	2,467.60
TOTAL NON-MANDATORY TRANSFERS	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>4,446.00</u>	<u>2,467.60</u>
TOTAL TRANSFERS	<u>(153,142.88)</u>	<u>(45,760.00)</u>	<u>(266,160.00)</u>	<u>(248,592.00)</u>	<u>(1,316,240.88)</u>	<u>(1,109,411.28)</u>
EXCESS REVENUES OVER EXPENDITURES	\$ (61,406.74)	\$ 98,145.17	\$ 279,859.60	\$ (98,694.33)	\$ (415,364.93)	\$ (208,072.04)
AND TRANSFERS (DEFICIT)						



# **I N D E X** **SEPTEMBER 30, 2010**

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## Financial Report Highlights September 30, 2010

### 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, 2010 and 2009 are as follows (in thousands):

	At and for the year ended	
	9-30-10	9-30-09
<i>Total assets, by fund</i>		
Current	\$ 173,480	\$ 180,756
Loan	4,854	4,784
Endowment	123,113	95,036
Plant	649,892	611,790
<i>Fund Balances, by fund</i>		
Current	\$ 10,869	\$ 27,438
Loan	404	410
Endowment	103,365	79,241
Plant	304,633	293,223
<i>Other balance sheet highlights</i>		
Cash and investments	\$ 307,740	\$ 295,313
Receivables, primary patient care	68,344	57,478
Bonds and notes payable	331,214	305,640

	For the year ended	
	9-30-10	9-30-09
<i>Selected operating highlights (current funds)</i>		
Tuition and fees	\$ 95,892	\$ 82,109
State appropriations	97,860	108,451
Hospital revenues	310,815	297,142
Gifts, grants and contracts	121,433	99,080
Instruction and academic support	131,073	132,722
Research and public service	71,912	66,383
Hospital expenses	306,466	310,411
Net current fund increase (decrease)	(16,569)	(21,582)

### 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

While enrollment and tuition have increased in recent years, the University is experiencing a significant decrease in state appropriations in the fiscal 2010 year. Additionally, the University is subject to declines in general economic conditions in the United States and 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 additional negative impact on other aspects of the University's operations.

UNIVERSITY OF SOUTH ALABAMA  
BALANCE SHEETS  
SEPTEMBER 2010 AND 2009

ASSETS		2010	2009	LIABILITIES AND FUND BALANCES		2010	2009
<b>CURRENT FUNDS:</b>				<b>CURRENT FUNDS:</b>			
UNRESTRICTED:				UNRESTRICTED:			
CASH AND CASH EQUIVALENTS	\$	135,273.84	\$ 140,888.03	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$	53,819,294.24	\$ 54,500,865.97
INVESTMENTS		71,333,049.21	76,103,733.95	DEFERRED REVENUES		32,267,058.98	27,382,542.03
ACCOUNTS RECEIVABLE - PATIENTS (LESS ALLOWANCE				DUE TO OTHER FUNDS		70,958,574.86	68,770,552.53
FOR DOUBTFUL ACCOUNTS OF \$46,336,084.84				DEPOSITS HELD IN CUSTODY		434,716.52	378,167.00
FOR 2010 AND \$45,418,363.58 FOR 2009)				OTHER DEPOSITS		864,280.18	501,418.49
DEPOSITS		68,344,102.06	57,478,462.37	FUND BALANCES:			
INVENTORIES AT COST		35,000.00	35,000.00	ALLOCATED FOR:			
PREPAID EXPENSES		5,614,462.31	4,909,291.21	HOSPITALS	(29,461,283.86)		(28,740,464.96)
		21,186,886.45	23,131,276.53	AUXILIARY ENTERPRISES	1,979,608.85		2,328,530.58
				ENCUMBRANCES	1,892,209.82		2,255,034.58
				SELF-SUPPORTING ACTIVITIES	39,053,353.76		35,941,580.67
				UNALLOCATED	(5,159,139.48)		(1,519,574.70)
				TOTAL FUND BALANCES	8,304,749.09		10,265,106.17
				TOTAL UNRESTRICTED	166,548,773.87		161,798,552.19
<b>TOTAL UNRESTRICTED</b>		<u>166,548,773.87</u>	<u>161,798,552.19</u>				
<b>RESTRICTED FUNDS:</b>				<b>RESTRICTED FUNDS:</b>			
CASH AND CASH EQUIVALENTS		0.00	7,122,158.18	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		718,363.80	481,608.66
INVESTMENTS		8,731.27	7,458.21	OTHER DEPOSITS		0.00	1,170.00
UNBILLED COSTS AND ACCOUNTS RECEIVABLE		6,822,248.23	11,827,445.71	DEFERRED REVENUES		1,597,264.67	1,300,899.72
				DUE TO OTHER FUNDS		1,950,568.48	0.00
				FUND BALANCES		2,564,682.55	17,173,383.72
				TOTAL RESTRICTED	6,830,979.50		18,957,062.10
<b>TOTAL RESTRICTED</b>		<u>6,830,979.50</u>	<u>18,957,062.10</u>	TOTAL CURRENT FUNDS	173,479,753.37		180,755,714.29
<b>TOTAL CURRENT FUNDS</b>		<u>173,479,753.37</u>	<u>180,755,714.29</u>				
<b>LOAN FUNDS:</b>				<b>LOAN FUNDS:</b>			
CASH AND CASH EQUIVALENTS		1,303,504.31	762,416.38	REFUNDABLE GOVERNMENT ADVANCES		4,449,746.67	4,374,048.83
NOTES RECEIVABLE (LESS ALLOWANCE FOR				FUND BALANCES:			
DOUBTFUL ACCOUNTS OF \$477,337.39 FOR				UNIVERSITY FUNDS, UNRESTRICTED		404,062.28	409,931.83
2010 AND \$490,934.85 FOR 2009)				TOTAL FUND BALANCES		404,062.28	409,931.83
<b>TOTAL LOAN FUNDS</b>		<u>3,550,304.64</u>	<u>4,001,564.28</u>	TOTAL LOAN FUNDS		4,853,808.95	4,783,980.66
		<u>4,853,808.95</u>	<u>4,783,980.66</u>				
<b>ENDOWMENT FUNDS:</b>				<b>ENDOWMENT FUNDS:</b>			
CASH AND CASH EQUIVALENTS		36,367,141.03	23,812,420.77	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		13,325,886.00	8,266,587.00
INVESTMENTS		75,853,554.28	66,245,311.05	DEFERRED REVENUES		1,514.00	1,716,713.00
ACCOUNTS RECEIVABLE		6,042,869.83	0.00	BONDS PAYABLE		6,421,188.00	5,811,893.00
REAL ESTATE HELD FOR RESALE		1,338,429.00	1,338,429.00	FUND BALANCES:			
PREPAID-LIFE ESTATE		3,511,467.00	3,640,310.00	RESTRICTED NONEXPENDABLE		29,788,244.93	26,790,900.26
				UNRESTRICTED EXPENDABLE		73,576,628.21	52,450,377.56
				TOTAL FUND BALANCES	103,364,873.14		79,241,277.82
				TOTAL ENDOWMENT FUNDS	123,113,461.14		95,036,470.82
<b>TOTAL ENDOWMENT FUNDS</b>		<u>123,113,461.14</u>	<u>95,036,470.82</u>				
<b>PLANT FUNDS:</b>				<b>PLANT FUNDS:</b>			
CASH AND CASH EQUIVALENTS		48,126,107.76	68,117,602.44	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		6,187,732.57	6,569,236.45
INVESTMENTS		74,612,659.99	52,980,749.93	DEFERRED REVENUES		7,832,278.70	6,330,439.38
ACCOUNTS RECEIVABLE		3,588,850.00	2,431,780.00	OTHER DEPOSITS		25,791.63	27,791.67
NOTES RECEIVABLE		0.00	0.00	BONDS PAYABLE		331,213,992.86	305,639,991.18
DUE FROM OTHER FUNDS		72,909,343.34	68,770,552.53				
PREPAID EXPENSES		4,753,809.22	4,881,288.83				
CAPITAL LEASE RECEIVABLE		1,183,988.70	1,140,478.01				
INVESTMENT IN PLANT:							
LAND		29,496,268.29	29,232,252.32				
LAND IMPROVEMENTS		12,863,630.01	9,484,145.34				
BUILDINGS, ACCUM DEPREC AND IMPROVEMENTS		256,895,669.99	255,755,454.07				
OTHER EQUIPMENT, BOOKS AND FILMS		60,728,066.73	59,103,127.51				
CONSTRUCTION IN PROGRESS		84,734,081.80	59,937,971.28				
<b>TOTAL PLANT FUNDS</b>		<u>649,892,475.83</u>	<u>611,790,338.72</u>				
<b>TOTAL ASSETS</b>		<u>951,339,499.29</u>	<u>892,366,504.49</u>	<b>TOTAL LIABILITIES AND FUND BALANCES</b>		<u>951,339,499.29</u>	<u>892,366,504.49</u>

UNIVERSITY OF SOUTH ALABAMA  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	CURRENT FUNDS			ENDOWMENT FUNDS	RENEWALS AND REPLACEMENTS	PLANT FUNDS RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
	UNRESTRICTED	RESTRICTED	LOAN FUNDS				
REVENUES AND OTHER ADDITIONS:							
EDUCATIONAL AND GENERAL REVENUES	262,800,328.82						
HOSPITALS REVENUES	319,236,596.16						
AUXILIARY ENTERPRISES REVENUES	16,920,218.44						
GRANTS AND CONTRACTS:							
FEDERAL		45,926,604.09					
STATE AND LOCAL		7,280,223.81					
PRIVATE		3,417,728.19					
GOVERNMENT APPROPRIATIONS:							
FEDERAL							
STATE					6,192,648.50		
INVESTMENT INCOME/GAINS/LOSS					569,225.52	42,476.13	
INSURANCE PROCEEDS			5,744.33	3,631,456.35			
INTEREST ON LOANS RECEIVABLE							
GIFTS AND BEQUESTS			68,059.21	4,911,824.91	38,383.33	43,510.69	
EXPENDED FOR PLANT FACILITIES (INCLUDING					399,313.14		58,148,347.99
\$18,669,897.14 CURRENT FUNDS EXPENDITURES)							
RETIREMENT OF INDEBTEDNESS							5,715,000.00
PROCEEDS FROM SALE OF CAPITAL ASSETS							
OTHER SOURCES		20,103,905.46	135.00	7,722.88	1,001,292.32		517,036.30
TOTAL REVENUES AND OTHER ADDITIONS	598,957,143.42	76,728,461.55	73,938.54	8,551,004.14	8,200,862.81	85,986.82	64,380,384.29
EXPENDITURES AND OTHER DEDUCTIONS:							
EDUCATIONAL AND GENERAL EXPENDITURES	254,547,666.17	71,151,515.88					
HOSPITALS EXPENDITURES	301,929,954.08						
AUXILIARY ENTERPRISES EXPENDITURES	15,839,626.10						
INDIRECT COSTS RECOVERED		5,231,421.49					
REFUNDED TO GRANTORS		20,532.91					
RETIREMENT OF INDEBTEDNESS						5,715,000.00	
ADMINISTRATIVE AND COLLECTION COSTS			36,214.71		41,586,475.89	13,138,946.66	
EXPENDED FOR PLANT FACILITIES (INCLUDING							
\$2,108,025.04 FOR NON-CAPITALIZED EXPENDITURES)							27,452,019.35
INTEREST ON INDEBTEDNESS							
DEPRECIATION EXPENSES OF PLANT FACILITIES							
DISPOSAL OF PLANT							
LOSS ON DISPOSAL OF PLANT			62,100.38	609,295.00		202,855.75	392,628.16
OTHER DEDUCTIONS			98,315.09	609,295.00		19,056,802.41	3,061.49
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	572,417,246.35	76,403,470.28			41,586,475.89		27,847,709.00
TRANSFERS AMONG FUNDS-ADDITIONS(DEDUCTIONS):							
MANDATORY:							
PRINCIPAL AND INTEREST	(16,810,690.37)				(1,241,492.59)	18,266,254.77	(214,071.81)
FINANCIAL AID MATCHING	(182,135.00)	162,330.00	19,805.00				
NON-MANDATORY:							
FUNDED DEPRECIATION	(11,720,560.00)				11,720,560.00		
MOBILE RACING COMMISSION	(120,368.81)				120,368.81		
PLANT ADDITIONS AND REPLACEMENTS	(4,910,688.16)				3,921,821.04	80,067.12	908,800.00
ENDOWMENT FUND	(1,214,819.76)			15,214,691.14	(120,368.81)		
OTHER TRANSFERS	6,459,007.95	(13,879,502.57)	(1,298.00)	967,195.04	6,390,057.97	(96,708.75)	(12,501,734.34)
TOTAL TRANSFERS	(28,500,254.15)	(14,933,692.44)	18,507.00	16,181,886.18	20,790,946.42	18,249,613.14	(11,807,006.15)
NET INCREASE (DECREASE) FOR THE PERIOD	(1,960,357.08)	(14,608,701.17)		24,123,595.32	(12,594,666.66)	(721,202.45)	24,725,669.14
FUND BALANCES AT OCTOBER 1, 2009	10,265,106.17	17,173,383.72	409,931.83	79,241,277.82	96,284,642.69	5,431,985.78	191,506,251.57
FUND BALANCES AT SEPTEMBER 30, 2010	\$ 8,304,749.09	\$ 2,564,682.55	\$ 404,062.28	\$ 103,364,873.14	\$ 83,689,976.03	\$ 4,710,783.33	\$ 216,231,920.71

\*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$8,601,156.00 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

UNIVERSITY OF SOUTH ALABAMA  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES  
FOR THE YEAR ENDED SEPTEMBER 30, 2010  
WITH COMPARATIVE FIGURES FOR 2009

	MONTH ENDED SEPTEMBER 30, 2010		SEPTEMBER 30, 2009
	UNRESTRICTED	RESTRICTED	TOTAL
REVENUES:			
TUITION AND FEES	\$ 95,892,501.68	\$	\$ 95,892,501.68
STATE APPROPRIATIONS	89,438,339.00		89,438,339.00
MOBILE RACING COMMISSION	120,368.81		120,368.81
FEDERAL GRANTS AND CONTRACTS	4,358,483.06	58,705,278.15	63,063,761.21
STATE GRANTS AND CONTRACTS (INCLUDING INDIRECT COST RECOVERED OF \$434,147.49)	626,669.21	6,265,002.09	6,891,671.30
PRIVATE GIFTS, GRANTS, AND CONTRACTS (INCLUDING INDIRECT COSTS RECOVERED OF \$438,790.94)	48,503,793.92	2,873,788.80	51,477,582.72
INVESTMENT INCOME	369,014.42		369,014.42
SALES AND SERVICES OF EDUCATIONAL ACTIVITIES	4,135,765.85		4,135,765.85
HOSPITALS - SALES AND SERVICES	310,815,344.16		310,815,344.16 *
- STATE APPROPRIATIONS	8,421,252.00		8,421,252.00
AUXILIARY ENTERPRISES - SALES AND SERVICES	16,920,218.44		16,920,218.44
OTHER SOURCES	19,355,392.87	3,207,446.84	22,562,839.71
TOTAL CURRENT REVENUES	598,957,143.42	71,151,515.88	670,108,659.30
EXPENDITURES AND TRANSFERS:			
EDUCATIONAL AND GENERAL:			
INSTRUCTION	93,307,569.90	20,368,378.53	113,675,948.43
RESEARCH	8,453,352.36	13,146,656.65	21,610,009.01
PUBLIC SERVICE	48,486,778.85	1,815,111.63	50,301,890.48
ACADEMIC SUPPORT	17,273,516.08	123,505.76	17,397,021.84
STUDENT SERVICES	26,159,377.55	1,078,664.02	27,238,041.57
INSTITUTIONAL SUPPORT	31,900,581.53	878,925.76	32,779,507.29
OPERATION AND MAINTENANCE OF PLANT	21,913,382.96	13,066,387.99	34,979,770.95
SCHOLARSHIPS	7,043,106.94	20,673,885.54	27,716,992.48
EDUCATIONAL AND GENERAL	254,547,666.17	71,151,515.88	325,699,182.05
MANDATORY TRANSFERS FOR:			
PRINCIPAL AND INTEREST	10,953,709.68		10,953,709.68
FINANCIAL AID MATCHING	182,135.00		182,135.00
TOTAL EDUCATIONAL AND GENERAL	265,683,510.85	71,151,515.88	336,835,026.73
HOSPITALS (INCLUDING DEBT SERVICE OF \$4,536,293.81)	306,466,247.89		306,466,247.89
AUXILIARY ENTERPRISES:			
EXPENDITURES	15,939,626.10		15,939,626.10
MANDATORY TRANSFERS FOR:			
PRINCIPAL AND INTEREST	1,320,686.88		1,320,686.88
NON-MANDATORY TRANSFERS FOR:			
RENEWALS AND REPLACEMENTS	468,860.37		468,860.37
OTHER TRANSFERS	(460,033.18)		(460,033.18)
TOTAL AUXILIARIES	17,269,140.17	0.00	17,269,140.17
TOTAL EXPENDITURES AND TRANSFERS	589,418,896.91	71,151,515.88	660,570,414.79
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS):			
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUES		345,524.18	345,524.18
REFUNDED TO GRANTORS		(20,532.91)	(20,532.91)
FUNDED DEPRECIATION		(11,720,560.00)	(11,720,560.00) *
MOBILE RACING COMMISSION		(120,368.81)	(120,368.81)
PLANT ADDITIONS AND REPLACEMENTS		(4,441,827.78)	(4,441,827.78)
ENDOWMENT FUND		(1,214,615.76)	(1,214,615.76)
OTHER TRANSFERS	5,998,974.77	(13,879,502.57)	(7,880,527.80)
TOTAL TRANSFERS	(11,498,601.59)	(1,054,189.87)	(12,552,791.46)
NET INCREASE/(DECREASE) IN FUND BALANCES	\$ (1,960,357.08)	\$ (14,608,701.17)	\$ (16,569,058.25)

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

\*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$8,601,156.00 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 12.07% 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.
- University Facilities Revenue Capital Improvement Bonds, Series 2010, 3.81% payable through August 2030.

**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, 2010  
WITH COMPARATIVE FIGURES FOR 2009

	REVENUES	EXPENDITURES	TRANSFERS	OPERATING RESULTS 09/30/10	FUND BALANCE TRANSFERS	EXCESS REVENUES OVER EXPENDITURES AND OTHER CHANGES (DEFICIT) 09/30/10	09/30/09
BOOKSTORE	\$ 8,652,508.81	\$ 8,303,648.44	\$ (348,860.37)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 471,353.51
BROOKLEY CENTER	1,926,265.91	2,643,915.58	0.00	(717,649.67)	551,229.24	(166,420.43)	(547,964.22)
FOOD SERVICES-CAMPUS	359,225.94	155,644.42	(120,000.00)	83,581.52	0.00	83,581.52	0.00
HOUSING	5,982,217.78	4,836,417.66	(1,411,882.94)	(266,082.82)	0.00	(266,082.82)	231,238.34
TOTAL	\$ 16,920,218.44	\$ 15,939,626.10	\$ (1,880,743.31)	\$ (900,150.97)	\$ 551,229.24	\$ (348,921.73)	\$ 154,627.63

**BOOKSTORE**  
**STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**  
**WITH COMPARATIVE FIGURES FOR 2009**

	09/30/10	09/30/09
<b>REVENUES:</b>		
SALES	\$ 8,559,527.99	\$ 9,147,934.30
LESS: DEPARTMENTAL DISCOUNTS	6,393.14	5,963.52
COST OF GOODS SOLD	6,446,559.87	6,700,236.86
GROSS PROFIT	2,106,574.98	2,441,733.92
CASH OVER/(SHORT)	59.37	(677.81)
GRADUATION (NET)	37,870.03	41,023.40
BAD DEBT RECOVERY	0.00	0.00
OTHER	55,051.42	44,411.64
NET REVENUES:	<u>2,199,555.80</u>	<u>2,526,491.15</u>
<b>EXPENDITURES:</b>		
SALARIES	775,983.28	721,269.71
EMPLOYEE BENEFITS	255,613.92	230,882.22
SUPPLIES	33,005.46	33,358.29
TRAVEL	4,400.22	4,054.61
EQUIPMENT	6,929.01	11,791.08
EQUIPMENT MAINTENANCE AND REPAIR	21,155.99	24,226.48
BUILDING & EQUIPMENT RENTAL	17,996.21	7,063.21
UTILITIES	75,000.00	75,000.00
TELEPHONE	15,843.58	8,934.98
INSURANCE AND BONDS	4,232.00	4,436.00
CONTRACT SERVICES	189,033.53	182,612.22
BAD DEBT EXPENSE	0.00	0.00
RENT	0.00	13,320.00
OBSOLETE INVENTORY	0.00	2,204.83
GENERAL EXPENSES	55,690.73	54,360.93
CHARGE CARD AND FACULTY		
STAFF DISCOUNTS	102,305.54	138,117.12
INSTITUTIONAL COST ALLOCATION	293,505.96	293,505.96
TOTAL EXPENDITURES	<u>1,850,695.43</u>	<u>1,805,137.64</u>
<b>TRANSFERS AMONG FUNDS-</b>		
ADDITIONS/(DEDUCTIONS):		
MANDATORY:		
PRINCIPAL AND INTEREST	0.00	0.00
NON-MANDATORY:		
OTHER TRANSFERS	0.00	0.00
RENEWAL AND REPLACEMENT	(348,860.37)	(250,000.00)
RETIREMENT REIMBURSEMENT	0.00	0.00
TOTAL TRANSFERS	<u>(348,860.37)</u>	<u>(250,000.00)</u>
<b>EXCESS REVENUES OVER EXPENDITURES</b>		
<b>AND MANDATORY TRANSFERS</b>	<u>\$ 0.00</u>	<u>\$ 471,353.51</u>

**BROOKLEY CENTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**  
**WITH COMPARATIVE FIGURES FOR 2009**

	ADMINISTRATION	INVESTMENT HOUSING	GOLF SHOP	FOOD SERVICE	TOTAL AUXILIARY SERVICES
REVENUES:	\$	\$	\$	\$	\$
SALES-FOOD & MERCHANDISE	0.00	0.00	36,644.62	0.00	36,644.62
LESS: COST OF GOODS SOLD	0.00	0.00	27,700.31	0.00	27,700.31
DISCOUNTS	0.00	0.00	3,597.79	0.00	3,597.79
GROSS PROFIT			5,346.52	0.00	5,346.52
FEES	50.00	0.00			
RENTALS	27,996.00	631,355.22	327,222.89	40,564.77	367,807.86
OTHER	7,405.76	100.00	1,500.00	0.00	632,855.22
FACILITY ASSESSMENT FEE	50,004.00	0.00	45.39	0.00	145.39
NET REVENUES	85,455.76	631,455.22	334,114.80	40,564.77	1,006,154.79
EXPENDITURES:					
OPERATING EXPENDITURES:					
SALARIES	564,477.05	53,885.68	174,370.25	0.00	228,255.93
EMPLOYEE BENEFITS	211,756.44	12,505.55	58,968.00	0.00	71,473.55
SUPPLIES	62,727.66	937.09	31,559.58	873.18	33,369.85
TRAVEL	1,864.36	0.00	0.00	0.00	0.00
CONTRACT SERVICE	76,326.42	90,948.52	85,380.99	5,180.49	181,510.00
BUILDING MAINTENANCE & REPAIR	5,568.15	49,439.57	3,770.62	649.91	53,860.10
GROUND MAINTENANCE	28,758.53	24,155.03	20,722.90	0.00	44,877.93
UTILITIES	133,774.64	104,843.91	24,632.39	57,162.55	186,638.85
EQUIPMENT MAINTENANCE & REPAIR	2,232.34	4,589.87	35,351.06	3,684.94	43,625.87
BUILDING & EQUIPMENT RENTAL	42,894.95	0.00	31,072.55	2,737.28	33,809.83
TELEPHONE	16,147.71	0.00	722.28	1.84	724.12
INSURANCE AND BONDS	54,134.00	0.00	732.00	1,988.00	2,720.00
RECEPTIONS	0.00	0.00	0.00	0.00	0.00
ADVERTISING	18,539.51	2,669.83	2,497.06	250.00	5,416.89
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	18,028.72	1,833.13	24,890.00	859.14	27,582.27
EXPENSE OFFSET	0.00	0.00	0.00	0.00	0.00
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	0.00	0.00	0.00
OPERATING COST ALLOCATIONS	(1,151,653.72)	322,463.02	0.00	46,066.14	368,529.16
TOTAL OPERATING EXPENDITURES	84,566.76	668,271.20	494,869.68	119,453.47	1,282,394.35
EXCESS REVENUES OVER EXPENDITURES	889.00	(36,815.98)	(160,554.88)	(78,868.70)	(276,239.56)
OTHER EXPENDITURES:					
EQUIPMENT	889.00	3,596.40	0.00	0.00	3,596.40
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	889.00	3,596.40	0.00	0.00	3,596.40
TRANSFERS AMONG FUNDS -					
ADDITIONS/(DEDUCTIONS):					
MANDATORY:					
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:					
OTHER NON-MANDATORY TRANSFERS	551,229.24	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	551,229.24	0.00	0.00	0.00	0.00
EXCESS REVENUES OVER					
EXPENDITURES (DEFICIT)	\$ 551,229.24	\$ (40,412.36)	\$ (160,554.88)	\$ (78,868.70)	\$ (279,835.96)

**BROOKLEY CENTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**  
**WITH COMPARATIVE FIGURES FOR 2009**

	CONTINUING EDUCATION	EDUCATIONAL LEASING	UNIVERSITY SERVICE	TOTAL EDUCATIONAL SERVICES	BROOKLEY CENTER TOTAL 09/30/10	BROOKLEY CENTER TOTAL 09/30/09
<b>REVENUES:</b>						
SALES-FOOD & MERCHANDISE	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 36,644.62	\$ 39,361.26
LESS: COST OF GOODS SOLD	0.00	0.00	0.00	0.00	27,700.31	27,891.65
DISCOUNTS	5,568.57	0.00	0.00	5,568.57	9,166.36	3,189.17
GROSS PROFIT	(5,568.57)	0.00	0.00	(5,568.57)	(222.05)	8,280.44
FEES	196,279.18	486,825.64	0.00	683,104.82	1,050,962.48	1,246,748.98
RENTALS	0.00	0.00	0.00	0.00	680,851.22	739,193.51
OTHER	120,183.71	68.73	0.00	120,252.44	127,803.59	80,237.82
FACILITY ASSESSMENT FEE	0.00	0.00	0.00	0.00	50,004.00	50,004.00
NET REVENUES	310,894.32	486,894.37	0.00	797,788.69	1,889,399.24	2,124,464.76
<b>EXPENDITURES:</b>						
OPERATING EXPENDITURES:						
SALARIES	37,124.64	0.00	0.00	37,124.64	829,857.62	931,799.32
EMPLOYEE BENEFITS	11,616.70	0.00	0.00	11,616.70	294,846.69	321,810.22
SUPPLIES	15,921.23	7,941.65	0.00	23,862.88	119,960.39	109,231.56
TRAVEL	0.00	0.00	0.00	0.00	1,864.36	2,141.92
CONTRACT SERVICE	8,291.95	4,498.45	0.00	12,790.40	270,626.82	250,646.63
BUILDING MAINTENANCE & REPAIR	5,752.65	13,373.06	0.00	19,125.71	78,553.96	84,659.81
GROUND MAINTENANCE	10.78	143.53	0.00	154.31	73,790.77	85,561.96
UTILITIES	154,448.61	113,407.42	0.00	267,856.03	588,269.52	660,861.24
EQUIPMENT MAINTENANCE & REPAIR	984.75	1,621.71	0.00	2,606.46	48,464.67	61,121.75
BUILDING & EQUIPMENT RENTAL	0.00	0.00	0.00	0.00	76,694.78	32,633.61
TELEPHONE	0.00	0.00	0.00	0.00	16,871.83	21,455.34
INSURANCE AND BONDS	5,860.00	0.00	0.00	5,860.00	62,734.00	64,594.00
RECEPTIONS	0.00	0.00	0.00	0.00	0.00	1,351.50
ADVERTISING	16,671.18	0.00	0.00	16,671.18	38,627.58	36,468.08
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	5,508.29	44,960.97	0.00	50,469.26	97,080.25	181,180.97
EXPENSE OFFSET	0.00	0.00	0.00	0.00	0.00	(34,050.00)
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	0.04	0.04	0.04	(219,866.04)
OPERATING COST ALLOCATIONS	241,847.30	195,781.14	345,496.12	783,124.56	0.00	0.00
TOTAL OPERATING EXPENDITURES	504,058.08	381,727.93	345,496.16	1,231,282.17	2,598,243.28	2,591,421.87
EXCESS REVENUES OVER EXPENDITURES	(193,163.76)	105,166.44	(345,496.16)	(433,493.48)	(708,844.04)	(466,957.11)
OTHER EXPENDITURES:						
EQUIPMENT	4,320.23	0.00	0.00	4,320.23	8,805.63	23,509.86
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	4,320.23	0.00	0.00	4,320.23	8,805.63	23,509.86
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	(71,232.00)
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	551,229.24	13,734.75
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	551,229.24	(57,497.25)
EXCESS REVENUES OVER						
EXPENDITURES (DEFICIT)	\$ (197,483.99)	\$ 105,166.44	\$ (345,496.16)	\$ (437,813.71)	\$ (166,420.43)	\$ (547,964.22)

