UNIVERSITY OF SOUTH ALABAMA BOARD OF TRUSTEES

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2007-2010

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Mr. Larry D. Striplin, Jr.

UNIVERSITY OF SOUTH ALABAMA BOARD OF TRUSTEES

SEPTEMBER 17, 2010 10:30 A.M.

FREDERICK P. WHIDDON ADMINISTRATION BUILDING AD 122, BOARD ROOM

REVISED AGENDA

ITEM		PAGE
*	Approve:	Revised Agenda
1	Approve:	Minutes
2	Report:	President's Report Presentation at Meeting
HEALTH .	AFFAIRS:	
3		USA Hospitals Medical Staff Appointments and Reappointments, May, June, July and August 2010
4	Approve:	Second Addendum to the Affiliation Agreement between USA and the USA Health Services Foundation
5	Report:	Health System and Health Sciences Presentation at Meeting
6	Report:	USA Mitchell Cancer Institute
ACADEMI	IC AND STU	DENT AFFAIRS:
7	Report:	Academic Affairs Presentation at Meeting
8	Report:	Student Affairs
B UDGET.	AND FINAN	VCE:
9	Report:	Monthly Fund Financial Reports for April, May, and June 2010 1, 18, and 35
		Quarterly GASB Financial Statements, Nine Months ended June 30, 2010 52
		Summary Comparison of Fund Financial Reports to GASB 34 Financial Statements, June 30, 2010 and 2009
10	Approve:	Execution of Notice of Federal Interest in a USA Specialized Laboratory
* 11	Approve:	Execution of Notice of Federal Interest in Office and Laboratory Space on the Second and Third Floors of the Medical Sciences Building
12		Sale of Medical Research Building and Ground Lease to Alabama Department of Forensic Sciences
* 12.A	Approve:	Architect for Student Center Renovation
13	Approve:	Sale of USA Brookley Center Campus
AUDIT:		
14	Report:	KPMG Auditors Presentation at Meeting
15	Report:	Independent Audit of the USA Foundation Consolidated Financial Statements and the Disproportionate Share Hospital Funds Combined Financial Statements, June 2010 and 2009
ENDOWM	ENT AND I	NVESTMENTS:
16	Report:	Endowment and Investments Presentation at Meeting
17	Approve:	Evaluation of the University's Endowment and Non-Endowment Investment Policies
OTHER:		
* 17.A	Approve:	Naming of Joseph E. Gottfried Drive
* 17.в	Approve:	Commendation of Dr. Robert A. Shearer
* 18	Approve:	Commendation of Trustee Steven H. Stokes, M.D. as Chair Pro Tempore Emeritus 3
	Unveiling	: Oil Portrait of Chair Pro Tempore Emeritus Steven H. Stokes, M.D.



September 3, 2010

TO: USA Board of Trustees

FROM: Bettye R. Maye

Secretary, USA Board of Trustees

Enclosed are the unapproved minutes for the June 10, 2010, meeting of the USA Board of Trustees. Please review them for amendment or approval during the September 17 meeting of the Board.

BRM:mgc

Enclosure

UNIVERSITY OF SOUTH ALABAMA BOARD OF TRUSTEES MEETING

June 10, 2010 10:00 a.m.

A meeting of the University of South Alabama Board of Trustees was duly convened by Dr. Steven H. Stokes, Chair Pro Tempore, on Thursday, June 10, 2010, at 10:05 a.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present: Trustees Steven Furr, Donald Langham, Bettye Maye, Christie Miree,

Arlene Mitchell, Bryant Mixon, James Nix, John Peek, Ken Simon,

Steven Stokes and James Yance.

Members Absent: Trustees Scott Charlton, Cecil Gardner, Samuel Jones, Joseph Morton,

Bob Riley and Larry Striplin.

Administration President Gordon Moulton; Drs. Michael Boyd, Joseph Busta,

and Others: Jim Connors and Julie Estis (Faculty Senate), Pat Covey, Roy Daigle,

Debra Davis, Ron Franks, David Johnson, Russ Lea, Vaughn Millner, Carl Moore, Robert Shearer, Bob Shipp, John Smith, John Steadman, David Stearns, Rick Talbott and Richard Wood; Messrs. Louis Cardinal (Thornton Farish, Inc.), Lee Covey, George Davis (National Alumni Assn.), Wayne Davis, Stan Hammack, Rod Kanter (Bradley Arant Boult Cummings, LLP), Abe Mitchell and Steve Simmons; Mss. Lisa Furr, Geri Moulton, Kim Proctor (SGA), Angelia Stokes, Jean Tucker and

Frances Yance.

Press: Mr. Johnny Davis (*The Vanguard*); and Mss. Renee Busby (*Press*-

Register) and Cherish Lombard (Fox-10).

Chairman Stokes convened the meeting and called for adoption of the revised agenda. On motion by Ms. Miree, seconded by Mr. Peek, the revised agenda was unanimously approved. Chairman Stokes called for consideration of ITEM 1, the minutes of the March 12, 2010, meeting of the Board of Trustees, the March 11, 2010, meeting of the Committee of the Whole, and the April 15, 2010, meeting of the Executive Committee. On motion by Ms. Miree, seconded by Mr. Peek, the minutes were unanimously adopted.

President Moulton presented ITEM2, the President's Report. President Moulton introduced Drs. Jim Connors and Julie Estis, Faculty Senate Chair and Secretary, respectively; and Ms. Kim Proctor, SGA President. He announced a record summer enrollment of 7,667 students, a 4.3 percent increase from the 2009 summer semester. He said that registration for the 2010 fall semester is up by 400 students over this time last year. The demand for housing this fall is high.

President Moulton addressed the Gulf oil spill and said the role of USA and the Dauphin Island Sea Lab in recovery efforts would be addressed in the Academic Affairs Report. He noted that Drs. Connors, Assistant Professor of Earth Sciences, and Bob Shipp, Chair - Department of Marine Sciences, are focused on the Gulf crisis. President Moulton called attention to the *Business View*,

USA Board of Trustees Page 2 June 10, 2010

a monthly publication of the Mobile Area Chamber of Commerce, which features the University's progress and economic impact. He announced plans to host the Chamber's Board of Directors and Advisors meeting on campus in August, and recognized the importance of the Chamber's support in helping to advance major initiatives of the University, including creation of the USA Mitchell Cancer Institute and the USA Technology and Research Park.

President Moulton discussed the Annual Fund campaign, co-chaired by Drs. Errol Crook and David Stearns. He reported that \$521,000 had been raised, which exceeded the institution's goal of \$480,000. Sixty-eight percent of employees participated in the campaign. President Moulton expressed pride that the University family continues to give despite challenging economic times.

President Moulton presented an update on construction projects while the Board viewed photos and drawings of the new student residence hall; the campus portals; the student dining hall; the art glass studio, which is 95 percent complete; Shelby Hall, which will house the College of Engineering and the School of Computer and Information Sciences; the Infectious Disease Lab; the Student Recreation Center, which is 90 percent complete; Moulton Bell Tower and Alumni Plaza; the Bookstore renovation, which will add 5,000 square feet; and the proposed expansion of USA Children's and Women's Hospital, which will add 140,000 square feet. He said the amphitheater at Moulton Tower will seat 300 people. Dr. Jason Guynes, Chair of the Visual Arts Department, will be the artist for ceiling murals at the tower. The Trustees viewed a sculpture donated by artist Will Fong for the Recreation Center. President Moulton reported that the Certificate of Need hearing for the Children's and Women's Hospital expansion will take place on July 21.

President Moulton stated that USA would play its first season football game against Pikeville College (Kentucky) on September 4. USA's maiden away game will be in Dothan on September 25 against Edward Waters College (Jacksonville, FL). President Moulton announced that the dedication of the Student Recreation Center is slated for Friday, September 17, to coincide with the next Board meeting pending approval of the 2010-2011 meeting schedule. He said the tentative date for the dedication of Moulton Bell Tower and Alumni Plaza is Friday, October 1, to coincide with the Kentucky Wesleyan football game to be played on Saturday, October 2.

Dr. Stokes called for consideration of **ITEM 3** as follows. On motion by Mr. Langham, seconded by Mayor Nix, the resolution was unanimously approved:

RESOLUTION BOARD MEETING SCHEDULE, 2010-2011

WHEREAS, Article II, Section 1, of the Bylaws provides that the Board shall schedule annually, in advance, regular meetings of the Board to be held during the ensuing year, and may designate one of such meetings as the annual meeting of the Board,

THEREFORE, BE IT RESOLVED that the regular meetings of the University of South Alabama Board of Trustees shall be held on the following dates:

September 17, 2010 December 9, 2010 March 11, 2011 June 9, 2011 USA Board of Trustees Page 3 June 10, 2010

FURTHER, BE IT RESOLVED that the date of June 9, 2011, be designated as the annual meeting of the University of South Alabama Board of Trustees for 2010-2011.

President Moulton presented ITEM 4 as follows. He observed that, in a time of financial constraint, the costs for obtaining verbal transcripts of Board meetings are unnecessary when the University routinely maintains audio recordings of all proceedings. Dr. Stokes recalled that unusual circumstances in prior years had prompted formal action by the Board to have the proceedings certified. On motion by Mayor Nix, seconded by Ms. Maye, the resolution was unanimously approved.

RESOLUTION DISCONTINUATION OF COURT REPORTING SERVICE

WHEREAS, at its meeting on July 2, 1998, the University of South Alabama Board of Trustees approved engaging the services of a court reporter for meetings of the Board, and

WHEREAS, in addition to approved minutes, a full and accurate record of the meetings can be accomplished via the audio recording of the proceedings without incurring the expense of a court reporting service for a verbatim transcription,

THEREFORE, BE IT RESOLVED, that the Board of Trustees authorizes the discontinuation of court reporting services.

Chairman Stokes called for a report of health affairs items. Dr. Furr, Chair of the Health Affairs Committee, moved approval of **ITEM 5** as follows. Mr. Peek seconded and the resolution was unanimously approved:

RESOLUTION USA HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS FOR MARCH, APRIL AND MAY 2010

WHEREAS, the Medical Staff appointments and reappointments for March, April and May 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 called for presentation of ITEM 6, a report of the Division of Health Sciences and the USA Health System. Dr. Franks discussed a \$7.5 million grant award to USA's Center for Strategic Health Innovation from the U. S. Department of Health and Human Services that will fund the transition of patient information to electronic records for improved health care in Alabama. Dr. Dan Roach, the Center's Director of Informatics and principal investigator, will lead the statewide initiative in providing resources to physicians and hospitals, especially in rural communities, to update patient records systems.

As part of ITEM 7, a report on the USA Mitchell Cancer Institute (MCI), Dr. Boyd presented ITEM 8 as follows (refer to APPENDIX A for copies of policies and other authorized documentation), and provided a summary of proposed revisions to the MCI's Guidelines and Policies for Faculty

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Appointments, Promotion and Tenure. On motion by Dr. Furr, seconded by Ms. Maye, the resolution was unanimously approved:

RESOLUTION

UNIVERSITY OF SOUTH ALABAMA MITCHELL CANCER INSTITUTE REVISED GUIDELINES AND POLICIES FOR FACULTY APPOINTMENTS, PROMOTION AND TENURE

WHEREAS, officials of the USA Mitchell Cancer Institute (MCI) and the USA College of Medicine deem it appropriate for certain qualified individuals to be assigned to faculty appointments within the MCI, and to have the opportunity to be awarded promotion and tenure, and

WHEREAS, said officials have developed cooperatively such revised guidelines and policies, which accompany this resolution and are incorporated by reference herein,

THEREFORE, BE IT RESOLVED, that the USA Board of Trustees approves and adopts the herein-described revised guidelines and policies for MCI faculty appointments, promotion, and tenure.

Dr. Furr presented ITEM 8.A as follows, saying that extensive discussion had taken place during the Committee of the Whole meeting on June 9. He defined a revision in the language of the resolution and moved approval. President Moulton asserted that, for USA's Hospitals and Clinics to be competitive, the University must adapt to changing times, utilize best practices and solutions, and align its health care system with suitable compensation models. He stated that the protection of USA employees' interests is a paramount concern of the Administration in considering the creation of a LLC, and assured that participation by current employees is entirely voluntary. Ms. Mitchell seconded and the resolution was unanimously approved:

RESOLUTION FORMATION OF USA HEALTHCARE MANAGEMENT, LLC

WHEREAS, pursuant to Title 16, Chapter 55 of the Code of Alabama 1975, as amended (the "Enabling Law"), the University of South Alabama (the "University") was established for the purpose of providing a state institution of higher learning within Mobile County; and

WHEREAS, in furtherance of the purposes for which the University was established, there are owned and operated by the University (I) the University of South Alabama Medical Center, a 406-bed tertiary care hospital which includes a level one trauma center, a burn unit, and state-of-the-art facilities for internal medicine, surgery and cardiovascular diagnostic and treatment techniques, and USA Children's & Women's Hospital, a 152-bed facility specializing in pediatric services, which include pediatric oncology, pediatric intensive care and neonatal intensive care, as well as obstetric, including high risk obstetrics, and gynecological services (together, the "Hospital"), and (ii) the University of South Alabama Mitchell Cancer Institute, a comprehensive cancer treatment center (the "MCI"). There is also the University of South Alabama Health Services Foundation ("HSF"), an Alabama non-profit corporation, that provides a comprehensive physician practice plan consisting of approximately 200 academic physicians representing multiple specialties and subspecialties that render patient care as a part of the University's academic health care enterprise.

WHEREAS, as a result of rising costs within the health care industry, the need to align related employee benefits with those of similarly-situated providers, and the need to facilitate more efficient management and operation of the health care enterprises of the University, and given the effects of proration and reduced funding levels for public universities and institutions of higher education within the State of Alabama, the Board of Trustees has determined it necessary to explore operational options, without sacrificing educational standards, the quality of patient care or the quality of employment within the health services programs of the University; and

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WHEREAS, the Board of Trustees has determined that the University could achieve operational efficiencies through the formation of a limited liability company, the sole member of which would be the University ("USA HealthCare Management, LLC"), in order to, on behalf of and as agent for the University, manage and operate various aspects of, and to provide general personnel support for, the University's health services programs, including but not limited to managing and operating certain of the health care enterprises of the University and employing individuals who will perform services for and on behalf of said programs; and

WHEREAS, the forms of Articles of Organization (the "Articles of Organization") and Operating Agreement (the "Operating Agreement") necessary for the creation and operation of USA HealthCare Management, LLC are attached hereto as Exhibit A and Exhibit B, respectively.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees has determined it best and in furtherance of the purposes for which the University was created that USA HealthCare Management, LLC be created as a limited liability company, the sole member of which shall be the University, 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, including, but not limited to, employing personnel to manage and operate the Hospital and the MCI, and in that regard to become a part of the University's academic medical center. The President of the University, the Vice President for Financial Affairs and the Vice President for Health Systems are hereby authorized and directed to execute, file and deliver the Articles of Organization and the Operating Agreement, with such changes or modifications thereto as shall be made or approved by the President of the University, in consultation with the Vice President for Financial Affairs, the Vice President for Health Systems, the Vice President for Health Sciences and the Director of the MCI, as the case may be; and

FURTHER RESOLVED, by the members of the Board of Trustees that the President of the University is hereby authorized and directed to adopt and cause to be adopted and implemented such policies and to undertake such actions as shall be necessary or desirable to fulfill the objectives of this resolution respecting the staffing and operation of USA HealthCare Management, LLC and, as existing employees of the University become employees of USA HealthCare Management, LLC the elimination of the employment positions with the University occupied thereby; and, further, that any person holding title of President, Vice President for Financial Affairs, Vice President for Health Systems, or Associate Vice President for Financial Affairs within the University shall be authorized, in their respective capacities as officers of the University and following the due creation of USA HealthCare Management, LLC, to execute such agreements, documents, instruments and certificates as shall be necessary or desirable to cause the formation, staffing, and operation of USA HealthCare Management, LLC as aforesaid and to consummate the transactions herein contemplated including, without limitation, negotiating the terms of a definitive management and operating agreement between the University and USA HealthCare Management, LLC, seeking a private letter ruling and determination letter from the U.S. Internal Revenue Service respecting certain federal tax matters related to USA HealthCare Management, LLC and amending that certain affiliation agreement between the University and HSF to reflect the revised relationship between such parties due to the transactions herein contemplated; provided, however, that nothing herein or in any of the documents, agreements or instruments authorized hereunder shall be interpreted as authorizing or otherwise permitting any officer or employee of the University, or, once created, USA HealthCare Management, LLC, to undertake any action on behalf of or in connection with USA HealthCare Management, LLC that such individual would not otherwise be permitted to undertake within the scope of their employment or role with the University.

Chairman Stokes called for consideration of academic and student affairs items. Ms. Miree, Academic and Student Affairs Committee Chair, asked Dr. Johnson to present ITEM 9, a report of academic affairs activities. Dr. Johnson introduced Dr. Roy Daigle, Associate Dean of the School of Computer and Information Sciences. He reported on the improved test scores of graduates from the recently redesigned Mitchell College of Business MBA program. Graduates scored in the 90th percentile as a group. Dr. Johnson introduced Dr. Bob Shipp, Chair of Marine Sciences, for a perspective on the Gulf oil spill. Dr. Shipp discussed the conditions of wildlife, the shorelines and estuaries, and the Gulf of Mexico while Trustees viewed photos and video footage. Dr. Shipp introduced Dr. Sean Powers, Associate Professor, who has extensive expertise in oil-spill research.

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Dr. Shipp explained that three significant concerns in the recovery effort are the elimination of the use of dispersants, the preservation of the Gulf habitat in spite of the potential for losing the current generation of Gulf wildlife, and the protection of the sargassum, an algae which he deemed the "forgotten habitat," in and under which species reproduce and are abundant. He stated that, while the outlook is not positive, the Department of Marine Sciences is fully committed to the expansive effort to reclaim the Gulf.

Dr. Johnson presented **ITEM 10** as follows. On motion by Ms. Miree, seconded by Dr. Furr, the resolution was unanimously approved:

RESOLUTION ASSOCIATE PROFESSOR EMERITUS

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

Jerrold L. Downey, Ph.D., Associate Professor of Psychology

and,

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

WHEREAS, the faculty and chairperson from his department, academic dean, the Senior Vice President for Academic Affairs, and the President have duly recommended the aforementioned retiree from the University faculty for appointment to the rank of Associate Professor Emeritus, and

NOW THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama in a seated meeting held on June 10, 2010, hereby appoints the aforenamed individual to the rank of Associate Professor Emeritus with the rights and privileges thereunto appertaining, and

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

Dr. Johnson recommended ITEM 11 as follows. On motion by Mr. Langham, seconded by Ms. Maye, the resolution was unanimously approved:

RESOLUTION TENURE AND PROMOTION

WHEREAS, in accordance with University policy, faculty applications for tenure and promotion have been reviewed by the respective faculty peers, Departmental Chair, College Dean, and by the Senior Vice President for Academic Affairs or the Vice President for Medical Affairs, and the President, and of those faculty considered, the following individuals are hereby recommended for tenure and/or promotion,

THEREFORE, BE IT RESOLVED, that the University of South Alabama Board of Trustees approves and grants tenure and/or promotion to those individuals whose names are listed below to be effective August 15, 2010.

COLLEGE OF ALLIED HEALTH PROFESSIONS

Tenure: Julie M. Estis <u>Promotion to Senior Instructor:</u> Gary L. Varner

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Promotion to Associate Professor:

Julie M. Estis

COLLEGE OF ARTS AND SCIENCES

Tenure: Jeannette Fresne Kern M. Jackson Matthew A. Johnson Zoya Khan Patricia F. Mark

Juan L. Mata Mark C. Yates

Promotion to Senior Instructor:

Robert E. Faust Alice M. Kracke Clinton S. Major

MITCHELL COLLEGE OF BUSINESS

Promotion to Professor:

Kelly C. Woodford

COLLEGE OF EDUCATION

Tenure: Andrea M. Kent

Promotion to Associate

Professor: Andrea M. Kent

COLLEGE OF MEDICINE

Promotion to Adjunct Associate Professor:

Allison Chung, Pharm. D.

Tenure:

Michele Schuler, D.V.M., Ph.D. David Weber, Ph.D. Thomas Rich, Ph.D.

Dean Naritoku, M.D.

Promotion to Assistant

Professor:

Mykhaylo Ruchko, Ph.D.

Promotion to Associate Professor:

Jeannette Fresne Zoya Khan Patricia F. Mark Juan L. Mata Mark C. Yates

Promotion to Professor:

Anne A. Boettcher John W. McCreadie Sytske K. Kimball

Promotion to Professor:

Steven F. Pugh Daniel W. Surry

Promotion to Professor:

Paul Maertens, M.D. Daniel Preud'Homme, M.D. James Elliott Carter, M.D. John VandeWaa, D.O., Ph.D.

Promotion to Associate Professor:

Michele Schuler, D.V.M., Ph.D. David S. Weber, Ph.D. Ladonna Crews, M.D.

Abu Bakr Al-Mehdi, M.D., Ph.D.

Thomas Rich, Ph.D. Songwei Wu, M.D. Sheryl Falkos, M.D. Martha Arrieta, M.D., Ph.D. USA Board of Trustees Page 8 June 10, 2010

COLLEGE OF NURSING

<u>Promotion to Clinical Associate Professor:</u> Suzanne E. Fogger

Anita H. King

Promotion to Associate Professor:

Heather R. Hall

MITCHELL CANCER INSTITUTE

Promotion to Associate Professor:

Rajeev Samant

Ms. Miree called for consideration of **ITEM 12** as follows. Dr. Jim Connors, Chair of the Faculty Senate, outlined the proposed revisions to the senate constitution. On motion by Ms. Miree, seconded by Mr. Peek, the resolution was unanimously approved:

Promotion to Clinical Professor:

Carolyn G. White

RESOLUTION AMENDMENTS TO FACULTY SENATE CONSTITUTION

WHEREAS, Article III of the University of South Alabama Faculty Senate Constitution provides that any amendments must be approved by a majority of the University faculty and by the Board of Trustees, and

WHEREAS, amendments were properly proposed and unanimously passed by the University of South Alabama Faculty Senate, and

WHEREAS, these amendments as outlined below were subsequently voted upon by the University faculty and each obtained the required votes,

- A Faculty Senator may be elected to a second three-year term.
- The Chair of the Faculty Senate may be elected to a second one-year term.
- Amendments to the Faculty Senate Constitution may be proposed by a 3/5 vote of the Senate. A majority of the faculty must vote on the proposed amendment and a majority of those voting must approve the proposed change.

THEREFORE, BE IT RESOLVED, the Board of Trustees approves said amendments to the Faculty Senate Constitution.

Ms. Miree called upon Dr. Smith to address ITEM 13, a report of student affairs activities Dr. Smith introduced Dr. Chris Charlton, USA's Director of Student Housing.

Dr. Smith presented ITEM 14 as follows, noting that food services for students is a self-sustaining function, with the facility utilities and debt service supported by meal plan revenues. He stated that all students living on campus will be required to purchase a meal plan. He said a variety of plans are offered and that discussions with Aramark were beneficial in keeping costs to students at a minimum. On motion by Ms. Miree, seconded by Judge Simon, the resolution was unanimously approved:

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RESOLUTION FOOD SERVICE SCHEDULE

WHEREAS, the University is constructing a new state-of-the-art dining facility in the area of the residence halls to provide a high-quality and convenient dining option for the residence hall students, and

WHEREAS, this facility is to be financially self-supporting and an important part of campus life,

THEREFORE, BE IT RESOLVED, that the Board of Trustees approves the requirement that, effective Fall Semester 2010, all students living in University Housing be required to purchase a meal plan, and approves the dining services meal plans and rates for 2010-2011 as set forth in the attached schedule.

President Moulton presented ITEM 15 as follows, stating that considerable discussion had taken place among the Administration to determine how best to address the University's budget deficit. Ms. Miree stated that the Board and the Administrators are conscientious when making difficult decisions. She moved approval and Ms. Mitchell seconded. Judge Simon added that the matter had been studied extensively, and noted that the Administration had communicated with the students and made efforts to minimize expenses. He said many influencing factors are beyond the University's control and the increases are reasonable, necessary, and consistent with increases that other institutions are recommending or have adopted. President Moulton said the prevailing thought, based upon the actions of peer institutions in the state, is that the cost for a full-time student at USA will remain at least 10 percent below what other schools will charge, putting the University at a marketing advantage. He discussed the legislative mandate that limits tuition increases for PACT students to 2.5 percent annually except for students enrolled at the University of Alabama and Auburn University. He expressed hope for an equitable solution. The resolution was unanimously approved:

RESOLUTION TUITION, HOUSING AND FEE SCHEDULES, 2010-2011

WHEREAS, the University of South Alabama ("University") is committed to maintaining high-quality educational and student services programs at a competitive cost, and

WHEREAS, in the face of a global economic recession that has diminished state revenues, the Alabama Legislature has approved a 2010-2011 education budget that reduces USA's state funding by \$40 million from three years ago, a 29 percent decrease, and

WHEREAS, the University since 2007-08 has incurred more than \$23.4 million in unavoidable additional costs annually, including increases in employer contributions to the Alabama Teachers' Retirement System, PEEHIP health insurance for retirees, utilities and operations, and employee health insurance, and others, and

WHEREAS, the University has responded to the recession by implementing cost-cutting measures including the reduction of 320 positions, as well as new initiatives to maximize efficiency of delivery of services, and

WHEREAS, the federal stimulus funds of \$21.6 million that have helped defray a portion of the cuts in state funding are expected to expire after the 2010-2011 budget year, and

WHEREAS, the recent legislation limiting the University from raising tuition by more than 2.5 percent annually for the 400 PACT students at USA will result in a loss of revenue of more than \$1.6 million over the next five years, placing an additional financial burden on non-PACT students, and

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WHEREAS, increases in tuition, fees, and housing rates are necessary to maintain the standard of quality that USA students and their families desire and expect, and

WHEREAS, USA desires to adopt a simpler tuition structure that integrates required fees into credit hour charges, providing students and parents with easier cost comparisons among institutions, greater predictability in budgeting for college, and less complicated billing, at the same time ensuring that all student services previously supported by individually designated fees will continue to receive funding at levels equal to those approved by the Board of Trustees, and

WHEREAS, with the proposed tuition, housing and required fees for 2010-2011 as set forth in the attached schedules, such costs at the University would continue to be among the lowest in effect at the public doctoral-level institutions in the State of Alabama.

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama approves the tuition, housing and required student fees for 2010-2011 as set forth in the attached schedules.

Chairman Stokes called for consideration of budget and finance items. Mayor Nix, Budget and Finance Committee Chair, noted receipt of ITEM 16 reports titled Monthly Fund Financial Reports for January, February and March 2010; Quarterly GASB Financial Statement for the Six Months Ended March 2010; and Summary Comparison of Fund Financial Reports to GASB Financial Statements, March 31, 2010 and 2009. There was no discussion.

Mayor Nix called for discussion of ITEM 17 as follows. President Moulton stated that appointments to the USA Research and Technology Corporation Board of Directors must be ratified by the USA Board of Trustees. On motion by Mr. Langham, seconded by Mr. Yance, the resolution was unanimously approved:

RESOLUTION ELECTION OF DIRECTORS OF THE USA RESEARCH AND TECHNOLOGY CORPORATION BOARD

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

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

WHEREAS, the Board of Directors of the Corporation has nominated for consideration and confirmation by the Board of Trustees of the University Mr. Danny K. Patterson and Ms. Cheryl Williams for four (4)-year terms beginning June 2010, and these persons have agreed to serve in this capacity if elected,

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama does hereby elect as Directors of the USA Research and Technology Corporation Mr. Danny K. Patterson and Ms. Cheryl Williams, both for four (4)-year terms beginning June 2010.

Mr. Ken Davis outlined ITEM 18 as follows. On motion by Mr. Langham, seconded by Mr. Peek, the resolution was unanimously approved:

RESOLUTION ROTH OPTION ADDITION TO THE UNIVERSITY OF SOUTH ALABAMA TAX-DEFERRED ANNUITY PLAN

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

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

WHEREAS, pursuant to final regulations under Section 403(b) of the Internal Revenue Code issued on July 26, 2007, that became effective January 1, 2009, the plan was restated in written form, and

WHEREAS, it is desirable to have available for all employees the option of making after-tax contributions to the plan under the Roth provisions of the Internal Revenue Code, and

WHEREAS, no changes to the Tax-Deferred Annuity Plan, other than the addition of the Roth option, are being made,

THEREFORE, BE IT RESOLVED, that the Board of Trustees approves the addition of the Roth option for the University of South Alabama Tax-Deferred Annuity Plan and authorizes the President to sign the amended plan adoption agreement.

Mayor Nix called for a report on the sale of USA Brookley Center Campus, ITEM 18.A. President Moulton reported that the USA Foundation Board of Directors had approved an option to purchase the Brookley Campus for the sum of \$20 million, to be paid in four annual installments of \$5 million. He said preparation of the documents will take some time, and formal approval of the sale would be presented for the Board's consideration at the September 17 meeting. For the interim, President Moulton recommended that, if the Board desired, it could affirm acceptance of the report. Dr. Stokes assured that the USA Foundation Board is committed to the aerospace industry and economic development in the city of Mobile. President Moulton agreed, saying this has been the position of the USA Foundation all along. On motion by Dr. Stokes, seconded by Mr. Yance, the Board unanimously agreed to accept the report.

President Moulton introduced **ITEM 18.B** as follows. On motion by Ms. Maye, seconded by Mr. Peek, the resolution was unanimously approved:

RESOLUTION UNIVERSITY BUDGET FOR 2010-2011

BE IT RESOLVED, that the University of South Alabama Board of Trustees approves the 2010—2011 University of South Alabama Budget, and

BE IT FURTHER RESOLVED, that the University of South Alabama Board of Trustees approves the 2010–2011 Budget as a continuation budget for 2011–2012 in order to be in compliance with bond trust indenture requirements if the budget process cannot be completed prior to beginning the 2011–2012 fiscal year.

Mr. Wayne Davis discussed ITEM 19 as follows relative to various construction needs around the campus, including the renovation of the Bookstore and the Student Center, and introduced Messrs. Louis Cardinal of the firm of Thornton Farish, Inc., and Rod Kanter of the firm of Bradley

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Arant Boult Cummings, LLP, for details about financing these projects. Mr. Cardinal reported that 11 banks had been invited to bid on May 26, and that, based upon the University's superior financial rating and the Administration's stipulation of specific terms, Compass Bank had delivered the most appealing bid for a 3.81 percent interest rate on a 20-year, fixed-rate loan. He further noted that more than \$175,000 in miscellaneous fees had been waived, making for an extremely attractive deal. Mr. Kanter stated that the loan closing is scheduled for June 16, and offered to answer questions about the resolution. Judge Simon agreed that the opportunity is compelling, and he moved approval. Mr. Langham seconded and the resolution was unanimously approved:

RESOLUTION

ISSUANCE OF ONE \$29,750,000 UNIVERSITY FACILITIES REVENUE CAPITAL IMPROVEMENT BOND SERIES 2010

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

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

- (1) it is necessary, advisable, in the interest of the University and in the public interest that the University design, acquire, construct, install, furnish and equip various capital improvements on the property of the University including, without limitation, a new dormitory to consist of approximately 330 bedrooms for use by students of the University, capital improvements, renovations, equipment, and furnishings for the Student Center, Student Recreation Center, and various other buildings and facilities of the University, and various other general capital improvements (herein collectively called the "Improvements") on the property of the University;
- (2) it is necessary, advisable, in the interest of the University and in the public interest that the University issue its \$29,750,000 University Facilities Revenue Capital Improvement Bond, Series 2010 (the "Bond") in order to: (I) pay the costs of designing, acquiring, constructing, installing, furnishing and equipping the Improvements, and (ii) pay the costs of issuing the Bond; and
- (3) the University has undertaken a competitive bidding process for the issuance and sale of the Bond pursuant to which the University has determined to award the sale of the Bond to Compass Bank, and Compass Bank has agreed to purchase the Bond from the University.
- (b) Bond to be Issued as an Additional Parity Bond Under the Indenture; Special Findings Under Section 8.2(b) of the Indenture. The Bond shall be issued as an additional parity bond under Article VIII of the Indenture hereinafter referred to. In accordance with the provisions of Section 8.2(b) of the Indenture, the Board hereby finds and declares as follows:
 - (1) the University is not now in default under the Indenture and no such default is imminent;
 - (2) the Bond shall be designated Series 2010;
 - (3) the person to whom the Bond is to be delivered is set forth in Section 6 hereof;
 - (4) the Bond is to be issued by sale in accordance with Section 6 hereof;
 - (5) the sale price of the Bond is set forth in Section 6 hereof;
 - (6) (a) the only bonds that have previously been issued by the University under the Indenture are its (I) \$31,680,000 original principal amount of University Tuition Revenue Refunding and Capital Improvement Bonds, Series 1996, dated February 15, 1996 (the "Series 1996 Bonds"), which were issued under and pursuant to the Trust Indenture dated as of February 15, 1996 further described in Section 2 hereof, (ii) \$7,055,000 original principal amount of University Tuition Revenue Refunding Bonds, Series 1996B, dated

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> October 15, 1996 (the "Series 1996B Bonds"), which were issued under and pursuant to the First Supplemental Trust Indenture dated as of October 15, 1996, (iii) \$40,130,000.70 original principal amount of University Tuition Revenue Bonds, Series 1999, dated March 1, 1999 (the "Series 1999 Bonds"), which were issued under and pursuant to the Second Supplemental Trust Indenture dated as of October 15, 1996, (iv) \$51,080,000 original principal amount of Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, dated March 15, 2004 (the "Series 2004 Bonds"), which were issued under and pursuant to the Fourth Supplemental Trust Indenture dated as of March 15, 2004, (v) \$100,000,000 original principal amount University Tuition Revenue Refunding and Capital Improvement Bonds, dated December 1, 2006 (the "Series 2006 Bonds"), which were issued under and pursuant to the Fifth Supplemental Trust Indenture dated as of December 1, 2006, and (vi) \$112,885,000 original principal amount University Facilities Revenue Capital Improvement Bonds, Series 2008 (the "Series 2008 Bonds" and, together with the Series 1999 Bonds, the Series 2004 Bonds and the Series 2006 Bonds, the "Outstanding Bonds"), which were issued under and pursuant to the Sixth Supplemental Trust Indenture dated as of September 1, 2008; and (b) in Article VIII of the Indenture, the University has reserved the right to issue additional bonds, secured by a pledge of the Pledged Revenues on a parity with the Outstanding Bonds and with such additional bonds as shall have thereafter been issued thereunder, upon compliance with the applicable provisions of said Article VIII; and

- (7) the Outstanding Bonds are the only bonds heretofore issued under the Indenture that are at this time outstanding under the Indenture.
- (8) the Bond is being issued for the purpose of paying the costs of the Improvements and of issuing the Bond.

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

Section 2. Authorization of Bond. For the purposes specified in Section 1 of this resolution, there is hereby authorized to be issued by the University its \$29,750,000 University Facilities Revenue Capital Improvement Bond, Series 2010, dated June 16, 2010 (herein called the "Bond"), all under the terms, conditions and provisions set out in the Seventh Supplemental University Facilities Revenue Trust Indenture dated June 16, 2010, between the University and The Bank of New York Mellon Trust Company, N.A., as trustee (herein called the "Trustee"), which is supplemental to the University Facilities Revenue Trust Indenture between the University and the Trustee dated as of February 15, 1996 (the said Trust Indenture, as heretofore supplemented and amended and as further supplemented and amended by the said Seventh Supplemental University Facilities Revenue Trust Indenture, herein called the "Indenture"). All the provisions of the Indenture respecting the Bond are hereby adopted as a part of this resolution as fully as if set out at length herein.

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

Section 4. Bond Payable at Par. All remittances of principal of and interest on the Bond to the holder thereof shall be made at par without any deduction for exchange or other cost, fees or expenses. The bank at which the Bond shall at any time be payable shall be considered by acceptance of its duties under the Indenture to have agreed that it will make or cause to be made remittances of principal of and interest on the Bond, out of the moneys provided for that purpose, in bankable funds at par without any deduction for exchange or other cost, fees or expenses. The University will

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pay to such bank or banks all reasonable charges made and expenses incurred by them in making such remittances in bankable funds at par.

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

Section 6. Sale of the Bond. The Bond is hereby sold and awarded to Compass Bank (the "Purchaser"), at and for a purchase price equal to \$29,750,000 (the face amount of the Bond). The Bond shall bear such date, shall mature in annual installments at such times and in such manner, shall bear such rate of interest, shall be payable at such place, shall be in such denomination, and shall be in such form and contain such provisions as are set out in the Seventh Supplemental University Facilities Revenue Trust Indenture authorized in Section 5 above.

Section 7. Execution and Delivery of the Bond. The Board does hereby authorize and direct the President of the University to execute the Bond, in the name and on behalf of the University, by causing a manual or facsimile of his signature to be imprinted thereon, and does hereby authorize and direct the Secretary of the Board to cause the corporate seal of the University to be imprinted or impressed on the Bond and to attest the same by causing a manual or facsimile of her signature to be imprinted thereon, all in the manner provided in the Indenture, and the President of the University is hereby authorized and directed to deliver the Bond, subsequent to its execution as provided herein and in the Indenture, to the Trustee under the Indenture, and to direct the Trustee to authenticate the Bond and to deliver it to the Purchaser.