**FOOD SERVICE**  
**STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**  
**WITH COMPARATIVE FIGURES FOR 2009**

	<u>09/30/10</u>	<u>09/30/09</u>
<b>REVENUES:</b>		
COMMISSION INCOME	\$ 359,225.94	\$ 273,909.47
TOTAL REVENUES	<u>359,225.94</u>	<u>273,909.47</u>
<b>EXPENDITURES:</b>		
SALARIES	0.00	0.00
EMPLOYEE BENEFITS	0.00	0.00
SUPPLIES	1,111.63	1,128.33
EQUIPMENT MAINTENANCE AND REPAIR	41,575.26	30,948.98
UTILITIES	65,000.04	65,000.04
TELEPHONE	86.64	300.88
MEMBERSHIPS AND DUES	0.00	0.00
CONTRACT SERVICES	11,186.04	10,883.87
INSURANCE AND BONDS	11,149.00	12,269.00
EQUIPMENT	0.00	0.00
BUILDING MAINTENANCE AND REPAIR	4,754.00	5,470.00
INDIRECT COST	16,182.00	16,182.00
GENERAL EXPENSE	<u>4,599.81</u>	<u>1,493.71</u>
TOTAL EXPENDITURES	<u>155,644.42</u>	<u>143,676.81</u>
<b>TRANSFERS AMONG FUNDS-</b>		
ADDITIONS/(DEDUCTIONS):		
NON-MANDATORY:		
OTHER TRANSFERS	<u>(120,000.00)</u>	<u>(130,232.66)</u>
TOTAL TRANSFERS	<u>(120,000.00)</u>	<u>(130,232.66)</u>
<b>EXCESS REVENUES OVER</b>		
<b>EXPENDITURES AND MANDATORY</b>		
<b>TRANSFERS (DEFICIT)</b>	<u>\$ 83,581.52</u>	<u>\$ 0.00</u>

HOUSING  
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE YEAR ENDED SEPTEMBER 30, 2010  
WITH COMPARATIVE FIGURES FOR 2009

	CENTRAL HOUSING	HOUSING PROGRAMMING	WASHERS AND DRYERS	OLD SHELL ROAD HOUSING	HILLSDALE MARRIED STUDENT	SMALL GROUP HOUSING
REVENUES:						
RENTAL INCOME	\$ 0.00	\$ 0.00	\$ 145,905.00	\$ 0.00	\$ 79,078.35	\$ 374,934.63
BAD DEBT RECOVERY	1,613.25	0.00	0.00	0.00	398.19	0.00
OTHER	645.00	0.00	0.00	0.00	5,004.85	89,672.47
TOTAL REVENUES	<u>2,258.25</u>	<u>0.00</u>	<u>145,905.00</u>	<u>0.00</u>	<u>84,481.39</u>	<u>464,607.10</u>
EXPENDITURES:						
SALARIES	398,608.71	78,690.51	0.00	0.00	127,825.25	84,135.74
EMPLOYEE BENEFITS	125,536.07	45.23	0.00	0.00	49,331.91	14,436.57
CONTRACT LABOR	0.00	0.00	0.00	0.00	0.00	10,730.48
CONTRACT SERVICES	2,271.50	0.00	59,603.00	0.00	10,142.63	29,261.05
TRAVEL	5,017.26	385.00	0.00	0.00	0.00	0.00
RECEPTIONS	282.85	23,822.99	0.00	0.00	0.00	0.00
SUPPLIES	29,373.79	1,223.52	0.00	0.00	27,410.22	24,838.92
CABLE	102,710.98	0.00	0.00	0.00	36.56	0.00
TELEPHONE	410.85	0.00	0.00	0.00	924.38	808.68
UTILITIES	0.00	0.00	0.00	0.00	10,885.56	734.72
INSURANCE AND BONDS	1,464.00	0.00	0.00	0.00	4,427.00	7,629.00
BAD DEBT EXPENSE	5,855.15	0.00	0.00	0.00	57,650.32	6,480.00
BUILDING MAINTENANCE AND REPAIR	360.67	0.00	0.00	0.00	0.00	6,474.91
EQUIPMENT	1,779.60	0.00	0.00	0.00	1,880.00	4,863.16
EQUIPMENT RENTAL	0.00	0.00	0.00	0.00	0.00	0.00
EQUIPMENT MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	3,196.70	396.03
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	98,124.42	1,997.81	0.00	0.00	0.00	0.00
ADMINISTRATIVE OVERHEAD	306,038.00	0.00	0.00	0.00	6,866.03	15,434.53
ADMINISTRATIVE EXPENSES	(1,075,575.60)	(106,165.06)	43,724.39	0.00	0.00	54,466.00
TOTAL EXPENDITURES	<u>2,258.25</u>	<u>0.00</u>	<u>103,327.39</u>	<u>0.00</u>	<u>305,303.55</u>	<u>370,591.67</u>
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	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(607,032.00)</u>
NON-MANDATORY:						
RENEWALS AND REPLACEMENTS	0.00	0.00	0.00	0.00	0.00	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL NON-MANDATORY 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>
TOTAL TRANSFERS	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(607,032.00)</u>
EXCESS REVENUES OVER EXPENDITURES	\$ 0.00	\$ 0.00	\$ 42,577.61	\$ 0.00	\$ (220,822.16)	\$ (513,016.57)
AND TRANSFERS (DEFICIT)						



**HOUSING**  
**STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**  
**WITH COMPARATIVE FIGURES FOR 2009**

	<b>GAMMA DORMS</b>	<b>BETA DORMS</b>	<b>DELTA DORMS</b>	<b>EPSILON DORMS</b>	<b>TOTAL HOUSING 09/30/10</b>	<b>TOTAL HOUSING 09/30/09</b>
<b>REVENUES:</b>						
RENTAL INCOME	\$ 1,116,365.98	\$ 734,271.87	\$ 2,491,157.86	\$ 835,730.13	\$ 5,777,443.82	\$ 5,590,818.14
BAD DEBT RECOVERY	0.00	0.00	0.00	0.00	2,011.44	5,696.59
OTHER	10,494.39	10,905.55	46,502.43	39,537.83	202,762.52	209,521.89
<b>TOTAL REVENUES</b>	<b>1,126,860.37</b>	<b>745,177.42</b>	<b>2,537,660.29</b>	<b>875,267.96</b>	<b>5,982,217.78</b>	<b>5,806,036.62</b>
<b>EXPENDITURES:</b>						
SALARIES	192,573.76	84,243.51	237,302.29	121,305.73	1,324,685.50	1,314,617.95
EMPLOYEE BENEFITS	40,477.32	20,640.55	54,142.97	11,954.96	316,565.58	348,504.18
CONTRACT LABOR	10,776.26	7,200.00	55,248.68	28,598.69	112,554.11	31,775.04
CONTRACT SERVICES	22,709.20	25,221.87	83,534.36	31,219.76	263,963.37	228,162.68
TRAVEL	0.00	0.00	0.00	0.00	5,402.26	6,246.46
RECEPTIONS	0.00	0.00	0.00	0.00	24,105.84	22,694.67
SUPPLIES	9,177.58	17,697.92	132,765.27	73,108.04	315,595.26	174,916.28
CABLE	0.00	0.00	0.00	0.00	102,747.54	115,540.37
TELEPHONE	38,323.52	15,504.73	85,829.61	25,658.12	167,459.89	163,497.29
UTILITIES	0.00	0.00	0.00	0.00	11,620.28	19,239.39
INSURANCE AND BONDS	12,762.00	6,550.00	19,349.00	5,729.00	57,910.00	69,739.00
BAD DEBT EXPENSE	14,600.00	9,869.10	38,201.14	13,426.48	140,227.04	4,175.41
BUILDING MAINTENANCE AND REPAIR EQUIPMENT	3,520.12	816.30	3,886.51	5,957.96	26,510.95	7,064.73
EQUIPMENT RENTAL	2,111.56	0.00	92,584.69	28,965.00	130,765.08	235,102.03
EQUIPMENT MAINTENANCE AND REPAIR	190.00	0.00	1,664.93	389.80	3,834.33	5,582.44
GROUPS MAINTENANCE	0.00	0.00	1,798.12	1,150.00	6,730.85	5,929.00
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	0.00	800.00
GENERAL EXPENSES	53,044.45	43,899.75	149,687.95	46,537.72	415,592.66	365,399.92
ADMINISTRATIVE OVERHEAD	309,541.04	146,132.00	445,351.04	148,619.04	1,410,147.12	1,346,400.16
ADMINISTRATIVE EXPENSES	226,894.22	128,809.72	501,058.03	166,625.43	(0.00)	0.00
<b>TOTAL EXPENDITURES</b>	<b>936,701.03</b>	<b>506,585.45</b>	<b>1,902,404.59</b>	<b>709,245.73</b>	<b>4,836,417.66</b>	<b>4,465,387.00</b>
<b>TRANSFERS AMONG FUNDS - ADDITIONS/(DEDUCTIONS):</b>						
<b>MANDATORY:</b>						
PRINCIPAL AND INTEREST	(153,142.88)	(45,760.00)	(266,160.00)	(248,592.00)	(1,320,686.88)	(1,111,878.88)
<b>TOTAL MANDATORY TRANSFERS</b>	<b>(153,142.88)</b>	<b>(45,760.00)</b>	<b>(266,160.00)</b>	<b>(248,592.00)</b>	<b>(1,320,686.88)</b>	<b>(1,111,878.88)</b>
<b>NON-MANDATORY:</b>						
RENEWALS AND REPLACEMENTS	0.00	0.00	(91,196.06)	0.00	(91,196.06)	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	2,467.60
<b>TOTAL NON-MANDATORY TRANSFERS</b>	<b>0.00</b>	<b>0.00</b>	<b>(91,196.06)</b>	<b>0.00</b>	<b>(91,196.06)</b>	<b>2,467.60</b>
<b>TOTAL TRANSFERS</b>	<b>(153,142.88)</b>	<b>(45,760.00)</b>	<b>(357,356.06)</b>	<b>(248,592.00)</b>	<b>(1,411,882.94)</b>	<b>(1,109,411.28)</b>
<b>EXCESS REVENUES OVER EXPENDITURES AND TRANSFERS (DEFICIT)</b>	<b>\$ 37,016.46</b>	<b>\$ 192,831.97</b>	<b>\$ 277,899.64</b>	<b>\$ (82,569.77)</b>	<b>\$ (266,082.82)</b>	<b>\$ 231,238.34</b>

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# Financial Report Highlights

## August 31, 2010

### 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, 2010 and 2009 are as follows (in thousands):

	At and for the eleven months ended	
	8-31-10	8-31-09
<i>Total assets, by fund</i>		
Current	\$ 178,042	\$ 148,594
Loan	4,841	4,782
Endowment	120,601	90,920
Plant	632,677	605,334
<i>Fund Balances (deficit), by fund</i>		
Current	\$ (5,608)	\$ 27,363
Loan	467	449
Endowment	111,073	81,491
Plant	291,579	289,546
<i>Other balance sheet highlights</i>		
Cash and investments	\$ 292,532	\$ 301,552
Receivables, primary patient care	83,076	61,570
Bonds and notes payable	331,214	305,640

	For the eleven months ended	
	8-31-10	8-31-09
<i>Selected operating highlights (current funds)</i>		
Tuition and fees	\$ 82,811	\$ 71,475
State appropriations	89,705	99,413
Hospital revenues	270,241	271,926
Gifts, grants and contracts	113,411	91,423
Instruction and academic support	118,400	116,636
Research and public service	66,521	62,002
Hospital expenses	284,628	289,313
Net current fund decrease	(33,047)	(21,658)

### 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

While enrollment and tuition have increased in recent years, the University is experiencing a significant decrease in state appropriations in the fiscal 2010 year. Additionally, the University is subject to declines in general economic conditions in the United States and 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 additional negative impact on other aspects of the University's operations.

UNIVERSITY OF SOUTH ALABAMA  
BALANCE SHEETS  
AUGUST 2010 AND 2009

ASSETS		2010	2009	LIABILITIES AND FUND BALANCES		2010	2009
<b>CURRENT FUNDS:</b>				<b>CURRENT FUNDS:</b>			
UNRESTRICTED:				UNRESTRICTED:			
CASH AND CASH EQUIVALENTS	\$	135,673.84	139,017.38	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$	48,060,275.08	48,585,633.05
INVESTMENTS		61,210,444.86	45,958,736.93	DEFERRED REVENUES		54,416,915.23	40,452,213.74
ACCOUNTS RECEIVABLE - PATIENTS (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF \$47,897,753.86 FOR 2010 AND \$45,708,286.09 FOR 2009)				DUE TO OTHER FUNDS		76,740,206.94	31,998,245.72
DEPOSITS		83,075,712.18	61,589,745.82	DEPOSITS HELD IN CUSTODY		589,557.93	621,291.39
INVENTORIES AT COST		35,000.00	35,000.00	OTHER DEPOSITS		1,031,483.80	514,391.68
PREPAID EXPENSES		4,266,858.94	4,706,602.85	FUND BALANCES:			
		23,541,893.94	17,867,008.46	ALLOCATED FOR:			
				HOSPITALS		(42,485,710.23)	(32,979,372.19)
				AUXILIARY ENTERPRISES		2,459,118.03	2,371,963.88
				ENCUMBRANCES		2,974,528.07	2,752,439.55
				SELF-SUPPORTING ACTIVITIES		45,613,072.03	45,562,985.43
				UNALLOCATED		(17,133,863.12)	(7,603,580.81)
				TOTAL FUND BALANCES		(8,572,855.22)	10,104,335.86
				TOTAL UNRESTRICTED		172,285,583.76	130,276,111.44
<b>TOTAL UNRESTRICTED</b>		<b>172,285,583.76</b>	<b>130,276,111.44</b>				
<b>RESTRICTED FUNDS:</b>				<b>RESTRICTED FUNDS:</b>			
CASH AND CASH EQUIVALENTS		0.00	5,508,916.86	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		32,842.19	13,938.75
INVESTMENTS		7,458.21	11,529.60	OTHER DEPOSITS		0.00	1,170.00
UNBILLED COSTS AND ACCOUNTS RECEIVABLE		5,768,986.38	12,797,161.83	DEFERRED REVENUES		475,527.86	1,044,056.27
				DUE TO OTHER FUNDS		2,303,601.17	0.00
				FUND BALANCES		2,964,453.37	17,258,433.27
				TOTAL RESTRICTED		5,776,424.59	18,317,598.29
<b>TOTAL RESTRICTED</b>		<b>5,776,424.59</b>	<b>18,317,598.29</b>	TOTAL CURRENT FUNDS		178,042,008.35	148,593,709.73
<b>TOTAL CURRENT FUNDS</b>		<b>178,042,008.35</b>	<b>148,593,709.73</b>				
<b>LOAN FUNDS:</b>				<b>LOAN FUNDS:</b>			
CASH AND CASH EQUIVALENTS		1,216,266.91	722,789.76	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		310.00	300.00
NOTES RECEIVABLE (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF \$490,934.85 FOR 2010 AND \$500,533.16 FOR 2009)				REFUNDABLE GOVERNMENT ADVANCES		4,374,048.83	4,333,038.83
				FUND BALANCES:			
				UNIVERSITY FUNDS, UNRESTRICTED		467,077.62	448,736.83
				TOTAL FUND BALANCES		467,077.62	448,736.83
<b>TOTAL LOAN FUNDS</b>		<b>3,625,169.54</b>	<b>4,059,286.00</b>	TOTAL LOAN FUNDS		4,841,436.45	4,782,076.76
<b>ENDOWMENT FUNDS:</b>				<b>ENDOWMENT FUNDS:</b>			
CASH AND CASH EQUIVALENTS		34,591,462.56	22,608,214.82	DEFERRED REVENUES		1,421,019.00	1,716,713.00
INVESTMENTS		75,116,535.52	83,388,250.99	BONDS PAYABLE		8,106,812.00	7,712,239.00
ACCOUNTS RECEIVABLE		6,042,869.83	0.00	FUND BALANCES:			
REAL ESTATE HELD FOR RESALE		1,338,429.00	1,338,429.00	RESTRICTED NONEXPENDABLE		26,790,900.26	24,729,291.39
PREPAID-LIFE ESTATE		3,511,467.00	3,605,307.00	UNRESTRICTED EXPENDABLE		84,282,032.65	56,761,958.42
				TOTAL FUND BALANCES		111,072,932.91	81,491,249.81
<b>TOTAL ENDOWMENT FUNDS</b>		<b>120,600,763.91</b>	<b>90,920,201.81</b>	TOTAL ENDOWMENT FUNDS		120,600,763.91	90,920,201.81
<b>PLANT FUNDS:</b>				<b>PLANT FUNDS:</b>			
CASH AND CASH EQUIVALENTS		45,686,694.40	110,314,711.86	ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		3,461,225.69	3,745,709.98
INVESTMENTS		74,567,784.58	52,919,929.93	DEFERRED REVENUES		6,396,795.40	6,375,015.27
ACCOUNTS RECEIVABLE		1,640,855.00	1,948,236.00	OTHER DEPOSITS		25,791.63	27,791.67
NOTES RECEIVABLE		0.00	254,936.16	BONDS PAYABLE		331,213,992.86	305,639,991.18
DUE FROM OTHER FUNDS		79,043,808.11	31,998,245.72				
PREPAID EXPENSES		4,753,809.22	4,881,288.93				
CAPITAL LEASE RECEIVABLE		1,180,300.26	1,136,925.12				
INVESTMENT IN PLANT:							
LAND		29,232,252.32	29,232,252.32				
LAND IMPROVEMENTS		11,317,327.19	9,008,200.63				
BUILDINGS - ACCUM DEPREC AND IMPROVEMENTS		247,786,562.29	130,530,525.65				
OTHER EQUIPMENT, BOOKS AND FILMS		59,833,695.95	49,287,555.26				
CONSTRUCTION IN PROGRESS		77,633,540.68	183,821,540.33				
TOTAL PLANT FUNDS		632,576,630.00	805,314,347.91				
<b>TOTAL ASSETS</b>		<b>\$ 936,160,838.71</b>	<b>\$ 849,630,335.21</b>	<b>TOTAL LIABILITIES AND FUND BALANCES</b>		<b>\$ 936,160,838.71</b>	<b>\$ 849,630,335.21</b>

UNIVERSITY OF SOUTH ALABAMA  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2010

	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	238,014,784.59						
HOSPITALS REVENUES	277,960,049.94						
AUXILIARY ENTERPRISES REVENUES	16,640,704.38						
GRANTS AND CONTRACTS:							
FEDERAL		41,347,847.70					
STATE AND LOCAL		6,425,248.57					
PRIVATE		3,297,059.83					
GOVERNMENT APPROPRIATIONS:							
FEDERAL					4,649,227.00		
STATE			5,181.87	4,305,771.28	525,458.26	35,714.05	
INVESTMENT INCOME,GAINS/LOSS							
INSURANCE PROCEEDS							
INTEREST ON LOANS RECEIVABLE							
GIFTS AND BEQUESTS			59,957.17	3,904,865.35	38,383.33	39,822.25	
EXPENDED FOR PLANT FACILITIES (INCLUDING					347,223.10		34,392,725.66
\$3,347,215.35 CURRENT FUNDS EXPENDITURES)							
RETIREMENT OF INDEBTEDNESS							5,715,000.00
PROCEEDS FROM SALE OF CAPITAL ASSETS							
OTHER SOURCES		19,379,200.40		6,222.88	818,686.19		458,209.08
TOTAL REVENUES AND OTHER ADDITIONS	531,615,538.91	70,449,356.50	65,138.04	8,216,879.51	6,378,977.88	75,536.30	40,565,934.74
EXPENDITURES AND OTHER DEDUCTIONS:							
EDUCATIONAL AND GENERAL EXPENDITURES	227,303,211.71	66,097,189.96					
HOSPITALS EXPENDITURES	280,429,481.83						
AUXILIARY ENTERPRISES EXPENDITURES	14,189,430.05						
INDIRECT COSTS RECOVERED	4,725,203.42						
REFUNDED TO GRANTORS	20,532.91						
RETIREMENT OF INDEBTEDNESS			11,581.49			5,715,000.00	
ADMINISTRATIVE AND COLLECTION COSTS							
EXPENDED FOR PLANT FACILITIES (INCLUDING					33,038,547.93	12,408,887.66	22,894,423.75
\$1,993,037.62 FOR NON-CAPITALIZED EXPENDITURES)							
INTEREST ON INDEBTEDNESS							
DEPRECIATION EXPENSES OF PLANT FACILITIES							
DISPOSAL OF PLANT							
LOSS ON DISPOSAL OF PLANT			6,808.76	398,751.65		202,855.75	93,843.49
OTHER DEDUCTIONS			18,390.25	398,751.65		18,326,743.41	22,988,267.24
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	521,922,123.59	69,842,928.29			33,038,547.93		
TRANSFERS AMONG FUNDS-ADDITIONS(DEDUCTIONS):							
MANDATORY:							
PRINCIPAL AND INTEREST	(15,549,400.96)				(1,241,492.59)	17,004,965.36	(214,071.81)
FINANCIAL AID MATCHING	(161,043.00)	149,348.00	11,695.00				
NON-MANDATORY:							
FUNDED DEPRECIATION	(5,416,797.76)						
MOBILE RACING COMMISSION	(94,657.99)						
PLANT ADDITIONS AND REPLACEMENTS	(4,414,471.25)					0.00	
ENDOWMENT FUND	(2,817,499.37)						
OTHER TRANSFERS	(77,306.39)	(13,879,752.57)	(1,298.00)	16,792,109.93	1,330,866.07	682,783.00	(1,705,265.00)
TOTAL TRANSFERS	(28,531,376.71)	(1,084,955.99)	10,397.00	856,176.30	8,920,542.49	17,687,748.36	(1,919,336.81)
NET INCREASE (DECREASE) FOR THE PERIOD	(18,637,961.39)	(14,208,930.35)	57,145.79	25,465,414.09	(16,738,927.56)	(563,458.75)	15,658,330.69
FUND BALANCES AT OCTOBER 1, 2009	10,265,106.17	17,173,383.72	409,931.83	85,607,518.82	96,284,642.99	5,431,986.78	191,506,251.57
FUND BALANCES AT AUGUST 31, 2010	(8,572,855.22)	2,964,453.37	487,077.82	111,072,932.91	79,545,715.13	4,868,527.03	207,164,582.26

\*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$2,099,010.76 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

UNIVERSITY OF SOUTH ALABAMA  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES  
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2010  
WITH COMPARATIVE FIGURES FOR 2009

	MONTH ENDED AUGUST 31, 2010			AUGUST 31, 2009	
	UNRESTRICTED	RESTRICTED	TOTAL		
REVENUES:					
TUITION AND FEES	\$ 82,810,595.21	\$	\$ 82,810,595.21	\$	71,475,361.01
STATE APPROPRIATIONS	81,985,143.36		81,985,143.36		90,776,654.97
MOBILE RACING COMMISSION	94,857.99		94,857.99		168,811.82
FEDERAL GRANTS AND CONTRACTS	3,949,906.63	53,876,484.06	57,826,390.69		37,168,964.17
STATE GRANTS AND CONTRACTS (INCLUDING INDIRECT COST RECOVERED OF \$370,590.40)	535,246.30	5,559,700.64	6,093,946.94		6,062,322.78
PRIVATE GIFTS, GRANTS, AND CONTRACTS (INCLUDING INDIRECT COSTS RECOVERED OF \$404,706.39)	46,756,773.43	2,731,558.31	49,488,331.74		48,191,564.19
INVESTMENT INCOME	346,147.68		346,147.68		2,038,294.83
SALES AND SERVICES OF EDUCATIONAL ACTIVITIES	3,670,204.72		3,670,204.72		3,923,284.25
HOSPITALS - STATE APPROPRIATIONS	270,240,569.96		270,240,569.96		271,925,065.85
- STATE APPROPRIATIONS	7,719,479.98		7,719,479.98		8,536,697.43
AUXILIARY ENTERPRISES - SALES AND SERVICES	15,640,704.38		15,640,704.38		16,118,687.44
OTHER SOURCES	17,863,909.27	2,930,055.35	20,793,964.62		16,379,935.22
TOTAL CURRENT REVENUES	531,615,538.91	65,096,798.36	596,712,337.27		572,765,634.17
EXPENDITURES AND TRANSFERS:					
EDUCATIONAL AND GENERAL:					
INSTRUCTION	83,594,786.35	18,616,231.90	102,211,018.25		102,443,697.74
RESEARCH	7,451,050.64	12,244,211.32	19,695,261.96		20,322,784.96
PUBLIC SERVICE	45,193,248.27	1,632,773.67	46,826,021.94		41,679,100.75
ACADEMIC SUPPORT	16,074,960.35	113,594.43	16,188,554.78		14,192,097.61
STUDENT SERVICES	23,104,188.71	952,362.76	24,056,551.47		21,925,922.93
INSTITUTIONAL SUPPORT	25,185,184.76	869,995.50	26,055,180.26		25,068,785.96
OPERATION AND MAINTENANCE OF PLANT	19,382,188.50	10,842,719.56	30,224,908.06		23,343,189.58
SCHOLARSHIPS	7,317,636.13	19,825,949.33	27,143,585.46		21,214,010.03
EDUCATIONAL AND GENERAL	227,303,211.71	65,096,798.36	292,400,010.07		270,089,599.56
MANDATORY TRANSFERS FOR:					
PRINCIPAL AND INTEREST	10,029,779.05		10,029,779.05		8,402,780.45
FINANCIAL AID MATCHING	161,043.00		161,043.00		163,777.00
TOTAL EDUCATIONAL AND GENERAL	237,494,033.76	65,096,798.36	302,590,832.12		278,656,157.01
HOSPITALS (INCLUDING DEBT SERVICE OF \$4,198,935.03)	284,628,416.86		284,628,416.86		289,312,860.14
AUXILIARY ENTERPRISES:					
EXPENDITURES	14,189,430.05		14,189,430.05		14,759,653.98
MANDATORY TRANSFERS FOR:					
PRINCIPAL AND INTEREST	1,320,888.88		1,320,888.88		1,177,174.88
NON-MANDATORY TRANSFERS FOR:					
OTHER TRANSFERS	0.00	0.00	0.00		(16,202.35)
TOTAL AUXILIARIES	15,510,116.93	0.00	15,510,116.93		15,920,626.51
TOTAL EXPENDITURES AND TRANSFERS	537,632,567.55	65,096,798.36	602,729,365.91		593,889,543.66
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS):					
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUES		627,364.72	627,364.72		513,263.64
REFUNDED TO GRANTORS		(20,532.91)	(20,532.91)		(7,843.12)
FUNDED DEPRECIATION	(5,416,797.76)		(5,416,797.76)	*	(6,403,885.00)
MOBILE RACING COMMISSION	(94,857.99)		(94,857.99)		(168,811.82)
PLANT ADDITIONS AND REPLACEMENTS	(4,414,471.25)		(4,414,471.25)		(5,027,850.03)
ENDOWMENT FUND	(2,817,499.37)	(13,879,752.57)	(16,697,251.94)		(2,783,784.04)
OTHER TRANSFERS	(77,306.38)	(935,999.59)	(1,013,305.97)		3,344,309.03
TOTAL TRANSFERS	(12,820,932.75)	(14,208,930.35)	(27,029,863.10)		(10,534,601.34)
NET INCREASE/(DECREASE) IN FUND BALANCES	\$ (18,837,961.39)	\$ (14,208,930.35)	\$ (33,046,891.74)		\$ (21,657,610.83)

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

\*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$2,099,010.76 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 12.07% 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.
- University Facilities Revenue Capital Improvement Bonds, Series 2010, 3.81% payable through August 2030.