Section 8. Application of Proceeds. The entire proceeds derived from the sale of the Bond shall be paid to the University and applied for payments of the costs of the Improvements and of issuing the Bond.

Section 9. Designation of Bond as "Qualified Tax-Exempt Obligation". The Board hereby designates the Bond as a "qualified tax-exempt obligation" for the purpose of paragraph (b)(3)(A) of Section 265 of the Internal Revenue Code of 1986, as amended, and, in connection therewith and after due investigation and consideration, hereby finds, determines and declares that the amount of tax-exempt obligations that have heretofore during the current calendar year been issued by the University and all subordinate entities of the University and the reasonably anticipated amount of tax-exempt obligations that will be issued by the University and all subordinate entities of the University during the current calendar year (including, without limitation, the Bond) will not exceed the sum of \$30,000,000.

Section 10. Resolution Constitutes Contract. The provisions of this resolution shall constitute a contract between the University and the Purchaser of the Bond.

Section 11. Severability. The various provisions of this resolution are hereby declared to be severable. In the event any provision hereof shall be held invalid by a court of competent jurisdiction, such invalidity shall not affect any other portion of this resolution.

Section 12. General Authorization. The President of the University, the Vice President for Financial Affairs and the Secretary of the Board are hereby authorized to execute such further agreements, certifications, instruments or other documents and to take such other action as any of them may deem appropriate or necessary for the consummation of the matters covered by this resolution, to the end that the Bond may be executed and delivered as promptly as practicable.

Mayor Nix called for consideration of ITEM 19.A as follows. President Moulton noted the approaching deadline for the receipt of construction bids and said the Administration would be prudent in selecting the firm that meets all requirements. He asserted that construction would begin as quickly as possible in order for the facility to be complete for the 2011 fall semester. On motion by Mr. Yance, seconded by Ms. Miree, the resolution was unanimously approved:

RESOLUTION GENERAL CONTRACTOR FOR RESIDENTIAL BUILDING

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

WHEREAS, the quality of student life is strongly enhanced by excellent residential facilities, and

WHEREAS, the recruitment of students is strongly enhanced by high quality residential facilities, and

WHEREAS, the number of students seeking residence on campus has grown significantly over the past three years, and

WHEREAS, providing additional residential buildings is most beneficial at the beginning of a fall semester, and

WHEREAS, due to the increasing demand for on campus living-learning facilities, the fall of 2011 is the target date for a new residential building, and

WHEREAS, request for bids for the General Contractor for this residential building project will be first advertised June 8, 2010, with bids to be received on July 7, 2010, and

WHEREAS, in order to meet the above construction scheduling requirements, the contract awarded to the General Contractor with the lowest responsible and responsive bid must be executed no later than July 12, 2010,

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama hereby authorizes the President of the University to approve the General Contractor selected through the bid process prescribed by Alabama

Chairman Stokes called for a report of audit items. Mayor Nix, Audit Committee Chair, asked for presentation of ITEM 20, the Department of Examiners of Public Accounts Compliance Examination of the University of South Alabama for the fiscal year ending September 30, 2008. Mr. Simmons discussed the report, which presented two comments for the attention of the Board of Trustees. He explained the findings and corrective measures, stating the weaknesses in internal controls had been identified and strengthened. He addressed questions and remarks from Board members.

President Moulton presented ITEM 21 as follows, which honors the service and loyalty of former longtime Trustee Jack Brunson with the naming of a University road in his memory. He said the road leads into campus from the Hillsdale subdivision. President Moulton read the resolution and, on motion by Ms. Mitchell, seconded by Ms. Maye, the resolution was unanimously approved. Dr. Stokes remembered Mrs. Edna Brunson, wife of Mr. Brunson, as a gracious lady:

RESOLUTION NAMING OF JACK BRUNSON DRIVE

WHEREAS, the University of South Alabama seeks to recognize persons who have rendered exemplary service in 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. Jack Brunson, a member of the Board of Trustees from 1989 - 2006 and Chair *Pro Tempore* from June 1998 through May 2001, made generous contributions of time, dedicated service, wise counsel, and financial resources and exemplified the highest qualities of leadership and stewardship,

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THEREFORE, BE IT RESOLVED, in recognition of Mr. Jack Brunson's outstanding service souvenir commitment to the University of South Alabama, the Board of Trustees authorizes the President to change the name of Hillsdale Drive to Jack Brunson Drive.

Upon unanimous agreement, the Board took a brief recess.

Chairman Stokes reconvened the meeting and President Moulton addressed ITEM 21.A as follows. He welcomed the Coveys and reminisced about Dr. Covey's distinguished career at the University, describing her as an innovator. He announced a major gift from the Coveys in the amount of \$2 million to create the Leeman Harper Covey Scholars Fund, an endowed scholarship for deserving Allied Health Professions students. In recognition of this gift and her numerous accomplishments and contributions over the years, President Moulton stated that the naming of the Pat Capps Covey College of Allied Health Professions was fitting of Dr. Covey's legacy as the founding Dean of the College. To mark the occasion, President Moulton presented the Coveys with a framed resolution. Dr. Covey spoke of the rewarding opportunities and friends she enjoyed during her tenure. The Coveys recognized Arlene, Mayer and Abe Mitchell for their inspiring philanthropic support of the University. Mr. Covey conveyed pride in the accomplishments of his wife and shared the inspirations for his decision to make the gift. On motion by Mr. Langham, seconded by Sheriff Mixon, the Board unanimously approved the resolution:

RESOLUTION NAMING OF THE PAT CAPPS COVEY COLLEGE OF ALLIED HEALTH PROFESSIONS

WHEREAS, Dr. Pat Capps Covey, prior to her retirement in 2008, served the University of South Alabama with highest distinction during a career spanning 33 years as a Professor of Biomedical Sciences, founding Chair of the Department of Clinical Laboratory Sciences, Director of Allied Health Professions, founding Dean of the College of Allied Health Professions, and Senior Vice President for Academic Affairs, and

WHEREAS, during her distinguished tenure, Dr. Covey worked diligently to advance many University initiatives, including development of graduate and undergraduate programs in the College of Allied Health Professions, a succession of institutional self-study processes for accreditation renewal by the Southern Association of Colleges and Schools; creation of the USA Honors Program; development of guidelines for increased student recruitment and retention; development of the *University of South Alabama Strategic Plan for Racial and Ethnic Diversity*, and creation of a partnership with Auburn University to offer a pharmacy doctoral program on the USA campus, and

WHEREAS, Leeman H. Covey has been a staunch supporter of the University of South Alabama and the programs and initiatives led by Dr. Covey, as well as a highly respected leader in higher education, government, and business endeavors in the region, having served as Vice President for Financial Affairs at Spring Hill College, Director of Fiscal Affairs for the City of Mobile, and President and Chair of the Board of Collegiate Housing Foundation, and

WHEREAS, Dr. Pat Capps Covey and Leeman H. Covey, in addition to numerous other significant gifts and donations, recently have pledged to the University the sum of \$2,000,000, the assets from which an endowment will be established to fund scholarship programs in the College of Allied Health Professions to be named the *Leeman Harper Covey Scholars Program*,

THEREFORE, BE IT RESOLVED, the Board of Trustees expresses its gratitude and appreciation for the generosity and legacy of service and leadership of Dr. Pat Capps Covey and Leeman H. Covey and hereby names the *Pat Capps Covey College of Allied Health Professions* in recognition thereof.

Chairman Stokes called for a report from the Nominating Committee for the election of officers, ITEM 22. Mr. Langham, Committee Chair, congratulated Dr. Stokes for completion of his tenure

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as Chair Pro Tempore since 2007. He discussed the process for determining a slate of officers and thanked Trustees for their input and involvement. He and Dr. Stokes attested to the excellent qualifications of fellow Board members. On behalf of the Committee, he offered a recommendation that Mr. Yance serve as Chair Pro Tempore, Dr. Furr serve as Vice Chair, and Ms. Maye serve as Secretary. On motion by Ms. Miree, seconded by Ms. Mitchell, the officers were unanimously approved. Dr. Stokes noted that the officers are connected with the community and health care arena, an advantage for the University. Officer terms are for the period 2010 to 2013. Dr. Stokes passed the gavel to Mr. Yance. Mr. Yance thanked Board members for their confidence.

Attest to:	Respectfully Submitted:
Bettye R. Maye, Secretary	Steven H. Stokes, M.D., Chair Pro Tempore

There being no further business, the meeting was adjourned at 11:55 a.m.

UNIVERSITY OF SOUTH ALABAMA BOARD OF TRUSTEES

COMMITTEE OF THE WHOLE

June 9, 2010 2:00 p.m.

A meeting of the Committee of the Whole was duly convened by Dr. Steven H. Stokes, Chair Pro Tempore, on Wednesday, June 9, 2010, at 2:02 p.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present: Trustees Steven Furr (via phone), Cecil Gardner, Sam Jones,

Donald Langham, Bettye Maye, Christie Miree, Arlene Mitchell, Bryant Mixon, Jim Nix, John Peek, Ken Simon, Steven Stokes, and

James Yance.

Members Absent: Trustees Scott Charlton, Joseph Morton, Bob Riley, and Larry Striplin.

Administration President Gordon Moulton; Drs. Michael Boyd, Joe Busta,

and Others: Jim Connors and Julie Estis (Faculty Senate), Ron Franks, David Johnson,

Russ Lea, Robert Shearer, John Smith and David Stearns; Messrs. Louis Cardinal (Thornton Farish, Inc.), Wayne Davis,

Stan Hammack and Rod Kanter (Bradley Arant Boult Cummings, LLP);

and Mss. Kim Proctor (SGA) and Jean Tucker.

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

Chairman Stokes called the meeting of the Committee of the Whole to order and welcomed Trustees and guests. At President Moulton's recommendation, he proposed detailed discussion of ITEMS 8.A, 15, 18.A, 18.B and 19, and any other agenda item a Committee member desired to address.

President Moulton discussed financial challenges amid the greatest economic recession in USA's history as the Committee viewed a graphic presentation of statistical data. He reported that the net funding cut to the University over a four-year period is \$40 million, a 29 percent reduction, and noted that reductions of state appropriations are among the largest in the nation. The University is further strained with state retirement system employer contributions at near historic levels.

President Moulton detailed increases in annual costs as compared to 2007-2008 levels, including \$8 million for health insurance, \$2.8 million for PEEHIP, \$4.8 million for retirees, and \$7.8 million in utilities and maintenance costs for a total of \$23.4 million in additional expenses over the three previous years. Inclusive with the net state funding cuts, the total fund reduction amounts to \$63.4 million.

President Moulton reported that aggressive cost-cutting measures had been implemented, and said that the staff are doing more with less resources. He said that the hiring freeze resulted in a reduction of 320 positions over three years for a savings of \$15 million annually. He noted that

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faculty and staff have sacrificed to cover these duties, yet, for the first time in USA history, salary increases have not been given for three consecutive years. Additional measures include the elimination of overtime pay, temporary personnel, staff reclassifications, cell phones, travel, and equipment and computer purchases unless absolutely necessary.

President Moulton outlined the positive factors that will help the University address the \$63.4 million deficit. He stated that the demand for USA products and services is on the rise and employees must be retained to meet the need. He said that enrollment is expected to top 15,000 students for the 2010 fall semester, which would constitute a significant increase since 2007 by approximately 1,000 students. He discussed that increased enrollment combined with raising tuition would make up \$32 million, and existing departmental cost reductions would make up \$15 million, leaving a \$16.4 million net deficit. The proposed budget for 2010-2011 projects \$690.9 million in revenues and \$707.3 million in expenses. When the federal stimulus funding of \$10.8 million is applied, the deficit is further reduced to \$5.6 million. President Moulton noted that the stimulus funding is expected to end in 2012. Questions and comments were addressed. The Committee was advised that the disciplines which show the fastest rate of growth are Allied Health Professions, Engineering, Nursing, and Computer and Information Sciences.

Ms. Miree recommended Board approval of ITEM 15 (for copies of resolutions, policies, and other authorized documentation, refer to the USA Board of Trustees meeting minutes, June 10, 2010), a resolution to adopt the tuition, housing, and fee schedules for 2010-2011 as set forth. President Moulton presented comparative data showing what tuition peer institutions in the state are expected to adopt or have already approved, which averages 14 percent or \$7,559 for 15 credit hours. He advised that Troy University had approved a 19 percent tuition increase. He reported that miscellaneous required student fees charged at USA would henceforth be rolled into the credit-hour charge, with the exception of a \$150 registration fee for students taking up to 14 credit hours, which will be waived for students taking 15 or more credit hours. He stated that USA's non-resident fees are well below those of the University of Alabama and Auburn University, and, under the proposed schedules, the undergraduate rate for resident tuition will be \$227 per credit hour, or \$6,810 inclusive per academic year for 30 credit hours. Under the recommendation, USA would remain 10 percent below the state average of \$7,559, a difference of \$749.

Dr. Stearns reported that USA students receive \$10 million in financial aid. President Moulton called upon Ms. Kim Proctor, SGA President, for remarks. Ms. Proctor said students understand the necessity to sustain programs. She noted the primary concern of students is that scholarships are not keeping pace with tuition increases. She spoke of the importance of advising students how tuition money is allocated. Mr. Peek expressed appreciation for student feedback, and commented that the continued development of South Alabama is vital and that a USA degree becomes more valuable as the University advances. He added that decisions about tuition increases are the most difficult the Board must confront. President Moulton discussed a study by the Southern Regional Education Board (SREB) which suggests the money USA spends on classes is among the highest of most reporting institutions. Judge Simon inquired about feedback from the faculty. President Moulton introduced Dr. Jim Connors, Faculty Senate President. Dr. Connors said the Administration and Faculty Senate Executive Committee meet regularly, and the

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Administration has done a tremendous job navigating the budget challenges. On motion duly made and seconded, the Committee unanimously agreed to recommend approval by the full Board. President Moulton noted that housing fees would increase by six percent. He made remarks about the disparity of PACT legislation which imposes a 2.5 percent limit on annual tuition and fee increases except for students attending the University of Alabama and Auburn University. With approximately 400 PACT students enrolled at USA, the University stands to lose up to \$1.6 million in revenue over the next five years.

President Moulton called upon Mr. Wayne Davis to present ITEM 18.B, a resolution to approve the University budget for 2010-2011. Mr. Davis discussed the report titled *University of South Alabama Budget Highlights 2010-2011*, noting the substantial reductions in state appropriations over a three-year period. He compared the current year's expenses and revenues to those proposed for the 2010-2011 fiscal year. He stated that the Administration is confident in how the division managers are analyzing needs and cutting expenses. On motion duly made and seconded, the Committee unanimously agreed to recommend full Board approval.

President Moulton introduced ITEM 19, a resolution authorizing the issuance of one \$29,750,000 University Facilities Revenue Capital Improvement Bond, Series 2010, to fund construction of a student residence hall and various other construction and renovations projects on campus. Referring to a drawing of the four-story residence hall, President Moulton stated the building will consist of 331 single-occupancy rooms. The layout is designed for two rooms to share a restroom. Aerial photos were shown of the site close to existing residence halls. The facade will be similar to that of other new buildings to promote a unified appearance of the campus. President Moulton reported that the architects are on schedule to complete the plans in approximately three weeks. Noting the urgency to complete an anticipated 12-month construction schedule by the 2011 fall semester, he advised that the resolution provides authority for the President to award the construction bid promptly upon the acceptance of completed architectural plans. He added that the new residence hall is a self-funded project.

Mr. Davis stated that a request for bids had been submitted to all major banks. He explained the prudence of considering the finance options of a bank-qualified loan or issuing bonds for the most competitive terms. He introduced Messrs. Louis Cardinal of the firm of Thornton Farish, Inc., and Rod Kanter of the firm of Bradley Arant Boult Cummings, LLP, for comments about the transaction. Mr. Cardinal talked about the advantages of financing the University's capital improvements with a bank-qualified loan as compared to a traditional bond issue. He said 11 banks had been invited to bid and the University had requested certain finance terms. He reported that four bids were received, with Compass Bank submitting the most attractive proposal for a 3.81 percent fixed interest rate on a 20-year loan. Additionally, approximately \$180,000 in customary transaction costs were waived, including printing, underwriting, and rating fees. Attorneys' fees were significantly reduced as well. Mr. Kanter talked about the resolution and invited questions. He said the bond would close on June 16, and explained parity liens on gross revenues.

Dr. Smith reported that the housing demand for the upcoming fall semester is significantly above what the University can accommodate. He discussed the room layout, which is based upon a design

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used at Spring Hill College. The rooms will be 18.5 feet by 9.5 feet. President Moulton and Dr. Smith explained the benefits of establishing a "learning community" social concept, with common areas for independent and group study, and a faculty member living on-site. President Moulton noted that the "village" atmosphere is a rising trend seen on today's college campuses. Ms. Proctor observed that the students are enthusiastic about the new residence hall. On motion duly made and seconded, the Committee unanimously agreed to recommend full Board approval.

Mr. Hammack presented ITEM 8.A, a resolution authorizing the creation of USA HealthCare Management, LLC, a limited liability company under which all health care enterprises of the University would be managed. He explained that, under this entity, USA can structure a competitive retirement plan at a cost well below what the University is required to pay to the State Teachers' Retirement System (STRS) in employer contributions. This would provide a welcome cost-savings and would allow employees flexibility with regard to retirement, an advantage not currently available. He emphasized that participation is entirely voluntary for existing employees, and projected that 20 to 25 percent of employees would elect to transition to the new company. Mr. Gardner expressed concern. President Moulton explained that the Administration had considered every possible solution to keep the hospitals viable amid the constraints of indigent funding and Medicaid reimbursement uncertainties, and that an LLC option would help the University alleviate some costs while preserving employees' interests. A motion was made and seconded. Mr. Peek recommended that the Committee take additional time to consider the matter before making a decision. Consequently, the motion to recommend was withdrawn.

Concerning a report on the sale of the USA Brookley Center Campus, ITEM 18.A, Mayor Jones remarked that economics should not prevent the University from growth. He further asserted that Mobile's future growth is tied into aerospace development, and noted that the Brookley property is the means for this to evolve. He stated that the community is concerned for the use of Brookley. President Moulton reported that the Administration had communicated with the Mobile Airport Authority relative to acquisition of the property, and that common ground on terms of a purchase could not ultimately be reached. He said that the state did not show interest. He assured that the University is committed to the use of this asset to benefit the community. He said the sale of Brookley was advertised for six weeks and one offer had been received. President Moulton reported that the Foundation plans to invest sale proceeds to benefit the University and is on board with preservation of the land for a suitable use. Mayor Jones agreed that utilization in an advantageous way at a future time would bolster economic development in Mobile and the surrounding community.

President Moulton discussed a resolution of the USA Foundation Board of Directors which gave authorization for the Foundation to enter an option to purchase the USA Brookley Center. Copies of the resolution were distributed. Mayor Jones conveyed support from the community for the option to purchase. Dr. Stokes and Mr. Yance agreed that the resolution is a better solution than had been previously considered. It was noted that the option to purchase would allow the Foundation

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to realize a savings on ad valorem taxes. On motion duly made and seconded, the Committee unanimously agreed to recommend full Board approval.

There being no further business, the meeting was adjourned at 3:36 p.m.

Attest to:	Respectfully Submitted:
Bettye R. Maye, Secretary	Steven H. Stokes, M.D., Chair Pro Tempore

RESOLUTION

USA HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS FOR 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.

UNIVERSITY OF SOUTH ALABAMA

AUG 1 6 2010

STANLEY K. HAMMACK VICE PRESIDENT HEALTH SYSTEM



UNIVERSITY OF SOUTH ALABAMA AT 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:

August 11, 2010

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

For Approval:

University of South Alabama Hospitals

Credentials Report -May, June, July and August 2010

SKH:eb

Attachment

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

MAY, JUNE, JULY, AND AUGUST 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 basnitals. These have been reviewed and are recommended by the Medical Executive Committee of the respective hospitals.

professionals. These have been reviewed and are recommended by the medical executive Committee of the respect of angles	in reviewed ar	are recomin	enaca by the r	realcal Execut	IIS A MC	30 CO 1 CO 20	AMF	AMBULATORY CARE	ARE
		USACWII	3	Ş		D-4/6.22	T. T. S. C.	Cotonomy	Dont/Cor
NAME	Type/Status	Category	Dept/Ser	Type/Status	Category	Dept/Ser	1 ype/Status	Category	Depuser
Bassam A Bassam, MD	Reappt	Courtesy	Neurology	Reappt	Active	Neurology	Reappt	Active	Neurology
David I Borcicky DPM	New Appt	Affiliate	Ortho	New Appt	Affiliate	Ortho	No privs	N/A	N/A
Carole W Rondreaux MD	Reappt	Active	Pathology	Reappt	Active	Pathology	No privs	N/A	N/A
Theodore N Catranis MD	Reappt	Courtesy	OB/GYN	Reappt	Courtesy	OB/GYN	No privs	N/A	N/A
Christi I Cazalas MD	New Appt	Active	Int Med	New Appt	Active	Int Med	New Appt	Active	Int Med
Ronald W Clarke MD	Reappt	Active	OB/GYN	Reappt	Courtesy	OB/GYN	No privs	N/A	N/A
Iames V Courtney, MD	Reappt	Courtesy	Radiology	Reappt	Courtesy	Radiology	No privs	N/A	N/A
William A Crotwell, MD	Reappt	Courtesy	Ortho	Reappt	Courtesy	Ortho	No privs	N/A	N/A
Jennifer A Cunningham, MD	Reappt	Courtesy	OB/GYN	No privs	N/A	N/A	No privs	N/A	N/A
Thelma Cunningham, RN	New Appt	Affiliate	Int Med	New Appt	Affiliate	Int Med	No privs	N/A	N/A
Jennifer S. D. Currie. MD	New Appt	Active	Peds	No privs	N/A	N/A	No privs	N/A	N/A
Michael F Damrich MD	Reappt	Active	Surgery	Reappt	Active	Surgery	No privs	N/A	N/A
	Reappt	Courtesy	Ortho	Reappt	Courtesy	Ortho	No privs	N/A	N/A
Silvio W de Melo. Jr., MD	New Appt	Active	Int Med	New Appt	Active	Int Med	New Appt	Active	Int Med
Thomas R Demosey, MD	Reappt	Courtesy	Ortho	Reappt	Courtesy	Ortho	No privs	N/A	N/A
Carlos A DeSanctis, MD	New Appt	Active	Anesth	New Appt	Active	Anesth	No privs	N/A	N/A
Robert I. Duffy. MD	Reappt	Active	Fam Pract	Reappt	Active	Fam Pract	Reappt	Active	Fam Pract
Kenneth F Filinowood, MD	Reappt	Active	Radiology	Reappt	Active	Radiology	No privs	N/A	N/A
Kimberly A Elliott, MD	Reappt	Courtesy	Surgery	Reappt	Courtesy	Surgery	No privs	N/A	N/A
Sheryl A Falkos, MD	Reappt	Active	Peds	Reappt	Active	Peds	Reappt	Active	Peds
Daniel S. Gaffin, DPM	Reappt	Affiliate	Ortho	Reappt	Affiliate	Ortho	No privs	N/A	N/A
Glenn T. Gallaspy, MD	Reappt	Courtesy	OB/GYN	No privs	N/A	N/A	No privs	N/A	N/A
David R Hassell MD	No privs	N/A	N/A	Reappt	Courtesy	Radiology	No privs	N/A	N/A
Michael C Hoffman MD	Reappt	Courtesy	Surgery	No privs	N/A	N/A	No privs	N/A	N/A
Israel & Holley CRNA	New Appt	Affiliate	Anesth	New Appt	Affiliate	Anesth	No privs	N/A	N/A
Russell A Hidoens MD	Reappt	Courtesy	Ortho	Reappt	Courtesy	Ortho	No privs	N/A	N/A
Olivette T Hundley MD	Reappt	Active	Int Med	Reappt	Active	Int Med	Reappt	Active	Int Med
Olivette T Hundley MD	Reappt	Active	Peds	Reappt	Active	Peds	Reappt	Active	Peds
Morhaf Ibrahim, MD	No privs	N/A	N/A	New Appt	Active	EM	No privs	N/A	N/A
INTOTION TO MANUALLE STATE									

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS FOR BOARD OF TRUSTEES APPROVAL MAY, JUNE, JULY AND AUGUST 2010

The following is a listing of recommendations for approval	commendatio	ns for approva	of new appoin	MAY, JUNE, JULY AND AUGUST 2010 of new appointments, reappointments an	ointments and	other status	changes of p	MAY, JUNE, JULY AND AUGUST 2010 of new appointments, reappointments and other status changes of physicians and affiliate staff	ffiliate staff
The following is a matter of the respective hospitals and are recommended by the Medical Executive Committee of the respective hospitals	n reviewed a	nd are recommo	ended by the N	Tedical Execut	ive Committed	e of the respe	ctive hospital	8.	
		USACWH	•		USAMC		AME	ULATORY	CARE
NAME	Type/Status	Category	Dept/Ser	Type/Status	Category	Dept/Ser	Type/Status	Category	Dept/Ser
Interior O Jandine MD	Reappt	Courtesy	OB/GYN	Reappt	Courtesy	OB/GYN	No privs	N/A	N/A
Hung T Khong MD	Reappt	Active	Int Med	Reappt	Active	Int Med	Reappt	Active	Int Med
George T Koulianos MD	Reappt	Courtesy	OB/GYN	No privs	N/A	N/A	No privs	N/A	N/A
	Reappt	Courtesy	OB/GYN	No privs	N/A	N/A	No privs	N/A	N/A
Mary C Mancao MD	Reappt	Active	Peds	Reappt	Active	Peds	Reappt	Active	Peds
Angela R McDell RN	New Appt	Affiliate	Int Med	New Appt	Affiliate	Int Med	No privs	N/A	N/A
David H Mull MD	Reappt	Courtesy	Surgery	Reappt	Active	Surgery	No privs	N/A	N/A
Michelle R. Naman. MD	New Appt	Active	Peds	No privs	N/A	N/A	No privs	N/A	N/A
Inan G Ochoa MD	New Appt	Active	Neurology	New Appt	Active	Neurology	New Appt	Active	Neurology
Hercules Panaviotou. MD	No privs	N/A	N/A	Reappt	Active	Int Med	No privs	N/A	N/A
Kirby I Plessala MD	Reappt	Courtesy	OB/GYN	No privs	N/A	N/A	No privs	N/A	N/A
Shakeel Raza MD	New Appt	Active	Psychiatry	New Appt	Active	Psychiatry	No privs	N/A	N/A
	Reappt	Courtesy	Ortho	Reappt	Courtesy	Ortho	No privs	N/A	N/A
Ison M Richerson, MD	Reappt	Active	Peds	No privs	N/A	N/A	Reappt	Active	Peds
Carolyn H Ringhoffer MD	Reappt	Courtesy	OB/GYN	No privs	N/A	N/A	No privs	N/A	N/A
Desirable Redriesez DO	Reappt	Courtesy	Int Med	Reappt	Active	Int Med	Reappt	Active	Int Med
Revnaldo Rodrigues, DO	No privs	N/A	N/A	Reappt	Active	EM	Reappt	Active	EM
John A Rodriguez-Feo MD	Reappt	Courtesy	Ortho	Reappt	Courtesy	Ortho	No privs	N/A	N/A
Synda S. Rumman MD	No privs	N/A	N/A	New Appt	Active	ЕМ	No privs	N/A	N/A
Suzanne M Russo MD	New Appt	Active	Radiology	New Appt	Active	Radiology	No privs	N/A	N/A
Byron C Scott DMD	Reappt	Affiliate	Surgery	Reappt	Affiliate	Surgery	No privs	N/A	N/A
Ruth I Shields MD	Reappt	Courtesy	OB/GYN	No privs	N/A	N/A	No privs	N/A	N/A
Abdul H. Siddigni MD	New Appt	Active	Peds	New Appt	Active	Peds	New Appt	Active	Peds
Induiting Steeral MD	Reappt	Courtesy	Int Med	Reappt	Courtesy	Int Med	No privs	N/A	N/A
Stephen T. Simpson MD	New Appt	Active	CEC	No privs	N/A	N/A	No privs	N/A	N/A
Robert A Stauffer MD	New Appt	Active	OB/GYN	New Appt	Active	OB/GYN	New Appt	Active	OB/GYN
Mary C Stone MD	New Appt	Active	Int Med	New Appt	Active	Int Med	New Appt	Active	Int Med
Ian H. Thorneycroft, MD	Reappt	Active	OB/GYN	Reappt	Active	OB/GYN	No privs	N/A	N/A

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

MAY, JUNE, JULY AND AUGUST 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.

professionals. These have been reviewed and are recomm	reviewed an	d are recomm	lellucu by the	Marcal Lacon		10000	chucu by the meantain tracement commence of the		
		USACWH			USAMC		AME	AMBULATORY CARE	AKE
ZAZ Z	Type/Status	Category	Dept/Ser	Type/Status	Category	Dept/Ser	Type/Status	Category	Dept/Ser
William I Iranhart MD	Reappt	Courtesy	OB/GYN	Reappt	Courtesy	OB/GYN	No privs	N/A	N/A
Candra Watking PCT	New Appt	Affiliate	Int Med	New Appt	Affiliate	Int Med	No privs	N/A	N/A
Iomas I West MD	Reappt	Courtesy	Ortho	Reappt	Courtesy	Ortho	No privs	N/A	N/A
Peter Zloty, MD	New Appt	Active	Surgery	New Appt	Active	Surgery	No privs	N/A	N/A
CHANGE IN									
SIALOS/RESIGNATION:	LOA		Fam Pract	LOA		Fam Pract	N/A	N/A	N/A
Misheel C Hoffman MD				No privs	N/A	N/A	N/A	N/A	N/A
Donorioton Hercules MD	No privs	N/A	N/A				N/A	N/A	N/A
Porter, Kathy B., MD	LOA		OB/GYN	LOA		OB/GYN	LOA	N/A	N/A
Resigned/Relocated Bass, John B, Jr., MD Buchsbaum, Roy, MD- Davis, Ashley G., CRNP- Dye, Hillary K., MD Ellis, C. Neal, MD Etheridge, Mark E., CRNA Green, Kelly, MD Hovey, Justin G., MD Lowe-Miller, Nicole, PA Nolan, Patrick E., MD Patterson, Scott B., MD Ringold, Jill, MD Tailounie, Muayyad, MD	Reason Retired Retired Relocated Relocated Relocated Terminated Resigned Relocated Relocated Relocated Relocated Relocated Relocated Resigned Resigned Resigned	Date 3/31/10 4/30/10 7/30/10 6/03/10 6/30/10 12/02/09 6/30/10 6/30/10 6/30/10 6/30/10 6/30/10 6/30/10	IM RAD IM IM SUR ANS PEDS EM SUR IM SUR IM / PEDS PEDS						

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS FOR BOARD OF TRUSTEES APPROVAL MAY, JUNE, JULY AND AUGUST 2010

LEGEND:

New Appt

Reappt No Privs

New application for medical staff privileges recommended for approval.

Reappointment application for medical staff privileges recommended for approval.

No privileges requested

Changes in Status # Change to USA Faculty

Change to Private Practice

* Additional Privileges Requested – Epicor Cardiac Tissue Abalation

* Additional Privileges Requested - OB/GYN Privileges Added

*** Additional Privileges Requested - Moderate Conscious Sedation Privileges

****Additional Privileges Requested - Deep Sedation Privileges

**#*Added Hematology/Oncology Checklist

**#Additional Privileges for both USA Hospitals/Already processed at USACW

RECOMMENDED BY:

Katherine Savells, MD, Chairman, Medical Executive Committee

USA Children's & Women's Hospital

Jack piPalma, MD, Chairman, Medical Executive Committee

JSA Medical Center

Stanley K. Hammack

Vice President, USA Health System

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.

UNIVERSITY OF SOUTH ALABAMA

OFFICE OF THE VICE PRESIDENT FOR HEALTH SCIENCES



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

REC'D
OFFICE OF THE PRESIDEN?

SEP 02 2010

UNIVERSITY OF SOUTH ALABAMA

TO:

V. Gordon Moulton

President

FROM:

Ronald D. Franks, M.D.

Vice President for Health Sciences

Samuel J. Strada, Ph.D.

Dean, College of Medicine

SUBJECT:

Resolution Approving the Second Addendum to Affiliation Agreement

Attached please find the above-referenced Resolution regarding the approval of the Second Addendum to the Affiliation Agreement between the University of South Alabama, the University of South Alabama Health Services Foundation and the USA HealthCare Management, LLC. I recommend that the resolution be presented to the Board of Trustees for their consideration and approval at the September 17, 2010 meeting.

RDF/cc Enclosures

SECOND ADDENDUM TO AFFILIATION AGREEMENT

STATE OF ALABAMA)

COUNTY OF MOBILE)

This Second Addendum to Affiliation Agreement is made and entered into among THE UNIVERSITY OF SOUTH ALABAMA, a public body corporate organized under the Acts of the Legislature of the State of Alabama (herein call the "University"), the UNIVERSITY OF SOUTH ALABAMA HEALTH SERVICES FOUNDATION, a non-profit corporation organized under the laws of the State of Alabama (herein called the "Foundation") and USA HEALTHCARE MANAGEMENT LLC ("Manager").

WITNESSETH

WHEREAS, the University and the Foundation previously entered into that certain AFFILIATION AGREEMENT BETWEEN THE BOARD OF TRUSTEES OF THE UNIVERSITY OF SOUTH ALABAMA AND THE UNIVERSITY OF SOUTH ALABAMA HEALTH SERVICES FOUNDATION, dated October 1, 1976 (the "Original Affiliation Agreement"), which was subsequently amended January 2, 2004 (the "First Amended Affiliation Agreement")(together, the "Amended Affiliation Agreement");

WHEREAS, the University owns and operates the University of South Alabama College of Medicine (the "College of Medicine") and its affiliated hospitals and clinics, including without limitation the University of South Alabama Medical Center, USA Children's & Women's Hospital, and the University of South Alabama Mitchell Cancer Institute (collectively, the "Hospitals and Clinics");

WHEREAS, the Foundation conducts a group practice health care provider organization which is composed of Faculty of the College of Medicine, which Foundation is devoted to supporting the University and the College of Medicine and which functions as a component of the University of South Alabama Academic Medical Center ("USA Academic Medical Center");

WHEREAS, the missions of the University, the College of Medicine, the Hospitals and Clinics and the Foundation are teaching, patient care, research, and public service programs in the health services field:

WHEREAS, the University is the sole owner of and has formed the Manager as an additional component to operate and manage the Hospitals and Clinics and which is intended to operate as an integral part of the University;

WHEREAS, the parties hereto desire to amend the Amended Affiliation Agreement to provide for the changes in connection therewith and the operation of the Manager as an integral part of the University;

NOW, THEREFORE, in consideration of the premises and the mutual agreements hereinafter set forth, the parties hereto agree as follows:

1. The University and the Foundation hereby ratify and affirm that the Original Affiliation Agreement has been in continuous existence since October 1, 1976. The University and

the Foundation further ratify and affirm the various budgets and schedules that form a part of the relationship among the components of the USA Academic Medical Center.

- 2. The University, as sole manager of the Manager, hereby affirms and declares that the Manager is a component of the USA Academic Medical Center. The Manager hereby joins in and becomes a part of the Amended Affiliation Agreement and accepts the rights and responsibilities as one of the components of the USA Academic Medical Center.
 - 3. The Original Affiliation Agreement is hereby amended as follows:
 - a. In sections 1 and 3(a), add after "and under financial contract with the University of South Alabama" the words "or entities controlled thereby..." in each place in which such language appears.
 - b. In section 1, add after "are not under financial contract with the University of South Alabama" the words "or entities controlled thereby..." in the second line.
 - c. In section 5, references to "the University" means "the University or entities controlled thereby..."
 - d. In section 7, add after "employees of the University" the words "or entities controlled thereby..." in four places in which such language appears.
 - 4. The First Amended Affiliation Agreement is hereby amended as follows:
 - a. In section 1, add after "The University..." the words "or entities controlled thereby..."
 - b. In section 3, insert in the last line after "personnel of the University of South Alabama" the words "and entities controlled thereby...."
 - c. Delete section 4 (and Exhibits 1 and 2) and insert in lieu thereof: "Therefore, the University, the Foundation and the Manager agree that the Foundation will lease from the University the clinical services of certain Faculty and support personnel of the University or persons provided to the University by the Manager to provide the aforementioned patient health care services in exchange for compensation from the Foundation to the University at the rate charged by the University or by the Manager, including payroll expenses, all at the rate of fair market value for the goods and services of the individuals leased or provided. None of the money paid herein is intended to induce referrals."
- 5. The University, Manager and Foundation represent and covenant that during the term of this Affiliation Agreement, the aggregate compensation paid to their physician employees (as such term is defined in Social Security Act Section 1877 and regulations promulgated thereunder) shall be set in advance and shall not compensate such employees, directly or indirectly, in a manner that varies with, or takes into account, the value or volume of referrals to any of the components of the USA Academic Medical Center.