**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, 2010  
WITH COMPARATIVE FIGURES FOR 2009

	REVENUES	EXPENDITURES	TRANSFERS	EXCESS REVENUES OVER EXPENDITURES AND OTHER CHANGES (DEFICIT)	
				08/31/10	08/31/09
BOOKSTORE	\$ 8,282,554.49	\$ 7,592,177.88	\$ 0.00	\$ 690,376.61	\$ 813,964.70
BROOKLEY CENTER	1,826,782.65	2,077,908.34	0.00	(251,125.69)	(454,362.39)
FOOD SERVICES-CAMPUS	263,450.60	136,678.48	0.00	126,772.12	89,106.02
HOUSING	5,267,916.64	4,382,665.35	(1,320,686.88)	(435,435.59)	(250,647.40)
TOTAL	\$ 15,640,704.38	\$ 14,189,430.05	\$ (1,320,686.88)	\$ 130,587.45	\$ 198,060.93

BOOKSTORE  
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES  
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2010  
WITH COMPARATIVE FIGURES FOR 2009

	08/31/10	08/31/09
REVENUES:		
SALES	\$ 8,201,062.69	\$ 8,734,948.74
LESS: DEPARTMENTAL DISCOUNTS	5,591.62	5,424.01
COST OF GOODS SOLD	5,987,484.57	6,451,147.13
GROSS PROFIT	2,207,986.50	2,278,377.60
CASH OVER/(SHORT)	48.34	(1,086.56)
GRADUATION (NET)	32,269.03	37,276.40
BAD DEBT RECOVERY	0.00	0.00
OTHER	49,174.43	42,064.38
NET REVENUES:	<u>2,289,478.30</u>	<u>2,356,631.82</u>
EXPENDITURES:		
SALARIES	702,554.10	652,973.80
EMPLOYEE BENEFITS	232,156.72	208,936.07
SUPPLIES	29,530.54	30,140.79
TRAVEL	4,365.72	4,054.61
EQUIPMENT	5,274.92	6,952.58
EQUIPMENT MAINTENANCE AND REPAIR	21,155.99	23,701.48
BUILDING & EQUIPMENT RENTAL	14,361.44	5,485.17
UTILITIES	68,750.00	68,750.00
TELEPHONE	11,751.73	6,672.76
INSURANCE AND BONDS	4,232.00	4,436.00
CONTRACT SERVICES	157,318.85	160,521.47
BAD DEBT EXPENSE	0.00	0.00
RENT	0.00	13,320.00
OBSOLETE INVENTORY	0.00	2,204.83
GENERAL EXPENSES	45,103.04	48,811.75
CHARGE CARD AND FACULTY		
STAFF DISCOUNTS	32,514.51	36,658.68
INSTITUTIONAL COST ALLOCATION	270,032.13	269,047.13
TOTAL EXPENDITURES	<u>1,599,101.69</u>	<u>1,542,667.12</u>
TRANSFERS AMONG FUNDS- ADDITIONS/(DEDUCTIONS):		
MANDATORY:		
PRINCIPAL AND INTEREST	0.00	0.00
NON-MANDATORY:		
OTHER TRANSFERS	0.00	0.00
RENEWAL AND REPLACEMENT	0.00	0.00
RETIREMENT REIMBURSEMENT	0.00	0.00
TOTAL TRANSFERS	<u>0.00</u>	<u>0.00</u>
EXCESS REVENUES OVER EXPENDITURES AND MANDATORY TRANSFERS	<u>\$ 690,376.61</u>	<u>\$ 813,964.70</u>

**BROOKLEY CENTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES**  
**FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2010**  
**WITH COMPARATIVE FIGURES FOR 2009**

	ADMINISTRATION	INVESTMENT HOUSING	GOLF SHOP	FOOD SERVICE	TOTAL AUXILIARY SERVICES
<b>REVENUES:</b>					
SALES-FOOD & MERCHANDISE	\$ 0.00	\$ 0.00	\$ 32,086.02	\$ 0.00	\$ 32,086.02
LESS: COST OF GOODS SOLD	0.00	0.00	19,578.99	0.00	19,578.99
DISCOUNTS	0.00	0.00	(195.81)	0.00	(195.81)
GROSS PROFIT	0.00	0.00	12,702.84	0.00	12,702.84
FEES	50.00	0.00	307,765.88	40,890.17	348,656.05
RENTALS	25,663.00	619,492.22	0.00	0.00	619,492.22
OTHER	6,799.41	100.00	44.93	0.00	144.93
FACILITY ASSESSMENT FEE	45,837.00	0.00	0.00	0.00	0.00
NET REVENUES	78,349.41	619,592.22	320,513.65	40,890.17	980,996.04
<b>EXPENDITURES:</b>					
OPERATING EXPENDITURES:					
SALARIES	528,488.33	50,213.44	160,421.36	0.00	210,634.80
EMPLOYEE BENEFITS	193,608.81	11,487.74	53,523.05	0.00	65,010.79
SUPPLIES	57,417.51	937.09	29,405.24	873.18	31,215.51
TRAVEL	1,760.86	0.00	0.00	0.00	0.00
CONTRACT SERVICE	91,204.06	92,501.00	72,345.84	4,752.99	159,599.83
BUILDING MAINTENANCE & REPAIR	5,423.15	48,679.49	3,770.62	567.81	53,017.92
GROUND MAINTENANCE	25,708.99	21,263.85	19,360.23	0.00	40,624.06
UTILITIES	114,657.49	95,160.87	13,036.29	50,864.76	159,063.92
EQUIPMENT MAINTENANCE & REPAIR	1,571.84	4,565.99	31,374.15	3,684.94	39,625.08
BUILDING & EQUIPMENT RENTAL	42,686.73	0.00	24,315.74	2,541.76	26,857.50
TELEPHONE	14,347.37	0.00	656.36	1.84	658.20
INSURANCE AND BONDS	54,134.00	0.00	732.00	1,968.00	2,720.00
RECEPTIONS	0.00	0.00	0.00	0.00	0.00
ADVERTISING	15,802.20	2,669.83	2,421.91	250.00	5,341.74
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	15,923.22	1,248.57	18,844.22	859.14	20,951.93
EXPENSE OFFSET	0.00	0.00	0.00	0.00	0.00
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	0.00	0.00	0.00
OPERATING COST ALLOCATIONS	(1,055,274.15)	285,476.74	0.00	42,210.97	337,687.71
TOTAL OPERATING EXPENDITURES	77,460.41	614,204.61	430,209.01	108,596.39	1,153,009.01
EXCESS REVENUES OVER EXPENDITURES	889.00	5,387.61	(109,695.36)	(67,705.22)	(172,012.97)
<b>OTHER EXPENDITURES:</b>					
EQUIPMENT	889.00	3,596.40	0.00	0.00	3,596.40
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	889.00	3,596.40	0.00	0.00	3,596.40
TRANSFERS AMONG FUNDS -					
ADDITIONS/(DEDUCTIONS):					
MANDATORY:					
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:					
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	0.00
EXCESS REVENUES OVER					
EXPENDITURES (DEFICIT)	\$ 0.00	\$ 1,791.21	\$ (109,695.36)	\$ (67,705.22)	\$ (175,609.37)

**BROOKLEY CENTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES**  
**FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2010**  
**WITH COMPARATIVE FIGURES FOR 2009**

	CONTINUING EDUCATION	EDUCATIONAL LEASING	UNIVERSITY SERVICE	TOTAL EDUCATIONAL SERVICES	BROOKLEY CENTER TOTAL 08/31/10	BROOKLEY CENTER TOTAL 08/31/09
<b>REVENUES:</b>						
SALES-FOOD & MERCHANDISE	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 32,086.02	\$ 36,821.10
LESS: COST OF GOODS SOLD	0.00	0.00	0.00	0.00	19,578.99	20,769.86
DISCOUNTS	497.80	0.00	0.00	497.80	301.99	3,077.77
GROSS PROFIT	(497.80)	0.00	0.00	(497.80)	12,205.04	12,973.47
FEES	187,072.56	448,320.87	0.00	635,393.23	984,099.28	1,145,784.37
RENTALS	0.00	0.00	0.00	0.00	645,155.22	680,032.27
OTHER	112,607.77	53.02	0.00	112,660.79	119,605.13	65,312.89
FACILITY ASSESSMENT FEE	0.00	0.00	0.00	0.00	45,837.00	45,837.00
NET REVENUES	299,192.53	448,373.89	0.00	747,566.22	1,806,901.67	1,949,940.00
<b>EXPENDITURES:</b>						
OPERATING EXPENDITURES:						
SALARIES	33,995.36	0.00	0.00	33,995.36	773,118.49	861,373.52
EMPLOYEE BENEFITS	10,516.18	0.00	0.00	10,516.18	269,135.78	294,560.01
SUPPLIES	15,387.83	7,461.78	0.00	22,849.61	111,482.63	98,944.08
TRAVEL	0.00	0.00	0.00	0.00	1,760.86	2,033.02
CONTRACT SERVICE	7,219.79	4,208.45	0.00	11,428.24	232,232.13	221,064.90
BUILDING MAINTENANCE & REPAIR	5,752.65	12,688.98	0.00	18,441.63	76,882.70	76,680.09
GROUND MAINTENANCE	10.78	143.53	0.00	154.31	66,487.38	75,733.41
UTILITIES	136,047.74	102,022.39	0.00	240,070.13	513,791.54	574,704.04
EQUIPMENT MAINTENANCE & REPAIR	984.75	312.25	0.00	1,297.00	42,493.92	54,996.56
BUILDING & EQUIPMENT RENTAL	0.00	0.00	0.00	0.00	15,005.57	19,359.17
TELEPHONE	0.00	0.00	0.00	0.00	62,374.00	62,794.00
INSURANCE AND BONDS	5,520.00	0.00	0.00	5,520.00	0.00	1,351.50
RECEPTIONS	0.00	0.00	0.00	0.00	37,815.12	28,198.08
ADVERTISING	16,671.18	0.00	0.00	16,671.18	0.00	0.00
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	80,899.01	166,266.55
GENERAL EXPENSES	5,508.29	38,515.57	0.00	44,023.86	0.00	(31,212.50)
EXPENSE OFFSET	0.00	0.00	0.00	0.00	0.00	(201,543.87)
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	(303,801.63)	(303,801.63)	(303,801.63)	0.00
OPERATING COST ALLOCATIONS	221,607.59	179,396.61	316,582.24	717,586.44	2,049,221.73	2,332,460.25
TOTAL OPERATING EXPENDITURES	481,222.14	344,749.56	12,760.61	818,732.31	(242,320.09)	(382,540.25)
EXCESS REVENUES OVER EXPENDITURES	(162,039.61)	103,624.13	(12,760.61)	(71,196.09)	8,805.63	20,260.89
<b>OTHER EXPENDITURES:</b>						
EQUIPMENT	4,320.23	0.00	0.00	4,320.23	0.00	0.00
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	8,805.63	20,260.89
TOTAL OTHER EXPENDITURES	4,320.23	0.00	0.00	4,320.23	8,805.63	20,260.89
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	(65,296.00)
NON-MANDATORY:						
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	13,734.75
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	0.00	(51,561.25)
EXCESS REVENUES OVER						
EXPENDITURES (DEFICIT)	\$ (166,359.84)	\$ 103,624.13	\$ (12,760.61)	\$ (75,516.32)	\$ (251,125.69)	\$ (454,362.39)

FOOD SERVICE  
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES  
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2010  
WITH COMPARATIVE FIGURES FOR 2009

	08/31/10	08/31/09
REVENUES:		
COMMISSION INCOME	\$ 263,450.60	\$ 220,106.08
TOTAL REVENUES	<u>263,450.60</u>	<u>220,106.08</u>
EXPENDITURES:		
SALARIES	0.00	0.00
EMPLOYEE BENEFITS	0.00	0.00
SUPPLIES	1,083.13	1,086.46
EQUIPMENT MAINTENANCE AND REPAIR	34,206.91	28,073.93
UTILITIES	59,583.37	59,583.37
TELEPHONE	110.08	308.48
MEMBERSHIPS AND DUES	0.00	0.00
CONTRACT SERVICES	10,218.87	9,601.70
INSURANCE AND BONDS	11,149.00	12,269.00
EQUIPMENT	0.00	0.00
BUILDING MAINTENANCE AND REPAIR	4,754.00	4,778.00
INDIRECT COST	14,833.50	14,833.50
GENERAL EXPENSE	739.62	465.62
TOTAL EXPENDITURES	<u>136,678.48</u>	<u>131,000.06</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>\$ 126,772.12</u>	<u>\$ 89,106.02</u>



HOUSING  
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2010  
WITH COMPARATIVE FIGURES FOR 2009

	CENTRAL HOUSING	HOUSING PROGRAMMING	WASHERS AND DRYERS	OLD SHELL ROAD HOUSING	HILLSDALE MARRIED STUDENT	SMALL GROUP HOUSING
REVENUES:						
RENTAL INCOME	\$ 0.00	\$ 0.00	\$ 145,905.00	\$ 0.00	\$ 73,323.35	\$ 336,653.81
BAD DEBT RECOVERY	1,613.25	0.00	0.00	0.00	386.69	0.00
OTHER	620.00	0.00	0.00	0.00	4,504.85	49,614.27
TOTAL REVENUES	<u>2,233.25</u>	<u>0.00</u>	<u>145,905.00</u>	<u>0.00</u>	<u>78,214.89</u>	<u>386,268.08</u>
EXPENDITURES:						
SALARIES	360,877.65	78,035.25	0.00	0.00	121,895.22	78,385.79
EMPLOYEE BENEFITS	112,861.36	45.23	0.00	0.00	46,931.56	13,068.51
CONTRACT LABOR	0.00	0.00	0.00	0.00	0.00	8,191.63
CONTRACT SERVICES	2,245.50	0.00	59,603.00	0.00	9,452.63	24,925.64
TRAVEL	4,999.76	385.00	0.00	0.00	0.00	0.00
RECEPTIONS	282.85	20,946.54	0.00	0.00	0.00	0.00
SUPPLIES	25,373.76	968.33	0.00	0.00	5,401.53	18,169.29
CABLE	102,710.98	0.00	0.00	0.00	36.56	0.00
TELEPHONE	378.34	0.00	0.00	0.00	924.38	784.58
UTILITIES	0.00	0.00	0.00	0.00	8,550.82	512.83
INSURANCE AND BONDS	1,464.00	0.00	0.00	0.00	4,427.00	7,629.00
BUILDING MAINTENANCE AND REPAIR	5,855.15	0.00	0.00	0.00	0.00	6,319.19
EQUIPMENT	(527.26)	0.00	0.00	0.00	1,880.00	3,447.42
EQUIPMENT RENTAL	1,584.83	0.00	0.00	0.00	0.00	0.00
EQUIPMENT MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	3,040.31	396.03
GROUND MAINTENANCE	0.00	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	69,091.61	1,997.81	0.00	0.00	5,866.66	8,773.03
ADMINISTRATIVE OVERHEAD	306,038.00	0.00	0.00	0.00	0.00	54,466.00
ADMINISTRATIVE EXPENSES	(991,003.28)	(102,378.16)	40,455.11	0.00	4,373.55	101,684.47
TOTAL EXPENDITURES	<u>2,233.25</u>	<u>(0.00)</u>	<u>100,058.11</u>	<u>0.00</u>	<u>212,780.22</u>	<u>326,753.41</u>
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	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(607,032.00)</u>
NON-MANDATORY:						
RENEWALS AND REPLACEMENTS	0.00	0.00	0.00	0.00	0.00	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL NON-MANDATORY 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>
TOTAL TRANSFERS	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>(607,032.00)</u>
EXCESS REVENUES OVER EXPENDITURES	\$ 0.00	\$ 0.00	\$ 45,846.89	\$ 0.00	\$ (134,565.33)	\$ (547,517.33)
AND TRANSFERS (DEFICIT)						

HOUSING  
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES  
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2010  
WITH COMPARATIVE FIGURES FOR 2009

	GAMMA DORMS	BETA DORMS	DELTA DORMS	EPSILON DORMS	TOTAL HOUSING 08/31/10	TOTAL HOUSING 08/31/09
REVENUES:						
RENTAL INCOME	\$ 988,973.48	\$ 659,323.42	\$ 2,175,962.57	\$ 727,990.08	\$ 5,108,131.71	\$ 4,939,011.41
BAD DEBT RECOVERY	0.00	0.00	0.00	0.00	1,999.94	5,696.59
OTHER	8,843.89	10,645.55	44,513.60	39,042.83	157,784.99	166,882.77
TOTAL REVENUES	<u>997,817.37</u>	<u>669,968.97</u>	<u>2,220,476.17</u>	<u>767,032.91</u>	<u>5,267,916.64</u>	<u>5,111,590.77</u>
EXPENDITURES:						
SALARIES	184,434.55	78,355.44	218,798.04	117,509.68	1,238,291.62	1,230,496.95
EMPLOYEE BENEFITS	37,630.33	18,133.14	47,898.48	11,665.46	288,234.07	319,819.89
CONTRACT LABOR	10,776.26	5,600.00	52,068.68	24,681.82	101,318.39	28,514.69
CONTRACT SERVICES	20,332.22	22,519.89	71,391.59	30,127.01	240,597.48	212,492.47
TRAVEL	0.00	0.00	0.00	0.00	5,384.76	6,246.46
RECEPTIONS	0.00	0.00	0.00	0.00	21,229.39	20,482.63
SUPPLIES	6,950.24	16,444.78	117,502.35	45,418.74	236,229.02	139,153.48
CABLE	0.00	0.00	0.00	0.00	102,747.54	102,115.08
TELEPHONE	38,320.80	15,480.95	85,771.41	25,619.62	167,280.08	163,005.77
UTILITIES	0.00	0.00	0.00	0.00	9,063.65	17,076.98
INSURANCE AND BONDS	12,762.00	6,550.00	19,349.00	5,729.00	57,910.00	69,739.00
BUILDING MAINTENANCE AND REPAIR	2,688.11	693.82	2,181.28	4,055.00	21,792.55	6,061.73
EQUIPMENT	2,111.56	0.00	92,584.69	3,555.00	103,051.41	233,167.88
EQUIPMENT RENTAL	0.00	0.00	1,325.33	389.80	3,299.96	5,085.53
EQUIPMENT MAINTENANCE AND REPAIR	190.00	0.00	1,798.12	1,150.00	6,574.46	4,328.06
GROUPS MAINTENANCE	0.00	0.00	0.00	0.00	0.00	800.00
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	51,607.00	42,695.40	144,509.72	44,972.62	369,513.85	347,840.13
ADMINISTRATIVE OVERHEAD	309,541.04	146,132.00	445,351.04	148,619.04	1,410,147.12	1,346,400.16
ADMINISTRATIVE EXPENSES	209,929.25	119,178.56	463,593.72	154,166.78	0.00	0.00
TOTAL EXPENDITURES	<u>887,273.36</u>	<u>471,783.98</u>	<u>1,764,123.45</u>	<u>617,659.57</u>	<u>4,382,665.35</u>	<u>4,252,826.89</u>
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	(153,142.88)	(45,760.00)	(266,160.00)	(248,592.00)	(1,320,686.88)	(1,111,878.88)
TOTAL MANDATORY TRANSFERS	<u>(153,142.88)</u>	<u>(45,760.00)</u>	<u>(266,160.00)</u>	<u>(248,592.00)</u>	<u>(1,320,686.88)</u>	<u>(1,111,878.88)</u>
NON-MANDATORY:						
RENEWALS AND REPLACEMENTS	0.00	0.00	0.00	0.00	0.00	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	2,467.60
TOTAL NON-MANDATORY TRANSFERS	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>2,467.60</u>
TOTAL TRANSFERS	<u>(153,142.88)</u>	<u>(45,760.00)</u>	<u>(266,160.00)</u>	<u>(248,592.00)</u>	<u>(1,320,686.88)</u>	<u>(1,109,411.28)</u>
EXCESS REVENUES OVER EXPENDITURES	\$ (42,598.87)	\$ 152,424.99	\$ 190,192.72	\$ (99,218.66)	\$ (435,435.59)	\$ (250,647.40)
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, 2010

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

September 30, 2010 and 2009

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

Management's Discussion and Analysis (Unaudited)

September 30, 2010 and 2009

**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, 2010 and 2009 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, 2010, 2009, and 2008, the University had total assets of \$917,157,000, \$856,249,000, and \$862,666,000, respectively; total liabilities of \$497,886,000, \$455,937,000, and \$454,339,000, respectively; and net assets of \$419,271,000, \$400,312,000, and \$408,327,000, respectively. University net assets increased by \$18,959,000 during the year ended September 30, 2010 compared to a decrease of \$5,806,000 for the year ended September 30, 2009 and an increase of \$23,811,000 for the year ended September 30, 2008.

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.

During fiscal 2010, the University implemented Governmental Accounting Standards Board Statement Number 53 (Statement 53), *Accounting and Financial Reporting for Derivative Instruments*. Statement 53 requires restatement of all previously presented financial statements. As such, the University's 2009 basic financial statements have been restated to recognize the effect of the implementation of this statement and a cumulative effect of a change in accounting principle was recorded to reduce net assets as of October 1, 2008. Management's discussion and analysis has not been restated for 2008 financial information.

**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, 2010 and 2009. The net assets are displayed in three parts: invested in capital assets, net of related debt, restricted and unrestricted. Restricted net assets may either be expendable or nonexpendable and are those assets that are restricted by law or external donor. Unrestricted net assets are generally designated for specific purposes, and are available for use by the University to meet current expenses for any purpose. The statement of net assets, along with all of the University's basic financial statements, is prepared under the economic resources measurement

(Continued)

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

Management's Discussion and Analysis (Unaudited)

September 30, 2010 and 2009

focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

Assets included in the statement of net assets are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments, and net patient accounts receivable. Of these amounts, cash and cash equivalents, investments, and patient accounts receivable comprise approximately 63%, 7%, and 11%, respectively, of current assets at September 30, 2010. Noncurrent assets at September 30, 2010 consist primarily of capital assets, restricted cash and cash equivalents, and restricted investments.

The Condensed Schedule of Net Assets at September 30, 2010, 2009, and 2008 follows (in thousands):

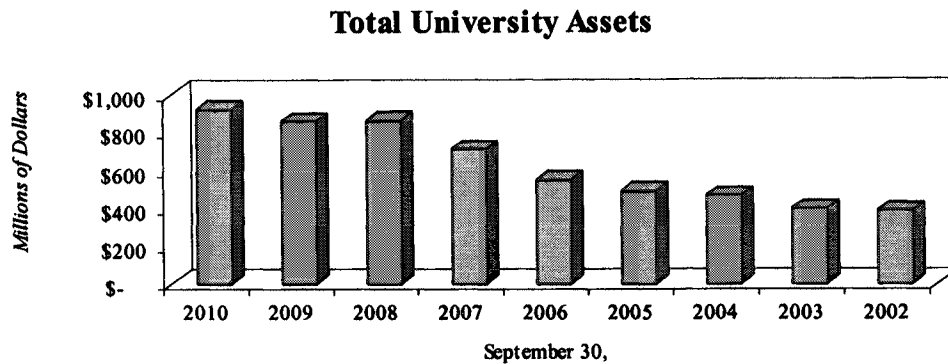
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current	\$ 275,417	268,814	287,430
Capital assets	444,718	413,513	353,829
Other noncurrent	197,022	173,922	221,407
Total assets	<u>\$ 917,157</u>	<u>856,249</u>	<u>862,666</u>
Liabilities:			
Current	\$ 97,154	91,555	90,773
Noncurrent	400,732	364,382	363,566
Total liabilities	<u>\$ 497,886</u>	<u>455,937</u>	<u>454,339</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 202,355	187,489	186,986
Restricted, nonexpendable	29,558	28,622	24,165
Restricted, expendable	42,053	28,685	23,071
Unrestricted	145,305	155,516	174,105
Total net assets	<u>\$ 419,271</u>	<u>400,312</u>	<u>408,327</u>

University cash, cash equivalents, and investments (current and noncurrent) increased between September 30, 2009 and 2010 by \$20,243,000 to \$370,465,000. This increase is due primarily to cash and investments associated with the issuance of the Series 2010 University bond and the growth in the professional liability trust fund. This follows a decrease of \$73,526,000 in cash, cash equivalents, and investments between 2008 and 2009, which was the result of the use of existing funds for construction and a \$31,286,000 decrease in state appropriations in 2009.

(Continued)

**UNIVERSITY OF SOUTH ALABAMA**  
(A Component Unit of the State of Alabama)  
Management's Discussion and Analysis (Unaudited)  
September 30, 2010 and 2009

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



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

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

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

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

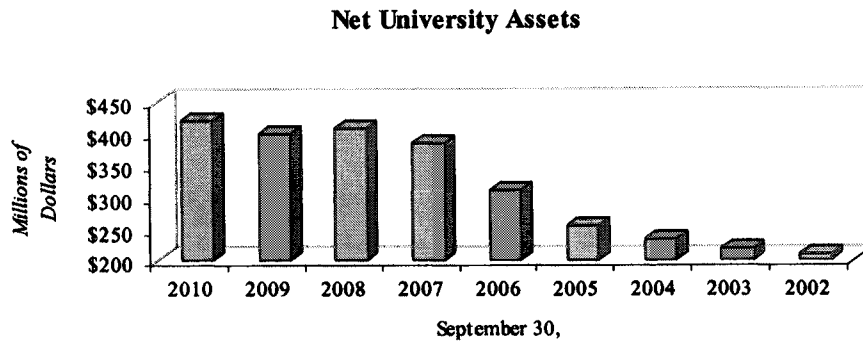
Unrestricted net assets represent those net assets not subject to externally imposed stipulations. Even though these funds are not legally restricted, the majority of the University's unrestricted net assets have been internally designated for various projects, all supporting the missions of the University.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

(Continued)



**UNIVERSITY OF SOUTH ALABAMA**  
(A Component Unit of the State of Alabama)  
Management's Discussion and Analysis (Unaudited)  
September 30, 2010 and 2009

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



All categories of restricted net assets increased by approximately 25% between September 30, 2009 and 2010, primarily due to improvement in financial market conditions and the addition of capital appropriations, gifts and grants to the University. Unrestricted net assets decreased from \$155,516,000 to \$145,305,000 between September 30, 2009 and 2010 reflecting the results of University financial operations during fiscal year 2010.

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

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

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

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

(Continued)

**UNIVERSITY OF SOUTH ALABAMA**  
(A Component Unit of the State of Alabama)  
Management's Discussion and Analysis (Unaudited)  
September 30, 2010 and 2009

The Condensed Schedule of Revenues, Expenses, and Changes in Net Assets for the years ended September 30, 2010, 2009, and 2008 follows (in thousands):

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues:			
Tuition and fees	\$ 69,212	61,076	54,823
Net patient service revenue	219,923	206,532	201,603
Federal, state and private grants and contracts	76,983	78,274	77,245
Other	55,722	49,753	47,660
	<u>421,840</u>	<u>395,635</u>	<u>381,331</u>
Operating expenses:			
Salaries and benefits	378,188	379,360	370,749
Supplies and other services	128,973	122,672	123,782
Other	49,197	46,540	39,565
	<u>556,358</u>	<u>548,572</u>	<u>534,096</u>
Operating loss	<u>(134,518)</u>	<u>(152,937)</u>	<u>(152,765)</u>
Nonoperating revenues (expenses):			
State appropriations	97,860	108,451	139,737
State appropriated – ARRA funds	10,769	—	—
Investment income (loss)	9,278	7,469	(4,257)
Other, net	10,369	10,266	12,332
Net nonoperating revenues	<u>128,276</u>	<u>126,186</u>	<u>147,812</u>
Loss before capital appropriations, capital contributions and additions to endowment	(6,242)	(26,751)	(4,953)
Capital appropriations, capital contributions and additions to endowment	<u>25,201</u>	<u>20,945</u>	<u>28,764</u>
Change in net assets	18,959	(5,806)	23,811
Beginning net assets, before cumulative effect of change in accounting principle	400,312	408,327	384,516
Cumulative effect of change in accounting principle	<u>—</u>	<u>(2,209)</u>	<u>—</u>
Beginning net assets - as adjusted	<u>400,312</u>	<u>406,118</u>	<u>384,516</u>
Ending net assets	<u>\$ 419,271</u>	<u>400,312</u>	<u>408,327</u>

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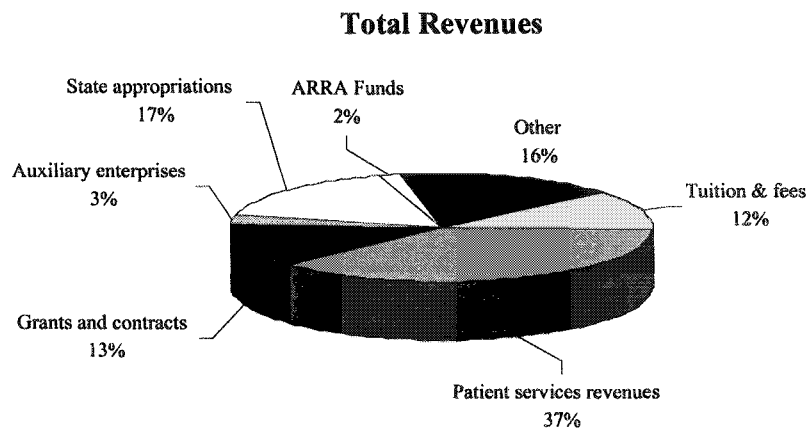
**UNIVERSITY OF SOUTH ALABAMA**  
(A Component Unit of the State of Alabama)

Management's Discussion and Analysis (Unaudited)

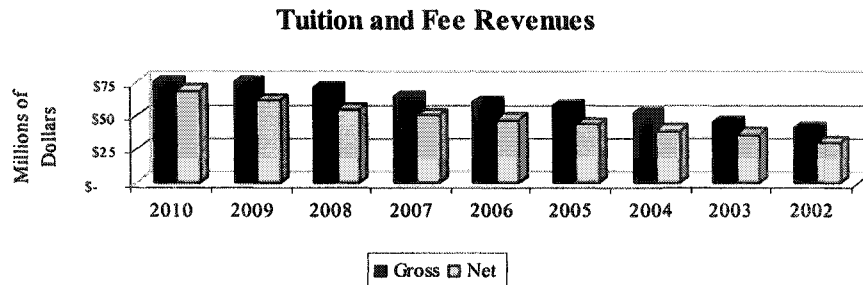
September 30, 2010 and 2009

In 2010, 2009, and 2008, approximately 37%, 37%, and 35%, 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 17% of total revenues in fiscal 2010. Also in 2010 tuition and fees charged to students and grants and contracts (federal, state and private) represented approximately 12% and 13% of total revenues, respectively.

A summary of University revenues for the year ended September 30, 2010 is presented below:



Tuition and fees have increased in each of the last eight years. These increases are due primarily to increases in tuition and fee rates charged to students as well as to an increase in the number of students enrolled. Additionally, tuition and fees as a percent of total operating revenues continue to increase, from 9.5% of operating revenues in 2002 to 16.4% in 2010. Tuition and fees, gross and net of scholarship allowances, for the past nine fiscal years are as follows:



(Continued)

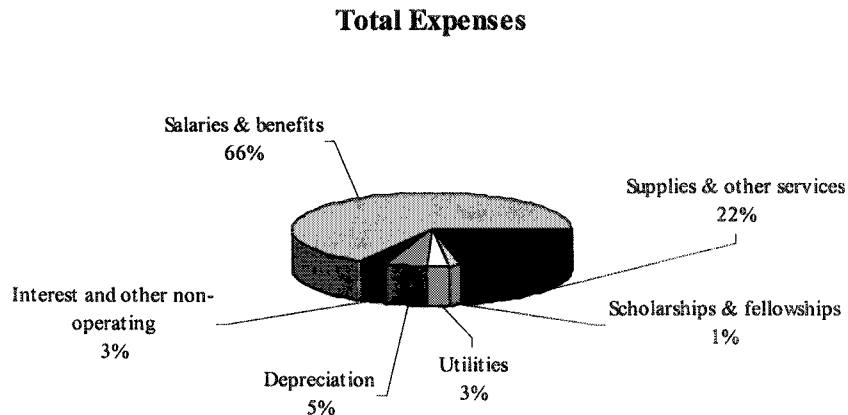
**UNIVERSITY OF SOUTH ALABAMA**  
(A Component Unit of the State of Alabama)

Management's Discussion and Analysis (Unaudited)

September 30, 2010 and 2009

Capital contributions and grants increased from \$5,325,000 in 2009 to \$14,099,000 in 2010 due to grant funds received for construction of the Shelby Building in 2010. The University recognized \$6,193,000 in capital appropriations in 2010, compared to \$10,171,000 in 2009. Those appropriations were utilized in the construction of the Student Recreation Center. Additionally, the University received revenue in the amount of \$10,769,000 in 2010 appropriated by the State of Alabama pursuant to the American Recovery and Reinvestment Act (ARRA) of 2009.

University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2010 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 15 to the basic financial statements.

(Continued)

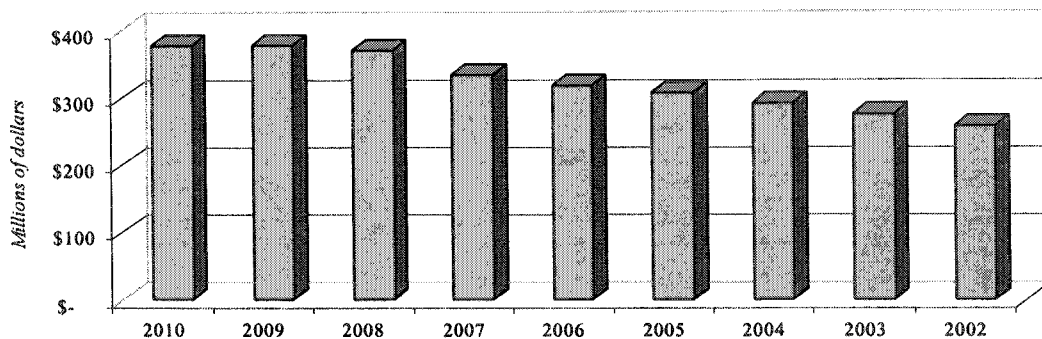
**UNIVERSITY OF SOUTH ALABAMA**  
(A Component Unit of the State of Alabama)

Management's Discussion and Analysis (Unaudited)

September 30, 2010 and 2009

In 2010, 2009, and 2008, approximately 68%, 69% and 69%, respectively, of the University's total operating expenses were salaries and benefits. Salaries and benefits have steadily increased over the last nine years, resulting primarily from increases in salary rates to faculty and staff, as shown as follows:

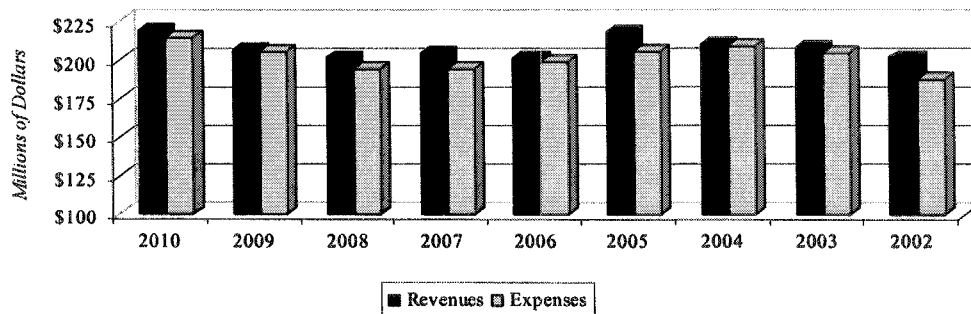
**Total Salaries and Benefits Expense**



For the years ended September 30, 2010, 2009, and 2008, the University reported an operating loss of approximately \$134,518,000, \$152,937,000, and \$152,765,000, respectively. Operating losses are offset partially by state appropriations, which are reported as nonoperating revenue. After adding state appropriations and other nonoperating revenues and expenses, (primarily capital appropriations, capital contributions, and additions to endowment) the total change in net assets was approximately \$18,959,000, \$(5,806,000), and \$23,811,000, for the years ended September 30, 2010, 2009, and 2008, respectively.

The Hospitals represent a significant portion of total University revenues and expenses and have remained relatively constant over the past four years. Operating hospital revenues and expenses for the last nine 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, 2010 and 2009

**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 \$59,050,000 in 2010. During 2010, the Football Field House and a major addition to the University's central utility plant system were placed into service. Additionally, the Student Recreation Center and Moulton Bell Tower were substantially completed. Significant construction projects that remain in progress at September 30, 2010 include the Shelby Building, the expansion of Children's and Women's Hospital, Campus Entrance Portals, Student Dining Hall, a major renovation of the University Bookstore and a new Student Housing Facility. Major projects completed and placed into service in fiscal 2008 and 2009 included the Mitchell Cancer Institute, the Nursing and Allied Health Building and various other projects. At September 30, 2010, the University has outstanding commitments of approximately \$53,690,000 for various capital projects.

In a prior year, the State of Alabama made allocations from state bond issues to the University in the amount of \$21,332,000. During 2010, \$6,193,000 was recognized by the University and is reported as a capital appropriation and \$4,968,000 remains unspent at September 30, 2010.

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 are being used to fund various construction and capital improvements at the University.

In June 2010, the University issued the University Facilities Revenue Capital Improvement Bond, Series 2010, with a face value of \$29,750,000. The net proceeds of this bond will be used to fund the construction of new student housing as well as other construction and capital improvement projects 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. The fair value component of the refunding associated with the swaps is considered an investment derivative and, as such, the change in fair value component is reflected as a component of investment income in 2010 and 2009.

During the year ended September 30, 2010, the University's bond credit rating was upgraded by Moody's Investors Services from A1 to Aa3. This represents the first upgrade of the University's bond credit rating since 2008. The University also has a rating of A+ from Standard and Poor's Rating Services, which did not change in the 2010.

(Continued)

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

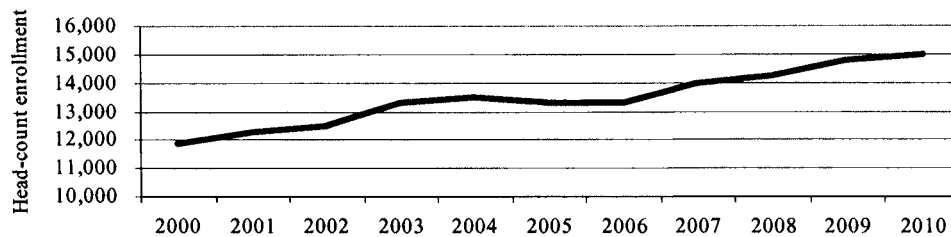
Management's Discussion and Analysis (Unaudited)

September 30, 2010 and 2009

**Economic Outlook**

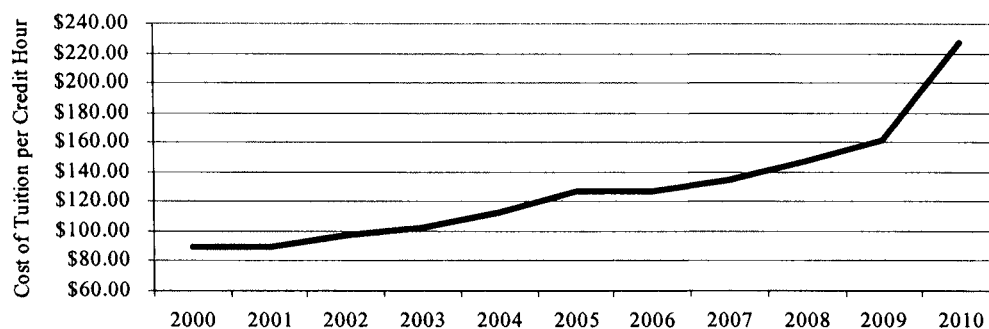
Student enrollment and tuition have both increased over the past ten years. The University has experienced an increase in enrollment of approximately 26%, or 3,137 students, between 2000 and 2010, from 11,870 in 2000 to 15,007 for the 2010 fall semester. The enrollment trend for the University between 2000 and 2010 is as follows:

**Enrollment Growth Summary**



In that same time period, in-state tuition per credit hour has increased by approximately 155%. The large increase in 2010 is the result of the University's bundling of tuition and required fees into a single per-hour charge. Similar increases have been experienced in out-of-state tuition, and College of Medicine tuition. The trend of in-state tuition per credit hour between 2000 and 2010 is as follows:

**Tuition per Credit Hour**



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

(Continued)

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

Management's Discussion and Analysis (Unaudited)

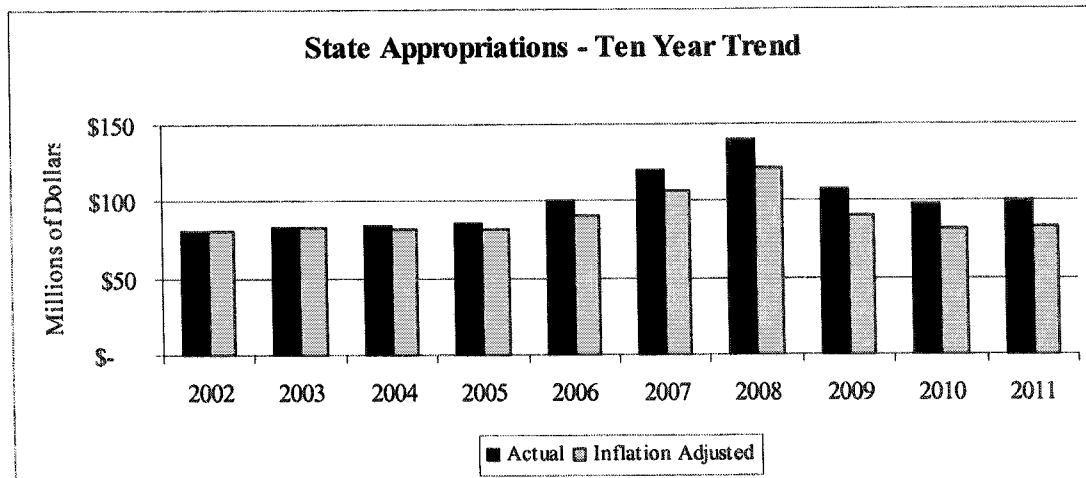
September 30, 2010 and 2009

additional proration of 2%, or approximately \$2,437,000. Therefore, the total decrease in the 2009 state appropriation was approximately \$31,286,000 to \$108,451,000, or 22.4% lower than in 2008.

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

A state appropriation in the amount of \$99,947,000 has been authorized for the year ending September 30, 2011. This represents a \$2,087,000 increase from the fiscal 2010 appropriation received. While no announcement has been made, the University is aware that reductions in its 2011 appropriation are possible.

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



In addition to state appropriations, the University is subject to declines in general economic conditions in the United States and, specifically, the State of Alabama. Declines in financial markets over the past few years have had a significant impact on the value of the University's endowment. While financial markets showed signs of recovery in 2010, further weakening of the economy could have a potential further negative impact on the University's enrollment, extramural funding, endowment performance, and health care operations.

In early 2009, ARRA was passed by Congress and signed into law by the President. As a result of this legislation, the University has been awarded approximately \$10,769,000 in 2010 and 2011 through the U.S. Department of Education's State Fiscal Stabilization Fund Program. Additional funding is available through the competitive grant process from various federal agencies. As of September 30, 2010, the University had been awarded ARRA grants totaling approximately \$49,254,000. Additional proposals remain outstanding at September 30, 2010.

(Continued)



**UNIVERSITY OF SOUTH ALABAMA**  
(A Component Unit of the State of Alabama)  
Management's Discussion and Analysis (Unaudited)  
September 30, 2010 and 2009

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 2011 beyond those unknown variables having a global effect on virtually all types of business operations.



KPMG LLP  
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## Independent Auditors' Report

The Board of Trustees  
University of South Alabama:

We have audited the accompanying basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of and for the years ended September 30, 2010 and 2009, 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 2010 and 2009 consolidated financial statements of the University of South Alabama Foundation, which represents 80%, 101% and 23%, respectively, of the 2010 assets, net assets, and revenues, gains and other support of the discretely presented component units and 80%, 101% and (50)%, respectively, of the 2009 assets, net assets, and revenues, gains and other support of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based on the report of the other auditors.

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

As discussed in note 1, the financial statements of the University are intended to present the financial position, changes in financial position and, where applicable, cash flows of only that portion of the basic financial statements and the aggregate discretely presented component units of the State of Alabama that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of Alabama as of September 30, 2010 and 2009, 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, 2010 and 2009, 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.

As discussed in note 1(j) to the basic financial statements, the University changed its method of accounting for derivative instruments in 2010 and 2009 due to the adoption of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2010, 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 12 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, 2010 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 2010 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2010 basic financial statements taken as a whole.

KPMG LLP

November 15, 2010

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

Statements of Net Assets

September 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 174,303	79,297
Investments	18,035	117,816
Net patient accounts receivable, (net of allowance for doubtful accounts of \$51,108 and \$48,690)	30,854	30,929
Accounts receivable, affiliates	21,659	18,284
Accounts receivable, other	21,796	15,162
Notes receivable, net	731	306
Prepaid expenses, inventories, and other	8,039	7,020
Total current assets	<u>275,417</u>	<u>268,814</u>
Noncurrent assets:		
Restricted cash and cash equivalents	26,860	56,615
Restricted investments	150,396	95,506
Investments	871	988
Accounts receivable	6,870	7,447
Notes receivable, net	3,970	5,058
Other noncurrent assets	8,055	8,308
Capital assets, net	444,718	413,513
Total noncurrent assets	<u>641,740</u>	<u>587,435</u>
Total assets	<u>917,157</u>	<u>856,249</u>
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable and accrued liabilities	54,338	55,598
Deferred revenue	34,436	29,172
Deposits	1,738	904
Current portion of long-term debt	6,642	5,881
Total current liabilities	<u>97,154</u>	<u>91,555</u>
Noncurrent liabilities:		
Long-term debt, less current portion	330,993	305,571
Other long-term liabilities	69,739	58,811
Total noncurrent liabilities	<u>400,732</u>	<u>364,382</u>
Total liabilities	<u>497,886</u>	<u>455,937</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	202,355	187,489
Restricted, nonexpendable:		
Scholarships	13,296	11,702
Other	16,262	16,920
Restricted, expendable:		
Scholarships	7,071	4,865
Other	34,982	23,820
Unrestricted	145,305	155,516
Total net assets	<u>\$ 419,271</u>	<u>400,312</u>

See accompanying notes to basic financial statements.

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

Consolidated Statements of Financial Position

June 30, 2010 and 2009

(In thousands)

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	\$ 868	2,298
Investments:		
Equity securities	92,053	83,884
Timber and mineral properties	156,465	150,211
Real estate	8,727	8,573
Other	5,535	5,519
Other assets	806	527
Total assets	<u>\$ 264,454</u>	<u>251,012</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 204	169
Other liabilities	616	672
Total liabilities	<u>820</u>	<u>841</u>
Net assets:		
Unrestricted	55,627	55,053
Temporarily restricted	39,120	26,295
Permanently restricted	168,887	168,823
Total net assets	<u>263,634</u>	<u>250,171</u>
Total liabilities and net assets	<u>\$ 264,454</u>	<u>251,012</u>

See accompanying notes to basic financial statements.

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

Statements of Financial Position

September 30, 2010 and 2009

(In thousands)

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Current assets:		
Cash and cash equivalents	\$ 778	1,397
Patient accounts receivable (net of allowance for uncollectible accounts of approximately \$4,709 and \$4,827)	11,299	10,395
Other current assets	3,915	1,039
Total current assets	15,992	12,831
Interest in assets of University of South Alabama Professional Liability Trust Fund	20,893	20,685
Property and equipment, net	2,367	2,475
Total assets	\$ 39,252	35,991
<b>Liabilities and Deficit</b>		
Current liabilities:		
Accounts payable	\$ 2,005	2,179
Due to affiliates	21,249	18,149
Total current liabilities	23,254	20,328
Estimated professional liability costs	20,893	20,685
Total liabilities	44,147	41,013
Deficit	(4,895)	(5,022)
Total liabilities and deficit	\$ 39,252	35,991

See accompanying notes to basic financial statements.

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

Statements of Net Assets

September 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 1,602	863
Investments	—	499
Rent receivable	150	195
Prepaid expenses and other current assets	13	4
Total current assets	<u>1,765</u>	<u>1,561</u>
Noncurrent assets:		
Intangible assets, net	238	261
Capital assets, net	26,060	26,492
Total noncurrent assets	<u>26,298</u>	<u>26,753</u>
Deferred outflows	<u>4,171</u>	<u>2,916</u>
Total assets and deferred outflows	<u>32,234</u>	<u>31,230</u>
<b>Liabilities:</b>		
Current liabilities:		
Deposits, other current liabilities, and accrued expenses	176	554
Payable to University of South Alabama	23	11
Deferred rent income	64	115
Current portion of notes payable	995	909
Total current liabilities	<u>1,258</u>	<u>1,589</u>
Noncurrent liabilities:		
Notes payable, excluding current portion	25,346	25,278
Interest rate swap	4,171	2,916
Total noncurrent liabilities	<u>29,517</u>	<u>28,194</u>
Total liabilities	<u>30,775</u>	<u>29,783</u>
<b>Net assets (deficit):</b>		
Invested in capital assets, net of related debt	(114)	247
Unrestricted	1,573	1,200
Total net assets	<u>\$ 1,459</u>	<u>1,447</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, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Tuition and fees (net of scholarship allowances of \$25,343 and \$20,516)	\$ 69,212	61,076
Net patient service revenue	219,923	206,532
Federal grants and contracts	21,563	23,017
State grants and contracts	7,452	7,146
Private grants and contracts	47,968	48,111
Auxiliary enterprises (net of scholarship allowances of \$784 and \$635)	16,129	16,806
Other operating revenues	39,593	32,947
Total operating revenues	<u>421,840</u>	<u>395,635</u>
Operating expenses:		
Salaries and benefits	378,188	379,360
Supplies and other services	128,973	122,672
Scholarships and fellowships	6,467	5,615
Utilities	15,071	15,742
Depreciation and amortization	27,659	25,183
Total operating expenses	<u>556,358</u>	<u>548,572</u>
Operating loss	<u>(134,518)</u>	<u>(152,937)</u>
Nonoperating revenues (expenses):		
State appropriations	97,860	108,451
State appropriated – ARRA funds	10,769	—
Investment income	9,278	7,469
Interest expense	(13,748)	(12,173)
Other nonoperating revenues	27,558	24,070
Other nonoperating expenses	(3,441)	(1,631)
Net nonoperating revenues	<u>128,276</u>	<u>126,186</u>
Loss before capital appropriations, capital contributions and grants, and additions to endowment	(6,242)	(26,751)
Capital appropriations	6,193	10,171
Capital contributions and grants	14,099	5,325
Additions to endowment	4,909	5,449
Change in net assets	<u>18,959</u>	<u>(5,806)</u>
Net assets:		
Beginning of year, before cumulative effect of change in accounting principle	400,312	408,327
Cumulative effect of change in accounting principle	—	(2,209)
Beginning of year – as adjusted	<u>400,312</u>	<u>406,118</u>
End of year	<u>\$ 419,271</u>	<u>400,312</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, 2010

(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	\$ 6,110	12,385	7	18,502
Rents, royalties and timber sales	4,368	—	28	4,396
Interest and dividends	389	1,322	6	1,717
Gifts	—	1	13	14
Other income	23	—	—	23
Required match of donor contributions	(11)	1	10	—
Interfund interest	(187)	187	—	—
Net assets released from program restrictions	1,071	(1,071)	—	—
Total revenues, gains, and other support	11,763	12,825	64	24,652
Expenditures:				
Program services:				
Faculty support	2,149	—	—	2,149
Scholarships	1,009	—	—	1,009
Other	1,237	—	—	1,237
Total program service expenditures	4,395	—	—	4,395
Management and general	1,606	—	—	1,606
Other investment expense	1,440	—	—	1,440
Depletion expense	3,695	—	—	3,695
Depreciation expense	53	—	—	53
Total expenditures	11,189	—	—	11,189
Increase in net assets	574	12,825	64	13,463
Net assets – beginning of year	55,053	26,295	168,823	250,171
Net assets – end of year	\$ 55,627	39,120	168,887	263,634