6. The parties to this agreement may freach other to support the missions of each of them. evidenced by budgets or schedules approved from procedures. All transfers of money between comp Missions of teaching, providing care for eligible med service. Any money paid to the Foundation or or solely to support bona fide research, must be consist and the grantee must provide documentation satisfact the stated purpose.	time to time by their respective governance conents must directly or indirectly support the dically indigent persons, research or community ne of its physicians for research must be used tent with the terms and conditions of the grant,
7. This SECOND ADDENDUM T effective as of the 1 st day of October, 2010 and shatterms, unless any party terminates the agreement or the others. In event this Second Addendum is terminates shall not enter into the same or similar referra	at least thirty (30) days prior written notice to inated before the expiration of the first year, the
IN WITNESS WHEREOF, the Foundation this SECOND ADDENDUM TO AFFILIATION A corporate names by their authorized representatives which shall be deemed an original, all as of this By its signature below, USA HealthCare Managem Affiliation Agreement and this Second Addendum to	, all duly attested, in three counterparts, each of day of, 2010. nent LLC shall become a part of the Amended
ATTEST:	THE BOARD OF TRUSTEES OF THE UNIVERSITY OF SOUTH ALABAMA
	By: Chair Pro Tempore
ATTEST:	THE UNIVERSITY OF SOUTH ALABAMA HEALTH SERVICES FOUNDATION
	By: President, Board of Directors
ATTEST:	USA HEALTHCARE MANAGEMENT, LLC
	By:

Manager

INDEX APRIL 2010

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Financial Report Highlights April 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 Standards 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 seven months ended, April 30, 2010 and 2009 are as follows (in thousands):

	At an	At and for the seven months ended	n mont	ths ended	
Total assets, by fund	-				
Current	æ	189,337	æ	1/4,426	
Loan Endowment		105,040		75,633	
Plant		605,077		603,555	
Fund Balances, by fund					
Current	€9	19,298	ss.	32,603	
Loan		433		439	
Endowment		95,565		66,272	
Plant		297,149		291,468	
Other balance sheet highlights					
Cash and investments	S	257,262	69	287,139	
Receivables, primarily patient care		75,659		72,981	
Bonds and notes navable		301,591		304,487	

	For the seven months ended	ven m	onths enc	led
	4-30-10	١	4-30-09	60-
Selected operating highlights (current funds)	nt funds)			
Tuition and fees	5 57,217	7	€9	49,784
State appropriations	58,346	9		64,685
Hospital revenues	170,422	7		168,906
Gifts, grants and contracts	64,301	11		52,876
Instruction and academic support	76,892	2		76,777
Research and public service	41,698	<u>∞</u>		39,904
Hospital expenses	178,205	5		180,351
Net current fund decrease	(8,140)	ଚ	S	(16,417)

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 APRIL 2010 AND 2009

2009	52,407,581,56 20,865,332,87 66,535,144,55 542,363,27 412,443.10	(27,625,376.57) 1,749,012.83 2,866,944.86 47,844,91.11 (9,258,822.58) 15,616,249.65 156,379,115.00	91,025.02 1,150.00 967,594.89 16,987,109.83 18,446,879.74	4,333,038.93 438,659.70 438,659.70 4,771,698.63	2,023,282,00 7,336,871.00 24,729,291.39 41,543,193,51 66,272,484.90 75,632,637.90	987,936.11 6,549,998.61 27,781.67 304,487,250.93 33,833.47	2,804,654,99 20,886,376.50 267,777,391,98 291,688,423,47 688,385,534,26
2010	\$ 45,291,837.80 \$ 24,881,100.60 98,091,104.23 542,786.31 530,814.96	(36,108,825.15) 1,973,161.54 2,830,726.31 41,039,642.98 (7,571,402.41) 2,163,303.27	25,213.19 1,170.00 674,642.25 17,134,802.15 17,835,827.59	4,374,048.83 432,823.97 432,823.97 4,806,872.80	1,567,533.00 7,907,064.00 26,855,050.26 68,710,123.65 95,565,173.91 105,039,770.91	283,678.97 6,025,703.15 27,791.67 301,591,486.18	88,843,606.37 8,263,982.44 200,035,150.48 297,148,739.29 605,077,399.26 \$ 904,260,817.73
LIABILITIES AND FUND BALANCES	CURRENT FUNDS: UNRESTRICTED: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES DEFERRED REVENUES DUE TO OTHER FUNDS DEPOSITS HELD IN CUSTODY OTHER DEPOSITS FUND BALANCES:	ALLOCATED FOR: HOSPITALS AUXILARY ENTERPRISES ENCUMBRANCES SELF-SUPPORTING ACTIVITIES UNALL OCCATED TOTAL FUND BALANCES TOTAL UNRESTRICTED	RESTRICTED FUNDS: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES OTHER DEPOSITS DEFERRED REVENUES FUND BALANCES TOTAL RESTRICTED TOTAL RESTRICTED	LOAN FUNDS: REFUNDBABLE GOVERNMENT ADVANCES FUND BALANCES: UNIVERSITY FUNDS, UNRESTRICTED TOTAL FUND BALANCES TOTAL LOAN FUNDS	ENDOWMENT FUNDS: DEFERED REVENUES BONDS PAYABLE FUND BALANCES: RESTRICTED NONEXPENDABLE UNRESTRICTED EXPENDABLE TOTAL FUND BALANCES TOTAL ENDOWMENT FUNDS	PLANT FUNDS: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES DEFERRED REVENUES OTHER DEPOSITS BONDS PAYABLE CAPITAL LEASE OBLIGATIONS	FUND BALANCES: RENEWALS AND REPLACEMENTS RETIREMENT OF INDEBTEDNESS INVESTMENT IN PLANT TOTAL FUND BALANCES TOTAL PLANT FUNDS TOTAL PLANT FUNDS
2009	\$ 150,435.64 61,563,916.03 72,970,980.92 35,000.00	4,374,330,74 17,284,451.67 156,379,115,00	8,396,447.29 11,529.60 9,638,902.85 18,046,879.74	602,853.33 4,168,845.30 4,771,698.63	17,995,101.50 52,798,809.40 1,338,429.00 3,500,298.00 75,632,637.90	112,224,377,58 33,395,044,43 1,799,284,00 224,936,16 6,535,144,55 5,087,834,76 1,122,823,30	29,222,252,32 9,355,596,43 131,866,580,98 53,244,058,44 159,397,300,71 603,555,234,26 858,385,565,53
2010	141,809.66 68,273,711.50 75,658,543.79 35,000.00	4,084,544,27 23,307,337,95 171,500,947,17	6,431,501.22 7,458.21 11,396,868.16 17,835,827.59	1,038,424.07 3,768,448.73 4,806,872.80	23,786,959.40 76,201,266.51 3,713,116.00 1,338,429.00	27,868,498.80 53,511,880.18 1,740,664.00 254,936.16 98,091,104.23 4,881,288.93 1,165,661.06	29,232,252.32 8,916,396,05 249,466,677.17 53,222,782,66 7725,287.70 605,077,399.26
ASSETS	CURRENT FUNDS: UNRESTRICTED: CASH MOL CASH EQUIVALENTS INVESTMENTS ACCOUNTS RECEIVABLE - PATIENTS (LESS ALLOWANCE FOR DOUBITFUL ACCOUNTS OF \$44,823,779,73 FOR 2010 AND \$43,280,758.88 FOR 2009) DEPOSITS	INVENTORIES AT COST PREPAID EXPENSES TOTAL UNRESTRICTED	RESTRICTED FUNDS: CASH AND CASH EQUIVALENTS INVESTMENTS UNBILLED COSTS AND ACCOUNTS RECEIVABLE TOTAL RESTRICTED	LOAN FUNDS: CASH AND CASH EQUIVALENTS CASH AND CASH EQUIVALENTS NOTES RECEIVABLE (LESS ALLOWANCE FOR 2010 AND \$500,533.16 FOR 2009) TOTAL LOAN FUNDS	ENDOWMENT FUNDS: CASH AND CASH EQUIVALENTS INVESTMENTS PREPAID-LIFE ESTATE REAL ESTATE HELD FOR RESALE TOTAL ENDOWMENT FUNDS	PLANT FUNDS: CASH AND CASH EQUIVALENTS INVESTMENTS ACCOUNTS RECEIVABLE NOTES RECEIVABLE DUE FROM OTHER FUNDS PREPAID EXPENSES CAPITAL LEASE RECEIVABLE	INVESTMENT IN PLANT: LAND LAND LAND MPROVEMENTS BUILDINGS, ACCUM DEPREC AND IMPROVEMENTS OTHER EQUIPMENT, BOOKS AND FILMS CONSTRUCTION IN PROGRESS TOTAL PLANT FUNDS TOTAL ASSETS

UNIVERSITY OF SOUTH ALABAMA STATEMENT OF CHANGES IN FUND BALANCES FOR THE SEVEN MONTHS ENDED APRIL 30, 2010

	CURRENT FUNDS	FUNDS		!		PLANT FUNDS	
	UNRESTRICTED	RESTRICTED	LOAN FUNDS	ENDOWMENT	REPLACEMENTS	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN
REVENUES AND OTHER ADDITIONS: EDUCATIONAL AND GENERAL REVENUES HOSPITALS REVENUES AUXILIARY ENTERPRISES REVENUES GENERAL SAID CONTRACTS.	154,852,934,40 175,445,013.98 8,927,183.18						
FEDERAL STATE AND LOCAL STATE AND LOCAL PRIVATE GOVERNMENT APPROPRIATIONS:		23,530,451.68 3,590,101.29 1,728,532.89					
FEDERAL STATE INVESTMENT INCOME, GAINS/LOSS			3,025.67	5,382,723.72	2,600,504.00 336,193.95	12,469.67	
INSUKANCE PROCEEDS INTEREST ON LOANS RECEIVABLE GIFTS AND BEQUESTS EXPENDED FOR PLANT FACILITIES (INCLUDING			32,780.19	1,902,530.88	277,382.59	25,183.05	18,606,057.17
\$1,287,336.TO COREM I FUNDS EXFENDIONES) RETIREMENT OF INDEBTEDNESS PROCEEDS FROM SALE OF CAPITAL ASSETS OTHER SOURCES TOTAL REVENUES AND OTHER ADDITIONS	339,225,131.56	9,132,405.75	35,805.86	6,222.88	613,308.20 3,727,388.74	37,652.72	5,025,000.00 295,164.23 23,926,221.40
EXPENDITURES AND OTHER DEDUCTIONS: EDUCATIONAL AND GENERAL EXPENDITURES HOSPITALS EXPENDITURES AUXILIARY ENTERPRISES EXPENDITURES INDIRECT COSTS RECOVERED REFUNDED TO GRANTORS	143,540,110.08 175,355,694.19 8,126,951.20	34,503,318.42 2,737,285,58 12,329.19					
RETIREMENT OF INDEBTEDNESS ADMINISTRATIVE AND COLLECTION COSTS EXPENDED FOR PLANT FACILITIES (INCLUDING \$1,729,893.03 FOR NON-CAPITALIZED EXPENDITURES) INTEREST ON INDEBTEDNESS DEPRECIATION EXPENSES OF PLANT FACILITIES	(9		154.50		18,448,614.10	5,025,000.00 3,954,641.27	14,544,689.99
DISPOSAL OF PLANT LOSS ON DISPOSAL OF PLANT OTHER DEDUCTIONS TOTAL EXPENDITURES AND OTHER DEDUCTIONS	327,022,755.47	37,252,933.19	12,759.22	196,824.82	5,465.88 18,454,079.98	(4,691.08) 8,974,950.19	14,544,689.99
TRANSFERS AMONG FUNDS-ADDITIONS(DEDUCTIONS): MANDATORY: PRINCIPAL AND INTEREST FINANCIAL AID MATCHING): (10,345,787.54) (60,204.00)	60,204.00			(1,246,008.09)	11,591,795.63	
NOTATION TO THE TRANSPORT OF THE TRANSPORT OF THE TRACING COMMISSION PLANT ADDITIONS AND REPLACEMENTS ENDOWMENT FUND OTHER TRANSFERS	(3,447,053.12) (49,317.09) (4,374,471.25) (2,060,905.20) 33,559.21	96,646.16 (923,990.15)		2,013,576.13 849,426.30	3,447,053.12 49,317.09 4,374,471.25 (49,317.09) 710,138.64	183.498.50	(852.632.50)
TOTAL TRANSFERS NET INCREASE (DECREASE) FOR THE PERIOD FUND BALANCES AT OCTOBER 1, 2009	(20,304,178.99) (8,101,802.90) 10,265,106.17	(767,139.99) (38,581.57) 17,173,383.72	0.00 22,892.14 409,931.83	2,863,002.43 9,957,655.09 85,607,518.82	7,285,654.92 (7,441,036.32) 96,284,642.69	11,775,294.13 2,837,996.66 5,431,985.78	(852,632.50) 8,528,898.91 191,506,251.57
FUND BALANCES AT APRIL 30, 2010 \$	2,163,303.27 \$	17,134,802.15		95,565,173.91	1 #	\$ 8,269,982.44	\$ 200,035,150.48

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

REVENUES:	UNRESTRICTED	MONTH ENDED APRIL 30, 2010 RESTRICTED		APRIL 30, 2009
TUITION AND FEES STATE APPROPRIATIONS	\$ 57,217,243.37 53,323,079.39	•	\$ 57,217,243.37 53,323,079.39	\$ 49,783,595.90 59,062,785.88
MOBILE RACING COMMISSION FEDERAL GRANTS AND CONTRACTS STATE AND CONTRACTS INDICEDING SINDECT	49,317.09 2,305,150.04	28,549,283.33	49,317.09 30,854,433.37	118,041.62 20,509,966.61
STATE GRANTS AND COUNTAKETS (INCLUDING INVINEET) COST RECOVERED OF \$224,336,536 PRIVATE GIFTS, GRANTS, AND CONTRACTS (INCLUDING	340,794.46	2,871,527.90	3,212,322.36	2,157,864.13
INDIRECT COSTS RECOVERED OF \$207,798,99)	28,808,930.13	1,425,623.59	30,234,553.72	30,208,301.47
INVESTMENT INCOME SALES AND SERVICES OF EDUCATIONAL ACTIVITIES	196,629.59		2.398,151,58	2,191,039.05
HOSPITALS - SALES AND SERVICES	170,421,791.37		170,421,791.37	168,906,447.37
- STATE APPROPRIATIONS	5,023,222.61		5,023,222.61	5,621,895.44
AUXILIARY ENTERPRISES - SALES AND SERVICES OTHED SOI IDGES	8,927,183.18	1 656 883 60	8,927,183.18	8,933,078.11
TOTAL CURRENT REVENUES	339,225,131.56	34,503,318.42	373,728,449.98	359,394,390.47
EXPENDITURES AND TRANSFERS: EDUCATIONAL AND GENERAL: METDILITION	55 409 459 53	11 040 074 54	66 449 534 07	66 981.164.55
	4,627,270.17	7,080,418.34	11,707,688.51	12,904,371.83
PUBLIC SERVICE	29,099,842.64	890,828.57	29,990,671.21	27,000,024.04
ACADEMIC SUPPORT	10,370,459.79	71,694.56	10,442,154.35	9,795,644.57
STUDENT SERVICES	13,932,066.71	631,661.94	14,563,728.65	14,187,608.92
INSTITUTIONAL SUPPORT	12,649,995.27	5.04 035 72	18,025,921.31	14,404,362.62
SCHOLARSHIPS	3,088,364.80	8,714,678.71	11,803,043.51	9,078,721.60
EDUCATIONAL AND GENERAL	143,540,110.08	34,503,318.42	178,043,428.50	171,766,748.53
MANDATORY TRANSFERS FOR: PRINCIPAL AND INTEREST	6,340,686.89		6,340,686.89	6,959,128.89
FINANCIAL AID MATCHING	60,204.00		60,204.00	97,130.00
TOTAL EDUCATIONAL AND GENERAL	149,941,000.97	34,503,318.42	184,444,319.39	178,823,007.42
HOSPITALS (INCLUDING DEBT SERVICE OF \$2,849,499.63)	178,205,193.82		178,205,193.82	180,531,273.78
AUXILJARY ENTERPRISES: EXPENDITURES	8,126,951.20		8,126,951.20	8,351,307.51
MANDATORY TRANSFERS FOR: PRINCIPAL AND INTEREST	1,155,601.02		1,155,601.02	1,014,446.02
VON-MANDATORY TRANSFERS FOR: OTHER TRANSFERS	0.00		00'0	(7,785.30)
TOTAL EXPENDITURES AND TRANSFERS	337,428,747.01	34,503,318.42	371,932,065.43	368,712,249.43
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS): EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUES REFUNDED TO GRANTORS FUNDED DEPRECIATIONS WINDED DEPRECIATIONS	(3,447,053.12)	740,887.61 (12,329.19)	740,887.61 (12,328.19) (3,447,053.12) * (48,317.09)	19,724,26 (3,678,76) (4,096,520,00) (118,043,62)
PLANT ADDITIONS AND REPLACEMENTS ENDOWMENT FUND OTHER TRANSFERS TOTAL TRANSFERS	(4,374,471.25) (2,060,905.20) 33,559.21	96,646.16 (863,786.15)	(4,374,471.25) (1,964,259,04) (830,226,94)	(4,596,289.07) (1,304,606.51) 2,994,250.19
	(ch. in locate)			
NET INCREASE(DECREASE) IN FUND BALANCES	(8,101,802.90)	\$ (38,581.57)	\$ (8,140,384,47)	\$ (16,417,020.48)

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.
*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$1,335,734.12 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

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 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 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 matters within the direct knowledge and control of management.

BASIS OF PRESENTATION

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 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 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 activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements funds that have similar characteristics have 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 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.

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

maintained and administered in a common pool. Separate accounts are maintained for each fund, as applicable. Depositories and other financial institutions that held 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 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.

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.

BONDS PAYABLE

Bonds payable consist of the following:

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

LITIGATION

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

MEDICAID DISPROPORTIONATE SHARE PAYMENTS

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

SUPPLEMENTAL SCHEDULES

SUMMARY SCHEDULE OF AUXILIARY ENTERPRISES REVENUES, EXPENDITURES AND OTHER CHANGES FOR THE SEVEN MONTHS ENDED APRIL 30, 2010 WITH COMPARATIVE FIGURES FOR 2009

	I	REVENUES	Ш}	EXPENDITURES	TRANSFERS	ı	EXCESS REVI AND OTH 04/30/10	ENUES CHER CHA	OVER E)	EXCESS REVENUES OVER EXPENDITURES AND OTHER CHANGES (DEFICIT) 04/30/10 04/30/10	
BOOKSTORE	↔	3,776,077.87	\$	3,683,026.82	\$ 0.00	€9	93,05	93,051.05	₩	106,078.24	
BROOKLEY CENTER		1,113,300.89		1,388,385.67	00.00	_	(275,084.78)	84.78)		(351,087.59)	
FOOD SERVICES-CAMPUS		224,763.84		92,689.65	00.00	_	132,074.19	74.19		84,707.18	
HOUSING TOTAL	₩	3,813,040.58 8,927,183.18	ده	2,962,849.06	(1,155,601.02) \$ (1,155,601.02)	· \$	(305,409.50) (355,369.04)	39.50)	₩	(264,587.95) (424,890.12)	

BOOKSTORE STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES FOR THE SEVEN MONTHS ENDED APRIL 30, 2010 WITH COMPARATIVE FIGURES FOR 2009

04/30/10	\$ 3,693,525.40 \$ 3,052.91 3S SOLD 2,674,890.17 1,015,582.32 69.64 52,868.95 0.00 29,613.88 1,098,134.79	437,787.73 137,819.78 11,895.02 4,321.47 2,574.32 20,347.08 10,420.13 43,750.00 6,977.38 2,036.00 100,976.95 0.00	ST 0.00 EMENT 0.00 0.00 0.00 i.e.ment 0.00	PENDITURES \$ 93,051.05 \$
	REVENUES: SALES LESS: DEPARTMENTAL DISCOUNTS COST OF GOODS SOLD GROSS PROFIT CASH OVER(SHORT) GRADUATION (NET) BAD DEBT RECOVERY OTHER NET REVENUES:	EXPENDITURES: SALARIES SALARIES SUPLOYEE BENEFITS SUPPLIES TRAVEL EQUIPMENT COTILITIES TELEPHONE INSURANCE AND BONDS CONTRACT SERVICES BAD DEBT EXPENSE RENT OBSOLETE INVENTORY GENERAL EXPENSES CHARGE CARD AND FACULTY STAFF DISCOUNTS INSTITUTIONAL COST ALLOCATION TOTAL EXPENDITURES	TRANSFERS AMONG FUNDS- ADDITIONS/(DEDUCTIONS): MANDATORY: PRINCIPAL AND INTEREST NON-MANDATORY: OTHER TRANSFERS RENEWAL AND REPLACEMENT RETIREMENT REIMBURSEMENT TOTAL TRANSFERS	EXCESS REVENUES OVER EXPENDITURES AND MANDATORY TRANSFERS

BROOKLEY CENTER STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES FOR THE SEVEN MONTHS ENDED APRIL 30, 2010 WITH COMPARATIVE FIGURES FOR 2009

	ADMINISTRATION	INVESTMENT HOUSING	GOLFSHOP	FOOD SERVICE	TOTAL AUXILIARY SERVICES
REVENUES:					
SALES-FOOD & MERCHANDISE	\$ 0.00	0.00	\$ 14,410.69	0.00	\$ 14,410.69
LESS: COST OF GOODS SOLD	0.00	00.0	7,555.57	0.00	7,555.57
DISCOUNTS	00.00	00.0	(290.27)	0.00	(290.27)
GROSS PROFIT	00.00	00:0	7,145.39	0.00	7,145.39
FEES	25.00	00:0	184,644.39	23,831.11	208,475.50
RENTALS	16,331.00	394,829.24	0.00	0.00	394,829.24
OTHER	3,223.18	100.00	7.33	0.00	107.33
FACILITY ASSESSMENT FEE	29,169.00	00.0	0.00	0.00	0.00
NET REVENUES	48,748.18	394,929.24	191,797.11	23,831.11	610,557.46
EXPENDITURES:					
OPERATING EXPENDITURES:					
SALARIES	343,811.10	35,691.37	102,265.92	0.00	137,957.29
EMPLOYEE BENEFITS	118,593.79	7,661.55	32,521.21	0.00	40,182.76
SUPPLIES	34,829.10	713.06	19,643.60	705.20	21,061.86
TRAVEL	1,277.41	0.00	0.00	0.00	0.00
CONTRACT SERVICE	38,914.53	56,844.09	44,151.34	2,350.33	103,345.76
BUILDING MAINTENANCE & REPAIR	4,285.52	34,917.14	1,783.49	139.92	36,840.55
GROUNDS MAINTENANCE	11,433.36	8,523.54	5,390.27	0.00	13,913.81
UTILITIES	128,280.32	93,322.08	17,553.69	30,274.27	141,150.02
EQUIPMENT MAINTENANCE & REPAIR	1,215.34	1,089.45	20,457.98	2,184.60	23,732.03
BUILDING & EQUIPMENT RENTAL	2,484.64	00:00	12,276.08	1,564.16	13,840.22
TELEPHONE	9,182.89	0.00	426.33	1.52	427.85
INSURANCE AND BONDS	41,690.00	00:00	0.00	1,988.00	1,988.00
RECEPTIONS	0.00	0.00	00.0	0.00	0.00
ADVERTISING	3,225.65	1,778.53	1,484.55	250.00	3,513.08
BAD DEBT EXPENSE	00.0	0.00	00'0	0.00	0.00
GENERAL EXPENSES	10,551.22	1,098.57	12,209.42	759.14	14,067.13
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	(701,536.69)	196,430.26	0.00	28,061.46	224,491.72
TOTAL OPERATING EXPENDITURES	48,238.18	438,069.62	270,163.86	68,278.60	776,512.08
EXCESS REVENUES OVER EXPENDITURES	510.00	(43,140.38)	(78,366.75)	(44,447.49)	(165,954.62)
OTHER EXPENDITURES:					
EQUIPMENT	510.00	3,596.40	0.00	0.00	3,596.40
OTHER COST ALLOCATIONS	0.00	0.00	00.0	00.0	0.00
TOTAL OTHER EXPENDITURES	510.00	3,596.40	00.0	0.00	3,596.40
TRANSFERS AMONG FUNDS.					
ADDITIONS/(DEDUCTIONS):					
MANDALORY:		00 0	C	000	o o
NON-MANDATORY:					
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	0.00	0.00	0.00	00.00	00.0
EXCESS REVENUES OVER					
EXPENDITURES (DEFICIT)	0.00	\$ (46,736.78)	\$ (78,366.75)	\$ (44,447.49)	\$ (169,551.02)

BROOKLEY CENTER STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES FOR THE SEVEN MONTHS ENDED APRIL 30, 2010 WITH COMPARATIVE FIGURES FOR 2009

				TOTAL	BROOKLEY	BROOKLEY
	CONTINUING	EDUCATIONAL LEASING	SERVICE	EDUCATIONAL	04/30/10	04/30/09
REVENUES:						
SALES-FOOD & MERCHANDISE	\$ 0.00	\$ 0.00	0.00	\$ 0.00	\$ 14,410.69	\$ 18,294.74
LESS: COST OF GOODS SOLD	00.0	00:0	00'0	0.00	7,555.57	11,618.40
DISCOUNTS	286.34	00:0	0.00	286.34	(3.93)	2,397.44
GROSS PROFIT	(286.34)	0.00	00:0	(286.34)	6,859.05	4,278.90
FEES	99,051.67	284,114.59	0.00	383,166.26	591,666.76	690,445.20
RENTALS	00.0	00:0	00.00	0.00	411,160.24	438,550.94
OTHER	63,556.90	6.79	0.00	63,563.69	66,894.20	3,531.63
FACILITY ASSESSMENT FEE	00.00	0.00	0.00	0.00	29,169.00	29,169.00
NET REVENUES	162,322.23	284,121.38	0.00	446,443.61	1,105,749.25	1,165,975.67
EXPENDITURES:						
SALARIES	21,620.48	0.00	0.00	21,620.48	503,388.87	548,690.82
EMPLOYEE BENEFITS	6,380.75	0.00	0.00	6,380.75	165,157.30	187,622.43
SUPPLIES	11,168.87	4,832.42	0.00	16,001.29	71,892.25	59,584.26
TRAVEL	0.00	0.00	0.00	0.00	1,277.41	1,484.23
CONTRACT SERVICE	3,734.92	4,103.45	00'0	7,838.37	150,098.66	132,088.04
BUILDING MAINTENANCE & REPAIR	2,517.88	9,702.94	00:00	12,220.82	53,346.89	51,901.56
GROUNDS MAINTENANCE	10.78	0:00	00:00	10.78	25,357,95	39,972.64
UTILITIES	85,157.44	63,795.57	00:0	148,953.01	418,383.35	328,295.12
EQUIPMENT MAINTENANCE & REPAIR	432.57	294.75	0.00	727.32	25,674.69	36,220.88
BUILDING & EQUIPMENT RENTAL	0.00	0.00	0.00	0.00	16,324.86	15,892.17
TELEPHONE	0.00	0.00	0.00	0.00	9,610.74	13,347.49
INSURANCE AND BONDS	3,240.00	0.00	00:00	3,240.00	46,918.00	61,954.00
RECEPTIONS	0.00	0.00	0.00	0.00	0.00	876.50
ADVERTISING	16,671.18	0.00	0.00	16,671.18	23,409.91	16,262.87
BAD DEBT EXPENSE	0.00	0.00	0:00	0.00	0.00	0.00
GENERAL EXPENSES	5,129.31	25,912.17	0.00	31,041.48	55,659.83	117,372.74
EXPENSE OFFSET	0.00	0.00	0.00	00.0	00.0	(19,862.50)
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	(193,328.31)	(193,328.31)	(193,328.31)	(128,255.19)
OPERATING COST ALLOCATIONS	147,322.72	119,261.24	210,461,01	477,044.97	00.00	0.00
TOTAL OPERATING EXPENDITURES	303,386.90	227,902.54	17,132.70	548,422.14	1,373,172.40	1,463,448.06
EXCESS REVENUES OVER EXPENDITURES	(141,064.67)	56,218.84	(17, 132.70)	(101,978.53)	(267, 423, 15)	(297,472.39)
EQUIPMENT	3,555.23	00'0	0.00	3,555.23	7,661.63	17,380.90
OTHER COST ALLOCATIONS	0.00	0.00	00.00	00:00	00.0	0.00
TOTAL OTHER EXPENDITURES	3,555.23	00'00	0.00	3,555.23	7,661.63	17,380.90
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDA IORT: PRINCIPAL AND INTEREST	00:00	00:0	00:0	0.00	0.00	(41,552.00)
NON-MANDATORY:						
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	00.0	0.00	0.00	5,317.70
TOTAL TRANSFERS	00.00	0.00	00.0	0.00	0.00	(36,234.30)
EXPENDITURES (DEFICIT)	\$ (144,619.90)	\$ 56,218.84	\$ (17,132.70)	\$ (105,533.76)	\$ (275,084.78)	\$ (351,087.59)

FOOD SERVICE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE SEVEN MONTHS ENDED APRIL 30, 2010
WITH COMPARATIVE FIGURES FOR 2009

04/30/09	\$ 177,765.01	177,765.01	000	0.00	559.67	23,258.65	37,916.69	41.68	00.0	6,388.02	12,269.00	00.00	2,719.00	9,439.50	465.62	93,057.83				0.00			\$ 84,707.18
04/30/10	\$ 224,763.84	224,763.84	0	0.00	467.39	24,306.05	37,916.69	99.12	0.00	6,265.19	11,149.00	0.00	2,427.00	9,439.50	619.71	92,689.65				00.00			\$ 132,074.19
	REVENUES: COMMISSION INCOME	TOTAL REVENUES	EXPENDITURES: SALARIES	EMPLOYEE BENEFITS	SUPPLIES	EQUIPMENT MAINTENANCE AND REPAIR	UTILITIES	TELEPHONE	MEMBERSHIPS AND DUES	CONTRACT SERVICES	INSURANCE AND BONDS	EQUIPMENT	BUILDING MAINTENANCE AND REPAIR	INDIRECT COST	GENERAL EXPENSE	TOTAL EXPENDITURES	TRANSFERS AMONG FUNDS-	ADDITIONS/(DEDUCTIONS):	OTHER TRANSFERS	TOTAL TRANSFERS	EXCESS REVENUES OVER	EXPENDITURES AND MANDATORY	TRANSFERS (DEFICIT)

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE SEVEN MONTHS ENDED APRIL 30, 2010
WITH COMPARATIVE FIGURES FOR 2009

DALE SMALL RIED GROUP ENT HOUSING	48,394.32 \$ 236,616.17 386.69 0.00 2,557.19 43,889.04 51,338.20 280,505.21	36,35 7,69 8,59	-	2,231.00 7,629.00 0.00 3,447.42 0.00 0.00 2,123.07 396.03 0.00 0.00 4,845.03 73.00 0.00 47,657.75 3,175.30 73,825.22	0.00 (531,153.00) 0.00 (531,153.00) 0.00 0.00 0.00 0.00 0.00 (531,153.00) (109,682.11) \$ (449,767.58)
HILLSDALE MARRIED STUDENT	\$ 48,3 3 2,5 51,3	9 9 3 5 6 5, 6	4 r.c.	2,2 2,1 4,8 3,1	***************************************
OLD SHELL ROAD HOUSING	0.00	0000	0.00 0.00 0.00 0.00 0.00	0000	0.00
WASHERS AND DRYERS	108,020.00 \$ 0.00 0.00 108,020.00	0.00 0.00 0.00 57,171.00	00 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	0.00 0.00 0.00 0.00 0.00 0.00 0.00 29,371,33 86,542,33	0.00 0.00 0.00 0.00 0.00 0.00 0.00
HOUSING	\$ 00.00	73,316.41 0.00 0.00 0.00 385.00	11,827.67 245.27 0.00 0.00	0.00 0.00 0.00 0.00 0.00 0.00 317.25 0.00 (86,091.60)	0.00
CENTRAL	\$ 0.00 (1,241.00 320.00 1,561.00	218,519.40 65,097.33 0.00 340.50 4,430.76	282.85 21,016.84 89,284.43 226.35	0.00 0.00 374.44 1,099.82 0.00 0.00 40,833.10 267,783.25 (707,728.07)	0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 \$
	REVENUES: RENTAL INCOME BAD DEBT RECOVERY OTHER TOTAL REVENUES	EXPENDITURES: SALARIES EMPLOYEE BENEFITS CONTRACT LABOR CONTRACT SERVICES	RECEPTIONS SUPPLIES CABLE TELEPHONE UTILITIES	INSURANCE AND BONDS BUILDING MAINTENANCE AND REPAIR EQUIPMENT EQUIPMENT RENTAL EQUIPMENT MAINTENANCE MAJOR RENOVATIONS GENERAL EXPENSES ADMINISTRATIVE EXPENSES TOTAL EXPENDITURES	TRANSFERS AMONG FUNDS - ADDITIONS/(DEDUCTIONS): MANDATORY: PRINCIPAL AND INTEREST TOTAL MANDATORY TRANSFERS NON-MANDATORY: RENEWALS AND REPLACEMENTS OTHER NON-MANDATORY TRANSFERS TOTAL NON-MANDATORY TRANSFERS TOTAL TRANSFERS EXCESS REVENUES OVER EXPENDITURES AND TRANSFERS (DEFICIT)

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE SEVEN MONTHS ENDED APRIL 30, 2010
WITH COMPARATIVE FIGURES FOR 2009

						TOTAL	TOTAL
		GAMMA	BETA	DELTA	EPSILON	HOUSING	HOUSING
	-	DORMS	DORMS	DORMS	DORMS	04/30/10	04/30/09
REVENUES:							
RENTAL INCOME	4	694,648.02	\$ 438,307.68	\$ 1,607,829.57 \$	586,450.01	\$ 3,720,265.77 \$	3,504,685.44
BAD DEBT RECOVERY		0.00	0.00	0.00	0.00	1,627.69	4,387.15
OTHER		2,888.40	3,395.00	22,736.15	15,361.34	91,147.12	113,102.46
TOTAL REVENUES	,	697,536.42	441,702.68	1,630,565.72	601,811.35	3,813,040.58	3,622,175.05
EXPENDITURES:							
SALARIES		106,558.37	33,403.50	104,173.18	69,006.31	736,615.89	745,627.67
EMPLOYEE BENEFITS		23,981.86	8,801.01	24,721.84	8,982.06	175,179.95	198,426.06
CONTRACT LABOR		0.00	00.0	0.00	0.00	0.00	12,276.97
CONTRACT SERVICES		8,393.12	6,613.74	13,232.35	7,343.70	108,187.42	113,127.82
TRAVEL		0.00	0.00	0.00	0.00	4,815.76	3,939.89
RECEPTIONS		0.00	0.00	0.00	0.00	12,110.52	14,157.08
SUPPLIES		3,624.85	10,326.62	41,138.80	21,207.20	113,148.25	87,175.00
CABLE		0.00	0.00	0.00	0.00	89,320.99	88,875.13
TELEPHONE		29,718.72	12,535.22	70,442.16	22,876.90	137,324.88	130,477.29
UTILITIES		0.00	0.00	0.00	0.00	5,922.94	12,061.66
INSURANCE AND BONDS		12,762.00	6,550.00	17,885.00	5,729.00	52,786.00	69,739.00
BUILDING MAINTENANCE AND REPAIR		1,348.11	0.00	950.70	0.00	2,972.81	1,645.25
EQUIPMENT		2,111.56	0.00	0.00	3,555.00	9,488.42	0.00
EQUIPMENT RENTAL		0.00	0.00	0.00	0.00	1,099.82	4,048.40
EQUIPMENT MAINTENANCE AND REPAIR		0.00	0.00	678.68	255.00	3,452.78	1,277.50
GROUNDS 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		42,532.00	32,862.08	109,113.94	45,305.50	276,543.90	254,581.72
ADMINISTRATIVE OVERHEAD		270,848.41	127,865.50	389,682.16	130,041.66	1,233,878.73	1,178,100.14
ADMINISTRATIVE EXPENSES		152,413.39	86,526.33	336,579.53	111,928.57	0.00	0.00
TOTAL EXPENDITURES	ļ	654,292.39	325,484.00	1,108,598.34	426,230.90	2,962,849.06	2,916,336.58
TRANSFERS AMONG FUNDS -							
ADDITIONS/(DEDUCTIONS):							
MANDA I ORT.		(00000000000000000000000000000000000000	100 010 011	100 000	100	100 700 117 77	100 000
PRINCIPAL AND INTEREST	ļ	(134,000.02)	(40,040.00)	(232,890.00)	(217,518.00)	(1,155,601.02)	(972,894.02)
NON-MANDATORY	1	(134,000.02)	(40,040,00)	(434,030.00)	(000016,112)	(1,130,001.02)	(20.4:00)
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		00.0	0.00	0.00	0.00	0.00	2,467.60
TOTAL TRANSFERS	1	(134,000.02)	(40,040.00)	(232,890.00)	(217,518.00)	(1,155,601.02)	(970,426.42)
EXCESS REVENUES OVER EXPENDITURES			•				
AND TRANSFERS (DEFICIT)	⊌ ••>	(90,755.99) \$	76,178.68	289,077.38	(41,937.55) \$	(305,409.50) \$	(264,587.95)

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Financial Report Highlights May 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