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, 2009

(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				
losses on investments	\$ (24,589)	(10,367)	(114)	(35,070)
Rents, royalties and timber sales	5,852	—	71	5,923
Interest and dividends	816	1,225	10	2,051
Gifts	5	6	2	13
Required match of donor contributions	(13)	13	—	—
Interfund interest	(118)	118	—	—
Transfers	125	(43)	(82)	—
Reclassification of net assets				
based on change in law	(1,931)	1,931	—	—
Net assets released from program				
restrictions	1,327	(1,327)	—	—
	<u>(18,526)</u>	<u>(8,444)</u>	<u>(113)</u>	<u>(27,083)</u>
Total revenues, gains, and other support				
Expenditures:				
Program services:				
Faculty support	2,299	—	—	2,299
Scholarships	1,065	—	—	1,065
Other	1,506	—	—	1,506
	<u>4,870</u>	<u>—</u>	<u>—</u>	<u>4,870</u>
Total program service expenditures				
Management and general	1,536	—	—	1,536
Other investment expense	1,675	—	—	1,675
Depletion expense	5,564	—	—	5,564
Depreciation expense	49	—	—	49
	<u>13,694</u>	<u>—</u>	<u>—</u>	<u>13,694</u>
Total expenditures				
Decrease in net assets	(32,220)	(8,444)	(113)	(40,777)
Net assets – beginning of year	87,273	34,739	168,936	290,948
Net assets – end of year	<u>\$ 55,053</u>	<u>26,295</u>	<u>168,823</u>	<u>250,171</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 Deficit

Years ended September 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 68,977	68,257
Other revenue	7,953	8,046
Total unrestricted revenues, gains, and other support	<u>76,930</u>	<u>76,303</u>
Expenses:		
Salaries and benefits	48,703	47,936
General and administrative	12,744	12,746
Provision for uncollectible accounts	13,933	13,582
Depreciation and amortization	987	976
Interest	—	7
Total expenses	<u>76,367</u>	<u>75,247</u>
Operating income	563	1,056
Nonoperating gains	<u>1,740</u>	<u>301</u>
Revenues over expenses	2,303	1,357
Contributions restricted for debt service, received and expended within the same year	—	577
Transfer of capital to University of South Alabama, College of Medicine	<u>(2,176)</u>	<u>(4,805)</u>
Change in deficit	127	(2,871)
Unrestricted net deficit at beginning of year	<u>(5,022)</u>	<u>(2,151)</u>
Unrestricted net deficit at end of year	<u>\$ (4,895)</u>	<u>(5,022)</u>

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended September 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Rental income	\$ 3,766	3,514
Operating expenses:		
Building management and operating expenses	948	804
Depreciation and amortization	933	810
Legal and administrative fees	177	34
Insurance	78	48
Total operating expenses	<u>2,136</u>	<u>1,696</u>
Operating income	<u>1,630</u>	<u>1,818</u>
Nonoperating revenues (expenses):		
Investment income	8	31
Interest expense	(1,633)	(1,635)
Donation revenue	19	159
Other	(12)	5
Net nonoperating expenses	<u>(1,618)</u>	<u>(1,440)</u>
Transfer of building to University of South Alabama	<u>—</u>	<u>(423)</u>
Change in net assets	12	(45)
Net assets:		
Beginning of year	<u>1,447</u>	<u>1,492</u>
End of year	\$ <u><u>1,459</u></u>	<u><u>1,447</u></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, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Receipts related to tuition and fees	\$ 72,582	63,151
Receipts from and on behalf of patients and third-party payers	219,173	201,850
Receipts from grants and contracts	75,611	74,695
Receipts related to auxiliary enterprises	15,981	16,832
Payments to suppliers and vendors	(137,813)	(142,998)
Payments to employees and related benefits	(380,266)	(378,752)
Payments for scholarships and fellowships	(6,468)	(5,615)
Other operating receipts	38,967	34,084
Net cash used in operating activities	<u>(102,233)</u>	<u>(136,753)</u>
Cash flows from noncapital financing activities:		
State appropriations	97,860	108,451
State appropriated – ARRA funds	9,990	—
Endowment gifts	4,797	5,099
Agency funds received	1,162	515
Agency funds disbursed	(690)	(687)
Student loan program receipts	86,373	84,109
Student loan program disbursements	(85,847)	(83,794)
Other nonoperating revenues	27,632	23,852
Other nonoperating expenses	(3,445)	(2,133)
Net cash provided by noncapital financing activities	<u>137,832</u>	<u>135,412</u>
Cash flows from capital and related financing activities:		
Capital contributions and grants	11,755	5,062
Purchases of capital assets	(49,882)	(72,108)
Proceeds from sale of capital assets	488	105
Proceeds from issuance of capital debt	29,750	—
Principal payments on capital debt	(5,715)	(4,877)
Interest payments on capital debt	(12,843)	(12,131)
Net cash used in capital and related financing activities	<u>(26,447)</u>	<u>(83,949)</u>
Cash flows from investing activities:		
Interest and dividends on investments	6,451	6,455
Purchases of investments	(58,904)	(86,749)
Proceeds from sales of investments	108,552	170,689
Net cash provided by investing activities	<u>56,099</u>	<u>90,395</u>
Net increase in cash and cash equivalents	65,251	5,105
Cash and cash equivalents (unrestricted and restricted):		
Beginning of year	<u>135,912</u>	<u>130,807</u>
End of year	<u>\$ 201,163</u>	<u>135,912</u>

(Continued)

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

Statements of Cash Flows

Years ended September 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (134,518)	(152,937)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	27,659	25,183
Changes in assets and liabilities, net:		
Student receivables	(1,768)	(1,186)
Net patient accounts receivables	212	(4,911)
Grants and contracts receivables	(4,013)	(3,542)
Other receivables	(2,018)	1,512
Prepaid expenses, inventories, and other	1,241	(2,351)
Accounts payable and accrued liabilities	5,911	(1,703)
Deferred revenue	5,061	3,182
Net cash used in operating activities	<u>\$ (102,233)</u>	<u>(136,753)</u>
Noncash investing, noncapital financing, and capital and related financing transactions:		
Net increase in fair value of investments recognized as a component of investment income	\$ 4,873	4,268
Additional maturity on capital appreciation on bonds payable and other borrowings recorded as interest expense	2,100	1,998
Payments on behalf of the University by the Alabama Public School and College Authority reducing purchases of capital assets	6,431	9,786
Gifts of capital and other assets	122	613
Pledges of operating and capital gifts	453	559
Capitalization of construction period interest	1,820	2,483
Increase in accounts payable related to capital assets	102	179

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, 2010 and 2009

**(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, 2010 and 2009, the University reports the University of South Alabama Foundation (USA Foundation), the University of South Alabama Health Services Foundation (USAHSF), and the USA Research and Technology Corporation (the Corporation) as discretely presented component units.

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

As further discussed in note 17, the operations of the USA HealthCare Management, LLC began on October 1, 2010. While there is no impact on fiscal year 2010 operations, it is anticipated that the USA HealthCare Management, LLC will be reported as a blended component unit in 2011.

**(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

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

Notes to Basic Financial Statements

September 30, 2010 and 2009

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 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, 2010 and 2009 were \$4,340,000 and \$4,772,000, 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, 2010 and 2009 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 \$43,137,000 and \$43,535,000 for the years ended September 30, 2010 and 2009, 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, 2010 and 2009 are discretely presented following the statements of net assets and statements of revenues, expenses, and changes in net assets of the University.

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**UNIVERSITY OF SOUTH ALABAMA**  
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Notes to Basic Financial Statements

September 30, 2010 and 2009

**(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 opportunities to the University's students and faculty. Because of the significance of the relationship between the University and the Corporation, the Corporation is considered a component unit of the University. The Corporation presents its financial statements in accordance with GASB. The statements of net assets and statements of revenues, expenses and changes in net assets for the Corporation are discretely presented following the statements of net assets and statements of revenues, expenses and changes in net assets of the University.

**(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, certificates of deposit, and any short-term investments that take on the character of cash. These investments have maturities of less than three months and include repurchase agreements and money market accounts.

**(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 partnerships or companies. Because these investments are not

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

Notes to Basic Financial Statements

September 30, 2010 and 2009

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).

**(j) Derivatives**

The University adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during the year ended September 30, 2010. Retroactive application of the standard was required for all prior periods presented.

GASB 53 establishes a framework for accounting and financial reporting related to derivative instruments, requiring the fair value of derivatives to be recognized in the basic financial statements.

The University has two interest rate swaptions which were entered into in January 2008. As a result of entering into the swaptions, the University received up-front payments. Swaptions are considered hybrid instruments which are required to be bifurcated into the fair value of the derivative and a piece that reflects a borrowing for financial statement purposes, which will accrete interest over time. The University determined that as of September 30, 2009 and 2010, the swaptions were not hedging derivative instruments. Therefore, the swaptions are required to be recorded as investment derivatives, with the change in fair value flowing through the statements of revenues, expenses, and change in net assets.

The adoption of the provisions of GASB 53 reduced beginning net assets at October 1, 2008 by \$2,209,000. The University's September 30, 2009 Statement of Net Assets has been restated to reflect a decrease in deferred revenue of \$296,000, a decrease in long-term debt of \$1,900,000, an increase in other long-term liabilities of \$8,563,000 and a decrease in unrestricted net assets of \$6,367,000 at September 30, 2009. The fair values of the derivatives were \$(13,327,000), \$(9,983,000), and \$(6,015,000) at September 30, 2010, 2009, and 2008, respectively. At September 30, 2010 and 2009, the fair values of the derivatives were included in other long-term liabilities in the accompanying statements of net assets. The change in fair value for the years ended September 30, 2010 and 2009 was \$(3,344,000) and \$(3,968,000) and resulted in a reduction of investment income in the accompanying statements of revenues, expenses, and changes in net assets for the period ended September 30, 2010 and 2009. See note 5 for further discussion.

**(k) 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.

**(l) 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

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

Notes to Basic Financial Statements

September 30, 2010 and 2009

market. Medical supplies and pharmaceuticals are stated at the lower of cost (first-in, first-out method) or market.

**(m) Capital Assets**

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

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

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

Certain buildings are componentized for depreciation purposes.

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

The University evaluates impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. For the years ended September 30, 2010 and 2009, no impairments were recorded.

**(n) Deferred Revenue**

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

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

**(o) Classification of Net Assets**

The University's net assets are classified as follows:

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

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**UNIVERSITY OF SOUTH ALABAMA**  
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*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.

**(p) *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.

**(q) *Donor Restricted Endowments***

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

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

Notes to Basic Financial Statements

September 30, 2010 and 2009

**(r) 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.

**(s) 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.

**(t) 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.

**(u) 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.

**(v) State Appropriated – ARRA Funds**

Pursuant to the American Recovery and Reinvestment Act (ARRA) of 2009, the University has been awarded approximately \$10,769,000 annually in 2010 and 2011 through the U. S. Department of Education's State Fiscal Stabilization Fund Program. These funds are billed and recorded as revenue

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**UNIVERSITY OF SOUTH ALABAMA**  
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Notes to Basic Financial Statements

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as they are expended and reported in the statement of revenues, expenses and changes in net assets as State Appropriated – ARRA funds.

**(w) *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.

**(x) *Compensated Absences***

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

**(y) *Reclassifications***

Certain amounts in the 2009 basic financial statements have been reclassified in order to conform to the 2010 classification.

**(2) *Income Taxes***

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

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

**(3) *Cash***

Pursuant to the Security for Alabama Funds Enhancement Act, funds on deposit may be placed in an institution designated as a qualified public depository (QPD) by the State of Alabama. QPD institutions pledge securities to a statewide collateral pool administered by the State Treasurer's office. Such financial institutions contribute to this collateral pool in amounts proportionate to the total amount of public fund deposits at their respective institutions. The securities are held at the Federal Reserve Bank and are designated for the State of Alabama. Additional collateral was not required for University funds on deposit with QPD institutions. At June 30, 2010, the latest date at which such information is available, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately \$8,053,000,000. The University had cash and cash equivalents totaling \$201,163,000 and \$135,912,000 at September 30, 2010 and 2009, 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

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**UNIVERSITY OF SOUTH ALABAMA**  
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Notes to Basic Financial Statements

September 30, 2010 and 2009

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

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

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

Investments of the University, by type, at fair value, are as follows at September 30, 2010 and 2009 (in thousands).

	<u>2010</u>	<u>2009</u>
U.S. Treasury notes	\$ 11,617	9,177
U.S. federal agency notes	60,677	119,836
Pooled equity mutual funds	57,584	53,461
Pooled debt mutual funds	19,230	16,748
Managed income alternative investments (limited partnerships, private equity securities, and other)	13,777	9,979
State agency obligations	777	468
Other	5,640	4,641
	<u>\$ 169,302</u>	<u>214,310</u>

At September 30, 2010 and 2009, \$6,591,000 and \$3,501,000, 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.

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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, 2010 is as follows:

	<u>Credit rating</u>	<u>Percentage of total investments</u>
Federal Home Loan Mortgage Corporation	AAA	4.5%
Federal Home Loan Bank Corporation	AAA	7.8
Federal National Mortgage Association	AAA	3.6
Common Fund Bond Fund	AA	5.2
Federal Farm Credit Banks Funding Corporation	AAA	0.5
Various State Housing Authorities	AAA	0.2

The University's exposure to credit risk and concentration of credit risk at September 30, 2009 is as follows:

	<u>Credit rating</u>	<u>Percentage of total investments</u>
Federal Home Loan Mortgage Corporation	AAA	10.9%
Federal Home Loan Bank Corporation	AAA	9.4
Federal National Mortgage Association	AAA	13.5
Common Fund Bond Fund	AA	4.8
Federal Farm Credit Banks Funding Corporation	AAA	0.4
Various State Housing Authorities	AAA	0.1

**Interest Rate Risk**

At September 30, 2010, 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	\$ 11,617	2,715	8,902	—	—
U.S. federal agency notes	60,677	37,970	22,702	—	5
State agency obligations	777	—	—	—	777
Pooled debt mutual funds	19,230	—	19,230	—	—
	<u>\$ 92,301</u>	<u>40,685</u>	<u>50,834</u>	<u>—</u>	<u>782</u>

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At September 30, 2009, the maturity dates of the University's debt investments were as follows (in thousands):

	Fair value	Years to maturity			
		Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes	\$ 9,177	1,786	7,391	—	—
U.S. federal agency notes	119,836	95,847	23,468	—	521
State agency obligations	468	—	—	—	468
Pooled debt mutual funds	16,748	—	16,748	—	—
	<u>\$ 146,229</u>	<u>97,633</u>	<u>47,607</u>	<u>—</u>	<u>989</u>

Because the debt mutual funds had a weighted average maturity of 3.5 and 3.9 years, the investments were presented in the 1-5 year category at September 30, 2010 and 2009.

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, 2010 or 2009.

At September 30, 2010, restricted investments consist of \$64,581,000 related to unspent bond proceeds, \$27,118,000 related to swaption collateral obligations and \$58,697,000 related to investments included in the PLTF and GLTF to pay insurance liability claims. At September 30, 2009, restricted investments consist of \$24,967,000 related to unspent bond proceeds, \$18,934,000 related to swaption collateral obligations and \$51,605,000 related to investments included in the PLTF and GLTF to pay insurance liability claims.

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

Investments in securities consist primarily of equity securities totaling \$92,053,000 and \$83,884,000, at June 30, 2010 and 2009, respectively.

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Investment gain (loss) was comprised of the following for the years ended June 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Unrealized gains (losses)	\$ 18,407	(32,468)
Realized gains (losses)	95	(2,602)
Timber sales	3,646	5,135
Interest and dividends	1,717	2,051
Rents	594	589
Royalties	156	199
	<u>\$ 24,615</u>	<u>(27,096)</u>

Investment related expenses in the amount of \$224,000 and \$214,000, respectively, are included in the USA Foundation's management and general expenses in the accompanying 2010 and 2009 consolidated statements of activities and changes in net assets.

Real estate at June 30, 2010 and 2009 consisted of the following property held (in thousands):

	<u>2010</u>	<u>2009</u>
Land and land improvements – held for investment	\$ 7,576	7,443
Building and building improvements – held for investment, net of depreciation	1,151	1,130
	<u>\$ 8,727</u>	<u>8,573</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.

Investments at June 30, 2010 and 2009, include an equity interest in a timberland management company. The company's primary assets consist of timberland. The Foundation's proportionate share of the fair value of the company is based upon the valuation of the trustee responsible for the management of the company and the timber valuation.

The Foundation adopted ASC 820, *Fair Value Measurements and Disclosures*, (formally FASB Statement No. 157, *Fair Value Measurements*) for the fiscal year beginning July 1, 2008. ASC 820 provides a single definition of fair value and a hierarchical framework for measuring it, as well as establishing additional disclosure requirements about the use of fair value to measure assets and liabilities. Fair value measurements are classified as either observable or unobservable in nature. Observable fair values are derived from quoted market prices for investments traded on an active exchange or in dealer markets where there is sufficient activity and liquidity to allow price discovery by substantially all market participants. The Foundation's observable values consist of investments

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

The Foundation's investment assets at June 30, 2010 and 2009, respectively, are summarized based on the criteria of ASC 820 as follows (in thousands):

<b>Fair value measurements at June 30, 2010</b>				
<b>Description</b>	<b>Observable values based on quoted prices</b>	<b>Other observable values</b>	<b>Unobservable values</b>	<b>Total</b>
Equity securities	\$ 39,094	52,959	—	92,053
Timber and mineral properties	—	—	156,465	156,465
Real estate	—	—	8,727	8,727
Other investments	—	—	5,535	5,535
	<u>\$ 39,094</u>	<u>52,959</u>	<u>170,727</u>	<u>262,780</u>

<b>Fair value measurements at June 30, 2009</b>				
<b>Description</b>	<b>Observable values based on quoted prices</b>	<b>Other observable values</b>	<b>Unobservable values</b>	<b>Total</b>
Equity securities	\$ 35,358	48,526	—	83,884
Timber and mineral properties	—	—	150,211	150,211
Real estate	—	—	8,573	8,573
Other investments	—	—	5,519	5,519
	<u>\$ 35,358</u>	<u>48,526</u>	<u>164,303</u>	<u>248,187</u>

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For the year ended June 30, 2010, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description	Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	\$ 150,211	8,573	5,519	164,303
Total gains (realized/unrealized)	9,250	136	16	9,402
Additions	518	46	—	564
Reforestation	181	—	—	181
Depreciation/depletion	(3,695)	(28)	—	(3,723)
Ending balance	<u>\$ 156,465</u>	<u>8,727</u>	<u>5,535</u>	<u>170,727</u>

For the year ended June 30, 2009, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description	Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	\$ 154,462	9,792	5,500	169,754
Total gains or losses (realized/ unrealized)	809	(1,198)	19	(370)
Additions	190	6	—	196
Reforestation	314	—	—	314
Depreciation/depletion	(5,564)	(27)	—	(5,591)
Ending balance	<u>\$ 150,211</u>	<u>8,573</u>	<u>5,519</u>	<u>164,303</u>

As of June 30, 2010, the Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of the Foundation's equity securities at June 30, 2010 and 2009 are considered readily liquid. Timber and mineral properties, real estate, and other investments are generally considered illiquid.

**(5) Derivative Transactions**

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

***Objective of the Derivative Transaction***

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

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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 options are exercised, the University would begin to make payments on the notional amount, currently \$41,125,000 and \$100,000,000 for the 2004 bonds and 2006 bonds, respectively, of the underlying swap contract. Simultaneously, the University would call outstanding 2004 and 2006 bonds and issue variable rate demand notes (VRDNs) in their place. Under the swap contracts, the University would pay a fixed rate of 4.9753% on the 2004 bonds and 5.0% on the 2006 bonds to the counterparty and would receive payments based on 68% of the one-month LIBOR index. Alternatively, although it is not anticipated that this option would be to the University advantage, the University could, at its option, cash settle the swap and retain its right to refund the 2004 and 2006 bonds.

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

***Financial Statement Presentation***

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

	<u>2004 Bonds</u>	<u>2006 Bonds</u>
Embedded derivatives	\$ 918,000	3,343,000
Borrowings	1,070,000	3,997,000
	<u>\$ 1,988,000</u>	<u>7,340,000</u>

The values of the borrowings are included in long-term debt on the University's 2010 and 2009 statements of net assets. Interest is being accreted on, and added to, the borrowings through the expiration date of the option. For the years ended September 30, 2010 and 2009, \$609,000 and \$493,000, respectively, was accreted and is included in interest expense in the statements of revenues, expenses, and changes in net assets.

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The fair values of the embedded investment derivatives are reported as investment assets if the derivatives are assets or other noncurrent liabilities, depending on the fair values of the derivatives. The change in the fair market values of the derivatives is reported as a component of investment income in the statements of revenues, expenses and changes in net assets. At September 30, 2010 and 2009, the fair values of the derivatives are approximately \$(13,327,000) and \$(9,983,000) and are included in other long-term liabilities in the accompanying statements of net assets. For the years ended September 30, 2010 and 2009, the changes in the fair value of the derivatives were \$(3,344,000) and \$(3,968,000), respectively.

***Fair Value***

At September 30, 2010 and 2009, the embedded derivatives had fair values of \$(13,327,000) and \$(9,983,000), respectively. The fair values of the embedded derivatives were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the instruments, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement.

***Risks Associated with this Transaction***

Certain risks are inherent to derivative transactions.

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

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

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

*Credit risk.* Although the underlying swap exposes the University to credit risk should the swap be executed, the swaption itself does not expose the University to credit risk. If the option is exercised on one or both issues, the University would begin to make payments on the appropriate notional amount of the underlying swap contract. In that situation, if the fair value of the swap is positive, the University would be exposed to credit risk on the swap in the amount of its fair value. As of September 30, 2010 and 2009, the swap counterparty was rated Aa2 by Moody's Investors Services and AA by Standard and Poors Rating Services.

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*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, 2010 and 2009, no events of termination have occurred.

**(6) Capital Assets**

**(a) University of South Alabama**

A summary of the University's capital asset activity for the year ended September 30, 2010 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	\$ 29,312	359	—	—	29,671
Construction-in-progress	59,939	45,381	(20,586)	—	84,734
	<u>89,251</u>	<u>45,740</u>	<u>(20,586)</u>	<u>—</u>	<u>114,405</u>
Capital assets being depreciated:					
Land improvements	22,176	296	4,279	—	26,751
Buildings, fixed equipment, and infrastructure	445,716	2,232	12,046	(885)	459,109
Other equipment	117,900	8,134	4,261	(6,582)	123,713
Library materials	46,092	2,648	—	—	48,740
	<u>631,884</u>	<u>13,310</u>	<u>20,586</u>	<u>(7,467)</u>	<u>658,313</u>
Less accumulated depreciation for:					
Land improvements	(12,727)	(1,173)	—	—	(13,900)
Buildings, fixed equipment, and infrastructure	(178,562)	(12,667)	—	686	(190,543)
Other equipment	(82,467)	(11,343)	—	6,388	(87,422)
Library materials	(33,866)	(2,269)	—	—	(36,135)
	<u>(307,622)</u>	<u>(27,452)</u>	<u>—</u>	<u>7,074</u>	<u>(328,000)</u>
Capital assets being depreciated, net	<u>324,262</u>	<u>(14,142)</u>	<u>20,586</u>	<u>(393)</u>	<u>330,313</u>
Capital assets, net	<u>\$ 413,513</u>	<u>31,598</u>	<u>—</u>	<u>(393)</u>	<u>444,718</u>

At September 30, 2010, the University had commitments of approximately \$53,690,000 related to various construction projects.

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A summary of the University's capital asset activity for the year ended September 30, 2009 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	\$ 29,287	25	—	—	29,312
Construction-in-progress	118,251	75,849	(134,149)	(12)	59,939
	<u>147,538</u>	<u>75,874</u>	<u>(134,149)</u>	<u>(12)</u>	<u>89,251</u>
Capital assets being depreciated:					
Land improvements	21,860	—	316	—	22,176
Buildings, fixed equipment, and infrastructure	311,101	1,920	132,742	(47)	445,716
Other equipment	116,146	4,188	1,091	(3,525)	117,900
Library materials	43,170	2,922	—	—	46,092
	<u>492,277</u>	<u>9,030</u>	<u>134,149</u>	<u>(3,572)</u>	<u>631,884</u>
Less accumulated depreciation for:					
Land improvements	(11,822)	(905)	—	—	(12,727)
Buildings, fixed equipment, and infrastructure	(167,522)	(11,072)	—	32	(178,562)
Other equipment	(74,927)	(10,849)	—	3,309	(82,467)
Library materials	(31,715)	(2,151)	—	—	(33,866)
	<u>(285,986)</u>	<u>(24,977)</u>	<u>—</u>	<u>3,341</u>	<u>(307,622)</u>
Capital assets being depreciated, net	<u>206,291</u>	<u>(15,947)</u>	<u>134,149</u>	<u>(231)</u>	<u>324,262</u>
Capital assets, net	<u>\$ 353,829</u>	<u>59,927</u>	<u>—</u>	<u>(243)</u>	<u>413,513</u>

At September 30, 2009, the University had commitments of approximately \$56,218,000 related to various construction projects.

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

Changes in capital assets for the years ended September 30, 2010 and 2009 are as follows (in thousands):

<b>2010</b>					
	<b>Beginning balance</b>	<b>Additions</b>	<b>Transfers</b>	<b>Reductions</b>	<b>Ending balance</b>
Land improvements	\$ 2,024	13	278	—	2,315
Buildings	25,847	161	771	—	26,779
Tenant improvements	603	20	—	—	623
Construction in progress	795	260	(1,055)	—	—
Other equipment	178	4	6	—	188
	<u>29,447</u>	<u>458</u>	<u>—</u>	<u>—</u>	<u>29,905</u>
Less accumulated depreciation for:					
Land improvements	(470)	(90)	—	—	(560)
Buildings	(2,412)	(663)	—	—	(3,075)
Tenant improvements	(46)	(118)	—	—	(164)
Other equipment	(27)	(19)	—	—	(46)
	<u>(2,955)</u>	<u>(890)</u>	<u>—</u>	<u>—</u>	<u>(3,845)</u>
Capital assets, net	<u>\$ 26,492</u>	<u>(432)</u>	<u>—</u>	<u>—</u>	<u>26,060</u>

<b>2009</b>					
	<b>Beginning balance</b>	<b>Additions</b>	<b>Transfers</b>	<b>Reductions</b>	<b>Ending balance</b>
Land improvements	\$ 1,950	181	—	(107)	2,024
Buildings	24,102	2,061	—	(316)	25,847
Tenant improvements	—	603	—	—	603
Construction in progress	—	795	—	—	795
Other equipment	173	5	—	—	178
	<u>26,225</u>	<u>3,645</u>	<u>—</u>	<u>(423)</u>	<u>29,447</u>
Less accumulated depreciation for:					
Land improvements	(381)	(89)	—	—	(470)
Buildings	(1,783)	(629)	—	—	(2,412)
Tenant improvements	—	(46)	—	—	(46)
Other equipment	(9)	(18)	—	—	(27)
	<u>(2,173)</u>	<u>(782)</u>	<u>—</u>	<u>—</u>	<u>(2,955)</u>
Capital assets, net	<u>\$ 24,052</u>	<u>2,863</u>	<u>—</u>	<u>(423)</u>	<u>26,492</u>

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**(7) Noncurrent Liabilities**

A summary of the University's noncurrent liability activity for the years ended September 30, 2010 and 2009 follows (in thousands):

<b>2010</b>						
	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>	<b>Less amounts due within one year</b>	<b>Noncurrent liabilities</b>
Long-term debt:						
Bonds payable and other	\$ 311,452	32,064	(5,881)	337,635	6,642	330,993
Total long-term debt	311,452	32,064	(5,881)	337,635	6,642	330,993
Other long-term liabilities	70,057	24,809	(13,124)	81,742	12,003	69,739
Total noncurrent liabilities	\$ 381,509	56,873	(19,005)	419,377	18,645	400,732
<b>2009</b>						
	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>	<b>Less amounts due within one year</b>	<b>Noncurrent liabilities</b>
Long-term debt:						
Bonds payable and other	\$ 314,334	1,998	(4,880)	311,452	5,881	305,571
Capital lease payable	92	—	(92)	—	—	—
Total long-term debt	314,426	1,998	(4,972)	311,452	5,881	305,571
Other long-term liabilities	65,470	25,867	(21,280)	70,057	11,246	58,811
Total noncurrent liabilities	\$ 379,896	27,865	(26,252)	381,509	17,127	364,382

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

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**(8) Bonds Payable**

Bonds payable consisted of the following at September 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
University Tuition Revenue Bonds, Series 1999 Current Interest, 3.70% to 4.35%, payable through November 2010	\$ 3,965	7,565
University Tuition Revenue Bonds, Series 1999 Capital Appreciation, 4.70% to 5.25%, payable November 2011 through November 2018	35,148	33,443
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, 2.00% to 5.00%, payable through March 2024	43,470	44,895
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	111,820	112,510
University Facilities Revenue and Capital Improvement Bond, Series 2010, 3.81%, payable through August 2030	29,750	—
Borrowing arising from swaption, Series 2004 Bonds	1,419	1,278
Borrowing arising from swaption, Series 2006 Bonds	5,002	4,534
	<u>330,574</u>	<u>304,225</u>
Plus unamortized premium	7,656	8,005
Less unamortized discount	(55)	(62)
Less unamortized debt extinguishment costs	(540)	(716)
	<u>\$ 337,635</u>	<u>311,452</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 began maturing in August 2009 and are redeemable beginning in August 2018. The Series 2010 Bond begins maturing in August 2011 and is redeemable beginning in February 2020.