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Financial report highlights at, and for the eight months ended, May 31, 2010 and 2009 are as follows (in thousands):

	At an	At and for the eight months ended	it montl	hs ended	
Total assets. by fund		-21-10		20-10-0	
Current	∽	180,808	s٩	151,298	
Loan		4,815		4,776	
Endowment		106,492		80,237	
Plant		604,975		599,011	
Fund Balances, by fund					
Current	⇔	19,859	6 9	30,811	
Loan		441		443	
Endowment		97,017		70,877	
Plant		297,096		287,260	
Other balance sheet highlights					
Cash and investments	€9	258,575	69	291,461	
Accounts receivable, net		73,935		66,499	
Bonds and notes payable		301,591		304,487	

	For	For the eight months ended	months	ended
	5-31-10	-10	43	5-31-09
elected operating highlights (current funds)	ent funds)			
Tuition and fees	•>	64,401	∽	56,059
State appropriations		66,681		73,925
Hospital revenues		194,585		195,472
Gifts, grants and contracts		71,957		60,349
Instruction and Academic support		87,824		87,133
Research and public service		47,118		44,469
Hospital expenses		203,101		208,487
Net current fund decrease	↔	(7,580)		(18,209)

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 MAY 2010 AND 2009

2009	57, 16, 44,	28,83,086,73) (28,83,086,73) 1,761,916,17 2,624,038,36 48,821,742,49	(10,421,040.59) 13,953,569.70 133,254,306.30	181,229.75 1,150.00 1,004,059.21	18,043,817.92 151,298,124.22	150.00 4,333,038.93	442,699.44	4,775,888.37	2,023,282.00 7,336,871.00 24,729,291.39	46,147,510.20 70,876,901.59 80,237,054.59	703,638.60 6,506,707.94 27,791.67 304,487,250.93 25,432.41	(775,596.74) 20,341,462.05 26,694,051.07 287,259,916.38 599,010,737.93 835,327,805.11
2010	\$ 46,206,097.88 \$ 20,119,500.40 92,693,680.12 555,223.41	(38,637,167,10) (38,637,167,10) 1,841,871,40 2,831,988,44 41,981,052,29	2,783,783.24 2,783,783.24 162,986,428.42	35,097.16 1,170.00 770.267.28	17,821,270,00	650.00 4,374,048.83	440,618.48	4,815,317.31	1,567,533.00 7,907,064.00 26,855,050.26	97,017,145.12 106,491,742.12	278,177,13 5,981,972,26 27,791,67 301,591,486,18	87.196.491.29 9.605,759.54 200.293.684.77 297.095,935.60 604,975,362.84 \$ 897,090,120.69
LIABILITIES AND FUND BALANCES	CURRENT FUNDS: UNRESTRICTED: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES DEFERRED REVENUES DUE TO OTHER FUNDS DEPOSITS HELD IN CUSTODY	OTHER DEPOSITS FUND BALANCES: ALLOCATED FOR: HOSPITALS AUXILIAS ENCUMBRANCES SEL-SUPPORTING ACTIVITIES	UNALLUCATED TOTAL FUND BALANCES TOTAL UNRESTRICTED	RESTRICTED FUNDS: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES OTHER DEPOSITS DEFERRED REVENUES	TOTAL RESTRICTED TOTAL CURRENT FUNDS	LOAN FUNDS: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES REFUNDABLE GOVERNMENT ADVANCES	FUND BALLANCES: UNIVERSITY FUNDS, UNRESTRICTED TOTAL FUND BALANCES	TOTAL LOAN FUNDS	ENDOWMENT FUNDS: DEFERRED REVENUES BONDS PAYBLE FUND BALANCES: RESTRICTED NONEXPENDABLE	UNKESI KIC I EXPENDABLE TOTAL FUND BALANCES TOTAL ENDOWMENT FUNDS	PLANT FUNDS: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES DEFERRED REVENUES OTHER DEPOSITS BONDS PAYABLE CAPITAL LEASE OBLIGATIONS	FUND BALANCES: RENEWALS AND REPLACEMENTS RETIREMENT OF INDEBTEDNESS INVESTMENT IN PLANT TOTAL FUND BALANCES TOTAL PLANT FUNDS TOTAL LIABILITIES AND FUND BALANCES
2009	\$ 150,566.92 44,559,396.94	60,496,794,634,36	133,254,306.30	7,462,372.23 11,529.60 10,569,916.09	18,043,817.92 151,298,124.22	631,895.29	4,143,993.08	4,775,888.37	19,080,375.04 56,317,952.55 1,338,429.00 3,500,298.00	80,237,054.59	131,343,368.19 31,903,672.65 1,799,284.00 254,936.16 44,546,933.87 5,087,834.76 1,126,332.72	29,232,252,32 9,298,747,48 13,195,086,51 52,151,848,31 161,070,440,96 599,070,737,93
2010	141,409.66	7,344,500.04 35,000.00 4,250,614.86 23,514,942.35	162,986,428.42	8,334,914.92 7,458.21 9,478,896.87	17,821,270.00 180,807,698.42	1,083,391.26	3,731,926.05	4,815,317.31	23,841,452.53 77,598,744.59 1,338,429.00 3,713,116.00	106,491,742.12	39,909,157.90 46,548,162.68 1,740,664.00 254,936.16 92,693,680.12 4,881,288.93 1,169,303.75	29,232,252,32 11,560,648.40 243,74,217.13 56,585,160.28 70,825,891.17 604,375,362,84
ASSETS	CURRENT FUNDS: UNRESTRICTED: CASH AND CASH EQUIVALENTS INVESTMENTS ACCOUNTS RECEIVABLE - PATIENTS (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF \$44,259,491.77	FOR 2010 AND \$45,573,039.07 FOR 2009) DEPOSITS INVENTORIES AT COST PREPAID EXPENSES	TOTAL UNRESTRICTED	RESTRICTED FUNDS: CASH AND CASH EQUIVALENTS INVESTMENTS UNBILLED COSTS AND ACCOUNTS RECEIVABLE	TOTAL RESTRICTED TOTAL CURRENT FUNDS	LOAN FUNDS: CASH AND CASH EQUIVALENTS NOTES RECEIVABLE (LESS ALLOWANCE FOR	DOUBLING ACCOUNTS OF \$490;934.89 FOR 2010 AND \$500,533.16 FOR 2009)	TOTAL LOAN FUNDS	ENDOWMENT FUNDS: CASH AND CASH EQUIVALENTS INVESTMENTS PREPAID-LIFE ESTATE REAL ESTATE HELD FOR RESALE	TOTAL ENDOWMENT FUNDS	PLANT FUNDS: CASH AND CASH EQUIVALENTS INVESTMENTS ACCOUNTS RECEIVABLE NOTES RECEIVABLE DUE FROM OTHER FUNDS PREPAID EXPENSES CAPITAL LEASE RECEIVABLE AND OTHER FOR ANTALES	INVESTIMENT IN TLAND. LAND LAND IMPROVEMENTS BULIDINGS, ACCUM DOPREC AND IMPROVEMENTS OTHER EQUIPMENT, BOOKS AND FILMS CONSTRUCTION IN PROGRESS TOTAL PLANT FUNDS TOTAL ASSETS

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

f	CURRENT FUNDS	T FUNDS		FINANCIONU	DENEWALS AND	PLANT FUNDS	MINESTMENT
•	UNRESTRICTED	RESTRICTED	LOAN FUNDS	FUNDS	REPLACEMENTS	INDEBTEDNESS	PLANT
REVENUES AND OTHER ADDITIONS: EDUCATIONAL AND GENERAL REVENUES HOSPITALS REVENUES AUXILLARY ENTERPRISES REVENUES COMMITS AND CONTRACTS.	176,170,903.60 200,325,682.18 10,063,021.73						
GRANIS AND CONTRACTS. FEDERAL STATE AND LOCAL PRIVATE		26,711,192.78 3,883,320.08 1,976,222.23					
GOVERNMENT APPROPRIATIONS: FEDERAL STATE INVESTMENT INCOME.GAINS/LOSS			3,577.52	6,796,928.83	2,600,504.00 378,902.76	15,613.35	
INSURANCE PROCEEDS INTEREST ON LOANS RECEIVABLE GIFTS AND BEQUESTS CONTROL OF ANY STATES (INC. LINNO			40,502.85	1,983,851.98	334,418.31	28,825.74	20 940 146 91
\$1,296,729.91 CURRENT FAULUS EXPENDITURES) RETIREMENT OF INDEBTEDNESS PROCEEDS FROM SALE OF CAPITAL ASSETS							5,025,000.00
OTHER SOURCES TOTAL REVENUES AND OTHER ADDITIONS	386,559,607.51	9,367,917.59 41,938,652.68	44,080.37	6,222.88 8,787,003.69	3,905,485.25	44,439.09	327,016.41 26,262,163.32
EXPENDITURES AND OTHER DEDUCTIONS: EDUCATIONAL AND GENERAL EXPENDITURES HOSPITALS EXPENDITURES AUXILIARY ENTERPRISES EXPENDITURES	162,723,004.73 199,913,851.75 9,228,994.03	38,139,838.26					
INDIRECT COSTS RECOVERED REFUNDED TO GRANTORS RETIREMENT OF INDEBTEDNESS ADMINISTRATIVE AND COLLECTION COSTS		3,110,268.20 12,329.19	154.50			5,025,000.00	
EXPENDED FOR PLANT FACILITIES (INCLUDING \$1,172,828.23 FOR NON-CAPITALIZED EXPENDITURES) INTEREST ON INDEBTEDNESS DE PLANT FACILITIES DEPRECIATION EXPENSES OF PLANT FACILITIES	(s				20,786,243.23	4,040,880.02	16,613,736.80
DISPOSAL OF PLANT LOSS ON DISPOSAL OF PLANT OTHER DEDUCTIONS TOTAL EXPENDITURES AND OTHER DEDUCTIONS	371,865,850.51	41,262,435.65	13,239.22	196,824.82	20,786,243.23	(4,691.08)	8,360.82 16,622,097.62
TRANSFERS AMONG FUNDS.ADDITIONS(DEDUCTIONS): MANDATORY: PRINCIPAL AND INTEREST FINANCIAL AID MATCHING	(11,765,532.52) (60,204.00)	60,204.00			(1,241,492.59)	13,007,025.11	
NON-MANDAIORY: NON-MANDAIORY: MOBILE RACING COMMMISSION PLANT ADDITIONS AND REPLACEMENTS ENDOWMENT FUND	(3,939,489.28) (58,859.14) (4,384,471.25) (2,018,983.15)	107,821.16		1,970,021.13	3,939,489.28 58,859.14 4,384,471.25 (58,859.14)		
OTHER TRANSFERS TOTAL TRANSFERS NET INCREASE (DECREASE) FOR THE PERIOD FUND BALANCES AT OCTOBER 1, 2009 FUND BALANCES AT MAY 31, 2010	(22,175,079.93) (7,481,322.93) (7,581,322.93) 10.265,106.17 2,783,783.24 \$	(942,890.35) (774,865.19) (98,648.16) 17,173,383.72 17,074,735.56 \$	30,686.65 409,931.83 440,618.48	849,426.30 2,819,447.43 11,409,626.30 85,607,518.82 97,017,145.12 \$	710,138.64 7,792,606.58 (9,088,151.40) 96,284,642.69 87,196,491.29	13,190,523.61 4,173,773.76 5,431,985.78	(852,532,50) (852,632,50) 8,787,433.20 191,506,261.57 200,293,684.77

*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$1,526,553.28 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

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

	UNRESTRICTED	MONTH ENDED MAY 31, 2010 RESTRICTED	10 TOTAL	·	MAY 31, 2009
REVENUES:	01 007 707 70	•	27 904 107 13		AC 050 104 00
TUITION AND PEES		*	\$ 04,401,120,70	•	00,000,104,000
STATE APPROPRIATIONS	60,940,662.16		60,940,662.16		27.725,006,18
MOBILE RACING COMMISSION	58,839.14	1	41.500,00		130,548.43
FEDERAL GRANTS AND CONTRACTS	2,616,845.26	31,528,450.75	34,145,296.01		23,374,264.71
STATE GRANTS AND CONTRACTS (INCLUDING INDIRECT	07 040 000	30 073 767 6	44.00		08 200 A 73 C
COST RECOVERED OF \$254,455.19) DRIVATE GIFTS, GRANTS, AND CONTRACTS (INCLUDING	01,858,000	00.040,451,5	01.100,120,0		00:400'4-10'7
INDIRECT COSTS RECOVERED OF \$238.987.75)	32,652,696.66	1,636,926.80	34,289,623.46		34,300,860.81
INVESTMENT INCOME	210,612.33		210,612.33		1,822,751.90
SALES AND SERVICES OF EDUCATIONAL ACTIVITIES	2,559,688.60		2,559,688.60		2,558,283.92
HOSPITALS - SALES AND SERVICES	194,584,856.34		194,584,856.34		195,471,244.51
STATE APPROPRIATIONS	5,740,825.84		5,740,825.84		6,425,023.36
AUXILIARY ENTERPRISES - SALES AND SERVICES	10,063,021.73		10,063,021.73		10,407,291.09
OTHER SOURCES	12,343,451.59	1,839,812.66	14,183,264.25		11,305,137.06
TOTAL CURRENT REVENUES	386,559,607.51	38,139,838.26	424,699,445.77		412,029,022.19
EXPENDITURES AND TRANSFERS:					
EDUCATIONAL AND GENERAL:					
INSTRUCTION	63,326,272.70	12,451,038.07	15,777,310.77		6,309,114.26
RESEARCH	0,243,083.96	8,038,038,38	13,201,143.34		47'000'CEC'61
PUBLIC SERVICE	32,774,865.82	1,055,824./3	33,830,090,00		30,07.2,700.84
ACADEMIC SUPPORT	11,963,767.39	82,537.44	12,046,304.83		10,824,151.78
STUDENT SERVICES	15,733,811.94	698,998.23	10,452,70.17		10.100,000,000,01
INSTITUTIONAL SUPPORT	16,838,217.65	3/8,142.9/	11,216,334.82		13,764,639.77
OPERATION AND MAINTENANCE OF PLANT	13,455,865.47	6,523,870.63	19,968,756.10		17,200,030.42
SCHOLARSHIPS	3,371,123.60	28 420 628 26	12,282,530.41	•	10,028,902.30
EDUCATIONAL AND GENERAL	57:175:00:175	07.000,601,00	200,004,014,03		21.001.11.10.10.
MANDALORI LRANDERNA FOR:	7 257 087 16		7 257 987 18		7 953 290 16
CINANCIAL AID MATCHING	60.204.00		60.204.00		97.130.00
TOTAL EDUCATIONAL AND GENERAL	170,041,195.89	38,139,838.26	208,181,034.15		202,625,215.65
HOSPITALS (INCLUDING DEBT SERVICE OF \$3,186,858.48)	203,100,710.23		203,100,710.23	•	208,487,271.11
AND THE PROPERTY.					
AUALLANT EN IERRANSES:	9,228,994.03		9,228,994.03		9,672,958.34
MANDATORY TRANSFERS FOR:	1 320 686 88		1.320.686.88		1.159.366.88
NON-MANDATORY TRANSFERS FOR:					
OTHER TRANSFERS	0.00		0.00		(13,047.35)
TOTAL AUXILIARIES TOTAL EXPENDITURES AND TRANSFERS	10,549,680.91	38,139,838,26	10,549,680.91	' '	10,819,277.87
CTHER TRANSFERS AND ADDITIONS//DEDICTIONS				•	
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUES		688,546.22	688,546.22		12,256.45
REFUNDED TO GRANTORS		(12,329.19)	(12,329.19)		(1,843.12)
FUNDED DEPRECIATION	(3,939,489.28)		(3,939,489.28) *		(4,669,713.00)
MODILE INCIDENCE COMPRISORIAL AND	(4 384 471 25)		(4 384 471 25)		(4 606 289 07)
FLAN ADDITIONS AND AET LACEMENTS	(2.018.983.15)	107.821.16	(1.911.161.99)		(1,876,094,92)
OTHER TRANSFERS	52,459.41	(882,686.35)	(830,226.94)		2,965,544.23
TOTAL TRANSFERS	(10,349,343.41)	(98,648.16)	(10,447,991.57)	, ,	(8,306,688.86)
NET INCREASE(DECREASE) IN FUND BALANCES	\$ (7,481,322.93)	\$ (98,648.16)	\$ (7,579,971.09)	φ.	(18,209,431.30)

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.
*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$1,528,553.28 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

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 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 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 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.

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

maintained and administered in a common pool. Separate accounts are maintained for each fund, as applicable. Depositories and other financial institutions that held 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 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.

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.

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 Permanent employees of the University participate in the Teachers' Retirement System of Alabama. The Retirement Plan is fully funded by the State and by employment.

LIABILITY INSURANCE

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 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 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.

BONDS PAYABLE

Bonds payable consist of the following:

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

LITIGATION

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

MEDICAID DISPROPORTIONATE SHARE PAYMENTS

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

SUPPLEMENTAL SCHEDULES

SUMMARY SCHEDULE OF AUXILIARY ENTERPRISES REVENUES, EXPENDITURES AND OTHER CHANGES FOR THE EIGHT MONTHS ENDED MAY 31, 2010 WITH COMPARATIVE FIGURES FOR 2009

	REVENUES	EXPENDITURES	TRANSFERS	EXCESS I AND 05/3	SS REVENUES OVER EXPENDITI AND OTHER CHANGES (DEFICIT) 05/31/10 05/31/10	OVER EX	EXCESS REVENUES OVER EXPENDITURES AND OTHER CHANGES (DEFICIT) 05/31/10 05/31/10
BOOKSTORE	\$ 4,192,278.06	\$ 4,131,895.80	0.00	↔	60,382.26	↔	181,374.05
BROOKLEY CENTER	1,281,502.26	1,620,389.31	0.00	(3;	(338,887.05)		(350,407.81)
FOOD SERVICES-CAMPUS	231,444.46	108,227.16	0.00	7	123,217.30		92,094.07
HOUSING TOTAL	4,357,796.95 \$ 10,063,021.73	3,368,481.76 \$ 9,228,994.03	(1,320,686.88) \$ (1,320,686.88)	\$ (48)	(331,371.69) (486,659.18)	₩	(335,047.09)

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

05/31/10	\$ 4,105,626.07 COST OF GOODS SOLD OFIT (SHORT) SY24.21 2,983,843.07 1,118,058.79 75.03 ON (NET) SY418.95 RECOVERY 33,158.01 1,204,710.78	SALARIES SALARIES SALARIES SALARIES SUPPLIES SUPPLIES TRAVEL EQUIPMENT SOLUTION SOLUT	S): 17 0.00 6.00 6.00 6.00 6.00 6.00 6.00 6.00	EXCESS REVENUES \$ 60,382.26 \$
	VENUES: SALES LESS: DEPARTMENTA COST OF GOOD GROSS PROFIT CASH OVER(SHORT) GRADUATION (NET) BAD DEBT RECOVERY OTHER NET REVENUES:	PENDITURES: SALARIES EMPLOYEE BENEFITS SUPPLIES TRAVEL EQUIPMENT EQUIPMENT EQUIPMENT MAINTENANCE AND RE BUILDING & EQUIPMENT RENTAL UTILITIES TELEPHONE INSURANCE AND BONDS CONTRACT SERVICES BAD DEBT EXPENSE RENT OBSOLETE INVENTORY GENERAL EXPENSES CHARGE CARD AND FACULTY STAFF DISCOUNTS INSTITUTIONAL COST ALLOCATION TOTAL EXPENDITURES	TRANSFERS AMONG FUNDS- ADDITIONS/(DEDUCTIONS): MANDATORY: PRINCIPAL AND INTEREST NON-MANDATORY: OTHER TRANSFERS RENEWAL AND REPLACEMENT RETIREMENT REIMBURSEMENT TOTAL TRANSFERS	SS REVENUES OVER EXPENDI AND MANDATORY TRANSFERS

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

	ADMINISTRATION	INVESTMENT HOUSING	GOLF SHOP	FOOD SERVICE	TOTAL AUXILIARY SERVICES	
BEVINES:						
SALES-FOOD & MERCHANDISE	\$ 0.00	\$ 0.00	\$ 20,191.53	\$ 0.00	\$ 20,191.53	11.53
LESS: COST OF GOODS SOLD	00:00	00:00	7,555.57	0.00	7,555.57	29.57
DISCOUNTS	0.00	0.00	(261.77)	0.00	(261	(261.77)
GROSS PROFIT	00.0	00'0	12,897.73	0.00	12,897.73	7.73
TEES	25.00	0.00	220,922.45	25,576.33	246,498.78	8.78
RENTALS	18,664.00	452,650.12	00:00	0.00	452,650.12	50.12
OTHER	4,482.34	100.00	13.44	0.00	113	113.44
FACILITY ASSESSMENT FEE	33,336.00	00.00	00:00	0.00		0.00
NET REVENUES	56,507.34	452,750.12	233,833.62	25,576.33	712,160.07	20.07
EXPENDITURES:						
OTERATING EXPENDITURES.	389.260.54	39.196.69	117,432.82	0.00	156,629.51	9.51
EMPLOYEE BENEFITS	135,547.34	8,510.68	37,454.02	0.00	45,964.70	34.70
SUPPLIES	42,271.54	766.69	24,076.55	705.20	25,548.44	18.44
TRAVEL	1,390.41	00:00	00'0	0.00		0.00
CONTRACT SERVICE	43,622.66	68,023.62	53,912.39	3,822.99	125,759.00	90.00
BUILDING MAINTENANCE & REPAIR	4,649.23	40,905.82	1,969.83	363.95	43,239.60	39.60
GROUNDS MAINTENANCE	15,080.36	11,374.72	8,988.93	0.00	20,363.65	33.65
UTILITIES	152,084.66	113,245.89	21,911.05	34,979.81	170,136.75	36.75
EQUIPMENT MAINTENANCE & REPAIR	1,252.84	4,251.57	24,527.96	2,779.60	31,559.13	9.13
BUILDING & EQUIPMENT RENTAL	3,016.86	0.00	17,368.24	1,955.20	19,323.44	3.44
TELEPHONE	10,392.80	00:00	493.75	1.84	496	495.59
INSURANCE AND BONDS	54,134.00	00:00	732.00	1,988.00	2,720	2,720.00
RECEPTIONS	0:00	00:00	00.00	0.00		0.00
ADVERTISING	6,039,63	2,117.13	1,693.25	250.00	4,060	4,060.38
BAD DEBT EXPENSE	00:00	0.00	0:00	0.00		0.00
GENERAL EXPENSES	11,851.72	1,188.57	13,868.12	759.14	15,815.83	5.83
EXPENSE OFFSET	00.00	00:0	0.00	0.00	_	0.00
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	0.00	0.00		0.00
OPERATING COST ALLOCATIONS	(814,976.25)	228,193.33	00.0	32,599.04	260,792.37	32.37
TOTAL OPERATING EXPENDITURES	55,618.34	517,774.71	324,428.91	80,204.77	922,408.39	38.39
EXCESS REVENUES OVER EXPENDITURES	889.00	(65,024.59)	(90,595.29)	(54,628.44)	(210,248.32)	18.32)
OTHER EXPENDITURES:	0000	2 506 40	c	c c	e e	2
	00.888	04:000.0	00.0	00.0	המה'ה ה	0.000,0
OTHER COST ALLOCATIONS	00.0	00.0	00.0	00.5		3
TOTAL OTHER EXPENDITURES TRANSFERS AMONG FUNDS -	889,00	3,596.40	0.00	0.00)AC'S	3,596.40
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	00:00	0.00	0.00	0.00		0.00
NON-MANDALORY: OTHER NON-MANDATORY TRANSFERS	00.00	00.0	000	0.00		000
TOTAL TRANSFERS	0.00	00.0	0.00	0.00		0.00
EXCESS REVENUES OVER				0.00		
EXPENDITURES (DEFICIT)	00.0	\$ (68,620.99)	\$ (90,595.29)	\$ (54,628.44)	\$ (213,844.72)	14.72)

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

						TOTAL	BROOKLEY	BROOKLEY
	CONTINUING		EDUCATIONAL LEASING	UNI	UNIVERSITY SERVICE	EDUCATIONAL SERVICES	CENTER TOTAL 05/31/10	CENTER TOTAL 05/31/09
REVENUES:		•	6	•	Ġ	6	20 101	26 390 15
SALES-FOOD & MERCHANDISE	0.00	A	0.00	•	0.00			•
LESS: COST OF GOODS SOLD	0.00	8	0.00		00:00	0.00	1,555.57	10,490.67
DISCOUNTS	323.55	1	0.00		0.00	323.55	61./8	2,630.10
GROSS PROFIT	(323.55)	22)	0.00		0.00	(323.55)	12,574.18	12,269.38
FEES	114,325.67	57	322,619.56		00:0	436,945.23	683,469.01	796,350.52
RENTALS	0.00	90	0.00		0.00	00:00	471,314.12	499,005.59
OTHER	68,577.97	24	17,85		00:00	68,595.82	73,191.60	18,426.87
FACILITY ASSESSMENT FEE	00.0	8	0.00		0.00	0.00	33,336.00	33,336.00
NET REVENUES	182,580.09	1	322,637.41		0.00	505,217.50	1,273,884.91	1,359,388.36
EXPENDITURES:								
OPERATING EXPENDITURES:			:		;			
SALARIES	24,607.52	25	00:00		0.00	24,607.52	570,497.57	621,734.62
EMPLOYEE BENEFITS	7,298.87	37	00:00		0.00	7,298.87	188,810.91	207,874.42
SUPPLIES	12,237.10	10	5,714.58		00:00	17,951.68	85,771.66	65,399.34
TRAVEL	0.00	8	0.00		0.00	00:00	1,390.41	1,594.78
CONTRACT SERVICE	4,261.25	52	4,103.45		0.00	8,364.70	177,746.36	151,744.19
BUILDING MAINTENANCE & REPAIR	3,671.70	20	10,717.61		00:00	14,389.31	62,278.14	56,978.25
GROUNDS MAINTENANCE	10.78	78	00:0		0.00	10.78	35,454.79	48,969.64
UTILITIES	95,407.40	40	71,490.42		0.00	166,897.82	489,119.23	380,714.05
EQUIPMENT MAINTENANCE & REPAIR	432.57	25	294.75		00.0	727.32	33,539.29	41,547.27
BUILDING & EQUIPMENT RENTAL	0.00	8	00'0		0.00	0.00	22,340.30	18,832.00
TELEPHONE	0.00	8	0.00		00.0	0.00	10,888.39	15,405.76
INSURANCE AND BONDS	3,240.00	8	0.00		00:0	3,240.00	60,094.00	62,794.00
RECEPTIONS	0.00	8	00:0		0.00	0.00	0.00	876.50
ADVERTISING	16,671.18	18	0.00		0.00	16,671.18	26,771.19	20,520.12
BAD DEBT EXPENSE	0.00	8	0.00		0.00	0.00	00.0	00.00
GENERAL EXPENSES	5,129.31	31	27,570.87		0.00	32,700.18	60,367.73	129,500.44
EXPENSE OFFSET	0.00	00	0.00		0.00	0:00	00.00	(22,700.00)
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	8	0.00		(220,946.64)	(220,946.64)	(220,946.64)	(146,577.36)
OPERATING COST ALLOCATIONS	171,145.03	33	138,545.97		244,492.88	554,183.88	00.00	00.00
TOTAL OPERATING EXPENDITURES	344,112.71	1	258,437.65		23,546.24	626,096.60	1,604,123.33	1,655,208.02
EXCESS REVENUES OVER EXPENDITURES	(161,532.62)	(2)	64,199.76		(23,546.24)	(120,879.10)	(330,238.42)	(295,819.66)
OTHER EXPENDITURES:								
EQUIPMENT	4,163.23	ន	0.00		0.00	4,163.23	8,648.63	17,679.90
OTHER COST ALLOCATIONS	0.00	el el	0.00		0.00	00.00	00.00	00.00
TOTAL OTHER EXPENDITURES	4,163.23	2	0.00		0.00	4,163.23	8,648.63	17,679.90
TRANSFERS AMONG FUNDS -	i							
ADDITIONS/(DEDUCTIONS):								
MANDA LORT:	1					,	:	
PRINCIPAL AND INTEREST	00.0	8	0.00		0.00	0.00	0.00	(47,488.00)
NON-IMANDATORT:	c c	ş	S		Ġ	5	c	25 053 04
TOTAL TOANISEED			8		8 8	80.0		67.676.00
FXCESS REVENUES OVER	00.0	2	0.00		0.00	0.00	0.00	(35,908,25)
EXPENDITURES (DEFICIT)	\$ (165,695.85)	(2)	64,199.76	φ.	(23,546.24)	\$ (125,042.33)	\$ (338,887.05)	\$ (350,407.81)

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

05/31/09	\$ 193,370.88	193,370.88		00.0	31	23,976.37	43,333,36	32.54	00.00	7,025.19	12,269.00	00.00	3,076.00	10,788.00	465.62	101,276.81			00 0		\$ 92,094.07
05/31/10	\$ 231,444.46	231,444.46	j	00.0	1,094.08	31,063.69	43,333.36	76.96	0.00	6,942.36	11,149.00	0.00	3,127.00	10,788.00	652.71	108,227.16			00 0		\$ 123,217.30
	REVENUES: COMMISSION INCOME	TOTAL REVENUES	EXPENDITURES:	SALARIES EMPLOYEE BENEFITS	SUPPLIES	EQUIPMENT MAINTENANCE AND REPAIR	UTILITIES	TELEPHONE	MEMBERSHIPS AND DUES	CONTRACT SERVICES	INSURANCE AND BONDS	EQUIPMENT	BUILDING MAINTENANCE AND REPAIR	INDIRECT COST	GENERAL EXPENSE	TOTAL EXPENDITURES	TRANSFERS AMONG FUNDS-ADDITIONS/(DEDUCTIONS):	NON-MANDA ORY:	OTHER TRANSFERS TOTAL TRANSFERS	EXCESS REVENUES OVER EXPENDITURES AND MANDATORY	TRANSFERS (DEFICIT)

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

SMALL GROUP HOUSING	273,231.91	320,021.95	43,314.88	8,833.27 0.00	10,499.86 0.00	0.00	11,666.58	711.31	406.56	7,629.00	674.00	3,447.42	0.00	396.03	0.00	0.00	735.00	54,466.00	82,978.89	225,758.80		(607,032.00)	(607,032.00)	6	0.00	0.00	(607,032.00)	(512,768.85)
HILLSDALE MARRIED STUDENT	54,814.32 \$ 386.69	3,154.85	103,294.88	39,417.31 0.00	7,615.63	0.00	4,580.66	36.36 1,052.94	6,369.83	4,427.00	0.00	1,880.00	0.00	3,040.31	0.00	0.00	4,845.03	0.00	3,569.01	180,129.16		0.00	0.00		0.00	0.00	0.00	(121,773.30) \$
OLD SHELL ROAD HOUSING	\$ 00.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	0.00		0.00	0.00	0.00	0.00
WASHERS AND DRYERS	108,020.00 \$	108,020.00	0.00	0.00	57,171.00 0.00	0.00	0.00	0.00	0.00	0.00	00.0	0.00	0.00	00'0	0.00	00.0	0.00	0.00	33,013.11	90,184.11		0.00	0.00	0	0.00	0.00	0.00	17,835.89 \$
HOUSING	0.00	0.00	78,527.10	0.00	0.00	14,289.08	245.27	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	317.25	0.00	(93,763.70)	0.00		0.00	00:0	0	0.00	0.00	0.00	\$ 00.0
CENTRAL HOUSING	\$ 0.00 \$	1,909.50	252,438.64	77,284.80 0.00	604.50 4.430.76	282.85	22,390.83	69,264.43 261.65	0.00	1,464.00	0.00	374.44	1,193.42	0.00	0.00	0.00	44,343.68	306,038.00	(798,482.50)	1,909.50		0.00	0.00	000	0.00	0.00	0.00	0.00
	ES: LINCOME BT RECOVERY	OTHER TOTAL REVENUES	EXPENDITURES: SALARIES	EMPLOYEE BENEFITS CONTRACT LABOR	CONTRACT SERVICES	RECEPTIONS	SUPPLIES	CABLE TEL FPHONE	UTILITIES	INSURANCE AND BONDS	BUILDING MAINTENANCE AND REPAIR	EQUIPMENT	EQUIPMENT RENTAL	EQUIPMENT MAINTENANCE AND REPAIR	GROUNDS MAINTENANCE	MAJOR RENOVATIONS	GENERAL EXPENSES	ADMINISTRATIVE OVERHEAD	ADMINISTRATIVE EXPENSES	TOTAL EXPENDITURES	TRANSFERS AMONG FUNDS - ADDITIONS/(DEDUCTIONS): MANDATORY:	PRINCIPAL AND INTEREST	TOTAL MANDATORY TRANSFERS	NON-MANDATORY:	CTUED NOW MANDATORY TRANSERS	TOTAL MON.MANDATORY TRANSFERS	TOTAL TRANSFERS	EXCESS REVENUES OVER EXPENDITURES AND TRANSFERS (DEFICIT)

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

INDEX JUNE 2010

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Financial Report Highlights June 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 nine months ended, June 30, 2010 and 2009 are as follows (in thousands):

	At and	At and for the nine months ended	mom	ths ended	
	6-3	6-30-10		6-30-06	
Total assets, by fund	e	217 213	ú	103 603	
Current	9	4.819	9	4.778	
Fodowment		103,376		85,516	
Plant		635,237		604,832	
Fund Ralances by fund					
Curent	∽	20,468	€3	30,292	
Loan		445		445	
Endowment		93,876		76,107	
Plant		293,255		289,647	
Other balance sheet highlights					
Cash and investments	S	285,860	∽	283,809	
Receivables, primarily patient care		97,307		89,718	
Bonds and notes payable		331,537		305,515	

	For the nine months ended	months	ended
	6-30-10		6-30-09
elected operating highlights (current funds)	(spur		
Tuition and fees \$	70,920	↔	61,401
State appropriations	75,017		83,166
Hospital revenues	218,122		221,671
Giffs, grants and contracts	83,933		68,189
Instruction and academic support	97,289		96,995
Research and public service	52,952		50,884
Hospital expenses	228,905		235,414
Net current fund increase (decrease)	(6,971)		(18,728)