In January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to a counterparty. The proceeds from each sale, totaling \$9,328,000, consist of two components, a borrowing and an embedded derivative. The borrowing is included in long-term debt. As a result of this transaction, the counterparty has the option to force the University to redeem its Series 2004 and 2006 bonds at their respective redemption dates. See note 5 for a complete description of this transaction.

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During the years ended September 30, 2010 and 2009, the maturity value of the Capital Appreciation Bonds increased \$1,705,000 and \$1,622,000, respectively, over the original principal amount of \$19,810,000, reflecting accretion of interest.

Approximately \$62,276,000 of proceeds from the issuance of the Series 2008 Bonds remained unspent at September 30, 2010 (\$12,717,000 is included in restricted cash and cash equivalents and \$49,559,000 is included in restricted investments in the 2010 statement of net assets) and are restricted for capital purposes as outlined in the indenture.

Approximately \$26,475,000 of proceeds from the issuance of the Series 2010 Bond remained unspent at September 30, 2010 (\$11,453,000 is included in restricted cash and cash equivalents and \$15,022,000 is included in restricted investments in the 2010 statement of net assets) and are restricted for capital purposes as outlined in the indenture.

The University is subject to arbitrage restrictions on its bonded indebtedness prescribed by the U. S. Internal Revenue Service. As such, amounts have been accrued in the University's basic financial statement for any expected arbitrage liabilities.

The University is subject to restrictive covenants related to its bonds payable. At September 30, 2010, 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, 2010 (in thousands):

	<b>Debt service on bonds</b>			
	<b>Principal</b>	<b>Interest</b>	<b>Additional maturity</b>	<b>Total</b>
2011	\$ 6,404	13,597	(2,506)	17,495
2012	8,033	13,420	(2,488)	18,965
2013	8,377	13,275	(2,440)	19,212
2014	8,654	13,233	(2,224)	19,663
2015	8,926	13,143	(1,986)	20,083
2016 – 2020	59,213	64,730	(3,134)	120,809
2021 – 2025	65,208	53,575	—	118,783
2026 – 2030	66,095	38,001	—	104,096
2031 – 2035	73,014	20,698	—	93,712
2036 – 2038	41,428	3,062	—	44,490
Subtotal	345,352	246,734	(14,778)	577,308
Plus (less):				
Additional maturity	(14,778)			
Unamortized bond premium	7,656			
Unamortized bond discount	(55)			
Unamortized debt extinguishment costs	(540)			
Total	\$ 337,635			

The principal amount of debt service due on bonds at September 30, 2010 includes \$15,339,000 representing additional maturity value on Series 1999 Capital Appreciation Bonds. These bonds mature in years 2011 through 2019. Also included in the principal amount of debt service due on bonds at September 30, 2010, is \$1,354,000 representing additional maturity value of the borrowing resulting from the Series 2004 and Series 2006 swaption. As described in note 5, additional maturity will continue to accrue until the swaption option period in 2014 and 2016. Although this additional maturity is presented as principal on the debt service schedule above, it is also recognized as interest expense on an annual basis in the University's basic financial statements as it accretes.

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

**Notes Payable**

Notes payable consisted of the following at September 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Whitney National Bank commercial mortgage note, 6.0%, payable through 2014	\$ 8,406	8,803
Wachovia Bank, N.A. (now Wells Fargo, N.A.) promissory note, one-month LIBOR plus 0.85% (1.107% at September 30, 2010) payable through 2028	16,858	17,369
Hancock Bank of Alabama construction loan, converted into a commercial mortgage note on December 23, 2009	—	15
Hancock Bank of Alabama commercial mortgage note, converted from a construction loan on December 23, 2009, 6.5%, payable through 2030	1,077	—
	<u>\$ 26,341</u>	<u>26,187</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 10-year term and amortization is based on a 20-year term.

The note payable to Wachovia Bank, N.A. (now Wells Fargo Bank, N.A.) was incurred by the Corporation to acquire Buildings II and III in the USA Technology & Research Park and to provide funds for renovations and tenant finishing costs. First structured as a construction loan, it was an interest-only loan until May 1, 2008. At that time the loan was converted to a fully amortizing promissory note with a 20-year term. The Corporation entered into a “receive-variable, pay-fixed” type of interest rate swap on the promissory note, which will yield a synthetic fixed interest rate of 6.1%. The promissory note payable is secured by an interest in the ground lease with respect to the parcels of land on which Buildings II and III stand, an interest in Buildings II and III, an interest in tenant leases for Buildings II and III, and an interest in income received from rental of Buildings II and III. The University also entered into an agreement with Wachovia Bank, N.A. (now Wells Fargo Bank, N.A.) providing that, for a year in which the Corporation’s debt service coverage ratio is less than one to one, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to one to one.

The note payable to Hancock Bank of Alabama was incurred by the Corporation to finance construction of the shell of a building that is leased to a company that provides dialysis services. The construction loan was an interest-only loan until December 23, 2009, at which time the loan was converted to a fully amortizing commercial mortgage note with a 20-year term and bearing a 6.5% interest rate. The construction loan was and the commercial mortgage note payable is secured by an

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interest in the ground lease with respect to the parcel of land on which the dialysis building stands, an interest in the dialysis building, an interest in the tenant lease for the dialysis building, and an interest in income received from rental of the dialysis building. The University also entered into an agreement with Hancock Bank of Alabama 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, 2010, the Corporation's management believes the Corporation was in compliance with its debt covenants.

**Debt Service on Long-Term Obligations**

At September 30, 2010, total debt service by fiscal year is as follows (in thousands):

	<b>Debt service on note and loan</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 996	1,597	2,593
2012	1,046	1,547	2,593
2013	1,128	1,465	2,593
2014	7,752	1,120	8,872
2015	736	934	1,670
2016 – 2020	4,429	3,923	8,352
2021 – 2025	6,039	2,313	8,352
2026 – 2030	4,215	389	4,604
Total	\$ 26,341	13,288	39,629

**Derivative Transaction**

On February 27, 2007, the Corporation entered a derivative transaction with Wachovia Bank, N.A. (now Wells Fargo Bank, N.A.), the counterparty. The derivative 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.

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

The 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 a fixed payment of 6.10% and receives a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the loan bears interest at the one-month LIBOR rate plus 0.85%. The Corporation paid \$864,000 and \$756,000 under the interest rate swap agreement for the years ended September 30, 2010 and 2009, respectively, which is reflected as an increase in interest expense.

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*Fair value.* The interest rate swap had a fair value of \$(4,171,030) and \$(2,916,000) at September 30, 2010 and 2009, respectively.

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

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

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

*Credit risk.* As of September 30, 2010 and 2009, the Corporation was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivatives become positive, the Corporation would have a gross exposure to credit risk in the amount of the derivatives' fair value. The counterparty was rated Aa2 by Moody's Investors Services and AA by Standard & Poor's Ratings Services as of September 30, 2010 and 2009.

*Termination risk.* The interest rate swap contracts use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard default and termination events, such as failure to make payments, breach of agreement, and bankruptcy. At September 30, 2010 and 2009, no events of default or termination had occurred. If the interest rate swap is terminated, interest rate risk associated with the variable rate debt would no longer be hedged. Also, if at the time of termination the interest rate swap had a negative fair value, the Corporation would be liable to the counterparty for a payment equal to the interest rate swap's fair value. To allow the Corporation the maximum flexibility to manage the utilization of Buildings II and III while at the same time providing protection for the counterparty, the Corporation granted the counterparty a \$2,000,000 mortgage secured by an interest in the ground lease with respect to the parcel of land on which Building II stands, an interest in Building II, a security interest in Building II tenant leases, and a security interest in income received from rental of Building II.

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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, 2010, debt service requirements by fiscal year of the variable rate debt and net derivative payments, assuming current interest rates remain the same in the future, are as follows:

	<u>Variable rate loan</u>		<u>Interest rate</u>	
	<u>Principal</u>	<u>Interest</u>	<u>swap, net</u>	<u>Total</u>
2011	\$ 544	186	841	1,571
2012	568	182	821	1,571
2013	618	173	780	1,571
2014	657	166	748	1,571
2015	698	158	715	1,571
2016 – 2020	4,199	664	2,994	7,857
2021 – 2025	5,719	388	1,750	7,857
2026 – 2030	3,855	61	275	4,191
Total	\$ 16,858	1,978	8,924	27,760

**(9) Net Patient Service Revenue**

The Hospitals have agreements with governmental and other third-party payers that provide for reimbursement at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospitals' billings at established rates for services and amounts reimbursed by third-party payers.

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

**Medicare** – Substantially all acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Additionally, the Hospitals are reimbursed for both direct and indirect medical education costs (as defined), principally based on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. The Hospitals generally are reimbursed for certain retroactively settled items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospitals and audits by the Medicare fiscal intermediary. The cost report for the USA Medical Center has been audited and settled through 2006. The cost report for USA Children's and Women's Hospital has been audited through 2008 and settled through 2007. Revenue from the Medicare program accounted for approximately 13% and 15% of the Hospitals' net patient service revenue for the years ended September 30, 2010 and 2009, respectively.

**Blue Cross** – Inpatient services rendered to Blue Cross subscribers are paid at a prospectively determined per diem rate. Outpatient services are reimbursed under a cost reimbursement methodology. For outpatient services, the Hospitals are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospitals and audits thereof by Blue Cross. The Hospitals' Blue Cross cost reports have been audited through 2009 and settled for all fiscal years through 2008. Revenue from the Blue Cross program accounted for approximately 18% and 23% of the Hospitals' net patient service revenue for the years ended September 30, 2010 and 2009, respectively.

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**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 37% of the Hospitals' net patient service revenue for the years ended September 30, 2010 and 2009, 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, 2010 and 2009 follows (in thousands):

	<u>2010</u>	<u>2009</u>
Gross patient service revenue	\$ 442,540	416,428
Less provision for contractual and other adjustments	151,332	133,795
Less provision for bad debts	71,285	76,101
	<u>\$ 219,923</u>	<u>206,532</u>

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately \$344,000 and \$123,000 in net patient service revenue for the years ended September 30, 2010 and 2009, respectively.

**(10) Hospital Lease**

In fiscal 2006, the University and Infirmary Health System, Inc. (the Infirmary) entered into a Lease Agreement (the Lease) in which the University agreed to lease certain land, buildings and equipment used in connection with the operation of its USA Knollwood Hospital campus to the Infirmary. The lease is effective through March 2056 with an automatic renewal, for an additional forty-nine years, through March 2105; and may be canceled by the Infirmary after the initial fifty-year term. Upon the expiration or termination of the lease, the assets, along with responsibility for the operation of such assets, will revert to the University and the University will pay the Infirmary, at fair market value, for any capital improvements to the assets. Additionally, the lease may be terminated at any time, at the option of the Infirmary, in the event that a change in any law, statute, rule, or a regulation of any governmental or other regulatory body or any third-party payment program is deemed by the Infirmary to be significant, as defined by the lease. University management does not anticipate that this option will be exercised by the Infirmary.

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

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

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

- Months one through thirty-three of the initial lease term – \$1,000,000 annually (\$83,333 monthly)
- Months thirty-four through fifty-seven of the initial lease term – \$1 annually
- Months fifty-eight through eighty-four of the initial lease term – \$1,000,000 annually (\$83,333 monthly)
- Years eight through twelve of the initial lease term – \$1,250,000 annually
- Years thirteen through seventeen of the initial lease term – \$1,500,000 annually
- Years eighteen through thirty-two of the initial lease term – The monthly payment will be the remaining unpaid balance of the lease payments amortized over years sixteen through thirty using an interest rate calculated from the immediately previous 15-year monthly average of the 20-year state and local tax exempt general obligation bond issues as determined by the United States Federal Reserve System. The remaining unpaid balance at the end of year fifteen, \$17,401,000, is derived by taking the initial unpaid balance of rent due after the partial lease prepayment, \$25,000,000 plus accrued interest at an annual rate of 3.75%, less monthly lease payments.
- Years thirty-three through fifty of the initial lease term – \$1 annually
- Year fifty-one through ninety-nine of the extended lease term – \$1 annually

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

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

The equipment component of the lease is considered a capital lease (sales-type lease) and as such the current portion of the receivable has been recorded as a capital lease receivable in other current assets and the noncurrent portion has been recorded in other noncurrent assets in the accompanying basic financial

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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:	
2011	\$ 416,000
2012	555,000
2013	277,000
	<hr/>
	1,248,000
Less amounts representing interest	(64,000)
	<hr/>
Total capital lease receivable	\$ 1,184,000
	<hr/>

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 \$43,788,000. 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 \$6,327,000, will be deferred and amortized over the ninety-nine year lease term.

**(11) Employee Benefits**

**(a) Retirement and Pension Plans**

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

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

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 2010, 2009 and 2008, the University made total contributions of \$32,259,000, \$32,465,000, and \$30,252,000 (100% of the required contributions), respectively, to TRS on behalf of participants, which represents 12.51%, 12.07%, and 11.06%, respectively, of each participant's

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gross earnings. The University's payroll for all employees was approximately \$292,299,000 and \$295,647,000 in 2010 and 2009, respectively. Total payroll for University employees participating in the Teachers' Retirement System of Alabama was approximately \$257,864,000 and \$268,969,000 in 2010 and 2009, 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 \$1,074,000 and \$982,000 in 2010 and 2009, respectively, representing 522 and 519 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 \$17,020,000 and \$16,398,000 at September 30, 2010 and 2009, respectively. The current portion of the accrual is included in accounts payable and accrued liabilities and the noncurrent portion is included in other long-term liabilities in the accompanying basic financial statements. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

**(c) *Other Postretirement Employee Benefits***

As the provider of postretirement benefits to state retirees, the state is responsible for implementing GASB Statement No. 45, *Accounting for Postemployment Benefits Other Than Pensions*. In September 2003, the State of Alabama Legislature passed legislation that requires all colleges and universities to fund the healthcare premiums of its participating retirees. In prior years, such costs have been paid by the State. Beginning in October 2003, the University was assessed a monthly premium by the Public Education Employees' Health Insurance Plan (PEEHIP) based on the number of retirees in the system and an actuarially determined premium. During the years ended September 30, 2010 and 2009, the University's expense related to PEEHIP was \$5,937,000 and \$5,482,000, respectively.

**(12) 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, 2010 and 2009. 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 \$1,596,000 and \$1,573,000 in 2010 and 2009, 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, 2010 and 2009 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 34,755	37,283
Liabilities incurred and other additions	42,787	35,013
Claims, administrative fees paid and other reductions	<u>(36,232)</u>	<u>(37,541)</u>
Balance, end of year	<u>\$ 41,310</u>	<u>34,755</u>

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

**(13) Other Related Party**

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. At September 30, 2010 and 2009, SAMSF had total assets of \$10,510,000 and \$9,317,000, net assets of \$7,514,000 and \$6,801,000, and total revenues of \$4,195,000 and \$4,717,000, respectively. SAMSF reimburses the University for certain administrative expenses and other related support services. Total amounts received for such expenses were approximately \$1,128,000 and \$1,538,000 in 2010 and 2009, respectively, and are reflected as private grants and contracts in the accompanying statements of revenues, expenses, and changes in net assets.

**(14) Commitments and Contingencies**

**(a) Grants and Contracts**

At September 30, 2010 and 2009, the University had been awarded approximately \$72,132,000 and \$61,699,000, 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

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

**(b) Letter of Credit**

In connection with the Hospitals' participation in the State of Alabama Medicaid Program, the University has established a \$77,000 irrevocable standby letter of credit with Wells Fargo, N.A. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds were advanced under this letter during the years ended September 30, 2010 and 2009.

**(c) Litigation**

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

**(d) Rent Supplement Agreements**

The University has entered into two irrevocable rent supplement agreements with the Corporation and a financial institution. The agreements require that, in the event the Corporation fails to maintain a debt service coverage ratio of one to one with respect to all of its outstanding indebtedness, the University will pay to the Corporation any and all rent amounts necessary to cause the Corporation's net operating income to be equal to the Corporation's annual debt service obligations (see note 8). As of September 30, 2010 and 2009, no amounts were payable pursuant to these agreements.

**(e) State Bond Issues**

The State of Alabama has made allocations to the University from bond issues in prior years. Pursuant to these allocations, at September 30, 2010, approximately \$4,968,000 is unspent and remains available to the University for certain future construction costs. The allocations have not been reflected in the accompanying financial statements.

**(f) FICA Refund**

In March 2010, the Internal Revenue Service (the Service) ruled that for all tax periods ending before April 2005, the medical residents working at the USA hospitals could be treated under the student exception with respect to FICA taxes. Historically, the Service had held that residents were not exempt from FICA taxes. As a result of this ruling, the University has recorded a receivable of \$5,144,000 representing the employer's portion of FICA contributions from March 1996 to April 2005 and any related interest.

**(g) 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 10-year initial term with two 5-year renewal options. Under the lease, the tenant must also pay, or reimburse to the Corporation for expenses paid by the Corporation such as common area maintenance, utilities, and general liability and property damage insurance. In 2009, the lease called

(Continued)

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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. Under a lease amendment dated September 14, 2004, the tenant leased 5,958 square feet in the building previously occupied by another tenant. After occupying that space for twelve months the tenant had the right to terminate the lease of that square footage upon six months advance notice. Such advance notice under both options was received by letter dated May 13, 2010, in which the tenant chose to terminate a total of 13,440 square feet.

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 42,209 and 48,556 square feet at September 30, 2010 and 2009, respectively. Under these leases, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, property taxes, and insurance. Tenants will reimburse the Corporation for such expenses only as the total expenses for a year increase over the total expenses for the base year of the lease (the Corporation's fiscal year beginning after the date the lease is signed). The leases have terms varying from one to ten years.

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

The Corporation had three ground leases in place at September 30, 2010 and 2009. One lease is for a 40-year initial term with 20-year, and 15-year renewal options. The second lease is for a 30-year initial term with four 5-year renewal options. The third lease has a 38.5-year initial term with 20-year and 15-year renewal options.

Minimum future rentals by fiscal year are as follows:

2011	\$	3,132,000
2012		2,794,000
2013		2,088,000
2014		1,013,000
2015		639,000
2016 – 2046		<u>7,890,000</u>
Total	\$	<u><u>17,556,000</u></u>

(Continued)



**UNIVERSITY OF SOUTH ALABAMA**  
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Notes to Basic Financial Statements

September 30, 2010 and 2009

**(15) Functional Information**

Operating expenses by functional classification for the years ended September 30, 2010 and 2009 are listed below (in thousands). In preparing the basic financial statements, all significant transactions and balances among accounts have been eliminated.

	<u>2010</u>	<u>2009</u>
Instruction	\$ 112,973	113,323
Research	20,793	21,548
Public service	46,543	41,647
Academic support	14,617	15,816
Student services	26,990	24,619
Institutional support	30,966	31,769
Operation and maintenance of plant	23,889	25,161
Scholarships	1,591	458
Hospital	233,033	233,306
Auxiliary enterprises	17,304	15,742
Depreciation and amortization	27,659	25,183
	<u>\$ 556,358</u>	<u>548,572</u>

**(16) Significant New Accounting Pronouncements**

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 was effective for the year ended September 30, 2010. 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 was effective for the year ended September 30, 2010. The adoption of Statement No. 51 did not have a material impact on the University's basic financial statements. The impact of the implementation of Statement No. 53 is addressed in detail in note 1(j).

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. GASB State No. 54 revised classification requirements related to fund balance reporting and will be effective for the year ending September 30, 2011. In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB Statement 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multi-employer other post-employment benefit plans and will be effective for the year ending September 30, 2011. In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. Statement No. 59 clarifies numerous issues related to the financial reporting for financial instruments.

The effect of the implementation of GASB Statements Nos. 54, 57 and 59 on the University has not been determined.

(Continued)

**UNIVERSITY OF SOUTH ALABAMA**  
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Notes to Basic Financial Statements

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**(17) Subsequent Events**

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

In June 2010, the University's Board of Trustees approved the formation of the USA HealthCare Management, LLC (the LLC). The University is the sole member of the LLC, which was organized for the purpose of managing and operating on behalf of and as agent for, substantially all of the health care enterprise of the University. The operations of the LLC commences on October 1, 2010.

**(b) *Sale of Brookley Campus***

On September 29, 2010, the University and the USA Foundation executed a purchase and sale agreement calling for the University to sell approximately 327 acres on Mobile Bay, known as the Brookley campus, to the Foundation. The terms of the agreement require the Foundation to pay the University \$20,000,000; \$4,000,000 at closing and \$4,000,000 annually thereafter for four years. At September 30, 2010, the property had a book value of \$7,500,000. The sale closed on November 10, 2010, and the initial payment has been received by the University.

**UNIVERSITY OF SOUTH ALABAMA**  
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Schedule of Expenditures of Federal Awards  
Year ended September 30, 2010

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
<b>Student Financial Aid Cluster*</b>				\$		
U.S. Department of Education:						
Federal Pell Grant Program	84.063			17,136,928	—	17,136,928
Federal Supplemental Educational Opportunity Grant Program	84.007			315,938	—	315,938
Federal Family Educational Loans	84.032			84,911,229	—	84,911,229
Federal Work Study Program	84.033			677,555	—	677,555
Academic Competitiveness Grant	84.375			188,881	—	188,881
National Science and Mathematics Access to Retain Talent Grant	84.376			332,952	—	332,952
Teacher Education Assistance for College and Higher Education	84.379			28,000	—	28,000
Federal Perkins Loan Program	84.038			—	—	—
Loans for Disadvantaged Students	93.342			—	—	—
Health Professions Student Loans	93.342			—	—	—
<b>Total Student Financial Aid Cluster</b>				103,591,483	—	103,591,483
<b>Research and Development Cluster*</b>						
U.S. Department of Commerce:						
Sea Grant Support	11.417	2373HM	Dauphin Island Sea Lab	—	5,034	5,034
Cooperative Fishery Statistics	11.434	EDP-ESF-RB-2010-USA	Gulf States Marine Fisheries Commission	—	20,409	20,409
Marine Fisheries Initiative	11.433			92,006	—	92,006
Unallied Management Projects	11.454	80182	Alabama Department of Conservation and Natural Resources	—	200,837	200,837
Unallied Management Projects	11.454	Task Order D-3	Dauphin Island Sea Lab (MESC)	—	16,489	16,489
<b>Total CFDA</b>				—	217,326	217,326
Habitat Conservation	11.463			698,140	—	698,140
Habitat Conservation	11.463	ALFO SA 3807-02	The Nature Conservancy	—	88,250	88,250
<b>Total CFDA</b>				698,140	88,250	786,390
Applied Meteorological Research	11.468			463,782	—	463,782
Congressionally Identified Award and Projects	11.469	TASK ORDER D-1	Dauphin Island Sea Lab (MESC)	—	24,761	24,761
<b>Total U.S. Department of Commerce</b>				1,253,928	355,780	1,609,708
U.S. Department of Defense:						
Military Medical Research and Development	12.420			162,379	—	162,379
Information Security Grant Program	12.902	360356-062900-01	Mississippi State University	—	101,059	101,059
Research and Technology Development	12.910			87,972	—	87,972
Cultural Resource Assessment	12.000	12 W912P9-09-D-0537	Brockington Associates, Inc.	—	27,272	27,272
<b>Total U.S. Department of Defense</b>				250,351	128,331	378,682
U.S. Department of Housing and Urban Development:						
Community Development Block Grants	14.228	CDBG/HUD	Washington County Commission	—	(133)	(133)
Community Development Block Grants	14.228	10-1001122	Mississippi Department of Archives and History	—	69,854	69,854
<b>Total CFDA</b>				—	69,721	69,721
<b>Resident Opportunity and Supportive Services - Elderly and Persons with Disabilities</b>	14.876	100279	Mobile Housing Board	—	6,895	6,895
<b>Total U. S. Department of Housing and Urban Development</b>				—	76,616	76,616
U.S. Department of Interior:						
Cooperative Endangered Species Conservation Fund	15.615	80240	Alabama Division of Wildlife and Fisheries	—	327	327
Cooperative Endangered Species Conservation Fund	15.615	90256	Alabama Department of Conservation and Natural Resources	—	17,524	17,524
<b>Total CFDA</b>				—	17,851	17,851
National Cooperative Geologic Mapping Program	15.810			5,593	—	5,593
Historic Preservation Fund Grants-In-Aid	15.904			19,503	—	19,503
American Battlefield Protection	15.926	AL-06-003	Alabama Historical Commission	21,006	—	21,006
<b>Total U.S. Department of Interior</b>				26,599	37,354	63,953
U.S. Department of Justice:						
Developing, Testing and Demonstrating Promising New Programs	16.541			345,996	—	345,996

(Continued)

**UNIVERSITY OF SOUTH ALABAMA**  
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Schedule of Expenditures of Federal Awards  
Year ended September 30, 2010