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 JUNE 2010 AND 2009

2009	\$ 50,476,056.93 34,501,580.83 76,214,229.45 556,516.84 405,420.00	(29,383,511.15) 1,668,326.40 2,746,516.90 47,800,762.74 (10,571,166.25) 12,260,936.64 174,414,762.89	102,984.47 1,150.00 1,052,867.79 18,031,209.82 19,188,212.08 193,502,974.77	4,333,038.93 444,510.28 444,510.28 4777,549.21	1,792,319,00 7,616,634.00 24,729,281.39 51,377,902.73 76,107,194.12 85,516,147.12	3,179,100.83 6,462,957.05 27,781.67 305,497,852.73 16,993.27	(5,263,649.45) 21,342,486.57 273,568,83.32 289,647,226.44 604,631,921.99
2010	\$ 50,103,645,63 43,778,617.94 100,902,434.54 653,230.69 809,870.49	(38,793,295.25) 1,669,073.19 2,821,098.49 42,542,488.14 (6,077,524.62) 2,161,839.95 198,409,639.24	112,294.39 1,170.00 383,604.19 18,305,871.06 18,802,939.64 217,212,578.88	4,374,048.83 444,950.63 444,950.63 4,818,999.46	1,493,946.00 8,006,315.00 26,790,900.26 67,084,836.38 93,875,736.64	3,934,550.27 6,484,167.18 25,791.63 331,537,134.62	84,847,588.30 5,490,495.15 202,916,958.31 293,255,041.76 635,236,685.46 \$ 950,644,251.44
LIABILITIES AND FUND BALANCES	CURRENT FUNDS: UNRESTRICTED: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES DEFERRED REVENUES DUE TO OTHER FUNDS DEPOSITS HELD IN CUSTODY OTHER DEPOSITS FUND BALANCES:	ALLOCATED FOR: HOSPITALS AUXILIARY ENTERPRISES ENCUMBRANCES SELF-SUPPORTING ACTIVITIES UNALLOCATED TOTAL FUND BALANCES TOTAL UNRESTRICTED	RESTRICTED FUNDS: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES OTHER DEPOSITS DEFERRED REVENUES FUND BALANCES TOTAL RESTRICTED TOTAL CURRENT FUNDS	LOAN FUNDS: REFUNDABLE GOVERNMENT ADVANCES FUND BALANCES: UNIVERSITY FUNDS, UNRESTRICTED TOTAL FUND BALANCES TOTAL LOAN FUNDS	ENDOWMENT FUNDS: DEFERRED REVENUES BONDS PAYABLE FUND BALANCES: RESTRICTED NONEXPENDABLE UNRESTRICTED EXPENDABLE TOTAL FUND BALANCES TOTAL ENDOWMENT FUNDS	PLANT FUNDS: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES DEFERRED REVENUES OTHER DEPOSITS BONDS PAYABLE CAPITAL LEASE OBLIGATIONS	FUND BALANCES: RENEWALS AND REPLACEMENTS RETIREMENT OF INDEBTEDNESS INVESTMENT IN PLANT TOTAL FUND BALANCES TOTAL PLANT FUNDS TOTAL LIABILITIES AND FUND BALANCES
2009	\$ 138,567,38 62,647,285.26 89,717,648,31 35,000,00	4.453.897.58 17,422,274.16 17424.14,762.69	9,665,479,49 11,529,60 9,511,202.99 19,188,212.08 193,602,674,77	671,410.59 4,106,138.62 4,777,549.21	20,917,760.39 59,654,660.73 1,338,429.00 3,605,307.00 85,516,147.12	83,262,479,48 46,840,131.91 1,948,236.00 254,936.16 76,214,229.45 4,932,925.39 1,129,852.51	29,232,252,32 9,201,898.53 13,1873,514,59 51,885,710,72 168,055,754,33 604,831,921,99
2010	136,673.84 72,866,163.77 97,306,763.02 35,000.00	4,559,187.38 23,505,851.23 198,409,639,24	8,490,065,18 7,458,21 10,305,416.25 18,802,939,64 217,212,578,88	1,116,748.35 3,702,251.11 4,818,999.46	24,823,738,70 73,464,310.94 1,338,429.00 3,749,519.00	51,363,322.46 53,591,495.77 1,627,464.00 100,902,434.54 4,726,379.56 1,172,957.82	29,232,282,32 11,479,541,33 249,584,620,43 56,396,711,39 75,159,505,84 635,236,685,46 950,644,261.44
ASSETS	CURRENT FUNDS: UNRESTRICTED: CASH AND CASH EQUIVALENTS INVESTMENTS ACCOUNTS RECEIVABLE - PATIENTS (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF \$44633,525.37 FOR 2010 AND \$45,388,994.72 FOR 2009) DEPOSITS	INVENTORIES AT COST PREPAID EXPENSES TOTAL UNRESTRICTED	RESTRICTED FUNDS: CASH AND CASH EQUIVALENTS INVESTMENTS UNBILLED COSTS AND ACCOUNTS RECEIVABLE TOTAL RESTRICTED TOTAL CURRENT FUNDS	LOAN FUNDS: CASH AND CASH EQUIVALENTS NOTES RECEIVABLE (LESS ALLOWANCE FOR NOTES RECEIVABLE (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF \$490,934.85 FOR 2010 AND \$500,533.16 FOR 2009) TOTAL LOAN FUNDS	ENDOWMENT FUNDS: CASH AND CASH EQUIVALENTS INVESTMENTS REAL ESTATE HELD FOR RESALE PREPAID-LIFE ESTATE TOTAL ENDOWMENT FUNDS	PLANT FUNDS: CASH AND CASH EQUIVALENTS INVESTMENTS ACCOUNTS RECEIVABLE NOTES RECEIVABLE DUE FROM OTHER FUNDS PREPAID EXPENSES CAPITAL LEASE RECEIVABLE	INVESTMENT IN PLANT: LAND LAND LAND IMPROVEMENTS BUILDINGS, ACCUM DEPREC AND IMPROVEMENTS OTHER EQUIPMENT, BOOKS AND FILMS CONSTRUCTION IN PROGRESS TOTAL PLANT FUNDS TOTAL ASSETS

UNIVERSITY OF SOUTH ALABAMA STATEMENT OF CHANGES IN FUND BALANCES FOR THE NINE MONTHS ENDED JUNE 30, 2010

CURRENT FUNDS TED RESTRICTED LOAN FUNDS
31,680,535.48 4,300,231.68 2,410,424.59
12,218,555.95 50,609,747.70
44,999,881.88 3,648,437.53 14,403.19
14,439.22 48,662,722.60 15,763.71
60,204.00
107,821.16 (982,562.92)
(814,537.76) 1,132,487.34 17,173,383.72 18,305,871.06 \$ 444,950,63

*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$1,717,372.44 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

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

JUNE 30, 2009	\$ 61,400,725.51 75,937,928.65 143,613.89 25,776.851.53	3,110,021.09	39,301,806.64 1,845,222.21	2,973,537.66	7,228,151.28	12,447,002.76	84,912,802.31	16,390,935.61	12.082.325.06	18,061,500.46	22,387,688.88	18,829,741.77	217,459,486.95	8,954,294.99	57,482.00 226,471,263.94	235,413,370,66	10.459.383.61	4 165 202 88		(13,047.35) 11,611,639.14 473,496,273.74	1,279,596.38 (1,843.12)	(143,613.89) (4,616.289.07)	(2,176,712.13) 2,732,853,73 (8,173,879,10)	\$ (18,728,211.50)
TOTAL	\$ 70,920,293.57 68,558,244.93 70,440.71 40.514,638.71	3,960,583,89	39,457,374.20	2,841,725.35	6,458,429.07	16,082,341.27 478,206,197.15	83,639,576.11	15,388,573.54	37,563,338.19	18,687,925.57	20,028,475.85	23,250,001.40	226,197,583.61	8.181.917.79	60,204.00 234,439,705.40	228,904,579.85	10.336.044.11	00 000 000 7	000000000000000000000000000000000000000	(4,446.00) 11,652,284.99 474,996,570.24	1,961,428.29 (14,403.19)	(4,431,923,44) (70,410.71) (4,394,471,25)	(2,178,048.55) (1,052,574,94) (10,180,405.79)	\$ (6,970,778.88)
MONTH ENDED JUNE 30, 2010 RESTRICTED	\$ 37 440 282 00	3,525,077.53	2,018,769.87			2,015,752.48	14,040,362.51	9,459,877.48	1,278,736.43	783,874.66	866,732.03	7,755,833.19	44,999,881.88		44,999,881.88					0.00 44,999,881.88	1,961,428.29 (14,403.19)		107,821.16 (922,358.92) 1,132,487.34	\$ 1,132,487.34
UNRESTRICTED	\$ 70,920,293.57 68,558,244,93 70,440,71	435,506,36	37,438,604.33	2,811,725,35	6,458,429.07	14,066,588.79 433,208,315.27	69.599.213.60	5,928,696.06	36,284,601.76	17,904,050.91	19,161,743.82	15,494,168.21	181,197,701.73	8 181 917 79	60,204.00 189,439,823.52	228,904,579.85	10 336 044 11		1,320,000.00	[4,446.00] 11,652,284.99 429,996,688.36		(4,431,920.44) (70,410.71) (4,304,471,25)	(130,216.02) (130,216.02) (11,312,893.13)	\$ (8,103,266.22)
	REVENUES: TUITION AND FEES STATE APPROPRIATIONS MOBILE RACINGE COMMISSION EFFICIAL AND FOR AND	FEDERAL DRAW AND CONTRACTS (INCLUDING INDIRECT COST RECOVERED OF \$286,916.45)	PRIVATE GIFTS, GRANTS, AND CON IRAC'S (INCLUDING INDIRECT COSTS RECOVERED OF \$287,164.37) INDIRECT TOOSTS RECOVERED OF \$287,164.37)	INCESTIBLE INCOME SALES AND SERVICES OF EDUCATIONAL ACTIVITIES HORPITA S. SAI FS AND SERVICES	A STATE OFFICE APPROPRIATIONS A LIXII LARY ENTERPRISES. SALES AND SERVICES	OTHER SOURCES TOTAL CURRENT REVENUES	EXPENDITURES AND TRANSFERS: EDUCATIONAL AND GENERAL: INSTRUCTION	RESEARCH	PUBLIC SERVICE	STUDENT SERVICES	INSTITUTIONAL SUPPORT	OPERATION AND MAINTENANCE OF PLANT	SCHOLARSHIPS EDUCATIONAL AND GENERAL	MANDATORY TRANSFERS FOR: PRINCIPAL AND INTEREST	FINANCIAL AID MATCHING TOTAL EDUCATIONAL AND GENERAL	HOSPITALS (INCLUDING DEBT SERVICE OF \$3,524,217.33)	AUXILIARY ENTERPRISES:	MANDATORY TRANSFERS FOR:	PRINCIPAL AND INTEREST NON-MANDATORY TRANSFERS FOR:	OTHER TRANSFERS TOTAL AUXILIARIES TOTAL EXPENDITURES AND TRANSFERS	OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS): EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUES REFUNDED TO GRANTORS	FUNDED DEPRECIATION MOBILE RACING COMMISSION MAIN ANATANION AND DESIL A DEPREMENTE	FLANT ADDITIONS AND REFLACEMENTS ENDOWMENT FRANSFERS TOTAL TRANSFERS	NET INCREASE(DECREASE) IN FUND BALANCES

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.
*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE \$1,717,372.44 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

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 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 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, 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 eplacement; 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

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.

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

maintained and administered in a common pool. Separate accounts are maintained for each fund, as applicable. Depositories and other financial institutions that held 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 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.

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.

contributions from participating employees. The University contributes 12.07% of each employee's gross earnings to the Retirement Plan and is reflected in current Permanent employees of the University participate in the Teachers' Retirement System of Alabama. The Retirement Plan is fully funded by the State and by 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

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 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 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.

BONDS PAYABLE

Bonds payable consist of the following:

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

LITIGATION

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

MEDICAID DISPROPORTIONATE SHARE PAYMENTS

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

SUPPLEMENTAL SCHEDULES

SUMMARY SCHEDULE OF AUXILIARY ENTERPRISES REVENUES, EXPENDITURES AND OTHER CHANGES FOR THE NINE MONTHS ENDED JUNE 30, 2010 WITH COMPARATIVE FIGURES FOR 2009

	,	REVENUES	m)	EXPENDITURES	TR	TRANSFERS	ш	EXCESS REVENUES OVER EXPENDITURES AND OTHER CHANGES (DEFICIT) 06/30/10 06/30/10	OVER FIANGES	(DEFICIT)
BOOKSTORE	↔	4,668,455.18	₩	4,641,522.52	↔	0.00	↔	26,932.66	₩	91,878.96
BROOKLEY CENTER		1,474,356.44		1,839,413.01		0.00		(365,056.57)		(406,502.60)
FOOD SERVICES-CAMPUS		236,841.90		117,282.54		0.00		119,559.36		85,311.23
HOUSING TOTAL	₩ .	4,613,174.08 \$ 10,992,827.60	₩	3,737,826.04 10,336,044.11	\$	(1,316,240.88) (1,316,240.88)	\$	(440,892.84) (659,457.39)	φ	(276,264.14) (505,576.55)

BOOKSTORE STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES FOR THE NINE MONTHS ENDED JUNE 30, 2010 WITH COMPARATIVE FIGURES FOR 2009

06/30/10 06/30/09	\$ 4,599,120.21 \$ 4,862,781.20 4,112.04 3,608,251.06 1,245,530.16 1,250,337.22 63.42 (1,060.68) 31,218.95 39,452.40 0.00 32,982.43 1,321,711.37	566,489.32 516,237.56 161,819.05 22,026.46 27,026.28 4,346.97 4,346.65 4,110.92 20,604.36 23,701.48 12,072.81 3,888.35 56,250.00 9,087.14 4,232.00 128,039.78 128,039.79 128,039.79 128,032.47 1,229,832.47	0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.0
	REVENUES: SALES LESS: DEPARTMENTAL DISCOUNTS COST OF GOODS SOLD GROSS PROFIT CASH OVER/(SHORT) GRADUATION (NET) BAD DEBT RECOVERY OTHER NET REVENUES:	EXPENDITURES: SALARIES EMPLOYEE BENEFITS SUPPLIES TRAVEL EQUIPMENT EQUIPMENT EQUIPMENT EQUIPMENT BUILLITIES TELEPHONE INSURANCE AND BONDS CONTRACT SERVICES BAD DEBT EXPENSE RENT OBSOLETE INVENTORY GENERAL EXPENSES CHARGE CARD AND FACULTY STAFF DISCOUNTS INSTITUTIONAL COST ALLOCATION TOTAL EXPENDITURES	TRANSFERS AMONG FUNDS- ADDITIONS/(DEDUCTIONS): MANDATORY: PRINCIPAL AND INTEREST NON-MANDATORY: OTHER TRANSFERS RENEWAL AND REPLACEMENT RETIREMENT REIMBURSEMENT TOTAL TRANSFERS EXCESS REVENUES OVER EXPENDITURES AND MANDATORY TRANSFERS

BROOKLEY CENTER STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES FOR THE NINE MONTHS ENDED JUNE 30, 2010 WITH COMPARATIVE FIGURES FOR 2009

	ADMINISTRATION	INVESTMENT HOUSING	GOLF SHOP	FOOD	TOTAL AUXILIARY SERVICES
REVENUES:					
SALES-FOOD & MERCHANDISE	00.00	0.00	\$ 25,861.74	0.00	\$ 25,861.74
LESS: COST OF GOODS SOLD	0.00	0.00	12,333.28	00.00	12,333.28
DISCOUNTS	0.00	0.00	(242.08)	0.00	(242.08)
GROSS PROFIT	0.00	0.00	13,770.54	00:00	13,770.54
FEES	25.00	0.00	250,835.60	36,435.13	287,270.73
RENTALS	20,997.00	509,298.33	0.00	0.00	509,298.33
OTHER	6.219.07	100.00	18.09	0.00	118.09
FACILITY ASSESSMENT FEE	37,503.00	0.00	0.00	0.00	0.00
NET REVENUES	64,744.07	509,398.33	264,624.23	36,435.13	810,457.69
EXPENDITURES:					
OPERATING EXPENDITURES:					
SALARIES	437,795.14	42,868.93	131,850.99	00:00	174,719.92
EMPLOYEE BENEFITS	152,399.87	9,359.80	42,071.60	00:0	51,431.40
SUPPLIES	47,458.80	766.69	26,517.45	873.18	28,157.32
TRAVEL	1,495.86	0.00	0.00	00.0	0.00
CONTRACT SERVICE	50,075.95	72,661.46	59,629.12	3,822.99	136,113.57
BUILDING MAINTENANCE & REPAIR	5,136.06	44,157.00	2,758.83	363,95	47,279.78
GROUNDS MAINTENANCE	18,047.95	14,165.90	18,226.25	0.00	32,392.15
UTILITIES	178,578.58	134,327.61	28,517.93	39,371.92	202,217.46
EQUIPMENT MAINTENANCE & REPAIR	1,571.84	4,251.57	26,422.71	3,102.69	33,776.97
BUILDING & EQUIPMENT RENTAL	3,549.08	00.0	17,368.24	2,150.72	19,518.96
TELEPHONE	11,715.77	00:0	562.53	1.84	564.37
INSURANCE AND BONDS	54,134.00	0.00	732.00	1,988.00	2,720.00
RECEPTIONS	00.0	0.00	00:0	0.00	0.00
ADVERTISING	9,178.63	2,669.83	2,138.06	250.00	5,057.89
BAD DEBT EXPENSE	00'0	0.00	00.0	859.14	859.14
GENERAL EXPENSES	13,237.22	1,248.57	15,526.82	0.00	16,775.39
EXPENSE OFFSET	0.00	0.00	0.00	0.00	0.00
EDUCATIONAL SUPPORT ALLOCATIONS	00'00	0.00	0.00	0.00	0.00
OPERATING COST ALLOCATIONS	(920,519.68)	257,754.30	0.00	36,820.30	294,574.60
TOTAL OPERATING EXPENDITURES	63,855.07	584,231.66	372,322.53	89,604.73	1,046,158.92
EXCESS REVENUES OVER EXPENDITURES	889.00	(74,833.33)	(107,698.30)	(53,169.60)	(235,701.23)
CINER EXPENDIORES.	00 688	3.596.40	00:0	00.00	3,596,40
OTHER COST ALLOCATIONS	00'0	00:0	00'0	00:0	0.00
TOTAL OTHER EXPENDITURES	889.00	3.596.40	00.0	0.00	3,596.40
TRANSFERS AMONG FUNDS -					
ADDITIONS/(DEDUCTIONS):					
MANDALORT: PRINCIPAL AND INTEREST	00.00	00.00	0.00	0.00	0.00
NON-MANDATORY:					
OTHER NON-MANDATORY TRANSFERS	00'0	0.00	00.0	00.00	0.00
TOTAL TRANSFERS	0.00	00.00	0.00	0.00	0.00
EXCESS REVENUES OVER				,	
EXPENDITURES (DEFICIT)	0.00	\$ (78,429.73)	\$ (107,698.30)	\$ (53,169.60)	\$ (239,297.63)

BROOKLEY CENTER STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES FOR THE NINE MONTHS ENDED JUNE 30, 2010 WITH COMPARATIVE FIGURES FOR 2009

	CNIINE	I A NOT COL	VIINGERINI	TOTAL	BROOKLEY CENTER TOTAL	BROOKLEY CENTER TOTAL
	EDUCATION	LEASING]	SERVICES	06/30/10	06/30/09
REVENUES:						
SALES-FOOD & MERCHANDISE	\$ 0.00	\$ 0.00	ss.	00:00	\$ 25,861.74	\$ 28,803.05
LESS: COST OF GOODS SOLD	00:00	0.00		0.00	12,333.28	20,086.38
DISCOUNTS	422.12	0.00		422.12	180.04	2,852.86
GROSS PROFIT	(422.12)	0.00		(422.12)	13,348.42	5,863.81
FEES	139,244.01	361,124.53		500,368.54	787,664.27	901,553.70
RENTALS	0.00	0.00		00.0	530,295.33	558,748.40
OTHER	86,670.07	24.87	0:00	86,694.94	93,032.10	36,150.87
FACILITY ASSESSMENT FEE	0.00	0.00		0.00	37,503.00	37,503.00
NET REVENUES	225,491.96	361,149.40	00'0	586,641.36	1,461,843.12	1,539,819.78
EXPENDITURES: OPEDATING EXPENDITURES:						
SALARIES	27,736.80	0.00	00.00	27,736.80	640,251.86	701,814.23
EMPLOYEE BENEFITS	8,216.98	0.00		8,216.98	212,048.25	233,024.47
SUPPLIES	13,454.39	6,496.77	0.00	19,951.16	95,567.28	79,507.08
TRAVEL	0.00	0.00	0.00	0.00	1,495.86	1,757.69
CONTRACT SERVICE	6,088.58	4,138.45		10,227.03	196,416.55	177,857.57
BUILDING MAINTENANCE & REPAIR	4,866.57	11,301.10		16,167.67	68,583.51	66,533.25
GROUNDS MAINTENANCE	10.78	0.00		10.78	50,450.88	60,269.94
UTILITIES	107,142.87	69'868'62		187,039.56	567,835.60	437,214.06
EQUIPMENT MAINTENANCE & REPAIR	432.57	294.75		727.32	36,076.13	46,062.92
BUILDING & EQUIPMENT RENTAL	00'0	0.00		0.00	23,068.04	21,576.31
TELEPHONE	00.0	0.00		00.0	12,280.14	16,487.21
INSURANCE AND BONDS	4,440.00	0.00		4,440.00	61,294.00	62,794.00
RECEPTIONS	0.00	0.00		00:0	0.00	1,051.50
ADVERTISING	16,671.18	0.00		16,671.18	30,907.70	24,883.60
BAD DEBT EXPENSE	0.00	0.00		0.00	859.14	00'0
GENERAL EXPENSES	5,369.31	34,142.17		39,511.48	69,524.09	144,231.44
EXPENSE OFFSET	0.00	0.00		00'0	0.00	(25,537.50)
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00		(248,564.97)	(248,564.97)	(164,899.53)
OPERATING COST ALLOCATIONS	193,306.58	156,486.27		625,945.08	0.00	0.00
TOTAL OPERATING EXPENDITURES	387,736.61	292,756.20		708,080.07	1,818,094.06	1,884,628.24
EXCESS REVENUES OVER EXPENDITURES	(162,244.65)	68,393.20	(27,587.26)	(121,438.71)	(356,250.94)	(344,808.46)
OTHER EXPENDITURES:					2000	
EQUIPMENT	4,320.23	0.00		4,320.23	8,803.63	90,049,03
OTHER COST ALLUCATIONS	0.00	0.00		0.00	00.0	0.00
TOTAL OTHER EXPENDITURES	4,320.23	0.00	0.00	4,320.23	8,805.63	18,849.89
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	(53,424.00)
NON-MANDATORY:						
OTHER NON-MANDATORY TRANSFERS	00.0	0.00		00.0	0.00	10,579.75
TOTAL TRANSPERS	0.00	0.00	000	0.00	00.0	(42,844.25)
EXPENDITURES (DEFICIT)	\$ (166,564.88)	\$ 68,393.20	3 (27,587.26)	\$ (125,758.94)	\$ (365,056.57)	\$ (406,502.60)

FOOD SERVICE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE NINE MONTHS ENDED JUNE 30, 2010
WITH COMPARATIVE FIGURES FOR 2009

60/36/90	\$ 196,792.55	196,792.55	0.0	00'0	334.96	48,750.03	293.04	0.00	8,287.36	12,269.00	00.0	3,796.00	12,136.50	728.86	111,481.32	0.00	\$ 85,311.23
06/30/10	\$ 236,841.90	236,841.90	0.00	0.00	1,098.09	48,750.03	91.76	0.00	8,239.53	11,149.00	0.00	3,337.00	12,136.50	739.62	117,282.54	00'0	\$ 119,559.36
	REVENUES: COMMISSION INCOME	TOTAL REVENUES	EXPENDITURES: SALARIES	EMPLOYEE BENEFITS	SUPPLIES FOUR MAINTENANCE AND REDAID	UTILITIES	TELEPHONE	MEMBERSHIPS AND DUES	CONTRACT SERVICES	INSURANCE AND BONDS	EQUIPMENT	BUILDING MAINTENANCE AND REPAIR	INDIRECT COST	GENERAL EXPENSE	TOTAL EXPENDITURES	TRANSFERS AMONG FUNDS- ADDITIONS/(DEDUCTIONS): NON-MANDATORY: OTHER TRANSFERS TOTAL TRANSFERS	EXCESS REVENUES OVER EXPENDITURES AND MANDATORY TRANSFERS (DEFICIT)

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE NINE MONTHS ENDED JUNE 30, 2010
WITH COMPARATIVE FIGURES FOR 2009

SMALL GROUP HOUSING	295,661.23	46,940.04	342,601.27	77 040 00	40,030.41	0.00	12,974.84	0.00	0.00	13,661.56	0.00	737.02	439.44	7,629.00	674.00	3,447.42	00.0	396.03	0.00	0.00	735.00	54,466.00	88,004.12	260,047.72		(607.032.00)	(607 032 00)	(2011)	0.00	0.00	0.00	(607,032.00)	(524,478.45)
HILLSDALE MARRIED STUDENT	61,234.32 \$	3,704.85	65,325.86	1 7 00 00 7	109,034.78	0.00	7,960.63	0.00	0.00	4,704.84	36.56	1,203.84	6,669.95	4,427.00	0.00	1,880.00	0.00	3,040.31	0.00	0.00	5,067.35	0.00	3,785.15	189,394.63		00.0	000		0.00	0.00	0.00	0.00	(124,068.77) \$
OLD SHELL ROAD HOUSING	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	00.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00	900		0.00	0.00	0.00	0.00	\$ 00:0
WASHERS AND DRYERS	120,180.00 \$	0.00	120,180.00		0.00	0.00	57,171.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	35,012.39	92,183.39		00.0			0.00	0.00	0.00	0.00	27,996.61 \$
HOUSING	\$ 00.00	0.00	0.00		79.707.77	0.00	0.00	385.00	15,741.26	245.27	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	317.25	0.00	(89,473.50)	4,446.00		00.0	00 0		0.00	4,446.00	4,446.00	4,446.00	0.00 \$
CENTRAL HOUSING	\$ 0.00 \$	520.00	2,034.50		287,956.49	86,991.83	669.50	4,430.76	282.85	23,704.47	89,284.43	297.57	0.00	1,464.00	0.00	374.44	1,397.63	0.00	0.00	0.00	55,971.43	306,038.00	(856,807.38)	2,056.02		00 0	000		0.00	0.00	0.00	0.00	(21.52) \$
	REVENUES: RENTAL INCOME BAD DEPT RECOVERY	OTHER	TOTAL REVENUES	EXPENDITURES:	SALAKIES	CONTRACT ABOR	CONTRACT SERVICES	TRAVEL	RECEPTIONS	SUPPLIES	CABLE	TELEPHONE	UTILITIES	INSURANCE AND BONDS	BUILDING MAINTENANCE AND REPAIR	EQUIPMENT	EQUIPMENT RENTAL	EQUIPMENT MAINTENANCE AND REPAIR	GROUNDS MAINTENANCE	MAJOR RENOVATIONS	GENERAL EXPENSES	ADMINISTRATIVE OVERHEAD	ADMINISTRATIVE EXPENSES	TOTAL EXPENDITURES	TRANSFERS AMONG FUNDS - ADDITIONS/(DEDUCTIONS):	MANDA IONI: PRINCIPAL AND INTEREST	TOTAL MANDATODY TDANSEEDS	NON-MANDATORY:	RENEWALS AND REPLACEMENTS	OTHER NON-MANDATORY TRANSFERS	TOTAL NON-MANDATORY TRANSFERS	TOTAL TRANSFERS	EXCESS REVENUES OVER EXPENDITURES AND TRANSFERS (DEFICIT)

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE NINE MONTHS ENDED JUNE 30, 2010
WITH COMPARATIVE FIGURES FOR 2009

		GAMMA DORMS	}	BETA	DELTA DORMS	.TA IMS	EPSILON DORMS		TOTAL HOUSING 06/30/10	TOTAL HOUSING 06/30/09
REVENUES:										
RENTAL INCOME	₩	857,489.18	₩	541,314.95	\$ 1,933,	1,933,674.95 \$	676,999.49	\$	4,486,554.12 \$	4,278,876.74
BAD DEBT RECOVERY		0.00		0.00		0.00	0.00		1,901.19	4,442.82
OTHER		6,075.15		5,940.50	30,	30,979.90	30,558.33		124,718.77	129,036.11
TOTAL REVENUES		863,564.33	}	547,255.45	1,964,	1,964,654.85	707,557.82		4,613,174.08	4,412,355.67
EXPENDITURES:			1	i I						!
SALARIES		158,737.66		63,822.37	175,	175,395.41	109,615.23		1,048,622.02	977,964.27
EMPLOYEE BENEFITS		31,115.20		12,584.57	34,	34,244.60	10,731.75		227,306.10	252,710.35
CONTRACT LABOR		0.00		3,200.00	16,	16,354.43	12,861.53		32,415.96	19,430.02
CONTRACT SERVICES		11,583.10		13,073.72	32,	32,758.60	15,342.70		151,534.09	155,933.03
TRAVEL		0.00		0.00		0.00	0.00		4,815.76	5,722.06
RECEPTIONS		0.00		0.00		0.00	0.00		16,024.11	17,302.69
SUPPLIES		4,683.11		14,766.33	70,	70,372.39	28,988.55		161,126.52	125,757.19
CABLE		0.00		0.00		0.00	0.00		89,320.99	89,044.10
TELEPHONE		38,311.60		15,433.39	82,	85,663.65	25,558.25		167,205.32	162,256.17
UTILITIES		0.00		0.00		0.00	0.00		7,109.39	14,320.63
INSURANCE AND BONDS		12,762.00		6,550.00	19,	19,349.00	5,729.00		57,910.00	69,739.00
BUILDING MAINTENANCE AND REPAIR		1,823.11		518.82	-	1,582.30	252.00		4,850.23	1,967.25
EQUIPMENT		2,111.56		0.00		0.00	3,555.00		11,368.42	9,889.88
EQUIPMENT RENTAL		0.00		0.00		0.00	389.80		1,787.43	4,552.07
EQUIPMENT MAINTENANCE AND REPAIR		190.00		0.00	, ,	1,798.12	1,150.00		6,574.46	3,432.02
GROUNDS MAINTENANCE		0.00		0.00		0.00	00.0		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,	133,063.94	50,250.75		339,708.12	321,987.64
ADMINISTRATIVE OVERHEAD		309,541.04		146,132.00	445,	445,351.04	148,619.04		1,410,147.12	1,346,400.16
ADMINISTRATIVE EXPENSES		181,685.94		103,144.60	401,	401,223.08	133,425.60		0.00	0.00
TOTAL EXPENDITURES		804,151.32	1	421,921.20	1,417,	1,417,156.56	546,469.20	İ	3,737,826.04	3,579,208.53
TRANSFERS AMONG FUNDS -										
ADDITIONS/(DEDUCTIONS):										
DDINCIDAL AND INTEREST	٠	(153 142 88)		(45 760 00)	, 990)	(266 160 00)	(248 592 00)		(1,320,686,88)	(1.111.878.88)
TOTAL MANDATORY TRANSFERS		(153,142.88)		(45,760.00)	(266,	(266,160.00)	(248,592.00)		(1,320,686.88)	(1,111,878.88)
NON-MANDATORY:			1							
RENEWALS AND REPLACEMENTS		0.00		00.0		0.00	0.00		0.00	0.00
OTHER NON-MANDATORY TRANSFERS		0.00		0.00		0.00	0.00	1	4,446.00	2,467.60
TOTAL NON-MANDATORY TRANSFERS		0.00		00'0		0.00	0.00		4,446.00	2,467.60
TOTAL TRANSFERS	٦	(153,142.88)	ł	(45,760.00)	(266,	(266,160.00)	(248,592.00)		(1,316,240.88)	(1,109,411.28)
XPENDITURES		10000		70 114 01						(27¢ 2¢4 44)
AND TRANSFERS (DEFICIT)	₽	(93,729.87)	•	(9,5/4.25	\$ 281,	\$ 62.828,78	(87,503.38)	•	(440,892.84) \$	(2/6,264.14)

Quarterly Financial Statements(A Component Unit of the State of Alabama)

Nine Months Ended June 30, 2010 and 2009

Unaudited

Quarterly Financial Statements

(A Component Unit of the State of Alabama)

Nine Months Ended June 30, 2009 and 2008

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Management's Discussion and Analysis

Introduction

The following discussion presents an overview of the financial position and financial activities of the University of South Alabama (the University). This discussion was prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

Financial Highlights

At June 30, 2010, the University had total assets of \$859,981,000, total liabilities of \$452,351,000 and net assets of \$407,630,000. University net assets increased \$951,000 for the nine months ended June 30, 2010 compared to a decrease of \$12,544,000 for the nine months ended June 30, 2009. An overview of each statement is presented below along with a financial analysis of the transactions impacting the statement.

Condensed financial statements for the University at and for the nine months ended June 30, 2010 and 2009 follow (in thousands):

Condensed Statements of Net Assets

		2010	 2009
Assets			
Current	\$	270,118	\$ 271,221
Capital and other noncurrent assets		589,863	541,024
•		859,981	 812,245
Liabilities			
Current		98,582	88,903
Noncurrent		353,769	327,559
	-	452,351	 416,462
Net Assets			
Invested in capital assets, net			
of related debt		197,823	180,311
Restricted, nonexpendable		29,275	26,440
Restricted, expendable		27,038	28,461
Unrestricted		153,494	160,571
	\$	407,630	\$ 395,783

Management's Discussion and Analysis (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2010		2009	
Operating revenues				
Tuition and fees	\$	54,530	\$	52,077
Hospital revenues, net		161,628		151,544
Other		87,818		89,780
		303,976		293,401
Operating expenses				
Salaries and benefits		284,810		285,508
Supplies and other services		95,818		88,452
Other		33,428		32,861
		414,056		406,821
Operating loss		(110,080)		(113,420)
Nonoperating revenues (expenses)				
State appropriations		75,017		83,166
State appropriated ARRA funds		8,185		-
Other, net		13,040		4,700
Net nonoperating revenues		96,242		87,866
Other revenues, expenses, gains or losses		14,789		13,010
Increase (decrease) in net assets		951		(12,544)
Beginning net assets		406,679		408,327
Ending net assets	\$	407,630	\$	395,783

Analysis of Financial Position and Results of Operations

Statements of Net Assets

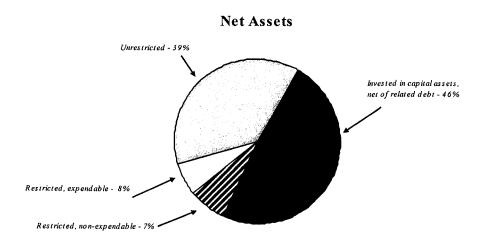
The statements of net assets present the assets, liabilities and net assets of the University as of the end of the current reporting period. The net assets are displayed in three parts, invested in capital assets net of related debt, restricted and unrestricted. Restricted net assets may either be expendable or nonexpendable and are those assets that are restricted by law or by an external donor. Unrestricted net assets, while they are generally designated for specific purposes, are available for use by the University to meet current expenses for any purposes. The statements of net assets, along with all of the University's basic financial statements, are prepared under the accrual basis of

Management's Discussion and Analysis (continued)

accounting, whereby revenues are recognized when the service is provided and expenses are recognized when others provide the service to the University, regardless of when cash is exchanged.

Assets included in the statements of net assets are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, operating investments and hospital patient accounts receivable. Current liabilities consist primarily of accounts payable and accrued liabilities.

Net assets represent the residual interest in the University's assets after liabilities are deducted and are classified into one of four categories as shown on the following illustration, as of the end of the current reporting period:



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

Restricted nonexpendable net assets consist primarily of the University's permanent endowment funds. The corpus of these funds may not be expended and must remain with the University in perpetuity. Only the earnings from these funds may be expended. 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.

Management's Discussion and Analysis (continued)

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various academic and research programs and initiatives as well as capital projects.

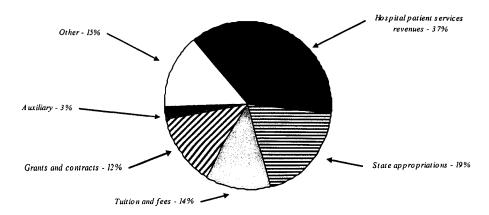
Statements of Revenues, Expenses and Changes in Net Assets

Changes in total University net assets as presented on the statements of net assets are based on the activity presented in the statement of revenues, expenses and changes in net assets. The purpose of the statements is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the University.

Generally, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid 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 are revenues received for which goods and services are not provided. GASB Statement No. 34 requires that state appropriations be classified as nonoperating.

Approximately two-thirds of the operating revenues of the University are hospital patient care revenues. The remainder consists primarily of tuition and fees, grants and contracts and auxiliary enterprise revenues. The following illustration presents the major sources of University revenues (operating, nonoperating and other) for the current period:

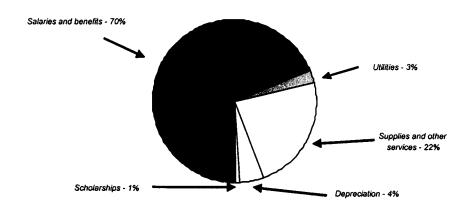
Sources of Revenues



Management's Discussion and Analysis (continued)

University expenses are presented using natural expense classifications. Salaries and benefits represent the majority of the University's operating expenses. The following illustration presents the major University operating expenses, including the hospitals, using natural classification for the current period:

Operating Expenses by Natural Classification



Capital Assets and Debt Administration

During the current period, construction continued on the Student Recreation Center, the Moulton Bell Tower and Alumni Plaza, and Shelby Hall. Preliminary work is underway on the new patient care tower at USA's Children's and Women's Hospital. Additionally, several construction and renovation projects at the University and Hospitals were ongoing during the current period. In fiscal 2009, the Mitchell Cancer Institute and the Health Sciences Building were completed and placed into service.

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

In June 2010, the University Facilities Revenue Capital Improvement Bond, Series 2010, with a face value of \$29,750,000. The net proceeds of these bonds will be used to fund the construction of new student housing as well as other construction and capital improvements at the University.

Management's Discussion and Analysis (continued)

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

Economic Outlook

While enrollment and tuition have both increased in recent years, state appropriations have historically been relatively flat. However, in the 2008, 2007 and 2006 fiscal years, the University experienced increases of 16.1%, 19.0% and 17.2%, respectively, or approximately \$19,349,000, \$19,185,000 and \$14,581,000, respectively, in state appropriations. These increases are unusually high and are not expected to continue. For the 2009 fiscal year, the University's appropriation decreased 12.8% or approximately \$17,882,000. Additionally, in December 2008, the Governor of Alabama announced proration of the original appropriation of 9% or approximately \$10,967,000; and in July 2009, the Governor announced additional proration of 2%, or approximately \$2,437,000. Therefore, the total decrease in the 2009 state appropriation was approximately \$31,286,000 to \$108,451,000, or 22.4% lower than in 2008.

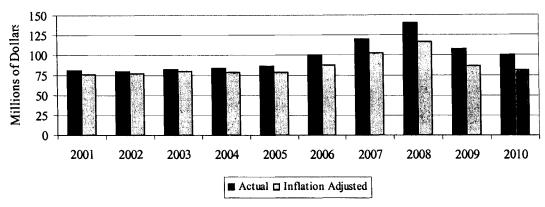
A state appropriation in the amount of approximately \$108,132,000 was authorized for the year ending September 30, 2010; however, in September 2009, the Governor announced proration of 7.5% for the year ending September 30, 2010. Following the announcement of proration, the state appropriation for the year ending September 30, 2010 is currently \$100,022,000.

A state appropriation in the amount of approximately \$99,947,000 was authorized for the year ending September 30, 2011. This represents a slight decrease from the prorated 2010 appropriation. Additionally, University management is aware that proration of the 2011 appropriation is possible.

Management's Discussion and Analysis (continued)

State appropriations (actual and adjusted for inflation) for the last ten years are illustrated below:

State Appropriations - Ten Year History



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

In early 2009, the American Recovery and Reinvestment Act of 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 annually 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 the current date, the University has been awarded or appropriated ARRA funding totaling approximately \$46,222,000. Additional proposals remain currently outstanding.

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 2010 beyond those unknown variables having a global effect on virtually all types of business operations.

Statements of Net Assets

June 30, 2010 and 2009

(In thousands)

	 2010	2009	
Assets			
Current assets			
Cash and cash equivalents	\$ 114,145	\$ 53,780	
Investments, at fair value	47,259	117,470	
Net patient service receivables	28,709	29,765	
Accounts receivable, affiliates	20,532	17,258	
Accounts receivable, other	52,038	46,261	
Notes receivable, net	462	291	
Prepaid expenses, inventories and other	6,973	6,396	
Total current assets	270,118	271,221	
Noncurrent assets			
Restricted cash and cash equivalents	54,323	61,942	
Restricted investments	71,365	50,763	
Investments, at fair value	759	1,193	
Accounts receivable	7,615	7,962	
Notes receivable, net	4,380	5,167	
Other noncurrent assets	29,568	24,018	
Capital assets (net of accumulated depreciation)	421,853	389,979	
Total noncurrent assets	 589,863	541,024	
Total assets	 859,981	812,245	
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	46,009	46,461	
Deferred revenue	45,198	36,037	
Deposits	2,140	988	
Current portion of long-term debt	5,235	5,417	
Total current liabilities	 98,582	88,903	
Noncurrent liabilities			
Long-term debt	334,308	307,714	
Other long-term liabilities	19,461	19,845	
Total noncurrent liabilities	353,769	327,559	
Total liabilities	 452,351	416,462	
Net Assets	 		
Invested in capital assets, net of related debt	197,823	180,311	
Restricted, nonexpendable	,	334,211	
Scholarships	12,888	11,945	
Other	16,387	14,495	
Restricted, expendable			
Scholarships	7,258	3,268	
Other	19,780	25,193	
Unrestricted	 153,494	160,571	
Total net assets	\$ 407,630	\$ 395,783	

See accompanying notes to basic financial statements.

Statements of Revenues, Expenses and Changes in Net Assets

Nine Months Ended June 30, 2010 and 2009

(In thousands)

	2010		2009	
Revenues				
Operating revenues				
Tuition and fees (net of scholarship allowances)	\$	54,530	\$	52,077
Patient services and other (net of contractual				
allowances and bad debt expense)		161,628		151,544
Federal grants and contracts		14,934		16,911
State grants and contracts		4,434		3,154
Private grants and contracts		36,393		35,785
Auxiliary enterprises (net of scholarship allowances)		10,608		10,792
Other operating revenues		21,449		23,138
Total operating revenues		303,976		293,401
Expenses				
Operating expenses				
Salaries and benefits		284,810		285,508
Supplies and other services		95,818		88,452
Scholarships and fellowships		3,724		2,828
Utilities		10,853		10,818
Depreciation and amortization		18,851		19,215
Total operating expenses		414,056		406,821
Operating loss		(110,080)		(113,420)
Nonoperating revenues (expenses)				
State appropriations		75,017		83,166
State appropriated ARRA funds		8,185		-
Investment income and gains (losses) on investments		7,738		(167)
Interest on indebtedness		(9,936)		(9,028)
Other nonoperating revenues		18,066		15,339
Other nonoperating expenses		(2,828)		(1,444)
Net nonoperating revenues		96,242	-	87,866
Income before other revenues, expenses, gains or losses		(13,838)		(25,554)
Capital appropriations		3,697		3,924
Capital gifts and grants		8,420		4,211
Additions to endowment		2,672		4,875
Increase (decrease) in net assets		951		(12,544)
Net assets				
Beginning of period		406,679		408,327
End of period	\$	407,630	\$	395,783

 $See\ accompanying\ notes\ to\ basic\ financial\ statements.$

Statement of Cash Flows

June 30, 2010 and 2009

(in thousands)

		2010		2009
Cash flows from operating activities:				
Receipts related to tuition and fees	\$	35,334	\$	36,436
Receipts from and on behalf of patients and third-party payers		163,466		146,744
Receipts from grants and contracts		55,257		54,873
Receipts related to auxiliary enterprises		9,398		9,844
Payments to suppliers and vendors		(113,099)		(101,388)
Payments to employees and related benefits		(285,671)		(286,875)
Payments for scholarships and fellowships		(3,724)		(2,828)
Other operating receipts	•	27,692		26,235
Net cash used in operating activities		(111,347)	. <u> </u>	(116,959)
Cash flows from noncapital financing activities:				
State appropriations		66,682		74,108
State appropriated ARRA funds		7,281		
Endowment gifts		2,672		4,875
Agency funds received		791		646
Agency funds disbursed		(515)		(639)
Stafford and PLUS loans received		(92)		(224)
Stafford and PLUS loans disbursed		292		394
New loans issued to students		(47,324)		(50,628)
Student loan repayments		47,424		50,699
Other nonoperating revenues		17,945		14,419
Other nonoperating expenses		(2,833)		(1,911)
Net cash provided by noncapital financing activities		92,323		91,739
Cash flows from capital and related financing activities:				
Proceeds from issuance of capital debt		29,750		0
Capital gifts and grants		8,420.00		4,211
Purchases of capital assets		(23,807))	(49,340)
Principal payments on capital debt		(5,025)		(4,485)
Interest payments on capital debt		(8,992)		(8,734)
Net cash used in capital and related				
financing activities		346		(58,348)
Cash flows from investing activities:				
Interest and dividends on investments		962		3,906
Proceeds from sales of investments		56,922		(60,979)
Purchases of investments	_	(4,683	_	126,351
Net cash provided by investing activities		53,201		69,278
Net increase (decrease) in cash and cash equivalents		34,523		(14,290)
Cash and cash equivalents (unrestricted and restricted): Beginning of year		133,945	;	130,012
	- s	168,468		115,722
End of period	J ==	100,400	<u> </u>	113,722

Statement of Cash Flows

June 30, 2010 and 2009

(in thousands)

	 2010	2009
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (110,080) \$	(113,420)
Adjustments to reconcile operating loss to net cash used in		
operating activities:		
Depreciation and amortization expense	18,851	19,215
Changes in assets and liabilities, net:		
Student receivables	(29,624)	(22,194)
Net patient accounts receivable	2,873	(3,748)
Grants and contracts receivables	413	(693)
Other receivables	(1,297)	(1,946)
Prepaid expenses, inventories, and other	(24)	4,984
Accounts payable and accrued liabilities	(8,485)	(9,204)
Deferred revenue	 16,026	10,047
Net cash used in operating activities	\$ (111,347) \$	(116,959)

See accompanying notes to basic financial statements.

1. Summary of Significant Accounting Policies

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 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, at year-end, the basic financial statements include the accounts of the University, as the primary government, and the accounts of the following entities as component units. For quarterly reporting purpose, however, component units are not presented in the University's basic financial statements.

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, 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 in its annual financial statements. For quarterly reporting purposes, component unit financial statements are not presented.

The University is also affiliated with the South Alabama Medical Science Foundation. This entity is not considered a component unit of the University under the provisions of GASB Statement Nos. 14 and 39.

Professional Liability and General Liability Trust Funds

GASB Statement No. 14 requires the University, as the primary government, to include in its financial statements, as a component unit, organizations that, even though they are legally separate entities, meet certain requirements as defined by GASB Statement No. 14. The medical malpractice liability of the University is maintained and managed in a separate professional liability trust fund (the PLTF) in which the University and USAHSF are the only participants. In accordance with the bylaws of the trust fund, the president of the University is responsible for appointing members of the trust fund policy committee. Additionally, the general liability of the University is maintained and managed in a general liability trust fund (the GLTF) for which the University is responsible, as defined by GASB Statement No. 14. 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 in its annual financial statements. For quarterly reporting purposes these entities are not blended into the University's statements.

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. The USA Foundation presents its financial statements in accordance with standards issued by the Financial Accounting Standards Board (FASB). The USA Foundation has a June 30 fiscal year end which differs from the University's September 30 fiscal year end.

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. The USAHSF presents its financial statements in accordance with standards issued by the FASB.

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 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 the GASB.

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 the 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.

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.

Cash and Cash Equivalents

Cash and cash equivalents are defined as petty cash, demand accounts and any short-term investments that take on the character of cash. These investments generally, but not always, have maturities of less than three months and include repurchase agreements and money market accounts.

Investments and Investment Income

Investments are recorded at fair value. 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.

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.

Inventories

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

Capital Assets

Capital assets are recorded at cost, if purchased, or at fair value at date of donation. Depreciation is provided over the 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

Fixed equipment

Land improvements

Library materials

Other equipment

40 to 100 years

10 to 20 years

8 to 20 years

10 years

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.

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

Classification of Net Assets

The University's net assets are classified as follows:

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

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

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

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

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

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.

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 amount as to University determines to be prudent for the purposes for which the endowment 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.

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, investment income, and gifts.

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.

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.

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.

State Appropriated ARRA Funds

Pursuant to the American Recovery and Reinvestment Act 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 as they are expended and reported in the Statement of Revenues, Expenses and Changes in Net Assets as State Appropriated ARRA Funds.

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.

Compensated Absences

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

Reclassifications

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

3. Cash

Pursuant to the Security for Alabama Funds Enhancement Act, funds on deposit may be placed in an institution designated as a qualified public depository (QPD) by the State of Alabama. QPD institutions pledge securities to a statewide collateral pool administered by the State Treasurer's office. Such financial institutions contribute to this collateral pool in amounts proportionate to the total amount of public fund deposits at their respective institutions. The securities are held at the Federal Reserve Bank and are designated for the State of Alabama. Additional collateral was not required for University funds on deposit with QPD institutions. At September 30, 2009, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately \$6,396,247,000.

4. Investments

The investments of the University are invested pursuant to the University of South Alabama "Nonendowment Cash Pool Investment Policy," the "Endowment Fund Investment Policy," and the "Derivatives Policy" (collectively referred to as the

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

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.

Credit Risk and Concentration of Credit Risk

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

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

Interest Rate Risk

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.

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 in exchange for selling the counterparty the option to enter into an interest rate swap with respect to the Series 2004 and 2006 bonds in 2014 and 2016, respectively.

Objective of the derivative transaction

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

Terms

A summary of the transactions is as follow:

Issue	Date of Issue	Option Expiration Date	Effective Date of Swap	Termination Date	Payment Amount
Series 2004 bonds	2-Jan-08	16-Dec-13	15-Mar-14	15-Mar-24	\$
Series 2006 bonds	2-Jan-08	1-Sep-16	1-Dec-16	1-Dec-36	7,340,000

If the counterparty exercises its options in 2014 and 2016, the University would, at the counterparty's option, be forced into an underlying swap. If the option is exercised, the University would begin to make payments on the notional amount, currently \$46,245,000 and \$100,000,000 for the 2004 bonds and 2006 bonds, respectively, of the underlying swap contract. Simultaneously, the University would call outstanding 2004 and 2006 bonds and issue variable rate demand notes (VRDNs) in their place. Under the swap contract, the University would pay a fixed rate of 4.9753% on the 2004 bonds and 5.0% on the 2006 bonds to the counterparty and would receive payments based on 68% of the one-month LIBOR index. Alternatively, although it is not anticipated that this option would be to the University advantage, the University could, at its option, cash settle the swap and retain its right to refund the 2004 and 2006 bonds.

If the interest rate environment is such that the counterparty chooses to not exercise its option, the swaption would be cancelled and the University would have no further obligation under this agreement.

Financial statement presentation

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

	20	004 Bonds	2006 Bonds
Time value	\$	520,000	1,741,000
Intrinsic value		1,468,000	5,599,000
	\$	1,988,000	7,340,000

The time value of the payment to the University is considered an embedded derivative and is reported at its fair value in the statement of net assets as of the current date. Changes in the fair value of the derivative are reported as deferred cash inflows or outflows in the statement of net assets.

The intrinsic value of the payment to the University is considered a borrowing, and as such is included in long-term debt on the University's statement of net assets. Interest is being accrued on, and added to, the borrowing through the expiration date of the option.

Pursuant to the terms of the agreement, the University is required to maintain certain collateral with the counterparty. Such amounts are included as restricted investments on the statement of net assets.

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 the current date, the swap counterparty was rated Aa2 by Moody's investors Services, AA by Standard and Poor's and AA- by Fitch Ratings.

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

6. Bonds Payable

Bonds payable consisted of the following at the end of the current period:

- University Tuition Revenue Bonds, Series 1999 Current Interest, 3.7% to 4.35% payable through November 2010
- University Tuition Revenue Bonds, Series 1999 Capital Appreciation, 4.7% to 5.25%, payable November 2011 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 Bond, Series 2010, 3.81%, payable through August 2030.

Borrowing arising from swaption, Series 2004 Bonds

Borrowing arising from swaption, Series 2006 Bonds

Substantially all student tuition and fee revenues secure University bonds. Additionally, security for Series 2008 bonds include Children's and Women's Hospital revenues in amounts not exceeding \$10,000,000. Series 1999 Current Interest Bonds began maturing November 2002, and Series 1999 Capital Appreciation Bonds mature beginning November 2011. Series 1999 Bonds are not redeemable prior to maturity. Series 2004 Bonds began maturing in March 2005 and are redeemable beginning in March 2014. Series 2006 Bonds begin maturing in December 2024 and are redeemable beginning in December 2016. Series 2008 Bonds begin maturing in August 2009 and are redeemable beginning September 2018. Series 2010 bonds begin maturing in August 2011 and are 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 time value and an intrinsic value. The intrinsic value of the payment is considered a borrowing and is included in long-term debt. As a result of this transaction, the counterparty has the option to force the University to redeem its Series 2004 and 2006 bonds at their respective redemption dates. See footnote five for a complete description of this transaction.

The University defeased certain indebtedness during 1978 and 1984 by depositing funds in escrow trust accounts sufficient to provide for the subsequent payment of principal and interest on the defeased indebtedness. Neither the assets of the escrow trust accounts nor the defeased indebtedness is included in the accompanying statements of net assets.

The University is subject to restrictive covenants related to certain note and bonds payable. As of the end of the current period, management believes the University was in compliance with such financial covenants.

7. 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 through 2006 and settled through 2005. The cost report for USA Children's and Women's Hospital has been audited through 2007 and settled through March 2006 and settled through September 2004. Revenue from the Medicare program accounted for approximately 18% of the Hospitals' net patient service revenue for both years ended September 30, 2009 and 2008.

Blue Cross – Inpatient services rendered to Blue Cross subscribers are paid at a prospectively determined per diem rate. Outpatient services are reimbursed under a cost reimbursement methodology. For outpatient services, the Hospitals are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospitals and audits thereof by Blue Cross. The Hospitals' Blue Cross cost reports have been audited and settled for all fiscal years through 2006. Revenue from the Blue Cross program accounted for approximately 23% and 20% of the Hospitals' net patient service revenue for the years ended September 30, 2009 and 2008, respectively.

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

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

Revenue from the Medicaid program accounted for approximately 37% and 30% of the Hospitals' net patient service revenue for the years ended September 30, 2009 and 2008, 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.

8. Hospital Lease

The University and Infirmary Health System, Inc. (the Infirmary) have 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.

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 reflect 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 has been recorded as a capital lease receivable, both current and noncurrent, in the accompanying basic financial statements of the University. The capital equipment lease is being amortized through fiscal 2011 at a fixed rate of 3.75%.

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.

9. Employee Benefits

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.

The defined contribution pension plan covers certain academic and administrative employees employee prior to October 1, 2009, 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.

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. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

Other Postretirement Employee Benefits

In September 2003, the State of Alabama Legislature passed legislation that requires all colleges and universities to fund the healthcare premiums of its participating retirees. In prior years, such costs have been paid by the State. Beginning in October 2003, the University was assessed a monthly premium by the Public Education Employees' Health Insurance Plan (PEEHIP) based on the number of retirees in the system and an actuarially determined premium.

10. 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.

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. 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.

11. Other Related Party

The South Alabama Medical Science Foundation (SAMSF) is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. SAMSF reimburses the University for certain administrative expenses and other related support services.

12. Commitments and Contingencies

Grants and Contracts

The University had been awarded certain amounts in grants and contracts for which resources had not been received and for which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements as the eligibility requirements of the award have not been met. Advances include amounts received from grant and contract sponsors

which have not been earned under the terms of the agreements and, therefore, have not yet been included in revenues in the accompanying basic financial statements. Federal awards are subject to audit by Federal agencies. The University's management believes any adjustment from such audits will not be material.

Letter of Credit

In connection with the Hospitals' participation in the State of Alabama Medicaid Program, the University has established a \$1,400,000 irrevocable standby letter of credit with Wachovia Bank. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds are currently advanced under this letter.

Litigation

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

Rent Supplement Agreement

The University has entered into two irrevocable rent supplement agreements with the Corporation and a financial institution. These 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. As of the end of the current period, no amounts were payable pursuant to these agreements.

State Bond Issue

The State of Alabama has made allocations to the University from bonds issued in prior years. Pursuant to the allocations, funds are available to the University for certain future construction costs. The allocations have not been reflected in the accompanying financial statement.

13. Significant New Accounting Pronouncements

In February 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definition. GASB Statement 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 No. 57 addresses issue 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.

GASB Statements No. 54 and 57 are not applicable to the University. The effect of the implementation of GASB Statement No. 59 has not been determined.

University of South Alabama Summary Comparison of Fund Financial Reports to GASB Statement 34 Financial Statements June 30, 2010 and 2009

	Nine Mont	Year Ended September 30,		
	 2010	2009	2009	
Net increase (decrease) in current unrestricted operating funds (fund accounting format)	\$ (8,103,266)	\$ (20,562,088)	\$ (22,557,941)	
Add:				
Debt service	3,384,593	3,551,398	3,160,915	
Equipment*		-	7,259,482	
Depreciation	(14,264,741)	(13,812,277)	(21,615,731)	
Plant Fund revenues	9,957,800	13,898,908	18,127,139	
Other, net	 9,976,614	4,380,059	13,978,136	
Net increase (decrease) in net assets - GASB Statement 34/35	\$ 951,000	\$ (12,544,000)	\$ (1,648,000)	

^{*} Netted for quarterly reporting purpose

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

Net increase (decrease) from operating (current unrestricted) funds - fund accounting format		\$ (8,103,266)
Add back:		
Debt service:		
Principal payment on long term debt	5,025,000	
Actual payment of principal and interest in		
	(1,640,407)	3,384,593
Equipment purchases*		-
Depreciation of buildings and equipment:		
	18,696,666)	
Non-capitalized plant fund expenditures*	-	
Transfers of funded depreciation	4,431,925	(14,264,741)
		(14,264,741) (18,983,414)
Add:		
Plant fund income/transfers (net) not previously combined with operating:		9,957,800
Other fund income not previously combined with operating:		
Endowment fund gifts, investment gain and other, net	8,268,218	
Loan fund	35,019	
Restricted fund	1,132,487	
Other transfers, changes, GASB adjustments and rounding, net	540,890	 9,976,614
Net increase in net assets - GASB Statement No. 34 Format		\$ 951,000

^{*} Netted for quarterly reporting purpose

Net increase (decrease) from operating (current unrestricted) funds - fund accounting format		\$ (20,562,088)
Add back:		
Debt service:		
Principal payment on long term debt	4,484,596	
Actual payment of principal and interest in		
in excess of amounts transferred (timing issue)	(933,198)	3,551,398
Equipment purchases*		-
Depreciation of buildings and equipment:		
Computed depreciation	(19,060,148)	
Non-capitalized plant fund expenditures*	-	
Transfers of funded depreciation	5,247,871	(13,812,277)
		(30,822,967)
Add:		
Plant fund income/transfers (net) not previously combined with operating:		13,898,908
Other fund income not previously combined with operating:		
Endowment fund gifts, investment gain and other, net	3,219,508	
Loan fund	33,826	
Restricted fund	1,833,877	
Other transfers, changes, GASB adjustments and rounding, net	(707,152)	4,380,059
Net increase in net assets - GASB Statement No. 34 Format		\$ (12,544,000)

* Netted for quarterly reporting purpose

Net decrease from operating (current unrestricted) funds		
- fund accounting format	\$ (22,557,941)	
Add back:		
Debt service:		
Principal payment on long term debt	4,868,073	
Actual payment of principal and interest in		
in excess of amounts transferred (timing issue)	(1,707,158)	3,160,915
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	6,982,436	(21,615,731)
		(33,753,275)
Add:		
Plant fund income (net) not previously combined with operating:		18,127,139
Other fund income not previously combined with operating:		
Endowment fund gifts and investment gain, net	12,719,833	
Loan fund	(752)	
Restricted fund	1,259,055	13,978,136
Net increase in net assets - GASB Statement No. 34 Format		\$ (1,648,000)
The state of the s		$\Psi = (1,070,000)$

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, BE 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.



University of South Alabama Office of the Vice President for Research

AD 200 • Mobile, AL 36688-0002 Telephone (251) 460-6333 Fax (251) 460-7955

September 3, 2010

TO:

V. Gordon Moulton

President

M. Wayne Davis

Vice President for Financial Affairs

Jean Tucker, Esq.

Senior University Attorney

REC'D

OFFICE OF THE PRESIDENT

SEP 03 2010

UNIVERSITY OF SOUTH ALABAMA

FROM:

Russ Lea

Russ lea

Vice President for Research

SUBJECT: Resolution for Execution of Notice of Federal Interest

An official resolution of the Board of Trustees for the University is required approving execution of a *Notice of Federal Interest* in the Specialized Laboratory. The Notice is a federal requirement and a term of the awards received from the Department of Health and Human Services/National Institutes of Health/National Center for Research Resources. Thank you.

SSC

Attachment

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.



University of South Alabama Office of the Vice President for Research

AD 200 • Mobile, AL 36688-0002

Telephone (251) 460-6333 Fax (251) 460-7955

September 3, 2010

REC'D

OFFICE OF THE PRESIDENT

SEP 03 2010

TO: V. Gordon Moulton

President

UNIVERSITY OF SOUTH ALABAMA

M. Wayne Davis

Vice President for Financial Affairs

Jean Tucker, Esq.

Senior University Attorney

FROM:

Russ Lea

Vice President for Research

SUBJECT: Resolution for Execution of Notice of Federal Interest

An official resolution of the Board of Trustees for the University is required approving execution of a *Notice of Federal Interest* in interior completion of space on the second and third floors of the Medical Science Building addition. The Notice is a federal requirement and a term of the awards received from the Department of Health and Human Services/National Institutes of Health/National Center for Research Resources.

Thank you.

SSC

Attachment

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.

UNIVERSITY OF SOUTH ALABAMA

RJ

UNIVERSITY OF SOUTH ALABAMAA

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

September 1, 2010

TO:

STANLEY K. HAMMACK

VICE PRESIDENT

HEALTH SYSTEM

V. Gordon Moulton

President

FROM

Stan Hammack

Vice President for Health System

SUBJECT:

Resolution Regarding the Sale of the Medical Research Building and

Ground Lease to Alabama Department of Forensic Sciences

Attached please find the above-referenced Resolution regarding the sale of the Medical Research Building on the campus of the USA Medical Center and ground lease of the real property upon which the building sits. I recommend that the Resolution be presented to the Board of Trustees for their consideration and approval at the September 17, 2010 meeting.

Enclosure

AGREEMENT FOR PURCHASE AND SALE OF BUILDING

THIS	AG	REE	MEN	VT F	OR 1	PUR	CHA	\S E	ANI) SA	LE (OF	BUIL	DI	NG ("A	gree	ment'	') is
dated	as	of	the			day	of					_,	2010	, b	y ar	nd	betv	veen	the
UNIV	'ERS	ITI	OF	SOU	JTH.	A LA	ABA	MA,	a pu	blic	body	y co	rpora	te, (the "	'Sel	ler"), and	the
ALAI	3AM	ΙA	DEP	ART	ME	ΝT	OF	FO	REN	SIC	SC	IEN	ICES,	a	Sta	te	of	Alab	ama
depar	tmen	ıtal e	entity	(the	"Buy	/er'')	with	n ref	erenc	e to	the f	ollo	wing	fac	ts:				

- A. Seller owns a certain building located on the campus of the USA Medical Center ("Medical Center") in Mobile County, Alabama, having an address of 2451 FILLINGIM STREET, MOBILE ALABAMA, and more specifically described in Exhibit A attached hereto (the "Building"), commonly known as Medical Research Building as herein described.
- B. Seller desires to sell to Buyer and Buyer desires to purchase from Seller the Building and the associated assets.
- C. Seller will lease the land upon which the Building is located to Buyer in a long-term, nominal lease, which shall be controlled in a separate instrument.
- D. Seller will retain the right of first refusal to purchase the Building back from Buyer at market appraisal price at the time of the future sale, should Buyer, at some point in the future, decide to sell or vacate Building.

NOW, THEREFORE, in consideration of the mutual covenants, premises and agreements herein contained, the parties hereto do hereby agree as follows:

- 1. Purchase and Sale.
- 1.1. The purchase and sale includes that Seller shall sell, transfer, grant and assign to Buyer, Seller's entire right and interest in and to the Building, except as herein described, together with all structures, buildings, improvements, fixtures, and equipment affixed or attached to the Building (all of the foregoing being collectively referred to herein as the "Property");
- 2. Purchase Price.

The total Purchase Price of the Property shall be FOUR HUNDRED AND EIGHTY-EIGHT THOUSAND Dollars (\$488,000.00) ("Purchase Price"), and payable as follows:

2.1. Within sixty (60) days following a fully executed original of this Agreement (date this agreement is fully executed shall be deemed the "Delivery Date") being presented to

the State of Alabama Building Commission (Commission), the Alabama Department of Finance shall tender payment directly to Seller in the name of THE UNIVERSITY OF SOUTH ALABAMA for the total of the Purchase Price. Department agrees that it will take all action necessary to expedite tender and delivery of said funds;

- 3. Title to Property.
- 3.1. This instrument conveys complete and absolute title to the Building, with no reservation of rights or outstanding obligations, except as provided in this agreement. Seller affirmatively states that to the best of its knowledge, there are no outstanding liens, encumbrances or adversarial/third-party claims or rights to the Building;
- 4. Due Diligence Items.
- 4.1. Seller shall, on or before the Delivery Date, deliver to Buyer each of the following (collectively, the "Due Diligence Items"):
 - 4.1.1. Copies of appraisals of the Building which have already been completed, said Appraisals being those performed by Courtney & Morris Appraisals, Inc. dated November 18, 2009 and by M.D. Bell Company, Inc. dated November 5, 2009 (the "Appraisals");
 - 4.1.2. Copies of all Leases presently in effect with respect to the Property, together with any amendments or modifications thereof;
 - 4.1.3. A list of all contracts, including service contracts, warranties, management, maintenance, leasing commission or other agreements affecting the Real Property, if any, together with copies of the same;
 - 4.1.4. All site plans, leasing plans, as-built plans, drawings, environmental, mechanical, electrical, structural, soils and similar reports and/or audits, surveys, and plans and specifications relative to the Real Property in the possession of Seller or under the control of Seller, if any;
 - 4.1.5. Written statement or results of any environmental surveys and/or any environmental abatement efforts and relief performed by Seller following the removal of the Animal Research Laboratory, which was previously housed and contained in the Building;
 - 4.1.6. Written statement that the Building is not subject to any liens or other claim of interest from any third party;

4.2. Seller certifies that all representations made by Seller under this Contract are true, complete and correct in all material respects as of the Closing Date (if accurate or, if not accurate, a description of the basis for such inaccuracy). Such certificate will survive for a period of one (1) year following the Closing Date;

5. "As Is" Condition

5.1 Buyer understands that the Building is being sold "as is" and Buyer thereby accepts the Building in its current condition. Seller makes no representations or warranties as to the condition of the Building, structural or otherwise;

6. Buyer's Use of Premises

6.1 Buyer hereby represents and warrants that its use of the Building and Premises will be only for the purposes of the Alabama Department of Forensic Sciences and that it will be in full compliance with all applicable laws, orders and regulations or all federal, state, county and municipal authorities having jurisdiction over the Building and surrounding Premises. Buyer agrees that it will not assign or lease the Building to any assignees or lessees whose occupancy of the Building would not further the medical mission of the USA Medical Center, and which would not be in keeping with other occupants of the USA Medical Center campus;

7. Right of First Refusal

7.1 Buyer will provide Seller with, at a minimum, two hundred seventy (270) days' notice of Buyer's intention to vacate or desire to sell the building ("Notification Date"). Buyer, at its expense, will provide Seller with two (2) independent appraisals of the building at the Notification Date. The lowest independent appraisal shall be the price at which Buyer will sell the building to Seller. Seller shall notify Buyer within one hundred twenty (120) days of the Notification Date whether it will purchase the building from the Department. Should Seller elect not to purchase the building upon Buyer's decision to vacate the building, Buyer will seek a proposed purchaser whose occupancy of the Building will further the medical mission of the USA Medical Center, and which will be in keeping with other occupants of the USA Medical Center campus. Seller will have right of approval of any proposed purchaser, said approval not to be unreasonably withheld. Seller will negotiate in good faith with any proposed purchaser of the building for either a lease of the real property or a purchase of the real property, as negotiated independently by the interested parties;

8. Utilities

1

8.1 The Building will be metered separately from the Medical Center at Buyer's expense, and Buyer will be solely responsible for all costs associated with utility usage of any kind at the Building;

9. Parking

9.1 Buyer will be executing a land lease of the land upon which the Building sits, said lease to include an area extending approximately 41.26feet in front of the building. Buyer, at its expense, will be allowed, with written approval of the design by Seller, to construct parking spaces upon the afore-mentioned area which extends in front of the building. Buyer will be responsible for construction, striping, and maintenance of said parking spaces;

10. Recording.

- 10.1 This Agreement will be recorded in the Probate Court of Mobile County, Alabama. Recording expenses will be paid by Department;
- 11 Approval of Board of Trustees
- 11.1 The Parties recognize that this Purchase and Sale Agreement is subject to the approval of the Board of Trustees of the University of South Alabama.

[Signatures on Following Page]

WITNESS OUR HANDS THIS	day of	, 2010.
SELLER	BUYER	
Contract Officer University Of South Alabama	Michael F. Sparks Director Alabama Departme Sciences	ent of Forensic
	APPROVED:	
	Dob Dilay, Coyama	200
	Bob Riley, Governo State of Alabama	OT.

LEASE AGREEMENT

This lease made by and between the University of South Alabama, a public body corporate, hereafter called "USA", and the Alabama Department of Forensic Sciences of the State of Alabama, hereinafter called "Department",

WITNESSETH THAT:

WHEREAS, Department currently occupies space at the University of South Alabama Medical Center ("USAMC") in order to house the offices, laboratories and other facilities of the State Toxicologist; and

WHEREAS, the Department desires to expand its operation from the original building and renovate another existing building for the Department's use;

NOW THEREFORE, in consideration of the promises and of the mutual covenants and agreements herein set forth, USA and the Department do hereby covenant, promise and agree as follows:

1. Premises. USA does hereby demise, let and lease to Department the following real property located on the campus of USA, in Mobile County, Alabama:

See attached Exhibit A

for and during the term of thirty (30) years, beginning on the date of execution of this Agreement. At the expiration of the 30-year term of this lease, the Department shall have the right to renew said lease for an additional term of up to and through ten (10) years on the same terms, conditions, and stipulations contained herein, said right to be exercised by written notice to USA, no less than six (6) months prior to expiration of the primary term.

- Good Title. USA covenants that it has good title to the demised premises and that, except as aforesaid, they are free and clear of all liens and encumbrances, and further covenants to keep Department in quiet possession of the premises during the term of this lease, provided Department shall comply with all stipulations hereof.
- 3. Rent. Rent is as follows: Department shall make rental payment to USA of One Dollar per year (\$1.00/year).
- 4. Renovation of Building. Department shall renovate, at its sole risk and expense a Building, suitable for use as a laboratory for purposes set out above, upon said described real property, said Building known more specifically as the Medical

Research Building on the campus of the USA Medical Center, which is the subject of a separate Purchase and Sale Agreement being executed between the Building shall be free of any liens or Parties contemporaneously herewith. security interests except as otherwise set out herein or in the separate Agreement referenced herein (said Building and the real property made the subject of this Lease Agreement being known collectively as the "Premises"). Department agrees that the design, construction, maintenance, operation, and use of the Building and Premises shall be in compliance with all applicable USA, State and Federal rules, regulations, and codes, including but not limited to, building, health, and safety codes, the standards of the Alabama Building Commission in consultation with USA and the current standards, if any, for publicly funded forensic science laboratories. Department agrees to use every means at its disposal, including the architect, consultants, contractors, Alabama Building Commission, including any arbitration or court procedures available to expedite the renovation of the building at the earliest possible time and in accordance with all construction and other agreements pertaining thereto.

- 5. Insurance. Department is insured through the Risk Management Department of the State of Alabama ("Risk Management"). Department shall, through Risk Management or otherwise in the event that Risk Management cannot or will not provide said coverage, maintain the following insurance: Building shall be insured in the amount of its value. In the event that any sums are received from said insurance fund due to damage or destruction of the insured premises, such funds shall be used to repair or replace the facilities damaged or destroyed. Department shall also maintain commercial general liability insurance in amounts of coverage equal to a minimum of \$1 million/\$2 million, providing coverage for injury or death to third parties or damage to property as a result of claims against employees of Department or claims on or about the Building or Premises, as well as the use and occupancy by Department thereof. Upon written request of USA, Department shall provide USA with a certificate of insurance or other appropriate evidence that said insurance is in force and effect.
- 6. Costs of Operation. Department shall pay all costs of any kind incurred in the operation of the laboratory including, without in any way limiting the generality of the foregoing, salaries, taxes, permits, all utilities or Operational Expenses, materials and equipment and otherwise. Recurring operational expenses hereafter called "Operational Expenses" are defined as including but not limited to, electricity, natural gas, hot water, chilled water, sanitary sewer, water, telephone and data service and trash collection metered or directly attributable to the ongoing operation of the laboratory. All herein-referenced utilities will be separately metered from the remainder of the USA Medical Center campus at the expense of Department.

Department and USA may wish to provide some or all utilities and operational services from USA's Facilities and Maintenance Division, which shall be covered by a separate agreement.

- 7. Maintenance and Repairs. Department shall pay all costs of maintenance and repair of the building constructed or renovated hereunder, and shall take reasonable care of the same in order to maintain the property and facilities in a manner that meets or exceeds maintenance and repair standards of buildings of similar age and function in current operation by USA.
- 8. Equipment. Department shall equip said building with fixtures and moveable equipment usual in such laboratory and shall operate therein a laboratory for the purposes aforesaid, and shall pay all costs of every kind incurred in the building and equipping of said laboratory; but Department shall have the right to remove moveable equipment and fixtures upon the termination of this lease. USA, in consultation with Department, may provide equipment for use in the facility. Any such equipment shall remain the property of USA, unless specifically provided for in writing to the contrary
- 9. Hazardous Substances. Except for hazardous substances or other toxic materials or medical waste brought, kept or used in the Building in commercial quantities similar to those quantities usually kept on similar premises by others in the same business or profession, and which are used and kept in compliance with applicable public health, safety and environmental laws, Buyer shall not allow any hazardous substance, or other toxic material or medical waste to be located in, on or under the Building or elsewhere on the Premises, nor allow the Building or Premises to be used for the disposal of any hazardous substance or other toxic material. Any hazardous substances, other toxic materials or medical waste which are properly used by Buyer in its daily operations shall be contained and disposed of in accordance with all applicable standards, laws, or other regulations.
- 10. New Parking. The Premises include not only the land underneath the Building, but also an area extending approximately forty-one (41) feet directly in front of the building, as represented in Exhibit A. Department, at its expense, will be allowed, with written approval by USA of the design, to construct parking spaces upon the afore-mentioned area which extends in front of the building, or any other portion of the premises, as shown in Exhibit A. Buyer will be responsible for obtaining any permits or approvals of any kind, as well as the construction, striping, and maintenance of said parking spaces.
- 11. Signs. Subject to applicable governmental laws, ordinances, codes, and regulations, and to the written approval of USA, such approval to not be unreasonably withheld, at its cost and expense Department shall have the right to erect on the Building or the Premises such signs and/or monument signs as Tenant desires.
 - 12.. Liability. It is specifically agreed by and between the parties hereto that any

damage or injury occurring on the demised premises, or incurred because of or due to the operation of the laboratory established hereunder whether or not occurring on the demised premises, shall be considered damage or injury caused by Department, and not by USA, for the purpose of any claims presented to the State Board of Adjustment based on said damage or injury; it being specifically understood that any payments or charges assessed by said State Board of Adjustment based on such damage or injury shall be assessed against Department and not against USA. Provided, as to the claim of any third party, nothing in this paragraph shall be construed to in any way to conflict with or contravene any existing Alabama statutory or common law to the contrary, or to waive or limit the Department's right to assert any and all legal defenses which may be available to it in any city, county, state or federal court, to include the State of Alabama Board of Adjustment.