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
<b>U.S. Department of Transportation:</b>						\$
ARRA Highway Planning and Construction Highway Training and Education	20.205	STMTE-TE09(925)	Alabama Department of Transportation	—	278,744	278,744
Pipeline Safety Program Base Grants	20.215	DTPH61-01-R-00063	Knigore Consulting & Management	—	3,794	3,794
University Transportation Centers Program	20.701	8/10/2017	Prince William Sound Science Center	180,721	4,847	185,568
University Transportation Centers Program	20.701	281348-002	University of Alabama at Birmingham	—	10,415	10,415
<b>Total CFDA</b>				180,721	297,800	478,521
<b>Total U.S. Department of Transportation</b>				180,721	297,800	478,521
<b>National Aeronautics and Space Administration:</b>						
Technology Transfer	43.002	SUB2005-152-18-01	University of Alabama in Huntsville	197,902	—	197,902
Technology Transfer	43.002			—	18,771	18,771
<b>Total CFDA</b>				197,902	18,771	216,673
<b>National Science Foundation:</b>						
Engineering Grants	47.041			28,424	—	28,424
Mathematical and Physical Sciences	47.049			337,630	—	337,630
Geosciences	47.050			147,627	—	147,627
Geosciences	47.050		University of Georgia	147,627	148,395	296,022
<b>Total CFDA</b>		1021RR100513		147,627	148,395	296,022
<b>Computer and Information Science and Engineering</b>						
Biological Sciences	47.070			7,176	—	7,176
Social Behavioral and Economic Sciences	47.074			3,850	—	3,850
Education and Human Resources	47.075			47,883	—	47,883
Polar Programs	47.076	10-090120	Mobile Area Education Foundation Inc.	—	48,879	48,879
Office of Cyber infrastructure	47.078			25,728	—	25,728
Office of Cyber infrastructure	47.080	39-21530-081	Tulagage University	82,011	—	82,011
Office of Cyber infrastructure	47.080	09-013	University of Alabama	—	4,313	4,313
<b>Total CFDA</b>				—	86,324	86,324
<b>ARRA - NSF Recovery Act Research Support</b>						
ARRA - NSF Recovery Act Research Support	47.082	AA-5-31090	Oklahoma State University	166,288	—	166,288
ARRA - NSF Recovery Act Research Support	47.082	1326-206-2087448	Clemson University	—	35,116	35,116
<b>Total CFDA</b>				166,288	46,503	212,791
<b>Total National Science Foundation</b>				166,288	81,619	247,907
<b>Environmental Protection Agency:</b>						
Office of Research and Development Consolidated Research/Training/Fellowships	66.511			764,408	365,217	1,129,625
<b>U.S. Department of Energy:</b>						
Basic Energy Sciences University and Science	81.049			(28,781)	—	(28,781)
Basic Energy Sciences University and Science	81.049	10-ENG-246590-USA	Alabama EPSCOR	120,952	—	120,952
<b>Total CFDA</b>				120,952	30,424	151,376
<b>U.S. Department of Education:</b>						
Research in Special Education	84.324			391,826	—	391,826
U.S. Election Assistance Commission:						
Help America Vote Act Requirement Payments	90.401			265,377	—	265,377
<b>U.S. Department of Health and Human Services:</b>						
Cooperative Agreements to Improve the Health Status of Minority Populations						
Environmental Health	93.004	6MPCMP0610110104	Morehouse School of Medicine	—	6,802	6,802
Oral Diseases and Disorders Research	93.113	R 548086	State University of New York - Buffalo	518,583	—	518,583
Minority Health and Health Disparities Research	93.121			—	44,770	44,770
Trans-NIH Research Support	93.307			1,342,724	—	1,342,724
National Center for Research Resources	93.310			38,470	—	38,470
Cancer Cause and Prevention Research	93.389			229,086	—	229,086
Cancer Detection and Diagnosis Research	93.393			94,767	—	94,767
Cancer Treatment Research	93.394			71,459	—	71,459
Cancer Treatment Research	93.395			12,770	—	12,770
Cancer Treatment Research	93.395	7U10CA76001-4	Duke University Medical Center	—	2,134	2,134
Cancer Treatment Research	93.395	98543-1254	National Childhood Cancer Foundation	—	30,253	30,253
<b>Total CFDA</b>				12,770	32,387	45,157

(Continued)

**UNIVERSITY OF SOUTH ALABAMA**  
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Schedule of Expenditures of Federal Awards  
Year ended September 30, 2010

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
Cancer Biology Research	93.396			166,920	—	166,920
ARRA - NIH Recovery Act Research Support	93.701			1,092,110	—	1,092,110
Cardiovascular Diseases Research	93.837			2,476,837	—	2,476,837
Lung Diseases Research	93.838			3,112,870	—	3,112,870
Blood Diseases and Resources Research	93.839			—	2,056	2,056
Arthritis Musculoskeletal and Skin Diseases Research	93.846			47,474	—	47,474
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			395,834	—	395,834
Extramural Research Programs in Neurosciences and Neurological Disorders	93.853	70190	Columbia University	—	1,208	1,208
Extramural Research Programs in Neurosciences and Neurological Disorders	93.853	126155-03	University of Texas	—	83,155	83,155
Extramural Research Programs in Neurosciences and Neurological Disorders	93.853	AO7593	Yale University	—	31,045	31,045
Total CFDA				—	115,408	115,408
Allergy: Immunology and Transplantation Research	93.855			404,548	—	404,548
Allergy: Immunology and Transplantation Research	93.855	09-111	University of Texas Medical Branch (The)	—	105,015	105,015
Total CFDA				404,548	105,015	509,563
Microbiology and Infectious Diseases Research	93.856			391,013	—	391,013
Pharmacology: Physiology and Biological Chemistry	93.859			122,357	—	122,357
Vision Research	93.867			56,687	—	56,687
Clinical Research	93.867			—	16,735	16,735
Total U.S. Department of Health and Human Services	93.000189671-218	N01-A1-30025-01	University of Alabama at Birmingham	11,181,451	323,173	11,504,624
Total Research and Development Cluster				14,950,730	1,633,466	16,584,196
Other federal assistance:						
U. S. Department of Agriculture: Plant and Animal Disease Pest Control and Animal Care	10.025			24,446	—	24,446
U. S. Department of Commerce: Coastal Zone Management Estuarine Research Congressionally Identified Project	11.420 11.617			20,123 11,171,961	— —	20,123 11,171,961
Total U.S. Department of Commerce				11,192,084	—	11,192,084
U.S. Department of Defense: Procurement Technical Assistance for Business Firms Procurement Technical Assistance for Business Firms Total U. S. Department of Defense:	12.002 12.002	PTAC-USA-10-006 PTAC-USA-10-067	University of Alabama Birmingham University of Alabama	— —	18,528 4,146	18,528 4,146
U. S. Department of Housing and Urban Development: Resident Opportunity and Supportive Services - Elderly and Persons with Disabilities Total U. S. Department of Housing and Urban Development	14.870 14.876	100.213 AL002REL041A007	Mobile Housing Board Mobile Housing Board	— —	13,935 44,286	13,935 44,286
U.S. Department of Transportation: Highway Planning and Construction	20.205			894,603	—	894,603
National Aeronautics and Space Administration: Technology Transfer	43.002			—	50,340	50,340
National Endowment for the Humanities: Promotion of the Humanities Division and Preservation	43.149			5,680	—	5,680
National Science Foundation: Biological Sciences Social Behavioral and Economic Sciences Education and Human Resources Education and Human Resources Education and Human Resources Education and Human Resources Total CFDA	47.074 47.075 47.076 47.076 47.076 47.076	0602359-011-A1 SUB2005-291 100.390	University of Alabama at Birmingham University of Alabama at Huntsville Mobile Area Education Foundation Inc.	76,727 7,055 67,791 — — —	— — 14,596 2350 4,539 18,905	76,727 7,055 67,791 14,596 2350 4,539 18,905
Total National Science Foundation				151,573	18,905	170,478
U.S. Small Business Administration: Minority Business Development Small Business Development Centers Total U.S. Small Business Administration	59.006 59.037	SBA-USA-10-027	University of Alabama at Birmingham	2,168 — 2,168	— 129,499 129,499	2,168 129,499 131,667

(Continued)

**UNIVERSITY OF SOUTH ALABAMA**  
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Schedule of Expenditures of Federal Awards  
Year ended September 30, 2010

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
U.S. Department of Energy:						
Basic Energy Sciences University and Science Education	81.049	DE-SC0002470	University of Alabama	\$ —	12,638	12,638
U.S. Department of Education:						
Special Education Grants to States	84.027	100.041	Alabama State Department of Education	—	34,380	34,380
TRIO Cluster:	84.044			323,309	—	323,309
TRIO Talent Search	84.047			236,556	—	236,556
TRIO Upward Bound				559,865	—	559,865
Total TRIO Cluster				—	—	—
Special Education - State Personnel Development	84.323	U900524	Alabama Department of Education	—	1,298	1,298
Transition to Teaching	84.350			173,471	—	173,471
Reading First State Grants	84.357	90420-170030-1	Alabama Department of Education	—	135,805	135,805
Mathematics and Science Partnerships	84.366			—	—	—
Improving Teacher Quality State Grants	84.367	U900135	Alabama Department of Education	—	119,730	119,730
Improving Teacher Quality State Grants	84.367	80400	Alabama Commission of Higher Education	—	210,631	210,631
Improving Teacher Quality State Grants	84.367	100219 100409	Jacksonville State University	—	18,659	18,659
Total CFDA				—	229,290	229,290
College Access Challenge Grant Program	84.378	FY09-4018	Alabama Department of Education	—	3,016	3,016
ARRA State Fiscal Stabilization Fund (SFSF) - Education State Grants Recovery Act*	84.394	S394A.090001	Alabama State Executive Budget Office	—	10,768,819	10,768,819
Total U.S. Department of Education				733,336	11,292,338	12,025,674
U.S. Department of Health and Human Services:						
Alzheimer's Disease Demonstration Grants to States	93.051	10-1000246	South Alabama Regional Planning Commission	—	11,161	11,161
Public Health Emergency Preparedness	93.069	90412	Alabama Department of Mental Health	—	(7,195)	(7,195)
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153			299,310	—	299,310
Advanced Education Nursing Grant Programs	93.247			3,078,014	—	3,078,014
Nursing Faculty Loan Program	93.264			1,318	—	1,318
Centers for Disease Control and Prevention	93.283			93,205	—	93,205
Minority Health and Health Disparities Research	93.307			24,708	—	24,708
Professional Nurse Traineeships	93.358			333,746	—	333,746
Basic Nurse Education and Practice Grants	93.359			312,208	—	312,208
ARRA National Center for Research Resources, Recovery Act Construction Support	93.702			273,453	—	273,453
ARRA Health Information Technology Regional Extension Centers Program	93.718			75,465	—	75,465
Grants for Residency Training for General Pediatrics	93.884			93,890	—	93,890
Health Care and Other Facilities	93.887			956,165	—	956,165
National Biodefense Hospital Preparedness Program	93.889			1,340,337	—	1,340,337
HIV Care Formula Grants	93.917			79,369	—	79,369
Healthy Start Initiative	93.926			20,000	—	20,000
Block Grants for Community Mental Health Services	93.958			(1,021)	—	(1,021)
Geriatric Education Centers	93.969			65,931	—	65,931
Maternal and Child Health Services Block Grant to the	93.994			—	13,238	13,238
Total U.S. Department of Health and Human Services				5,448,477	1,617,025	7,065,502
Corporation for National and Community Service:						
AmeriCorps	94.006			25,865	—	25,865
Total other federal assistance				18,478,232	13,187,705	31,665,937
Total federal expenditures				\$ 137,020,445	14,821,171	151,841,616

\* Denotes a major program.

See accompanying notes to the schedule of expenditures of federal awards.

See accompanying independent auditors' report.

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

Notes to Schedule of Expenditures of Federal Awards

September 30, 2010

**(1) Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the University of South Alabama (the University) and is presented on the accrual basis of accounting. The information in 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.

There were no loans advanced for Federal Perkins Loans, Loans for Disadvantaged Students, and Health Professions Student Loans for the year ended September 30, 2010. Outstanding loans made by the University are included in notes receivable in the University's 2010 statement of net assets and consist of the following loan programs:

	<u>CFDA #</u>	<u>Amount</u>
Federal Perkins Loan Program	84.038	\$ 3,739,803
Loans for Disadvantaged Students	93.342	1,193
Health Professions Student Loans	93.342	47,056
Nursing Faculty Loans	93.264	<u>9,614</u>
		3,797,666
Less outstanding balance of loans granted in previous years		<u>(3,796,148)</u>
Nursing Faculty Loans advanced to eligible students of the University during 2010		<u>\$ 1,518</u>

The University's Federal Family Education Loans (FFEL) included in the Schedule represent loans received by students of the University during fiscal year 2010 which were not made by the University. Accordingly, FFEL amounts are not reflected in the University's basic financial statements. It is not practical to determine the balance of loans outstanding to students and former students of the University under these programs as of September 30, 2010.

**(2) Contingencies**

The University's 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.

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

Notes to Schedule of Expenditures of Federal Awards

September 30, 2010

**(3) Federal Family Education Loan Programs**

During fiscal year ended September 30, 2010, the University advanced to students 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	\$ 30,841,493
Unsubsidized Stafford loans	84.032	49,172,408
Parent Loans for Undergraduate Students	84.032	4,897,328
Total		<u>\$ 84,911,229</u>

**(4) Subrecipients**

Of the federal expenditures presented in the accompanying 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>
Habitat Conservation	11.463	\$ 100,980
Technology Transfer	43.002	31,796
Mathematical and Physical Sciences	47.049	88,667
Geosciences	47.050	12,003
Office of Research and Development Consolidated		
Research/Training/Fellowships	66.511	20,572
Transition to Teaching	84.350	61,519
Help America Vote Act Requirements Payments	90.401	57,358
Environmental Health	93.113	60,533
Coordinated Services and Access to Research for Women,		
Infants, Children, and Youth	93.153	7,241
Minority Health and Health Disparities Research	93.307	219,027
Cancer Biology Research	93.396	(705)
Diabetes, Digestive, and Kidney Diseases		
Extramural Research	93.847	74,544
Cardiovascular Diseases Research	93.837	39,151
Health Resources Services Administration/State of Alabama		
Department of Public Health/Healthy		
Start Initiative	93.926	20,000
Health Resources Services Administration/United Way of		
Central Alabama/HIV Care Formula Grants	93.917	1,600
U.S. Department of Education/Alabama Department of		
Education/Mathematics and Science Partnerships	84.366	173,628



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

Notes to Schedule of Expenditures of Federal Awards

September 30, 2010

	<u>Federal CFDA #</u>	<u>Amounts expended</u>
U.S. Department of Education/Alabama Commission on Higher Education/Improving Teacher Quality State Grants	84.367	<u>119,148</u>
		\$ <u><u>1,087,062</u></u>

**(5) Matching**

Under the Federal Work Study Program and Federal Supplemental Education Opportunity Grant Program, the University matched \$36,695 and \$162,330, respectively, in funds awarded to students for the year ended September 30, 2010 in addition to the Federal share of expenditures included in the accompanying schedule of expenditures of federal awards.



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

**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, 2010, and have issued our report thereon dated November 15, 2010. We did not audit the 2010 consolidated financial statements of the University of South Alabama Foundation, which represents 80%, 101%, and 23%, 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. Our report states that the University changed its method of accounting for derivative instruments due to the adoption of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. 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 our 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 deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 15, 2010



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

**Report on Compliance with Requirements That Could Have a Direct and Material Effect  
on 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 University of South Alabama's (the University's) compliance 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 could have a direct and material effect on each of the University's major federal programs for the year ended September 30, 2010, 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 (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 June 30, 2010 was examined by other 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 other accountants' 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. 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 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 compliance requirements referred to in the first paragraph above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.



## Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 June 30, 2010 was reported on by other 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 other accountants' testing of the University's internal control over compliance related to such functions.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

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 15, 2010

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2010

**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?

\_\_\_\_\_ yes   x   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, 84.379, 84.038, 93.342	Student Financial Aid Cluster
Various	Research and Development Cluster
84.394	U.S. Department of Education/State Fiscal Stabilization Fund (SFSF) - Education State Grants Recovery Act
Dollar threshold used to distinguish between type A and type B programs:	\$ 1,447,458
Auditee qualified as low-risk auditee?	<u>  x  </u> yes _____ no

**UNIVERSITY OF SOUTH ALABAMA**  
(A Component Unit of the State of Alabama)  
Schedule of Findings and Questioned Costs  
Year ended September 30, 2010

**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* for the year ended September 30, 2010.

**UNIVERSITY OF SOUTH ALABAMA**  
(A Component Unit of the State of Alabama)  
Schedule of Findings and Questioned Costs  
Year ended September 30, 2010

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

There were no findings or questioned costs relating to federal awards for the year ended September 30, 2010.



**University of South Alabama**  
**Summary Comparison of Fund Financial Reports to**  
**GASB Statement 34 Financial Statements**  
**September 30, 2002 Through 2010**

	Year Ended September 30,									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	
Net increase (decrease) in current unrestricted operating funds (fund accounting)	\$ (8,518,637)	\$ (22,557,941)	\$ 1,302,243	\$ 3,721,883	\$ 10,190,822	\$ 639,470	\$ 4,805,701	\$ (5,420,432)	\$ 4,167,774	
Transfer from University reserves to fund 9.5% proration	6,558,280									
Net Increase (Decrease)	\$ (1,960,357)									
Add:										
Debt service	7,758,256	6,575,231	4,590,345	3,030,444	5,944,273	6,892,511	3,868,513	6,332,932	5,502,009	
Equipment	18,669,897	7,259,482	22,674,581	21,018,457	11,456,341	10,556,620	8,088,299	5,324,265	10,486,087	
Depreciation	(17,839,484)	(21,615,731)	(15,885,756)	6,407,336	(4,338,964)	(8,240,308)	(8,499,925)	(7,750,630)	1,174,658	
Other funds, net	12,330,688	24,532,959	11,129,587	38,979,880	32,149,528	11,997,707	7,655,412	10,384,865	8,750,472	
Net increase (decrease) in net assets - GASB Statement 34/35	\$ 18,959,000	\$ (5,806,000)	\$ 23,811,000	\$ 73,158,000	\$ 55,402,000	\$ 21,846,000	\$ 15,918,000	\$ 8,871,000	\$ 30,081,000	

*Year-end entries impacting operations*

Medicaid out-patient encounter true-up	\$ 4,000,000
FICA settlement	5,100,000
Trust fund growth	2,400,000
	<u>\$ 11,500,000</u>

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

Year Ended September 30, 2010

Net decrease from operating (current unrestricted) funds - fund format	\$ (8,518,637)
Transfer from University reserves to fund 9.5% proration	<u>6,558,280</u>
Net Increase (Decrease)	(1,960,357)
Add back:	
Debt service:	
Principal payment on long term debt	\$ 5,715,000
Actual payment of principal and interest in excess of amounts transferred (timing issue)	<u>2,043,256</u>
	7,758,256
Equipment purchases	18,669,897
Depreciation of buildings and equipment:	
Computed depreciation	(27,452,019)
Non-capitalized plant fund expenditures	(2,108,025)
Transfers of funded depreciation	<u>11,720,560</u>
	(17,839,484)
	6,628,312
Add:	
Plant fund income/transfers (net) not previously combined with operating:	2,821,664
Other fund income not previously combined with operating:	
Endowment fund gifts, investment gain and other, net	24,123,595
Loan fund	(5,870)
Restricted fund	<u>(14,608,701)</u>
	9,509,024
Net increase in net assets - GASB Statement No. 34 Format	<u>\$ 18,959,000</u>

\* Final plant fund reports in process

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

Year Ended September 30, 2009

*\*\*\*Restated to reflect impact of implementation of GAS 53\*\*\**

Net decrease from operating (current unrestricted) funds - fund format		\$ (22,557,941)
Add back:		
Debt service:		
Principal payment on long term debt	\$ 4,868,073	
Actual payment of principal and interest in excess of amounts transferred (timing issue)	<u>1,707,158</u>	6,575,231
Equipment purchases		7,259,482
Depreciation of buildings and equipment:		
Computed depreciation	(25,183,157)	
Non-capitalized plant fund expenditures	(3,415,010)	
Transfers of funded depreciation	<u>6,982,436</u>	(21,615,731)
		(30,338,959)
Add:		
Plant fund income/transfers (net) not previously combined with operating:		14,712,823
Other fund income not previously combined with operating:		
Endowment fund gifts, investment gain and other, net	8,561,833	
Loan fund	(752)	
Restricted fund	<u>1,259,055</u>	9,820,136
Net increase in net assets - GASB Statement No. 34 Format		<u>\$ (5,806,000)</u>

**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 excess of amounts transferred (timing issue)		<u>4,590,345</u>
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)
		12,681,413
Add:		
Plant fund income/transfers (net) not previously combined with operating:		8,085,346
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		<u>3,044,241</u>
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 excess of amounts transferred (timing issue)		<u>3,030,444</u>
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>6,407,336</u>
		34,178,120
Add:		
Plant fund income/transfers (net) not previously combined with operating:		24,425,341
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		<u>1,067,291</u>
		14,554,539
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 excess of amounts transferred (timing issue)		<u>(319,478)</u>
		5,944,273
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)
		23,252,472
Add:		
Plant fund income/transfers (net) not previously combined with operating:		15,171,089
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		<u>11,254,678</u>
		16,978,439
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 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 excess of amounts transferred (timing issue)		<u>(2,405,299)</u>
		3,868,513
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>15,202,855</u>
		(8,499,925)
		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>407,686</u>
		(535,777)
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 excess of amounts transferred (timing issue)		<u>6,332,932</u>
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>(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>5,133,544</u>
Net increase in net assets - GASB Statement No. 34 Format	\$	<u>8,871,000</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 excess of amounts transferred (timing issue)		<u>5,502,009</u>
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>1,174,658</u>
		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, 2010



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

November 15, 2010

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, 2010 and issued our report thereon dated November 15, 2010. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

#### **Our Responsibility Under Professional Standards**

We are responsible for forming and expressing an opinion about whether the basic financial statements that have been prepared by management with the oversight of the 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.

#### **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



University of South Alabama  
Communication to the Budget and  
Finance Committee of the Board of Trustees  
November 15, 2010  
Page 2

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.

### **Significant Accounting Policies**

The significant accounting policies used by the University are described in note 1 to the basic financial statements. As described in Note 1(j), in order to comply with the requirements of U.S. generally accepted accounting principles, the University adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, in 2010.

### **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 have discussed with those charged with governance our judgments about the quality, not just the acceptability, of the University's accounting principles 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 discussions generally included such matters as the consistency of the University's accounting policies and their application, and the understandability and completeness of the University's basic financial statements, which include related disclosures.

### **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the 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. Additionally, the fair value of the University's derivatives is based on calculating future net settlement payments utilizing forward rates implied by the yield curve based on future spot interest rates. The payments are discounted using spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of future settlement.



University of South Alabama  
Communication to the Budget and  
Finance Committee of the Board of Trustees  
November 15, 2010  
Page 3

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.

#### **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, 2010.

#### **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 20, 2010

**PRIVATE**

University of South Alabama  
Attn: Mr. M. Wayne Davis  
Vice President for Financial Affairs  
307 University Boulevard North, AD 170  
Mobile, AL 36688-0002

Dear Wayne:

This letter amends our engagement letter dated January 19, 2009, confirming our understanding to provide professional audit services to the University of South Alabama (the University) by substituting the attached Appendix I for the Appendix I originally attached to our engagement letter.

The attached Appendix I lists the services to be rendered and related fees to provide each specified service for the identified time period. Except as specified in this letter and in the Appendix I attached to this letter, all provisions of the aforementioned engagement letter remain in effect until either management or we terminate this agreement or mutually agree to the modification of its terms.

While our report may be sent to the University electronically for your convenience, only the hard copy report is to be relied upon as our work product.

The University agrees to provide prompt notification if the University or any of its affiliates currently are or become subject to the laws of a foreign jurisdiction that require regulation of any securities issued by the University or such subsidiary or affiliate.

KPMG-controlled entities and KPMG member firms located outside the United States operating under our supervision may also participate in providing the services described in this letter, and KPMG uses administrative services operating at our direction, including third parties inside and outside the U.S., that may access your information to perform administrative and clerical procedures.

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

Very truly yours,

KPMG LLP



Mark P. Peach  
Partner

University of South Alabama  
July 20, 2010  
Page 2 of 2

ACCEPTED:

UNIVERSITY OF SOUTH ALABAMA



Mr. M. Wayne Davis  
*Vice President for Financial Affairs*

7/23/10  
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, 2010 and other reports detailed below	\$415,000
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#### Other Reports:

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

#### Report

Reports issued in connection with OMB Circular A-133  
Debt covenant compliance report  
Debt agreed upon procedures report  
University of South Alabama Health Services Foundation  
South Alabama Medical Science Foundation  
USA Research and Technology Corporation  
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, no significant increase in the purchase of additional alternative investments, and that we will only have to audit two major programs associated with OMB Circular A-133. Progress billings will be sent every two weeks and are due within thirty days upon receipt.

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



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

Telephone +1 601 364 3701  
Fax +1 601 364 3748  
Internet www.us.kpmg.com

October 22, 2010

University of South Alabama  
Attn: Mr. M. Wayne Davis  
Vice President for Financial Affairs  
307 University Boulevard North, AD 170  
Mobile, AL 36688-0002

Dear Wayne

**PRIVATE**

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, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, University Facilities Revenue Capital Improvement Bonds, Series 2008, and University Facilities Revenue Capital Improvement Bonds, Series 2010, as of September 30, 2010 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, 2010, 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 accounting principles generally accepted in the United States of America.

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.

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*

\_\_\_\_\_  
Date

July 20, 2010

**PRIVATE**

University of South Alabama  
Attn: Mr. M. Wayne Davis  
Vice President for Financial Affairs  
307 University Boulevard North, AD 170  
Mobile, AL 36688-0002

Dear Wayne:

This letter amends our engagement letter dated August 5, 2009, confirming our understanding to provide professional audit services to USA Research and Technology Corporation (the Corporation) by substituting the attached Appendix I for the Appendix I originally attached to our engagement letter.

The attached Appendix I lists the services to be rendered and related fees to provide each specified service for the identified time period. Except as specified in this letter and in the Appendix I attached to this letter, all provisions of the aforementioned engagement letter remain in effect until either management or we terminate this agreement or mutually agree to the modification of its terms.

While our report may be sent to the Corporation electronically for your convenience, only the hard copy report is to be relied upon as our work product.

The Corporation agrees to provide prompt notification if the Corporation or any of its affiliates currently are or become subject to the laws of a foreign jurisdiction that require regulation of any securities issued by the Corporation or such subsidiary or affiliate.

KPMG-controlled entities and KPMG member firms located outside the United States operating under our supervision may also participate in providing the services described in this letter, and KPMG uses administrative services operating at our direction, including third parties inside and outside the U.S., that may access your information to perform administrative and clerical procedures.

USA Research and Technology Corporation  
July 20, 2010  
Page 2 of 2

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

Very truly yours,

KPMG LLP



Mark P. Peach  
*Partner*

ACCEPTED:

USA Research and Technology Corporation



Mr. M. Wayne Davis  
*Secretary and Treasurer*

7/23/10.  
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 basic financial statements of USA Research and  
Technology Corporation as of and for the year ended  
September 30, 2010**

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.

August 3, 2010

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 amends our engagement letter dated April 1, 2009, confirming our understanding to provide professional audit services to University of South Alabama Health Services Foundation (the Foundation) by substituting the attached Appendix I for the Appendix I originally attached to our engagement letter.

The attached Appendix I lists the services to be rendered and related fees to provide each specified service for the identified time period. Except as specified in this letter and in the Appendix I attached to this letter, all provisions of the aforementioned engagement letter remain in effect until either management or we terminate this agreement or mutually agree to the modification of its terms.

While our report may be sent to the Foundation electronically for your convenience, only the hard copy report is to be relied upon as our work product.

The Foundation agrees to provide prompt notification if the Foundation or any of its affiliates currently are or become subject to the laws of a foreign jurisdiction that require regulation of any securities issued by the Foundation or such subsidiary or affiliate that would result in KPMG becoming subject to registration in such jurisdiction.

KPMG-controlled entities and KPMG member firms located outside the United States operating under our supervision may also participate in providing the services described in this letter, and KPMG uses administrative services operating at our direction, including third parties inside and outside the U.S., that may access your information to perform administrative and clerical procedures.

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

Very truly yours,

KPMG LLP



Ashley E. Willson  
Partner



University of South Alabama Health Services Foundation  
August 3, 2010  
Page 2

**ACCEPTED:**

**UNIVERSITY OF SOUTH ALABAMA HEALTH SERVICES FOUNDATION**



Mr. John P. Pennelli  
*Assistance Vice President, Medical Financial Affairs*

8/11/10  
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 the financial statements of University of South Alabama  
Health Services Foundation as of and for the year ended September 30, 2010**

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.