- 13. Condemnation. In the event that any part of the Premises are taken by condemnation, eminent domain, or otherwise by governmental authorities or those acting on their behalf, the proceeds from said taking will be divided as follows: the amount of said award attributable to the real property subject to this Lease Agreement will belong to USA, and the amount of said award attributable to the Building will belong to ADFS.
- 14. Assignment. There shall be no assignment or subletting of this lease by Department to any other entity than a successor entity of the ownership or control of Department. Any such assignment or subletting is subject to the written consent of USA, said consent not to be unreasonably withheld.
- 15.. Right of First Refusal. Should the Department decide to sell or vacate the Building, USA will retain the right of first refusal to purchase the Building back from the Department at market appraisal price at the time of the future sale. The Department will provide USA with, at a minimum, two hundred seventy (270) days' notice of the Department's intention to vacate or desire to sell the building ("Notification Date"). USA shall notify the Department within one hundred twenty (120) days of the Notification Date whether it will purchase the building from the The Department will provide USA with two (2) independent appraisals of the building at the Notification Date. The lowest independent appraisal shall be the price at which the Department agrees to sell the building to USA. In the event that USA should purchase the Building, this ground lease will automatically terminate upon the closing of the sale. Should USA exercise its right to refuse to purchase the building upon the Department's decision to vacate the building, USA will negotiate in good faith with any proposed purchaser of the building for, either, a lease of the real property or a purchase of the real property, as negotiated independently by the interested parties, provided that said purchaser promotes the medical mission of USA and that said purchaser agrees to the reasonable terms and conditions of USA.

- 16. Compliance. Department agrees to maintain the Premises in a clean, orderly, healthful condition and to comply with all laws, ordinances, codes, rules and regulations of all governmental and municipal agencies having jurisdiction over the Premises. Department will not use, occupy or permit the use or occupancy of the Premises for any unlawful or hazardous purpose; or maintain or permit the maintenance of any public or private nuisance in or about the Premises; or do or permit any act or thing which may disturb the quiet enjoyment of USA or any other tenant of the USA Medical Center; or permit anything to be done which would increase the applicable insurance rates of USA, or violate the terms of any fire or other insurance policies covering the USA Medical Center. Department shall use the Premises for the provision of services related to forensic sciences, and for no other use or purpose.
- 17. Waste. Department agrees to keep the Premises in good condition and not to allow or commit any waste with respect to the Premises. Any damage to the Premises resulting from acts or neglect of ADFS or the agents, contractors, employees, patrons, or invitees of ADFS, shall be repaired or replaced by Department, or in the absence of repair or replacement by Department within a reasonable time after notice of such need, by USA at the sole expense of Department. The Premises shall not be altered, changed, nor shall any additions or improvements be made without the prior written consent of USA.
- 18.` Waiver. The failure of either party to insist in any one or more instances upon a strict performance of any of the terms or conditions of this Lease Agreement shall not be construed as a waiver or relinquishment for the future of any such term or condition, but the same shall continue and remain in full force and effect.
- 19. Severability. In the event any provision of this Lease Agreement should be held by a court of competent jurisdiction to be contrary to law or void as against public policy or otherwise, such provision shall be either modified to conform to law or considered severable with the remaining provisions hereof continuing in full force and effect.
- 20. Cancellation. It is expressly understood and agreed by the parties hereto that the Department shall have the option to terminate this lease at the end of any fiscal year of the State of Alabama in the event the State Legislature fails to appropriate sufficient funds to the Department to make the rental payments set out herein which are due and payable under the terms of the lease during each ensuing fiscal year. It is further agreed that in the event of the proration of the fund from which payment under this lease is to be made, the lease will be subject to termination. Under no circumstances shall the commitment of the Department under this lease constitute a debt to the State of Alabama as prohibited by Section 213, Constitution of Alabama 1901, as amended by Amendment No. XXVI.

- 21. Exemption. Neither party, notwithstanding any provision of this lease, incorporations or amendments hereto, releases or waives, expressly or impliedly its right to assert sovereign immunity or any other affirmative defense right it may have under law.
- 22. Notice. Any and all notices, demands and communications hereunder shall be sent to the parties at the addresses set forth below or at such other addresses as either party may hereafter designate in writing. All such notices, demands or communications given hereunder shall be deemed properly given if sent by U.S. mail, postage prepaid, to the proper address of the party to be notified. The proper addresses of the parties for all purposes hereunder shall be as follows:

To USA:

Hospital Administrator University of South Alabama Medical Center 2451 Fillingim Street Mobile, AL 36617-2293

With a copy to: University Attorney University of South Alabama AD 140 307 University Boulevard, North Mobile, AL 36688-0002

Department:

Chief Medical Examiner Alabama Department of Forensic Sciences Post Office Box 3510 Auburn, AL 36831-3510

and

Regional Deputy Chief Medical Examiner Alabama Department of Forensic Sciences Post Office Box 7925 Mobile, AL 36670-7925

- 23. Modification. This Lease Agreement may be modified only by written agreement signed by both parties.
- 24. Applicable Law. This Lease shall be governed by and interpreted under the laws of Alabama.

- 25. Titles and Captions. The titles and captions in this Lease Agreement are used only to facilitate reference, and in no way to define or limit the scope or intent of any of the provisions of this Lease.
- Recording. This Lease Agreement will be recorded in the Probate Court of 26. Mobile County, Alabama. Recording expenses will be paid by Department.
- 27. Approval by Board of Trustees. The Parties recognize that this Agreement is subject to the approval of the Board of Trustees of the University of South Alabama.

be executed for and in its behalf by Department of Forensic Sciences has	lic body corporate, has caused this instrument to, its Contract Officer, and the Alabama caused this instrument to be executed for and in a Director, all as of this day
ATTEST:	
UNIVERSITY OF SOUTH_ALABAMA	
BY: Contract Officer	
ALABAMA DEPARTMENT OF FOREM	NSIC SCIENCES
BY: Michael Sparks, Director	BY: Marc Bass, ADFS General Counsel
RECOMMENDED:	
BY:	BY:ement Bob Riley, Governor of the State of Alabama

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.



REC'D OFFICE OF THE PRESIDENT

SEP 14 2010

UNIVERSITY OF SOUTH ALABAMA Vice President for Financial Affairs AD 170

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

September 13, 2010

TO:

President V. Gordon Moulton

FROM:

M. Wayne Davis

SUBJECT:

Awarding of Construction Design Contract

for the Student Center Renovation

Attached is a resolution concerning the awarding of a construction design contract for the Student Center renovation. I recommend that the resolution be presented to the Board of Trustees for consideration and approval at the September 17, 2010, meeting.

Thank you.

MWD/cbm

Attachment

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.



UNIVERSITY OF SOUTH ALABAMA Financial Affairs Office AD 170

REC'D OFFICE OF THE PRESIDENT

SEP 02 2010

UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

TO:

President V. Gordon Moulton

FROM:

Stephen H. Simmons Stephen H. Simmons

SUBJECT:

Proposed Resolution for Sale of USA Brookley Center Campus

DATE:

September 2, 2010

Attached to this memorandum is a proposed resolution for the Board of Trustees meeting scheduled for September 17, 2010, to consider the sale of the USA Brookley Center Campus.

We received one bid for the property in the amount of \$20 million from the USA Foundation. Through discussions with the Foundation, we have completed the due diligence from both sides and are prepared to recommend this to the Board of Trustees.

With your approval, we will place this on the agenda for the upcoming Board of Trustees meeting.

SHS/cbm

Attachment

c: Mr. M. Wayne Davis

Ms. Jean W. Tucker



MEMORANDUM

To: Maxey Roberts

From: Ron Snider

Rivers Lelong

Date: August 30, 2010

Re: Summary of Brookley Purchase and Sale Agreement Material Terms

Our File No. 330050-01

As per your request, this memo summarizes the principal terms of the Purchase and Sale Agreement (the "<u>Purchase Agreement</u>") under negotiation between the University of South Alabama Foundation (the "<u>Foundation</u>") and the University of South Alabama (the "University")

with respect to the Brookley campus (the "Brookley Campus"):

1. <u>Property to be Purchased</u>: The University's Brookley Campus, consisting of approximately 327 acres adjacent to Brookley airfield and Mobile Bay.

- 2. <u>Price</u>: \$20,00,000, payable \$4,000,000 at closing with the University financing the remaining \$16,000,000, to be payable in annual, interest-free \$4,000,000 installments on the first through fourth anniversaries of the closing date.
- 3. <u>University's Retention of Surface Rights</u>: The University is retaining an easement to use the surface of the Brookley Campus and ownership of the buildings on the Brookley Campus for five years following closing (the "<u>Use Period</u>"), subject to the Foundation's right to terminate the Use Period early upon payment in full of the remainder of the \$20,000,000 purchase price.
- 4. <u>Maintenance and Repair Obligations During the Use Period</u>: The University must maintain the improvements on the Brookley Campus during the Use Period to the extent that the University continues to use the improvements. The University has the right to abandon improvements that are no longer desired by University, with or without demolishing such improvements. Upon termination of the Use Period, the Foundation will acquire title to any buildings that the University has not elected to demolish (without the payment of any additional consideration), and the Foundation will be responsible for completing the demolition process.

- 5. <u>Rental Income During Use Period</u>: The University is entitled to all rental income from the Brookley Campus during the Use Period.
- 6. <u>University Leasing Rights</u>: The University may continue to enter into leases with respect to the Brookley Campus during the Use Period so long as such new leases are terminable on 90 days' notice by the lessor. The Foundation will inherit any remaining outstanding leases on the Brookley Campus upon expiration or early termination of the Use Period.
- 7. Responsibility for Taxes During the Use Period: The Foundation is responsible for the payment of all taxes on the Brookley Campus during the Use Period.
- 8. <u>Due Diligence</u>: The Purchase Agreement provides for a due diligence period following execution of the Purchase Agreement and prior to closing. The Foundation is currently actively pursuing such due diligence in advance of signing the Purchase Agreement. The attached memo provides a summary of the current status of the due diligence process.
- 9. <u>Creation of Subsidiary</u>: The Foundation contemplates creating a subsidiary to acquire title to the Brookley Campus, but the Foundation remains liable as a guarantor for the subsidiary's obligations to the University, including payment of the purchase price.

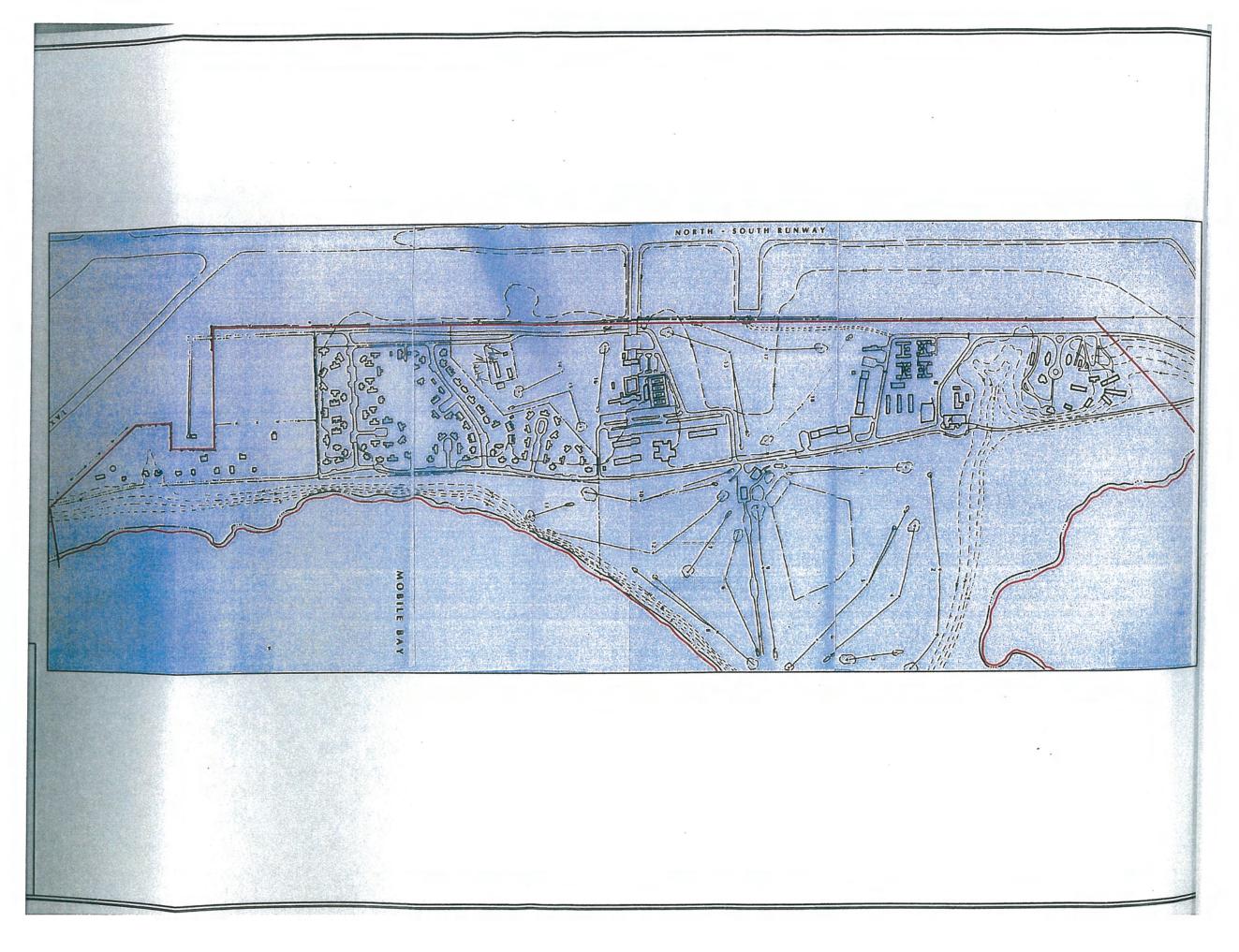
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UNIVERSITY OF SOUTH ALABAMA FOUNDATION

BROOKLEY PURCHASE AND SALE AGREEMENT AND RELATED DOCUMENTS

SEPTEMBER 9, 2010





PURCHASE AND SALE AGREEMENT

PURCHASE AND SALE AGREEMENT

	THIS PUR	CHASE AND SALE AGREEMENT (the "Agreement") is entered into as of
the	day of	, 2010 (the "Execution Date") between the University of South
Alabai	na, a public	body corporate created by act of the Alabama Legislature, Ala. Code §§ 16-
55-1 e	et seg. (1975	5) ("Seller"), and the University of South Alabama Foundation, an Alabama
	-	oration ("Buyer").

For and in consideration of the purchase price and the mutual covenants and undertakings herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

RECITALS:

- A. Buyer is a "supporting organization" of Seller, and Seller is the sole "supported organization" of Buyer, as such terms are contemplated by Section 509(a)(3) of the Internal Revenue Code of 1986, as amended (the "Code").
- B. In an effort to assist Seller in furtherance of its tax-exempt purpose, and consequently, to further Buyer's tax-exempt purposes of supporting Seller, Buyer is purchasing and Seller is selling, the Property (as defined below) that Seller currently uses in its tax-exempt higher-educational purposes.
- C. Seller is retaining the related Excluded Property (as defined below) that will allow Seller to continue to carry out its tax-exempt activities.
- D. Buyer is supporting Seller's tax exempt activities by purchasing the Property to provide Seller with funds to further its tax exempt purpose.
- E. Seller acknowledges and welcomes the continued support from Buyer, its supporting organization, and desires to enter into this Agreement to allow Seller to focus more on provision of education and less on the ownership of the Property.

I. PURCHASE AND SALE

- 1.01 <u>Agreement to Sell and Convey</u>. Seller agrees to sell and convey to Buyer (the "<u>Sale</u>"), and Buyer agrees to purchase from Seller, subject to the terms and conditions hereinafter set forth, that certain parcel of real property consisting of approximately 327 acres fronting Mobile Bay in Mobile County, Alabama, and more particularly described on <u>Exhibit "A"</u> (the "<u>Land</u>"), together with the following (collectively, with the Land, the "<u>Property</u>"):
- (a) all and singular the rights and appurtenances pertaining thereto including but not limited to any right, title and interest of Seller in and to adjacent streets, roads, alleys,

easements (other than the Surface Easement, as hereinafter defined) and rights-of-way to the extent that such right, title and interest exist;

- (b) all accretion, alluvion and sedimentary deposits associated with the Land;
- (c) the mineral rights associated with the Land to the extent owned by Seller or its affiliates;
- (d) all of Seller's assignable licenses and permits necessary for the ownership, operation, maintenance or development of the Land, other than those associated with the operation of the Buildings and Improvements (herein defined);
- (e) such other rights, interests and properties as may be specified in this Agreement to be sold, transferred, assigned or conveyed by Seller to Buyer;
- (f) all subsurface improvements such as sewer, drainage, and water lines (the "Subsurface Improvements") to the extent owned by Seller;
- (g) all roads, sidewalks, and parking surfaces (the "Access Improvements"); and
- (h) all of Seller's right, title, and interest to the Excluded Property (hereinafter defined) but only effective on the earlier to occur of (i) the fifth anniversary of the Closing Date or (ii) the effective date of Purchaser's termination under Section 2.02 (with the period between the Closing Date and such expiration or termination date being the "<u>Use Period</u>").

It is specifically agreed to by Buyer and Seller that the Property conveyed by Seller to Buyer shall not include any of the following during the Use Period: (i) any and all buildings and other improvements located on the Land (other than the Subsurface Improvements and the Access Improvements), including, without limitation the buildings, improvements and golf course located on the Land (collectively, the "Buildings and Improvements"); (ii) any and all leases, licenses or other occupancy agreements affecting or otherwise related to the Buildings and Improvements, including, without limitation, those agreements described on Exhibit "B" (collectively, the "Leases"); (iii) any of Seller's licenses and permits necessary for the ownership, operation and maintenance of the Buildings and Improvements (collectively, the "Licenses and Permits"), (iv) all furniture and readily removed equipment located on or used in connection with the use, maintenance and operation of the Land, Buildings and Improvements (the "Personal Property"), (v) all fixtures located on or in the Land, Buildings and Improvements, and (vi) an easement to be retained by Seller pursuant to the Deed (as hereinafter defined) over the surface of the Land permitting the continued location and use of the Buildings and Improvements on the Land throughout the Use Period and the continued use of the Subsurface Improvements and the Access Improvements (the "Surface Easement" and together with the Buildings and Improvements, Leases, Licenses and Permits, and the Personal Property. the "Excluded Property"). The Excluded Property shall be reserved by Seller from the Sale and shall remain owned by Seller subject to the terms and conditions of Section II of this Agreement.

Buyer and Seller acknowledge and agree that the exact limits of the Property have not been established as of the Execution Date, and Buyer will endeavor in good faith to obtain the Survey (as defined in Section 1.06) within 45 days following the Execution Date (the "Survey Period"), pursuant to which Seller and Buyer shall jointly establish the metes and bounds legal description of the Property. Establishment of the limits of the Property in accordance with the foregoing covenant shall be effective upon Buyer's and Seller's execution of an amendment to this Agreement replacing the legal description set forth in Exhibit "A" as of the Execution Date (the "Original Legal Description") with the legal description contained in the Survey. If Seller and Buyer cannot reach written agreement on the legal description of the Property within 30 days of the Survey's receipt, either party may terminate this Agreement, in which event neither party shall have any further obligation to the other under this Agreement other than those obligations that survive the termination of this Agreement.

1.02 Purchase Price.

- (a) Buyer has delivered a fifty thousand dollar (\$50,000) deposit (the "<u>Deposit</u>") to Seller to be held in accordance with the further terms of this Agreement. In the event of any termination of this Agreement prior to Closing, Seller shall retain the Deposit as a donation from Buyer.
- (b) The purchase price (the "Purchase Price") to be paid by Buyer to Seller at Closing shall be TWENTY MILLION AND NO/100 DOLLARS (\$20,000,000). The Purchase Price shall be payable as follows: (a) one \$4,000,000 installment in cash at Closing to Seller, minus the Deposit; and (b) four \$4,000,000 installments ("Remaining Installments"), payable annually on the anniversary date of the Closing, in cash, such remaining \$16,000,000 balance (the "Remaining Balance") shall be evidenced by a promissory note (the "Note") executed by Buyer in favor of Seller in the form attached hereto as Exhibit "C". The Note shall be secured by Seller retaining a vendor's lien in the Closing Deed (as defined in Section 4.02(a) below). The Purchase Price shall be subject to Closing prorations and adjustments as hereinafter set forth.
- 1.03 <u>Investigation Period</u>. Seller acknowledges that to enable Buyer to proceed with the transactions contemplated by this Agreement Buyer must undertake or cause to have undertaken the following environmental tests and studies at Buyer's expense: (a) a Phase I environmental assessment and (b) such other non-physically intrusive tests, studies, inspections and analysis that Buyer deems necessary or desirable in order to determine, in Buyer's sole discretion, the environmental condition of the Property (collectively, (a) and (b) shall be referred to as the "<u>Initial Tests and Studies</u>"). Buyer shall have 60 days commencing the day following the Execution Date (as such period may be extended in accordance with this Agreement, the "<u>Investigation Period</u>") in which to undertake such Initial Tests and Studies. If the results of Buyer's Initial Tests and Studies require, in Buyer's sole determination, a Phase II environmental assessment or any other physically intrusive tests and studies, then Buyer shall deliver to Seller written notice that Buyer wishes to perform such Phase II environmental assessment or other physically intrusive tests and studies, accompanied by a copy of the results of any Initial Tests

and Studies relating to Buyer's request and Buyer shall be permitted to proceed with such Phase II environmental assessment or other physically intrusive tests and studies at Buyer's sole cost and expense. If such Phase II environmental assessment or physically intrusive test or study cannot be completed prior to the scheduled expiration of the Investigation Period, then the Investigation Period shall be automatically extended for a sufficient period, not to exceed 60 additional days, as Buyer deems necessary to permit Buyer to obtain the Phase II environmental report or the results of such physically intrusive tests and studies. If, during the Investigation Period (as same may be extended), Buyer determines that the environmental condition of the Property is unsatisfactory or not determinable to Buyer's satisfaction, Buyer shall, within 5 days commencing the day after the expiration of the Investigation Period, deliver to Seller written notice terminating this Agreement, in which event neither party shall have any further obligation to the other under this Agreement other than those obligations that survive the termination of this Agreement.

If Buyer fails to terminate this Agreement within 5 days after the expiration of the Investigation Period, Buyer shall be deemed to have waived its right to terminate this Agreement as set forth in this Section 1.03, and Buyer shall be obligated to close this transaction subject to and in accordance with all other terms and conditions of this Agreement, including its remaining termination provisions.

During the Investigation Period, Buyer and its employees, contractors, subcontractors and consultants shall have the right to enter upon the Property, Buildings and Improvements for the purpose of performing the Survey, the Initial Tests and Studies, any additional physically intrusive test and studies required by Buyer, and visual inspections of the Property, Buildings and Improvements and other Excluded Property, upon notice to Seller a reasonable period of time (but in any event not less than twenty-four hours) before any entry onto the Property, Buildings and Improvements, and Seller shall have the right (but not the obligation) to have a representative present at all times during any such entry. Buyer shall restore the Property, Buildings and Improvements to the condition which existed immediately prior to Buyer's or its employees', contractors', subcontractors' or consultants' entry into the Property, Buildings and Improvements. At all times during the Investigation Period, Buyer shall maintain reasonably appropriate insurance for its activities. Buyer shall indemnify, defend and hold harmless Seller and its tenants from and against any and all claims, causes of actions, demands, damages, losses, liabilities, costs, expenses, injuries, liens, fines or penalties (including, without limitation, reasonable attorneys' fees) arising or resulting from Buyer's or its employees', contractors', subcontractors' or consultants' entry onto the Property and exercise of Buyer's rights under this Section 1.03. Buyer's indemnification and defense obligations set forth in this Section 1.03 shall survive the termination of this Agreement.

1.04 <u>Governmental Approvals</u>. During the Investigation Period, Buyer shall investigate (a) the current zoning of the Property and any pending plans for rezoning of the Property and/or Buildings and Improvements that might adversely affect Buyer's intended use once the Use Period expires, (b) the availability of demolition permits that might be necessary for Buyer to demolish the Buildings and Improvements once the Use Period expires, and (c) the

availability of coastal use and any other permits necessary to develop the Land. Any coastal permit and other governmental approvals deemed advisable by Buyer shall be considered "Required Buyer Governmental Approvals." If Buyer is not satisfied with the zoning of the Property or the availability or terms of any Required Buyer Governmental Approvals prior to the expiration of the Investigation Period, Buyer may terminate this Agreement by providing written notice to Seller within 5 days after the expiration of the Investigation Period and neither party shall have any further obligation to the other under this Agreement other than those obligations that survive the termination of this Agreement. If Buyer fails to timely terminate this Agreement in accordance with this Section, Buyer shall be deemed to have waived its right to terminate this Agreement as set forth in this Section 1.04 and Buyer shall be obligated to close this transaction subject to and in accordance with all of the other terms and conditions of this Agreement, including its remaining termination provisions.

During the Investigation Period, Seller shall obtain any governmental approvals required for Seller to enter into and perform the transactions contemplated by this Agreement ("Seller Required Governmental Approvals"). During the Investigation Period, Seller shall keep Buyer informed of the status of Seller Required Governmental Approvals and Seller shall immediately notify Buyer if Seller is unable to obtain or Seller becomes aware of any inability to obtain Seller Required Government Approvals. If Seller Required Governmental Approvals are not obtained prior to the Closing, this Agreement shall automatically terminate and neither party shall have any further obligation to the other under this Agreement other than those obligations that survive the termination of this Agreement.

- 1.05 <u>Permitted Exceptions</u>. The Property shall be conveyed to Buyer subject to no liens, charges, encumbrances, servitudes, restrictions, exceptions or reservations of any kind or character other than the following exceptions (the "<u>Permitted Exceptions</u>"):
- (a) Ad valorem taxes (if applicable) for the year of Closing and subsequent years that are not yet delinquent; and
- (b) Any matters that constitute "Permitted Exceptions" pursuant to Section 1.07.
- 1.06 <u>Title Evidence and Survey</u>. Buyer shall have 45 days commencing the day after the Execution Date to obtain (a) an owner's commitment for title insurance in a form acceptable to Buyer and including such endorsements as Buyer desires (the "<u>Title Commitment</u>") covering the Property and issued by a nationally recognized title insurance company designated by Buyer (the "<u>Title Company</u>"), which Title Company shall agree to issue to Buyer, upon the Closing, an owner's title insurance policy in the full amount of the Purchase Price, without exception for any matters other than the Permitted Exceptions; and (b) a current survey (the "<u>Survey</u>") of the Property. The Survey shall set forth an accurate description of the Property, including a statement of acreage of the Land and depicting all access, structures, golf courses, easements, rights-of way, alleys, encroachments, streets and roads on or pertaining to the Land or Property and prepared in conformity with the standards of the Title Company and otherwise acceptable to Buyer.

- Cure of Title and Survey Defects. If the Title Commitment reveals any matters other than standard exceptions which will be removed at Closing and/or if the Survey reveals any matters affecting the Property, Buildings and Improvements that are not contained in the Title Commitment or if Buyer has actual knowledge of other title matters that would render title to the Property or Buildings and Improvements unmarketable, Buyer shall notify Seller of any such matters which are unacceptable to Buyer prior to the expiration of the Investigation Period. The following matters on the Title Commitment or the Survey shall be deemed to be Permitted Exceptions: (1) all matters shown on the Title Commitment or the Survey which are not the subject of a timely objection by Buyer, and (2) all matters that are the subject of a timely objection by Buyer but then waived or deemed to be waived by Buyer in accordance with this Section. Upon receipt of an objection notice from Buyer to Seller, Seller shall, within 3 days after receipt of Buyer's objection notice, deliver to Buyer written notice of Seller's election to (i) cure such title objection, in which event Seller shall use commercially reasonable efforts to eliminate such objection to the reasonable satisfaction of Buyer and the Title Company within 30 days thereafter (or within such longer period as Buyer and Seller may agree upon) or (ii) not to cure such title objection. If Seller does not respond timely, Seller will be deemed to have declined to cure such objection. If Seller delivers written notice electing to cure any title objection, but is unable to cure such title objection prior to the Closing on the Property or elects, or is deemed to elect, not to satisfy any title objection, then Buyer may, at its option, (a) accept title subject to the objections raised by Buyer, in which event such objections shall be deemed to be waived for all purposes and to constitute Permitted Exceptions pursuant to Section 1.05 above, or (b) terminate this Agreement, and neither party shall have any further obligation to the other under this Agreement other than those obligations that survive the termination of this Agreement.
- Information. Prior to the Execution Date, Seller provided Buyer with copies of its undated agreement with the Mobile Airport Authority concerning an access road for a possible tanker manufacturing facility and its December 15, 2009 agreement with the Mobile Airport Authority concerning temporary water/sewer usage rights. Within 7 business days after the Execution Date, Seller shall provide Buyer with, to the extent relating to the Property and within Seller's possession, copies of the Leases, all title commitments, title policies, surveys, site plans, studies, engineering reports, environmental studies, wetlands studies, agreements pertaining to any water rights or supply, and other materials prepared for Seller to assess the physical character or condition of the Land, Buildings and Improvements, the title to the Property, the boundaries of the Land, any encroachments on the Land or by the Buildings and Improvements, any encumbrances on the Land, the zoning of the Land, Buildings and Improvements or the presence of Hazardous Materials (hereinafter defined) in, on, under or around the Land or Buildings and Improvements and shall disclose in writing any other such reports of which Seller has actual knowledge (collectively, the "Property Reports"). If this Agreement is terminated, the information provided will be returned to Seller within 5 days after such termination. Seller shall disclose any material changes with respect to any information delivered to Buyer pursuant to this Section which occur prior to Closing.

II. EXCLUDED PROPERTY, THE SURFACE EASEMENT, AND THE USE PERIOD

- 2.01 <u>Use Period</u>. Seller shall reserve and retain ownership of the Excluded Property until the expiration of the Use Period, in accordance with the terms of the Surface Easement, and, upon the expiration or early termination of the Use Period with respect to any portion of the Excluded Property, Seller shall convey title to the Excluded Property, other than the Personal Property, to Buyer in accordance with Section 2.06. Seller and its successors and assigns shall retain title to the Personal Property in perpetuity.
- 2.02 <u>Additional Leases</u>. During the Use Period, Seller may grant additional leases on the Property and Excluded Property, so long as such leases are terminable within 90 days of the expiration or earlier termination of the Use Period without the payment of any termination fee or penalty. Such additional leases shall be considered "Leases" under this Agreement.
- 2.03 <u>Early Termination of the Use Period and Surface Easement</u>. At any time during the Use Period, Buyer shall have the option (the "<u>Option</u>"), exercisable at one time only, to terminate the Use Period and the Surface Easement with respect to all of the Excluded Property. If Buyer elects to exercise the Option, Buyer shall send written notice thereof (the "<u>Exercise Notice</u>") to Seller at least 90 days in advance of the termination date. If the Note remains outstanding and Buyer is exercising its Option, Buyer's right to exercise its Option to terminate the Use Period and Surface Easement prior to their scheduled expiration dates is conditioned upon Buyer's prepayment of the Note in full upon the effective date of the termination.
- 2.04 <u>Evidence of Release</u>. Effective as of the expiration or early termination of the Use Period and Surface Easement, Seller shall execute a release of the Surface Easement and acknowledgment of the termination of the Surface Easement as Buyer reasonably requests to evidence in the public records the exercise of its rights under Section 2.03.
- 2.05 <u>Removal of Parties in Possession</u>. On or prior to the expiration or early termination of the Use Period, Seller shall remove all of its Personal Property from the Property and cause all parties in possession of the remaining Excluded Property to remove themselves and their goods from the Property, Buildings and Improvements; *provided, however,* that, if Buyer terminates the Use Period early, then existing tenants of Seller pursuant to written Leases may remain in possession of their leaseholds for a period not to exceed 90 days following the effective date of the Use Period termination, except in the case of the Lease to the Alabama State Department of Education (Disability Determination Service) which expires on, and shall be honored through, November 30, 2011.
- 2.06 <u>Conveyance of Excluded Property</u>. Upon expiration or early termination of the Use Period with respect to the Excluded Property, Seller shall convey the Excluded Property, other than the Personal Property, to Buyer, or to any purchaser or other transferee from Buyer as may be designated by written notice from Buyer to Seller, pursuant to the form of Statutory Warranty Deed attached hereto as <u>Exhibit "D-1"</u> (the "<u>Improvements Deed</u>"), to be delivered to Buyer within 10 days of Buyer's request. The sole consideration for the delivery of the {N2120237.27}

Improvements Deed shall be Buyer's original obligation to pay the Purchase Price under this Agreement and to allow Seller to retain the Excluded Property during the Use Period, subject to Buyer's early termination rights under Section 2.03. Buyer shall obtain, at its expense, a commitment to endorse the existing title insurance policy on the Property with respect to the Excluded Property acquired pursuant to the Improvements Deed, and, if such title commitment reveals any liens, encumbrances or other title defects with respect to the Excluded Property other than the original Permitted Exceptions, Seller shall cure such title matter within 30 days of the date of Buyer's notice. In connection with the delivery of the Improvements Deed, Seller shall provide a seller/owner affidavit as required by Buyer's title company as well as evidence of Seller's authorization to execute and deliver the Improvements Deed. Upon such conveyance, Seller shall turn over any security deposits relating to the Leases to Buyer. Seller is also responsible for terminating all services contracts relating to the Excluded Property upon the expiration or early termination of the Use Period.

- 2.07 Governmental Permits. During the Use Period, Seller shall cooperate with Buyer, at Buyer's expense, in any application Buyer elects to file to rezone all or any part of the Property (provided that such rezoning does not materially adversely affect Seller during the Use Period or cause a breach of the Leases) or to obtain any other governmental permits and authorizations that Buyer deems desirable to develop or sell the Property after the Use Period expires or is terminated.
- Maintenance of Buildings and Improvements. Seller shall maintain the Buildings and Improvements throughout the Use Period in substantially the same condition as existed on the Closing Date, normal wear and tear excepted; provided, however, that Seller may (i) if it discontinues using or renting any Building, cease maintaining and secure such Building in such a manner as to protect occupants of and visitors to the Property from personal injury or death resulting from such abandoned Buildings and to protect against unauthorized entry into or occupancy of such abandoned Building and (ii) demolish any Buildings and Improvements that it does not wish to maintain so long as the demolition is performed by qualified contractors and authorized by applicable law. If Seller secures any Building, Seller shall terminate its utility service, periodically inspect such Building, and restore any security measures taken which have become damaged to protect against unauthorized entry into or occupancy of the abandoned Building. If Seller demolishes any Buildings and Improvements, it must cause all resulting debris to be removed from the Property at Seller's expense.
- 2.09 <u>Maintenance of Grounds</u>. During the Use Period, Seller will, at its own cost and expense, cut the grass, trim trees and shrubs, remove dead trees, and otherwise maintain the landscaping of the Property in accordance with Seller's customary practices prior to the date hereof (provided, however, that Seller may abandon the golf course and thereafter maintain the former golf course under the same standards that Seller maintains the remainder of the Property). During the Use Period, Seller will, at its own cost and expense to the extent not performed by the applicable utility companies and public authorities, also maintain the Subsurface Improvements and Access Improvements as necessary for the safe use of such by Seller, Seller's tenants, and their invitees. Seller may at any time abandon any such Subsurface Improvements and Access

Improvements no longer required by Seller, Seller's tenants or their invitees, so long as any utilities are disconnected and the abandonment does not jeopardize the safety of any such persons.

2.10 <u>Notice of Litigation</u>. Seller shall provide Buyer with (i) notice of all suits against Seller filed or pending during the Use Period that relate to the Property or the Excluded Property and (ii) copies of all default notices received by Seller under the Leases.

III. REPRESENTATIONS AND COVENANTS

- 3.01 <u>Seller's Representations and Covenants</u>. Except for Seller's (Seller being defined for the purposes of Article III as the president, all vice presidents, in-house legal counsel, and all other officers having current or prior management responsibility for the Property, including, without limitation, Mr. Steve Simmons and Mr. Pat Downing) express written representations in this Agreement and the Deeds, Buyer shall rely solely on Buyer's due diligence and own judgment in determining whether to purchase the Property. Seller makes the following covenants for the period commencing on the Execution Date and terminating on the Closing Date, as well as the following representations which are true and accurate as of the Execution Date and as of the Closing Date:
- (a) <u>No Violations of Zoning and other Laws</u>. To the best of Seller's knowledge, the existing use and condition of the Property, Buildings and Improvements does not violate any zoning, building, health, fire or similar statute, ordinance, regulation or code, nor has Seller received any notice, written or otherwise, from any governmental agency alleging violations of building codes, building or use restrictions, zoning ordinances, rules and regulations, or any other such matters that have not been cured. Seller shall not knowingly permit any such law violations and shall immediately notify Buyer in writing if Seller receives notice of same.
- (b) <u>Pending and Threatened Litigation</u>. There are no pending or, to the best of Seller's knowledge, threatened matters of litigation, administrative action or examination, claim or demand whatsoever relating to the Property, Buildings and Improvements or other Excluded Property. Buyer is aware that Seller is terminating numerous leases and contracts related to the Property and its use by Seller. Seller agrees to notify Buyer in writing as soon as practicable if any claim or litigation ensues as a result of said termination or otherwise.
- (c) <u>Eminent Domain, etc.</u> There is no pending or, to the best of Seller's knowledge, contemplated eminent domain, condemnation or other governmental taking of the Property, Buildings and Improvements or other Excluded Property or any part thereof. Seller shall immediately notify Buyer in writing if Seller receives notice of same.
- (d) Access to Property, Buildings and Improvements; Utilities. To the best of Seller's knowledge, there is no fact or condition which would result in the termination or impairment of access to the Property, Buildings and Improvements from adjoining public or private streets or ways or which could result in discontinuation of presently available or {N2120237.27}

otherwise necessary sewer, water, electric, gas, telephone or other utilities or services. Seller shall maintain such access and utilities through the Closing Date and notify Buyer immediately in writing if such access or utilities are compromised.