August 3, 2010

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 amends our engagement letter dated April 1, 2009, confirming our understanding to provide professional audit services to University of South Alabama Professional Liability Trust Fund and University of South Alabama General Liability Program (the Trust Funds) by substituting the attached Appendix I for the Appendix I originally attached to our engagement letter.

The attached Appendix I lists the services to be rendered and related fees to provide each specified service for the identified time period. Except as specified in this letter and in the Appendix I attached to this letter, all provisions of the aforementioned engagement letter remain in effect until either management or we terminate this agreement or mutually agree to the modification of its terms.

While our report may be sent to the Trust Funds electronically for your convenience, only the hard copy report is to be relied upon as our work product.

The Trust Funds agree to provide prompt notification if the Trust Funds or any of their affiliates currently are or become subject to the laws of a foreign jurisdiction that require regulation of any securities issued by the Trust Funds or such subsidiary or affiliate that would result in KPMG becoming subject to registration in such jurisdiction.

KPMG-controlled entities and KPMG member firms located outside the United States operating under our supervision may also participate in providing the services described in this letter, and KPMG uses administrative services operating at our direction, including third parties inside and outside the U.S., that may access your information to perform administrative and clerical procedures.

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

Very truly yours,

KPMG LLP



Ashley E. Willson  
Partner

University of South Alabama  
August 3, 2010  
Page 2

**ACCEPTED:**

**UNIVERSITY OF SOUTH ALABAMA PROFESSIONAL LIABILITY TRUST FUND**

**UNIVERSITY OF SOUTH ALABAMA GENERAL LIABILITY PROGRAM**



Mr. Robert K. Davis  
*Assistant Vice President for Financial Affairs*

8/11/10

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 reports:

**Audit of the financial statements of University of South Alabama  
Professional Liability Trust Fund as of and for the year ended September 30, 2010**

**Audit of the financial statements of University of South Alabama  
General Liability Program as of and for the year ended September 30, 2010**

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.

August 3, 2010

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

Dear John:

This letter amends our engagement letter dated April 1, 2009, confirming our understanding to provide professional audit services to South Alabama Medical Science Foundation (the Foundation) by substituting the attached Appendix I for the Appendix I originally attached to our engagement letter.

The attached Appendix I lists the services to be rendered and related fees to provide each specified service for the identified time period. Except as specified in this letter and in the Appendix I attached to this letter, all provisions of the aforementioned engagement letter remain in effect until either management or we terminate this agreement or mutually agree to the modification of its terms.

While our report may be sent to the Foundation electronically for your convenience, only the hard copy report is to be relied upon as our work product.

The Foundation agrees to provide prompt notification if the Foundation or any of its affiliates currently are or become subject to the laws of a foreign jurisdiction that require regulation of any securities issued by the Foundation or such subsidiary or affiliate that would result in KPMG becoming subject to registration in such jurisdiction.

KPMG-controlled entities and KPMG member firms located outside the United States operating under our supervision may also participate in providing the services described in this letter, and KPMG uses administrative services operating at our direction, including third parties inside and outside the U.S., that may access your information to perform administrative and clerical procedures.

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

Very truly yours,

KPMG LLP



Ashley E. Willson  
Partner

South Alabama Medical Science Foundation  
August 3, 2010  
Page 2

**ACCEPTED:**

**SOUTH ALABAMA MEDICAL SCIENCE FOUNDATION**



Mr. John P. Pannelli  
*Assistant Vice President, Medical Financial Affairs*



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 the financial statements of South Alabama Medical  
Science Foundation as of and for the year ended September 30, 2010**

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



BUSINESS OFFICE

TELEPHONE: (251) 460-6241  
AD 380 • MOBILE, ALABAMA 36688-0002

November 15, 2010

KPMG LLP  
One Jackson Place, Suite 1100  
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, 2010 and 2009, 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, 2010.

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 (board of trustees 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.
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 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 FASB Accounting Standards Codification (ASC) 450, *Contingencies*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC 450.
  - 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 summarized, if any, 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, 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 audits.
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. 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. Significant affiliation relationships requiring disclosure.
  - 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. 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. 115, *Communicating Internal Control Related Matters Identified in an Audit*.
19. There have been no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
20. There have been no:

- a. Instances of fraud involving others that could have a material effect on the adjustments.
  - b. Allegations, either written or oral, of misstatements or other misapplication of accounting principles in the University's adjustments that have not been disclosed to you in writing.
  - c. Allegations, either written or oral, of deficiencies in internal control that could have a material effect on the University's adjustments that have not been disclosed to you in writing.
  - d. False statements affecting the University's adjustments made to you, our internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audits.
21. There are no material transactions that have not been properly recorded in the accounting records underlying the adjustments.
22. We believe that all material expenditures that have been deferred to future periods will be recoverable.
23. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, or other studies related to the objectives of this audit including whether related recommendations have been implemented.
24. The basic financial statements properly classify all funds and activities.
25. 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.
26. The University has complied with all tax and debt limits and with all debt related covenants.
27. The University has presented all required supplementary information. This information has been measured and prepared within prescribed guidelines.
28. The University has complied with all applicable laws and regulations in adopting, approving and amending budgets.

29. 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.
30. 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.
31. 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.
32. 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.
33. 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.
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.
36. The University has identified and properly reported all of its derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.
37. The University has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, including those related to the recognition of outlays associated with the development of internally generated computer software.

38. 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.
39. 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.
40. 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.
41. 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.
42. We agree with the findings of specialists in evaluating the reserves related to the Professional Liability and General Liability Trust Funds and the fair value calculation of the University's derivative instruments. We have adequately considered the qualifications of the specialists 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.



43. Provision, when material has been made for:

- a) Losses to be sustained from inability to fulfill any sales commitments.
- b) Estimated loss to be sustained as a result of retroactive adjustments by third-party payors under reimbursement agreements that are subject to examination, including denied claims, changes to Diagnosis-related group (DRG) assignments or other classification criteria affecting reimbursement.
- c) Losses to be sustained as a result of adjustments resulting from review of Medicare or other payor claim data by the Professional Review Organization (PRO) or other payors' reviewers with which the University has agreements.
- d) Losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.
- e) Losses to be sustained as a result of other-than-temporary declines in the fair value of investments.
- f) Liabilities for physician and medical services provided to members covered under capitation arrangements. The recorded liability includes both claims received and unpaid as well as an estimate of the claims incurred but not reported and loss to be sustained for commitments to provide medical services to enrollees under capitation agreements.

44. Management has taken steps to timely and appropriately remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that we have reported.

45. We have evaluated all related organizations to determine that the accounting for such organizations is in accordance with Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*.

Additionally, we confirm, to the best of our knowledge and belief, the following representations made to you during your A-133 audit:

46. The University is responsible for complying, and has complied, with the requirements of OMB Circular A-133.

47. The University has prepared the Schedule of Expenditures of Federal Awards (SEFA) in accordance with the requirements of OMB Circular A-133 and has included all expenditures made during the year ended September 30, 2010 for all awards provided by federal agencies in the form of grants, awards under the American Recovery and Reinvestment Act (ARRA) federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance. The University has appropriately identified and separated all ARRA awards within the SEFA.
48. 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.

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.

49. We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over compliance that we have identified which could adversely affect the University's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, and the provisions of contracts and grant agreements. Under standards established by the American Institute of Certified Public Accountants, a deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct on a timely basis noncompliance with a type of compliance requirement of a federal program. A "significant deficiency" is a control deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that, is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A "material weakness" is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.
50. 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:

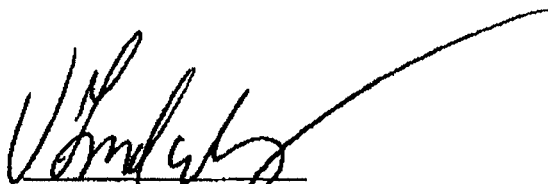
- a. Management, including management involved in the administration of federal programs
  - b. Employees who have significant roles in internal control over the administration of federal programs
  - c. Others where the fraud could have a material effect on compliance with laws and regulations, and provisions of contract and grant agreements related to its federal programs.
- 51. 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.
  - 52. 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.
  - 53. 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.
  - 54. 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.
  - 55. 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.
  - 56. Federal financial reports and claims for advances and reimbursements are supported by the accounting records from which the financial statements have been prepared.
  - 57. 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.
  - 58. 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.

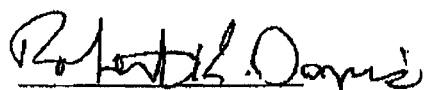
59. The University has considered the results of subrecipient audits and has made any necessary adjustments to its own accounting records.
60. The University is responsible for, and has accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133.
61. 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.
62. The University has accurately completed Part I of the data collection form.
63. The University has advised you of all contracts or other agreements with service organizations.
64. If applicable, the University has disclosed to you all communication from its service organizations.
65. The University has disclosed any noncompliance occurring subsequent to September 30, 2010.
66. 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, 2010.
67. There are no material unrecorded environmental remediation liabilities that must be recorded and/or disclosed in the University's financial statements.
68. We believe that the amount recorded as due from the Health Service Foundation is fully collectible.

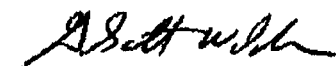
Very truly yours,

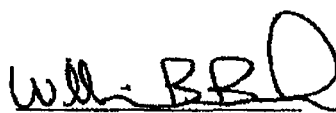
University of South Alabama

  
V. Gordon Moulton  
President

  
M. Wayne Davis  
Vice President for Financial Affairs

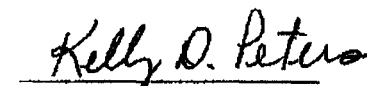
  
Robert K. Davis  
Associate Vice President for Financial  
Affairs & Director of Tax Accounting

  
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



BUSINESS OFFICE

TELEPHONE: (251) 460-6241  
AD 380 • MOBILE, ALABAMA 36688-0002

November 15, 2010

KPMG LLP  
One Jackson Place, Suite 1100  
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 management 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 Cash and Investments Held by Trustee Pursuant to the Bond Resolutions relating to the 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, University Facilities Revenue Capital Improvement Bonds 2008, and University Facilities Revenue Capital Improvement Bonds, Series 2010, as of September 30, 2010, 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 above referenced subject matter. 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.

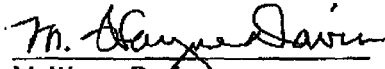
Further, we confirm, to the best of our knowledge and belief, the following representations made to you during your agreed-upon procedures engagement:

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 October 22, 2010, as of and for the year ended September 30, 2010.
4. We are responsible for selecting the criteria and for determining that such criteria are 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 15, 2010, 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  
*Vice President for Financial Affairs*



## **USA RESEARCH AND TECHNOLOGY CORPORATION**

November 15, 2010

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, 2010 and 2009, 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 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.

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 (Board of Directors or appropriate committees), or summaries of actions of recent meetings for which minutes have not yet been prepared.

775 NORTH UNIVERSITY BOULEVARD, SUITE 150, MOBILE, ALABAMA 36608  
TELEPHONE: (251) 460-6384 • FAX: (251) 461-1774

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 FASB Accounting Standards Codification (ASC) 450, *Contingencies*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC 450.
  - 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 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, 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 audits.
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; 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. 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.
12. 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.
13. 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.
14. 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 restrictions, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.
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. 115, *Communicating Internal Control Related Matters Identified in an Audit*.
16. The Corporation has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, including those related to the recognition of outlays associated with the development of internally generated computer software.

17. The Corporation has identified and properly reported all of its derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and believe the valuation of the interest rate swap approximates fair value.
18. 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 Corporation or operation of the Corporation that would affect our tax exempt status.
19. 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. 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.
20. The Corporation has a reasonable basis for allocation of functional expenses.
21. 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.
22. The Organization 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, 2010.
23. Management has reviewed, approved, and taken responsibility for accrual adjustments.
24. 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.
25. Management has a process to track the status of audit findings and recommendations.
26. The Corporation has identified and properly accounted for all nonexchange transactions.


27. The Corporation does not have any unrecorded financial instruments with off-balance-sheet risk or credit risk.
28. There are no material unrecorded environmental remediation liabilities that must be recorded and/or disclosed in the Corporation's financial statements.
29. The basic financial statements properly classify all funds and activities.
30. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and approved, if applicable.
31. The Corporation has complied with all tax and debt limits and with all debt related covenants.
32. The Corporation has complied with all applicable laws and regulations in adopting, approving and amending budgets.
33. 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.
34. 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.
35. Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.
36. Special and extraordinary items are appropriately classified and reported.

Very truly yours,

USA Research and Technology Corporation

A handwritten signature in cursive script, reading "V. Gordon Moulton". The signature is written in dark ink and is positioned above the printed name and title.

V. Gordon Moulton  
President

A handwritten signature in cursive script, reading "M. Wayne Davis". The signature is written in dark ink and is positioned above the printed name and title.

M. Wayne Davis  
Secretary/Treasurer

A handwritten signature in cursive script, reading "R. Ken Davis". The signature is written in dark ink and is positioned above the printed name and title.

R. Ken Davis  
Associate Vice President of Financial Affairs

# UNIVERSITY OF SOUTH ALABAMA



RISK MANAGEMENT AND INSURANCE

5795 USA DRIVE NORTH, ROOM 216  
MOBILE, ALABAMA 36688-0002  
TELEPHONE: (251) 460-6232  
FAX: (251) 460-6074

November 15, 2010

KPMG LLP  
One Jackson Place, Suite 1100  
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) as of September 30, 2010 and 2009, and the related statements of activities – modified cash basis for each of the period ended September 30, 2010, for the purpose of expressing an opinion as to whether these financial statements present fairly, in all material respects, the financial position of the Trust Fund, and the respective changes in financial position and cash flows, in conformity with the modified cash basis of accounting which is a comprehensive basis of accounting other than U.S. 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 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 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 stockholders, directors, and committees of directors, 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:

- 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 FASB Accounting Standards Codification (ASC) 450, *Contingencies*.
- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.
- 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 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 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 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.

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, short sellers, or others.

8. The Trust Fund 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 Policy Committee member 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.

10. 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, 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.
- 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.
11. The Trust Fund has complied, in all material respects, with applicable laws, regulations, contracts, and grants that could have a material effect on the financial statements in the event of noncompliance.
12. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Trust Fund. Management has identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

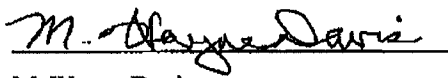
13. There are no deficiencies, significant deficiencies, or material weaknesses in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the Trust Fund's ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a "significant deficiency" and a "material weakness" in accordance with the definitions in Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*.
14. Receivables reported in the financial statements represent valid claims against debtors for sales or other charges arising on or before the date of the statement of net assets and have been appropriately reduced to their estimated net realizable value.
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 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. 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.
17. Deposits and investment securities are properly classified and reported.
18. 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.
19. 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.
20. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.

21. 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.
22. Data used in actuarially projecting ultimate unpaid claims and claims adjustment expenses is complete and accurate, and is reconciled to the underlying accounting records.
23. The financial statements properly classify all funds and activities.
24. 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.
25. 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.
26. Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.
27. Special and extraordinary items are appropriately classified and reported.

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 accounting principles generally accepted in the United States of America.

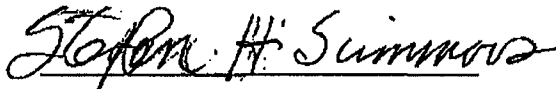
Very truly yours,

University of South Alabama Professional Liability Trust Fund



M. Wayne Davis

*Risk Management Committee Member*



Stephen H. Simmons

*Risk Management Committee Member*



Connie G. Cook

*Trust Fund Administrator*

# UNIVERSITY OF SOUTH ALABAMA



RISK MANAGEMENT AND INSURANCE

5795 USA DRIVE NORTH, ROOM 216  
MOBILE, ALABAMA 36688-0002  
TELEPHONE: (251) 460-6232  
FAX: (251) 460-6074

November 15, 2010

KPMG LLP  
One Jackson Place, Suite 1100  
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) as of September 30, 2010 and 2009, and the related statements of activities -- modified cash basis for each of the period ended September 30, 2010, for the purpose of expressing an opinion as to whether these financial statements present fairly, in all material respects, the financial position of the Program, and the respective changes in financial position and cash flows, in conformity with the modified cash basis of accounting which is a comprehensive basis of accounting other than U.S. 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 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 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 stockholders, directors, and committees of directors, 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:

- 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 FASB Accounting Standards Codification (ASC) 450, *Contingencies*.
- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.
- 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 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 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 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.

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, short sellers, or others.

8. The Program 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 Policy Committee member 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.
10. 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, 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.
  - 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.
11. The Program has complied, in all material respects, with applicable laws, regulations, contracts, and grants that could have a material effect on the financial statements in the event of noncompliance.
  12. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Program. Management has identified and



disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

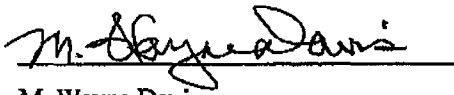
13. There are no deficiencies, significant deficiencies, or material weaknesses in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the Program's ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a "significant deficiency" and a "material weakness" in accordance with the definitions in Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*.
14. Receivables reported in the financial statements represent valid claims against debtors for sales or other charges arising on or before the date of the statement of net assets and have been appropriately reduced to their estimated net realizable value.
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 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. 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.
17. Deposits and investment securities are properly classified and reported.
18. 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.
19. 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.

20. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.
21. 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.
22. Data used in actuarially projecting ultimate unpaid claims and claims adjustment expenses is complete and accurate, and is reconciled to the underlying accounting records.
23. The financial statements properly classify all funds and activities.
24. 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.
25. 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.
26. Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.
27. Special and extraordinary items are appropriately classified and reported.

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 accounting principles generally accepted in the United States of America.

Very truly yours,

University of South Alabama General Liability Program



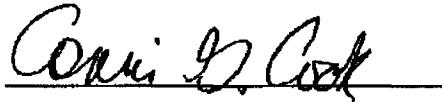
M. Wayne Davis

*Risk Management Committee Member*



Stephen H. Simmons

*Risk Management Committee Member*



Connie G. Cook

*Trust Fund Administrator*

UNIVERSITY OF SOUTH ALABAMA

HEALTH SERVICES FOUNDATION  
ADMINISTRATIVE OFFICES



TELEPHONE: (251) 461-1241  
P.O. BOX 8465  
MOBILE, ALABAMA 36689-0465  
FAX: (251) 460-6071

November 15, 2010

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

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the statements of financial position of University of South Alabama Health Services Foundation (the Foundation) as of September 30, 2010 and 2009, and the related statements of operations and changes in deficit, and cash flows for each of the years in the two year period ended September 30, 2010, 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 stockholders, 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 FASB Accounting Standards Codification (ASC) 450, *Contingencies*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.
  - 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 date of the statement of financial position 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 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 accounting principles generally accepted in the United States of America.

- 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, short sellers, 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. 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 FASB ASC 825, *Financial Instruments*, 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 ASC 460, *Guarantees*.
- c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the FASB ASC 275, *Risks and Uncertainties*.

Significant estimates are estimates at the date of the statement of financial position, which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, labor, 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.

- c. 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. Significant relationships with affiliated organizations, and the financial statements of those organizations, where required.
  - i. All assets and liabilities under the Foundation's control.
  - j. 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.
11. 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.
12. 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.
13. 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.
14. 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. 115, *Communicating Internal Control Related Matters Identified in an Audit*.



15. Receivables reported in the financial statements represent valid claims against debtors for sales, services, or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
16. 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.
17. 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.
18. The Foundation has appropriately grouped long-lived assets together for purposes of assessing impairment in accordance with FASB ASC 360, *Property, Plant and Equipment*. 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.
19. We are responsible for making the fair value measurements and disclosures included in the financial statements, in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, including determining the fair value of investments for which a readily determinable fair value does not exist, using the inputs described in Levels 2 and/or 3 of the fair value hierarchy. As part of fulfilling this responsibility, we have established an accounting and financial reporting process for determining the fair value measurements and disclosures, in accordance with the fair value techniques included in FASB ASC 820, 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 including the disclosure requirements of FASB ASC 820. We believe the assumptions and methods used by us, including those used by specialists engaged by us, are in accordance with the definition of fair value in FASB ASC 820 and the disclosures adequately describe the level

of the inputs used in the fair value measurement, in accordance with the fair value hierarchy in FASB ASC 820.

20. We believe that all material expenditures that have been deferred to future periods will be recoverable.
21. The Foundation is in compliance with bond indentures or other debt agreements.
22. 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. 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, Recovery Audit Contractors (RAC) audits, changes to Diagnosis-related Group (DRG) assignments or other classification criteria affecting reimbursement.
  - e. Loss 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 Foundation has agreements.
  - 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.
- 23. 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.
- 24. Uncertain tax positions have been accounted for in accordance with the provisions of FASB ASC 740, *Income Taxes*.
- 25. 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 in federal awards during the year ended 9/30/2010.
- 26. 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.
- 27. 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.
- 28. The Foundation has adopted the provisions of FASB ASC 958-205, *Not-for-Profit Entities — Presentation of Financial Statements*, including any changes required to net asset classification of donor-restricted endowment funds and the incremental disclosure

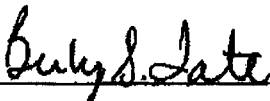
requirements for all endowment funds (including both donor-restricted and board-designated endowment funds).

29. The Organization 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, 2010. 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 FASB ASC 958-320, *Not-for-Profit Entities – Investments-Debt and Equity Securities*.
30. 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.

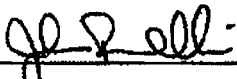
Very truly yours,

University of South Alabama Health Services Foundation



Becky S. Tate

*Chief Executive Officer*



John P. Pannelli

*Assistant V.P., Medical 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, 2010, and have issued our report thereon dated November 15, 2010, which included an explanatory paragraph that described the change in the University's method of accounting for derivatives discussed in note 1(j) to those statements due to the adoption of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. We did not audit the 2010 consolidated financial statements of the University of South Alabama Foundation, which represents 80%, 101%, and 23%, respectively, of the 2010 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, on September 25, 2008, authorizing the issuance of \$112,885,000 University Facilities Revenue Capital Improvement Bonds, Series 2008, and on June 16, 2010, authorizing the issuance of \$29,750,000 University Facilities Revenue Capital Improvement Bond, Series 2010, 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 15, 2010

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("KPMG International"), a Swiss entity.



**UNIVERSITY OF SOUTH ALABAMA**

**Independent Accountants' Report on Applying Agreed-Upon  
Procedures in Connection with, University Tuition  
Revenue Bonds, Series 1999, University Tuition Revenue Refunding  
and Capital Improvement Bonds, Series 2004, University Tuition Revenue Refunding  
and Capital Improvement Bonds, Series 2006, University Facilities Revenue Capital  
Improvement Bonds, Series 2008, and University Facilities Revenue Capital  
Improvement Bond, Series 2010**

**September 30, 2010**



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

**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 Bonds, Series 1999, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, University Facilities Revenue Capital Improvement Bonds, Series 2008, and University Facilities Revenue Capital Improvement Bond, Series 2010, as of September 30, 2010 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, 2010 (not included herein), which approximated \$77,222,587 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 15, 2010

## UNIVERSITY OF SOUTH ALABAMA

Statement of Changes in Cash and Investments  
Held by Trustee Pursuant to the Bond Resolutions

University Tuition Revenue Bonds, Series 1999,  
 University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004,  
 University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006,  
 University Facilities Revenue Capital Improvement Bonds, Series 2008, and  
 University Facilities Revenue Capital Improvement Bond, Series 2010

Year ended September 30, 2010

(In thousands)

## Cash and investment transactions:

## Cash receipts:

Deposits from University of South Alabama for interest and retirement of bonds	\$	18,563
Proceeds from sale of investments		12,253
		<u>30,816</u>

## Cash disbursements:

Principal payments		5,715
Interest payments		12,848
Purchases of investments		12,253
		<u>30,816</u>

Net change in cash and investments during the year

—

## Total cash and investments held by trustee:

Beginning of year		<u>—</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 Bonds, Series 1999,  
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004,  
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006,  
University Facilities Revenue Capital Improvement Bonds, Series 2008, and  
University Facilities Revenue Capital Improvement Bond, Series 2010

September 30, 2010

(In thousands)

Cash and investments, at cost:

Total cash and investments

\$           —          

See accompanying independent accountants' report on applying agreed-upon procedures.

## RESOLUTION

### NAMING THE HONORABLE JAMES P. NIX AS *TRUSTEE EMERITUS*

**WHEREAS**, the Honorable James P. Nix served with distinction on the Board of Trustees of the University of South Alabama from 1989 – 2010, and

**WHEREAS**, Mayor Nix served the Board as Chair Pro Tempore from 1991 – 1995 and again from 2001 – 2004, and

**WHEREAS**, during his tenure of 21 years, Mayor Nix played a significant role on numerous important committees of the Board, including Chair of the Budget and Finance Committee, Chair of the Long-Range Planning Committee, and as a member of the Executive Committee, and

**WHEREAS**, in his capacity as Chair Pro Tempore, Mayor Nix represented the University as a member of the Board of Directors of the USA Foundation from 1991 – 1995 and again from 2001 – 2004, and

**WHEREAS**, while serving in various capacities on the Board, Mayor Nix provided support, insight and leadership to the development and progress of many University initiatives, including Campaign USA and the creation of USA Children's & Women's Hospital, the USA Mitchell Cancer Institute, the USA Technology and Research Park, and the football and marching band programs, and

**WHEREAS**, through his many years of dedicated public service, Mayor Nix has shown stewardship, wisdom, guidance and philanthropy, and has advanced the interests of the University of South Alabama and the community,

**THEREFORE, BE IT RESOLVED**, that the Board of Trustees of the University of South Alabama expresses its sincere appreciation to the Honorable James P. Nix for his many contributions and many years of dedicated service to the Board, to the University community, to the people of this region, and to the citizens of the state of Alabama, and confers upon him the title of *Trustee Emeritus* of the University of South Alabama.

## RESOLUTION

### NAMING MR. DONALD L. LANGHAM AS *TRUSTEE EMERITUS*

**WHEREAS**, Mr. Donald L. Langham has served faithfully and tirelessly as a member of the Board of Trustees of the University of South Alabama from 1997 – 2010, and

**WHEREAS**, Mr. Langham served the Board as Chair Pro Tempore from 2004 – 2007, and

**WHEREAS**, in addition to Chair Pro Tempore, Mr. Langham has served the Board as Secretary, Vice Chair, and as a member of the Budget and Finance Committee, the Health Affairs Committee, the Endowment and Investments Committee, the Long-Range Planning Committee and the Executive Committee, and

**WHEREAS**, Mr. Langham represented the University as a member of the USA Foundation Board of Directors and the USA Research and Technology Corporation Board of Directors, and

**WHEREAS**, Mr. Langham's dynamic leadership provided insight and guidance critical to many major University initiatives, including the USA Mitchell Cancer Institute, the USA Technology and Research Park, football and marching band programs, and Campaign USA, the University's first comprehensive campaign, and

**WHEREAS**, as a result of Mr. Langham's generous contribution to Campaign USA, the *Alice and Don Langham Transitional Room* was established at USA Children's & Women's Hospital, and

**WHEREAS**, Mr. Langham's philanthropy, stewardship, wisdom and guidance have played a prominent role in advancing the interests of the University of South Alabama,

**THEREFORE, BE IT RESOLVED**, that the Board of Trustees of the University of South Alabama expresses its sincere appreciation to Mr. Donald L. Langham for his many contributions and many years of dedicated service to the Board, to the University community, to the people of this region, and to the citizens of the state of Alabama, and confers upon him the title of *Trustee Emeritus* of the University of South Alabama.