- (e) <u>Assessments</u>. To the best of Seller's knowledge, there are no public improvements in the nature of off-site improvements, or otherwise, which have been ordered to be made and/or which have not heretofore been assessed, and there are no special or general assessments pending against or affecting the Property, Buildings and Improvements or other Excluded Property. Seller shall immediately notify Buyer in writing if any such assessments arise.
- (f) <u>Accuracy of Information</u>. To the best of Seller's knowledge, the Property Reports and all other documents being delivered by Seller are true, accurate and complete. Such Property Reports and other documents fairly present the information purportedly set forth therein in a manner which is not misleading in any material way, and the Property Reports do not fail to present any information or data which would be necessary in order to prevent the information contained therein from being misleading.
- (g) No Breach of Other Agreements. To the best of Seller's knowledge, the consummation of the transactions herein contemplated and the compliance by Seller with the terms of this Agreement do not and will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, any agreement, arrangement, understanding, accord, document or instrument by which Seller or the Property, Buildings and Improvements or other Excluded Property are bound; and will not and does not constitute a violation of any applicable law, rule, regulation, judgment, order or decree of any governmental instrumentality or court, domestic or foreign, to which Seller or the Property, Buildings and Improvements or other Excluded Property are subject or bound.
- (h) <u>Executory Agreements</u>. Seller is not party to, and the Property, Buildings and Improvements and other Excluded Property are not subject to, any contract or agreement of any kind whatsoever, written or oral, formal or informal, with respect to the Property, Buildings and Improvements and other Excluded Property, other than the Leases described in <u>Exhibit "B"</u>. Buyer shall not, at Closing, become subject to or bound by any agreement, contract, lease, license, invoice, bill, undertaking or understanding pertaining to the Property, Buildings and Improvements and other Excluded Property, including, without limitation the Leases, which shall remain Seller's sole liability throughout the Use Period.
- (i) <u>Insuring Property</u>, <u>Buildings and Improvements and other Excluded Property</u>. Between the Execution Date and the Closing, Seller will keep the Property, the Buildings and Improvements and other Excluded Property, fully insured in accordance with prudent and customary practice.
- (j) <u>All Required Action Taken</u>. All Seller Required Governmental Approvals that are necessary to effectuate the transactions contemplated herein, have been or will be obtained by Seller prior to the Closing. The execution and delivery of this Agreement by Seller {N2120237.27}

and the consummation of the transactions contemplated by this Agreement will not violate any federal or Alabama state laws, ordinances, rules and regulations to which Seller, the Property or Excluded Property are subject.

- (k) <u>Obligations Under Leases: Mechanic's Liens</u>. Any and all alterations, installations, decorations and other work required to be performed by Seller as lessor (or as any other responsible party) prior to the Closing Date under the provisions of any Leases or other agreements affecting the Property, Buildings and Improvements, have been or will be paid for in full by Seller, whether before or after the Closing Date. As of the Closing Date, there will be no mechanic's liens or other claims outstanding or available to any party in connection with the Property, Buildings and Improvements and other Excluded Property.
- (1) <u>Government Obligations</u>. To the best of Seller's knowledge, there are no unperformed obligations relative to the Property, Buildings and Improvements and other Excluded Property outstanding to any governmental or quasi-governmental body or authority.

(m) Schedule of Leases.

- (i) Exhibit "B" is a list of the only Leases affecting the Property, Buildings and Improvements as of the Execution Date setting forth the name of each tenant (a "Tenant" and collectively, "Tenants"), the date of each of the Leases, and the term of each of the Leases. Said list is complete and all information therein is materially accurate as of its date, and there are no leases, tenancies, licenses, occupancy or other similar agreements with respect to the Property, Buildings and Improvements or any part thereof except as therein set forth, other than those residential tenant leases which will be terminated effective November 30, 2010. Seller has provided a complete copy of each such Lease, as amended, to Buyer for review; and
- (ii) The Leases have not been modified, amended or altered, in writing or otherwise, other than as indicated on Exhibit "B".
- (n) <u>Utility Services</u>. To the best of Seller's knowledge, the sewage, sanitation, plumbing, water retention and detention, refuse disposal and similar facilities in and on and/or servicing the Property, Buildings and Improvements are fully adequate to service the Property, Buildings and Improvements and are in full compliance with all governmental and environmental protection authorities' laws, rules, regulations and requirements. Seller shall immediately notify Buyer in writing if, prior to the Closing, Seller receives any notice of non-compliance or other interruption in connection with utility services and shall maintain or cause to be maintained such compliance.
- (o) <u>Rights in the Property, Buildings and Improvements and other Excluded Property.</u> Between the Execution Date and the Closing, no part of the Property and Excluded Property will be alienated, encumbered or transferred in favor of or to any party whatsoever,

except for Leases. There are no currently effective purchase contracts, options or any other agreements (other than those with the Mobile Airport Authority referenced in Section 1.08 herein) of any kind, written or oral, formal or informal, choate or inchoate, recorded or unrecorded, whereby any person or entity other than Seller will have acquired or will have any basis to assert any right, title or interest in, or right to possession, use, enjoyment or proceeds of all or any portion of the Property, Buildings and Improvements or other Excluded Property other than as may be described in the Title Commitment. Seller shall not enter into any such purchase contracts, options or any other agreements without first obtaining Buyer's written consent.

(p) Environmental Matters. To the best of Seller's knowledge, during Seller's ownership of the Property, Buildings and Improvements (i) no Hazardous Materials (herein defined) have been located on the Property, Buildings and Improvements or have been released into the environment, or discharged, placed or disposed of at, on or under the Property, Buildings and Improvements except in full compliance with Environmental Laws (as hereinafter defined); (ii) no underground storage tanks have been located on the Property, Buildings and Improvements; (iii) the Property, Buildings and Improvements have never been used as a dump site for waste material; and (iv) the Property, Buildings and Improvements comply with, and during Seller's ownership have complied with, any applicable governmental law, regulation or requirement relating to environmental and occupational health and safety matters and Hazardous Materials, including, without limitation, all Environmental Laws (herein defined). Seller shall immediately notify Buyer in writing if Seller receives any notice of a violation of Environmental Laws.

The term "Hazardous Materials" shall mean any substance, material, waste, gas or particulate matter which is regulated by any local governmental authority, the State of Alabama, or the United States Government, including, but not limited to, any material or substance which is (i) defined as a "hazardous waste," "hazardous material," "hazardous substance," "extremely hazardous waste," or "restricted hazardous waste" under any provision of Alabama law; (ii) petroleum; (iii) asbestos; (iv) designated chlorinated biphenyl; (v) radioactive material; (vi) designated as a "hazardous substance" pursuant to Section 311 of the Clean Water Act, 33 U.S.C. Article 1251 et seq. (33 U.S.C. Article 1317); (vii) defined as a "hazardous waste" pursuant to section 1004 of the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. (42 U.S.C. Article 6903); or (viii) defined as a "hazardous substance" pursuant to section 101 of the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. Article 9601 et seq. (42 U.S.C. Article 9601).

The term "Environmental Laws" shall mean all of the most current statutes specifically described in the foregoing sentence and all federal, state and local environmental health and safety statutes, ordinances, codes, rules, regulations, orders and decrees regulating, relating to or imposing liability or standards concerning or in connection with Hazardous Materials.

(q) <u>Binding Obligation</u>. This Agreement and all other documents and agreements to be executed and/or delivered in connection with or pursuant to this Agreement constitute or shall constitute the valid and binding obligation of Seller, enforceable against Seller in accordance with their terms, except as such enforcement may be limited by (A) the effect of

bankruptcy, insolvency, reorganization, receivership, conservatorship, arrangement, moratorium or other Applicable Laws affecting or relating to the rights of creditors generally, or (B) the rules governing the availability of specific performance, injunctive relief or other equitable remedies and general principles of equity, regardless of whether considered in a proceeding in equity or at law.

In the event of a material breach of any covenant or representation made in this <u>Section 3.01</u> or elsewhere in this Agreement by Seller before or at Closing, Buyer shall have the right to terminate this Agreement by providing written notice to Seller. Upon any such termination pursuant to Section 3.01 prior to the Closing, neither party shall have any further obligation to the other under this Agreement other than those obligations that survive the termination of this Agreement.

- 3.02 <u>Buyer's Representations</u>. Buyer makes the following representations which are true and accurate as of the Execution Date and as of the Closing Date:
- (a) <u>All Required Action Taken</u>. All action required pursuant to this Agreement necessary to effectuate the transactions contemplated herein has been, or will be, taken promptly and in good faith by Buyer and its representatives and agents.
- (b) <u>Binding Obligations</u>. This Agreement and all other documents and agreements to be executed and/or delivered in connection with or pursuant to this Agreement constitute or shall constitute the valid and binding obligation of Buyer, enforceable against Buyer in accordance with their terms, except as such enforcement may be limited by (A) the effect of bankruptcy, insolvency, reorganization, receivership, conservatorship, arrangement, moratorium or other applicable laws affecting or relating to the rights of creditors generally, or (B) the rules governing the availability of specific performance, injunctive relief or other equitable remedies and general principles of equity, regardless of whether considered in a proceeding in equity or at law.
- 3.03 <u>Survival</u>. The covenants and representations contained in Sections 3.01 and 3.02 shall survive the execution and delivery of the Closing Deed and the Closing for the longest period allowed by applicable law, and shall remain in full force and effect regardless of any investigation made by or on behalf of any party or of the actual or constructive knowledge by any party of any inaccuracy or breach thereof.

IV. PROVISIONS WITH RESPECT TO CLOSING

4.01 <u>Closing Date</u>. Consummation of the transactions contemplated by this Agreement (the "<u>Closing</u>") shall take place in the offices of Buyer's attorneys 15 days following the expiration of the Investigation Period (the "<u>Closing Date</u>"); provided, however, that the Closing Date may be extended as necessary under Section 1.07 (to perform title curative work).

Notwithstanding anything contained in this Section 4.01 to the contrary, Buyer may elect to schedule an earlier Closing Date provided that (a) all conditions precedent to the Closing have been satisfied or waived, and (b) Buyer furnishes Seller with written notice of Buyer's election to close early at least 10 days prior to the date upon which Buyer desires to close the applicable

transaction evidenced by this Agreement.

- 4.02 <u>Seller's Obligations at Closing</u>. At the Closing, Seller shall do the following:
- (a) Execute, acknowledge and deliver to Buyer a special warranty deed, with reserved vendor's lien, in substantially the form attached hereto as <u>Exhibit "D-2"</u> (the "<u>Closing Deed</u>") conveying the Property to Buyer subject only to the Permitted Exceptions;
- (b) Execute and deliver to Buyer a mechanic's lien and possession affidavit in sufficient form and substance so as to allow the Title Company to remove the mechanic's lien exception and parties-in-possession exception from the Title Commitment provided that, with respect to parties-in-possession, Seller shall not be obligated to execute any possession affidavit with respect to parties that shall remain in possession after the Closing in accordance with Section 2.05 above;
- (c) Execute and deliver to the Title Company an affidavit that, to Seller's knowledge, there have been no changes to the conditions of title from that shown in the Title Commitment in order for the Title Company to delete the "gap" exception;
- (d) Execute and deliver instruments satisfactory to Buyer and the Title Company reflecting the proper power, good standing and authorization for the Sale of the Property from Seller to Buyer hereunder;
- (e) Execute and deliver to Buyer and the Title Company a FIRPTA affidavit in form and substance acceptable to Buyer and the Title Company certifying that Seller is not a foreign entity;
- (f) Execute and deliver to Buyer a closing statement setting forth the Purchase Price, adjustments, prorations and closing costs as set forth herein (the "Settlement Statement");
- (g) Cause its counsel to execute and deliver to Buyer an opinion of counsel with respect to the transactions contemplated by this Agreement in form and substance satisfactory to Buyer;
- (h) Execute and deliver to the Title Company or its agent escrow instructions instructing the Title Company or its agent to perform such acts as are necessary to consummate the transactions contemplated in this Agreement; and
- (i) Execute and deliver such other documents as may be reasonably required by Buyer and the Title Company to consummate the transactions contemplated in this Agreement or as may be required under this Agreement.
- 4.03 <u>Buyer's Obligations at Closing</u>. Contemporaneously with but conditional upon the performance by Seller of its obligations set forth in Section 4.02 above, at Closing, Buyer shall deliver to Seller the cash portion of the Purchase Price (net of the Deposit and closing adjustments) in cash or by wire transfer received no later than 5:00 p.m. (Central) on the Closing Date.

In addition, Buyer shall do the following:

- (a) Execute and deliver instruments reasonably satisfactory to Seller and the Title Company reflecting the proper power, good standing and authorization for the purchase of the Property from Seller by Buyer hereunder;
 - (b) Execute and deliver to Seller the Note;
 - (c) Execute the Deed and deliver a duplicate original to Seller;
 - (d) Execute and deliver to Seller the Settlement Statement;
- (e) Cause its counsel to execute and deliver to Seller an opinion of counsel with respect to the transactions contemplated by this Agreement in form and substance satisfactory to Seller;
- (f) Execute and deliver to Title Company or its agent escrow instructions instructing Title Company or its agent to perform such acts as are necessary to consummate the transaction contemplated in this Agreement; and
- (g) Execute and deliver such other documents as may be reasonably required by Seller and the Title Company to consummate the transactions contemplated in this Agreement or as may be required by this Agreement.

4.04 Closing Costs.

- (a) Seller shall pay the following costs and expenses in connection with the Closing:
 - (i) Its costs of preparing documents, such as authorizing resolutions, necessary for Seller's authorization of and entry into the transactions contemplated by this Agreement and its attorneys' fees (subject to Section 9.02 below);
 - (ii) The incremental tax cost of recording the Closing Deed resulting from Seller's vendor's lien in excess of the tax cost that would have applied if the Closing Deed did not include a vendor's lien; and
 - (iii) Any costs of operating the Property, Buildings and Improvements and other Excluded Property which have accrued prior to the Closing Date.
 - (b) Buyer shall pay the following costs and expenses:
 - (i) Its costs of preparing the Closing Deed and other closing documents and its attorneys' fees (subject to Section 6.02 below);
 - (ii) The cost of its environmental assessment work;

- (iii) All of the premium payable for the owner's policy of title insurance in connection with the Closing;
 - (iv) The cost of the Survey; and
- (v) All recording fees in connection with the Deed, including, without limitation, any transfer or recording tax, other than the portion of such tax payable by Seller under Section 4.04(a)(ii).
- (c) <u>Property Taxes</u>. Seller shall pay its pro-rated share of city, state and county ad valorem taxes (if any) for the current calendar year accruing pre-Closing based upon the ad valorem tax bill for the Property for 2009.
- 4.05 <u>Seller's Conditions Precedent to Closing</u>. The following shall be conditions precedent to Seller's obligation to proceed with the Closing and consummate the sale of the Property in accordance with this Agreement:
- (a) Seller shall have received from Buyer, or received confirmation from Title Company or its agent that same has received from Buyer, all of the items required to be delivered by Buyer pursuant to Section 4.03 above;
- (b) Buyer shall have performed, in all material respects, all covenants and obligations to be performed by Buyer at or prior to the Closing in accordance with this Agreement; and
- (c) Buyer's representations and warranties set forth in Section 3.02 of this Agreement shall be true and correct as of the Closing, as if made on the Closing Date.
- 4.06 <u>Buyer's Conditions Precedent to Closing</u>. The following shall be conditions precedent to Buyer's obligation to proceed with the Closing and consummate the sale of the Property in accordance with this Agreement:
- (a) Buyer shall have received from Seller, or received confirmation from Title Company or its agent that same has received from Seller, all of the items required to be delivered by Seller pursuant to Section 4.02 above;
- (b) Seller shall have performed, in all material respects, all covenants and obligations to be performed by Seller at or prior to the Closing in accordance with this Agreement; and
- (c) Seller's representations and warranties set forth in Section 3.01 of this Agreement shall be true and correct as of the Closing, as if made on the Closing Date.

V. RISK OF LOSS

5.01 <u>Risk of Loss by Casualty</u>. If, prior to Closing, all or any material portion of the Property is destroyed or damaged by casualty or any other act or occurrence (an "<u>Occurrence</u>"), Buyer may, at its option and within 5 days following the date that Buyer becomes aware of the

Occurrence, (a) elect to terminate this Agreement and neither party shall have any further obligation to the other under this Agreement except those obligations that survive termination of this Agreement, or (b) elect to close the transactions in which case Buyer shall be conclusively deemed to have elected to accept the Property subject to such Occurrence at Closing, and Seller shall assign all of its interest to any insurance proceeds resulting from such Occurrence relative to Property but not Buildings or Improvements to Buyer at Closing. If the Property or Buildings and Improvements becomes subject to environmental contamination after the expiration of the Investigation Period but prior to the Closing which adversely and materially affects the Property, Buildings and Improvements in Buyer's reasonable discretion, then Buyer may, at its option and within 5 days following written notice by Seller to Buyer of the contamination, (a) elect to terminate this Agreement and neither party shall have any further obligation to the other under this Agreement except those obligations that survive termination of this Agreement, or (b) elect to close the transactions in which case Buyer shall be conclusively deemed to have elected to accept the Property subject to such contamination at Closing, and Seller shall assign all of its interest to any insurance proceeds and claims against third parties resulting from such contamination to Buyer at Closing, except to the extent that Seller is responsible for remedying such contamination or paying any other expenses associated therewith, including but not limited to as required under the terms of this Contract, or as necessary for Seller's continued use during the Use Period. Buyer shall not maintain any claim against Seller for any Occurrence. Seller shall immediately notify Buyer in writing immediately upon Seller's knowledge of any Occurrence.

5.02 Risk of Loss by Condemnation, Taking, Transfer or Other Action by State or Federal Government. If prior to Closing any condemnation, eminent domain proceedings, any transfer from or to any Alabama state agency or entity other than Seller or any threats or contemplations thereof or any proposals therefor (collectively, a "Governmental Taking/Transfer") are initiated or threatened which might result in the taking or other transfer of all or any portion of the Property or Excluded Property, Buyer may, at its option and within 5 days following written notice by Seller to Buyer of the Governmental Taking/Transfer, (a) elect to terminate this Agreement and neither party shall have any further obligation to the other under this Agreement, except those obligations that survive termination of this Agreement, or (b) elect to close the transaction (which Buyer shall be deemed to have elected to do if no such termination notice is given by Buyer to Seller) in which case Buyer shall be conclusively deemed to have elected to accept the Property subject to such Governmental Taking/Transfer at Closing. If the Closing occurs after any Governmental Taking/Transfer or the commencement of any Governmental Taking/Transfer proceedings with respect to the Property or Excluded Property. Seller shall assign all of its interest to all proceeds relating thereto to Buyer at Closing. Seller shall immediately notify Buyer in writing if to its knowledge any Governmental Taking/Transfer is pending, threatened or contemplated.

VI. INSURANCE AND INDEMNITY

6.01 <u>General Liability Insurance</u>. Seller shall provide at its sole expense, and keep in force at all times during the Use Period, such insurance and in such amounts as are reasonable and customary in connection with the Excluded Property and Seller's use thereof and reasonably satisfactory to Buyer including, without limitation (a) commercial or self-funded liability insurance (which, in the case of commercial policies only, shall include Buyer and any

mortgagee of Buyer as additional insureds, shall include waivers of subrogation in their favor and shall also be endorsed to provide that their coverage is primary to any liability insurance coverage carried by the additional insureds, whose liability coverage shall be excess); and (b) automobile liability insurance for any vehicles owned by Seller in connection with the Property.

- 6.02 <u>Certificates</u>. Seller shall provide Buyer with certificates of insurance evidencing the required coverages and renewal and replacement certificates as necessary to continuously evidence the maintenance of the required coverages. Such insurance certificates shall be in a form acceptable to the Buyer.
- 6.03 <u>Blanket Insurance Permitted</u>. Any insurance required to be provided by the Seller pursuant to this Agreement may be provided by blanket insurance covering the Property, Excluded Property, and other property that is subject to the Surface Easement, and other locations of Seller, provided such blanket insurance complies with all of the other requirements of this Agreement with respect to the insurance involved.
- 6.04 <u>Notice of Cancellation</u>. Seller shall use its best efforts to cause all such policies to provide that they may not be canceled or the coverage afforded thereby diminished or otherwise altered by the insurer until at 30 days after service of notice of the proposed cancellation upon Buyer.
- 6.05 <u>Right to Obtain Insurance</u>. Should Seller fail to timely provide the insurance as required by this Article VI, Buyer may immediately obtain same and Seller shall be required to repay all costs and expenses associated with such insurance immediately upon demand by Buyer.
- Indemnification. To the extent allowed by applicable law, Seller shall protect, indemnify and save harmless Buyer and its directors, officers, employees, agents, successors and assigns (the "Indemnitees") from and against any and all liabilities, losses, causes of action, suits, claims, demands, administrative proceedings, judgments, damages, punitive damages, remediation expenses, penalties, fines, costs (including sums paid in settlement of claims and monitoring costs) and expenses (including all reasonable attorneys' fees, consultants' or experts' fees and other expenses of Indemnitees in connection with any of the foregoing and all reasonable costs incurred in enforcing the indemnities under this Agreement) of any nature whatsoever (collectively, "Losses") arising from or as the result of (i) any Environmental Violation (as defined in Section 7.01(a) below) occurring during the Use Period as the result of Seller's act or omission, (ii) Seller's use, occupancy, and leasing of the Property, Excluded Property, or the Surface Easement during the Use Period, (iii) any injury to, or the death of, any person or any damage to property on the Property, Excluded Property or other property subject to the Surface Easement occurring prior to Closing or during the Use Period, or (iv) any act, omission, circumstance or event creating a breach of Seller's representations in Section 3.01. For the purpose of subsections (i) through (iv) of the preceding sentence, the term "Seller" shall include Seller and its officers, employees, and agents of the Seller. All Losses subject to indemnification under this Section are to be reimbursed as incurred. To the extent allowed by applicable law, Seller upon notice from Buyer will defend any claim of the nature described in this Section at Seller's expense by counsel reasonably approved in writing by Buyer. Seller's duty of indemnification does not apply to Losses resulting from an Indemnitee's sole negligence or to Losses to the extent resulting from an Indemnitee's gross negligence or willful act. Seller's

duty of indemnification otherwise applies to all Losses, even those resulting from an Indemnitee's contributory simple negligence or strict liability. Seller's obligations under this Section shall survive the Closing or any earlier termination of this Agreement for the longest period allowed by applicable law.

VII. ALLOCATION OF ENVIRONMENTAL EXPENSES

7.01 Definitions.

- (a) "Environmental Violation" means (i) Hazardous Materials have been or are hereafter located on the Property, Buildings and Improvements or have been or are hereafter released into the environment, or discharged, placed or disposed of at, on or under the Property, Buildings and Improvements in violation of Environmental Laws; (ii) underground storage tanks are now or hereafter located on the Property, Buildings and Improvements; (iii) the Property, Buildings and Improvements have been or are hereafter used as a dump site for waste material; and (iv) the Property, Buildings and Improvements have not complied, or hereafter do not comply, with all applicable Environmental Laws.
- (b) "Environmental Expenses" mean any Expenses arising in connection with or as the result of any past, present or future Environmental Violation relating to the Property, Buildings and Improvements, whether suffered or incurred by Seller or Buyer.
- (c) "<u>Expenses</u>" mean any liabilities, losses, judgments, settlements, punitive damages, penalties, fines, monitoring, investigation and remediation costs, and expenses (including all reasonable attorneys' fees, consultants' or experts' fees) of any nature whatsoever.
- Allocation of Environmental Expenses. As between Seller and Buyer (with each reserving all rights it may have against third parties), Environmental Expenses are allocated as follows: (i) Buyer releases Seller from (but Buyer does not assume) any Environmental Expenses resulting from acts, omissions, events or circumstances prior to the Closing Date, except in the case of Environmental Expenses that result from a matter that constitutes a breach of Seller's representations in Section 3.01(p), (ii) Seller shall pay all Environmental Expenses resulting from acts, omissions, events or circumstances prior to the Closing Date if they result from a matter that constitutes a breach of Seller's representations in Section 3.01(p), (iii) Seller shall pay Environmental Expenses resulting from acts, omissions, events or circumstances caused or allowed by Seller, its employees, agents, and tenants during the Use Period, and (iv) Buyer shall pay Environmental Expenses resulting from acts, omissions, events or circumstances following the Use Period. For purposes of this Section, the discovery or reporting of an Environmental Violation does not constitute an act, omission, event or circumstance resulting in an Environmental Expense; rather the act, omission, event or circumstance creating the Environmental Violation is the relevant act, omission, event or circumstance to determine allocation of the resulting Environmental Expenses under this Section.
- 7.03 <u>Payment of Environmental Expenses</u>. The party responsible for payment of Environmental Expenses under Section 7.02 shall pay such Environmental Expenses and, if a party shall ever pay Environmental Expenses that are the other party's responsibility under Section 7.02, the responsible party shall reimburse the paying party upon demand.

VIII. ALLOCATION OF CERTAIN OTHER EXPENSES

8.01 Definitions.

- (a) "Allocated Expenses" mean any Governmental Violation Expenses, Lease Expenses, Personal Injury Expenses, and Section 3.01 Expenses.
- (b) "<u>Governmental Violation</u>" means any violation or breach of laws and regulations applicable to the Property, Buildings and Improvements other than an Environmental Violation.
- (c) "<u>Governmental Violation Expenses</u>" mean any Expenses of any nature whatsoever arising in connection with or as the result of any past, present or future Governmental Violation relating to the Property, Buildings and Improvements, whether suffered or incurred by Seller or Buyer.
- (d) "<u>Lease Expenses</u>" mean any Expenses of any nature whatsoever arising in connection with or as the result of any past, present or future breach of any Lease by the lessor thereunder, whether suffered or incurred by Seller or Buyer.
- (e) "Personal Injury Expenses" mean any Expenses of any nature whatsoever arising in connection with or as the result of any past, present or future personal injury or death suffered by any person relating to the Property, Buildings and Improvements, whether suffered or incurred by Seller or Buyer.
- (f) "<u>Section 3.01 Expenses</u>" mean any expenses of any nature whatsoever arising in connection with or as the result of any breach of the representations in Article III, whether suffered or incurred by Seller or Buyer.
- 8.02 <u>Division of Allocated Expenses</u>. As between Seller and Buyer (with each reserving all rights it may have against third parties), Allocated Expenses are allocated as follows: (i) each party shall pay all Section 3.01 Expenses incurred by the other party as the result of the paying party's breach of its representations under Article III, (ii) Seller shall pay all Governmental Violation Expenses, Lease Expenses, and Personal Injury Expenses resulting from acts, omissions, events or circumstances during its ownership or during the Use Period, and (iii) Buyer shall pay all Governmental Violation Expenses, Lease Expenses, and Personal Injury Expenses resulting from acts, omissions, events or circumstances following the Use Period. For purposes of this Section, the discovery or reporting of a Governmental Violation or breach of a Lease does not constitute an act, omission, event or circumstance resulting in an Governmental Violation Expense or Lease Expense; rather the act, omission, event or circumstance creating the Governmental Violation or breach of the Lease is the relevant act, omission, event or circumstance determining allocation of the resulting Governmental Violation Expenses and Lease Expenses under this Section.
- 8.03 <u>Payment of Allocated Expenses</u>. The party responsible for payment of Allocated Expenses under Section 8.02 shall pay such Allocated Expenses and, if a party shall ever pay Allocated Expenses that are the other party's responsibility under Section 8.02, the responsible party shall reimburse the paying party upon demand.

IX. PROVISIONS WITH RESPECT TO DEFAULT

- 9.01 <u>Default</u>. If a party fails to perform any of the covenants of this Agreement, or if a party otherwise defaults hereunder, and as a result the Closing does not occur, then the non-defaulting party shall have the right of specific performance of all provisions of this Agreement or, at its option, may elect to terminate this Agreement and neither party shall have any further obligation to the other except those obligations that survive the termination of this Agreement.
- 9.02 <u>Attorneys' Fees and Costs</u>. In the event of any litigation between the parties arising out of this Agreement, except to the extent provided in Articles VII and VIII, each party shall bear its own fees (including reasonable attorneys' fees) and costs incurred, whether such fees and costs are incurred at trial, on appeal or in any bankruptcy proceedings.

X. OTHER CONTRACTUAL PROVISIONS

- 10.01 <u>Assignment</u>. Buyer may assign its interest in this Agreement to an entity controlling, controlled by or under common control with Buyer without need of obtaining Seller's consent, provided, however, that Buyer shall deliver written notice of any such assignment to Seller within 3 days after such assignment, and Buyer shall remain liable on a joint and several basis with its assignee for the payment of the Note. Otherwise, Buyer may not assign its interest in this Agreement without Seller's written consent, which consent shall not be unreasonably withheld.
- 10.02 <u>Brokers</u>. Buyer shall pay any and all commissions claimed by any broker or third party arising by virtue of this transaction whose commissions might legally arise from acts of Buyer. Seller shall pay any and all commissions claimed by any broker or third party arising by virtue of this transaction whose commissions might legally arise from acts of Seller.
- 10.03 <u>Notices</u>. All notices which are required or permitted hereunder must be in writing and shall be deemed to have been given, delivered or made, as the case may be (notwithstanding lack of actual receipt by the addressee) (i) when delivered by personal delivery or (ii) 3 business days after having been deposited in the United States mail, certified or registered, return receipt requested, sufficient postage affixed and prepaid, or (iii) 1 business day after having been deposited with an expedited, overnight courier service (such as by way of example but not limitation, U.S. Express Mail, Federal Express, UPS or DHL), addressed to the party to whom notice is intended to be given at the address set forth below:

Buyer:

University of South Alabama Foundation

211 North Conception Street

Mobile, AL 36603

Attention: Maxey Roberts

With a copy to:

Jones, Walker, Waechter, Poitevent, Carrère & Denègre, L.L.P.

254 State Street

Mobile, Alabama 36603 Attention: Ronald A. Snider Seller:

University of South Alabama

307 University Boulevard

AD140

Mobile, Alabama 36688-0002 Attention: Jean Walker Tucker

With a copy to:

Douglas L. Anderson Burr & Forman LLP RSA Tower, Suite 22200 11 North Water Street Mobile, Alabama 36602

Any party may change the address to which its notices are sent by giving the other party written notice of any such change in the manner provided in this Section, but notice of change of address is effective only upon receipt.

- 10.04 Entire Agreement. This Agreement, including its exhibits, embodies and constitutes the entire understanding among the parties with respect to the transaction contemplated herein, and all prior or contemporaneous agreements, understandings, representations and statements, oral or written, are merged into this Agreement. Neither this Agreement nor any provision hereof may be waived, modified, amended, discharged or terminated except by an instrument in writing signed by the party against which the enforcement of such waiver, modification, amendment, discharge or termination is sought, and then only to the extent set forth in such instrument.
- 10.05 Exclusive Dealing. While this Agreement is in effect, Seller and its brokers, agents, and affiliates may not, directly or indirectly, solicit, initiate or encourage inquiries or proposals with respect to the Property from any party other than Buyer (each, a "Third Party") with respect to, or furnish any information to any Third Party relating to, or participate in any negotiations or discussions with any Third Party concerning, any acquisition of an interest in or lease of the Property, without Buyer's prior written consent.
- 10.06 <u>Applicable Law</u>. This Agreement shall be governed by and construed in accordance with the laws of the State of Alabama. The parties hereby consent to jurisdiction and venue in Mobile County, Alabama, and agree that such jurisdiction and venue shall be sole and exclusive for any and all actions or disputes related to this Agreement or any related instruments.
- 10.07 <u>Survival</u>. All provisions of this Agreement which, by their express terms survive termination of this Agreement, shall survive termination of this Agreement and, if this Agreement is not terminated, shall survive the Closing for the longest periods allowed by applicable law. Articles VII and VIII shall likewise survive termination of this Agreement and, if this Agreement is not terminated, shall survive the Closing for the longest periods allowed by applicable law.
- 10.08 <u>Headings</u>. Descriptive headings are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

- 10.09 <u>Binding Effect</u>. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their heirs, personal representatives, successors and assigns (subject, however, to the restrictions of Section 10.01).
- 10.10 <u>Deemed Donation</u>. If this Agreement terminates prior to Closing, Buyer shall deem all due diligence expenses incurred by Buyer prior to the termination as a donation to Seller and shall send Seller a donation letter summarizing such expenses. Buyer shall also deliver to Seller all documents generated by Buyer's due diligence, i.e., surveys, environmental studies, etc.
- 10.11 <u>Counterparts</u>. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original instrument, but all such counterparts together shall constitute one and the same instrument.
- 10.12 <u>Interpretation</u>. Whenever the context hereof shall so require, the singular shall include the plural, the male gender shall include the female gender and neuter and vice versa. This Agreement and any related instruments shall not be construed more strictly against one party than against the other by virtue of the fact that initial drafts were made and prepared by counsel for one of the parties, it being recognized that this Agreement and any related instruments are the product of extensive negotiations between the parties hereto and that both parties hereto have contributed substantially and materially to the final preparation of this Agreement and all related instruments. The word "day" as used in this Agreement shall mean and refer to a calendar day unless otherwise expressly stated.
- 10.13 <u>Severability</u>. In case any one or more of the provisions contained in the Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.
- 10.14 <u>Time of Essence</u>. Time is of the essence of each and every term, provision and covenant of this Agreement. All time periods expressed as days shall be computed in calendar days. The expiration of any period of time prescribed in this Agreement shall occur at 5:00 p.m. (Central time) of the last day of the period. Should any period of time specified herein end on a Saturday, Sunday or legal holiday (recognized in Mobile County, Alabama); the period of time shall automatically be extended to 5:00 p.m. of the next full business day.
- 10.15 <u>Authority of Parties</u>. Seller and Buyer represent to each other that each has full power and authority to enter into and perform this Agreement, all related instruments and the documentation contemplated hereby and thereby in accordance with their respective terms and that the delivery and performance of this Agreement, all related instruments and the documentation contemplated hereby and thereby has been duly authorized by all necessary action.
- 10.16 No Waiver. Neither the failure of either party to exercise any power given such party hereunder or to insist upon strict compliance by the other party with its obligations

hereunder, nor any custom or practice of the parties at variance with the terms hereof shall constitute a waiver of either party's right to demand exact compliance with the terms hereof.

10.17 Execution Date. The Execution Date of this Agreement shall be the date on which the last of Seller and Buyer shall sign and return the same to the other party and shall be so stated on the initial page of this Agreement. This Agreement shall be null and void if not executed by Seller and Buyer and counterpart executed originals exchanged on or before ________, 2010.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year set forth below.

SELLER:

UNIVERSITY OF SOUTH ALABAMA, a public body corporate created by act of the Alabama Legislature

By:
Name:
Title:
Dated:, 2010
BUYER
UNIVERSITY OF SOUTH ALABAMA FOUNDATION, an Alabama not-for-profit corporation
By: Name:
Title:
Dated:, 2010

LIST OF EXHIBITS

Exhibit "A" - Legal Description of Land

Exhibit "B" - Leases

Exhibit "C" - Note

Exhibit "D-1" - Improvements Deed

Exhibit "D-2" – Closing Deed

EXHIBIT A LEGAL DESCRIPTION OF LAND

Exhibit A

Those certain tracts of land in Mobile County, Alabama, described as:

AREA 1

Commencing at a point on the mean low water line of Mobile Bay, said point being at local coordinate position South 11,682.52 feet, East 4303.43 feet; thence running along the following traverse:

S79° 10' W 466.11 feet;

N40° 49' 50" W 784.85 feet;

NO20 08' 20" W 376.51 feet;

N87° 45' 40" E 206.45 feet;

NO3^o 34' 20" W 300.92 feet;

\$88° 57' 40" W 840.31 feet;

NOO 39' 39" E 706.85 feet:

 $N00^{\circ}$ 40' 41" E 1013.55 feet to the point of beginning of property herein described;

thence continue $N00^{\circ}$ 40 $^{\circ}$ 41 $^{\circ}$ E a distance of 4730.46 feet to a point;

run thence N52° 52' 10" E a distance of 1103.06 feet to a point on the mean low water line of Mobile Bay;

run thence S44° 19' E along the said mean low water line a distance of 463.10 feet to a point;

run thence 504° 15' W along the said mean low water line a distance of 300.00 feet to a point;

run thence S53° 57' 30" E along the said mean low water line a distance of 664.96 feet to a point;

run thence 558° 32' E along the said mean low water line a distance of 946.31 feet to a point;

Contract No. SA-IV-404

AREA 1 (Cont.)

run thence S51 00' E'along the said mean low water line a distance of 236.00 feet to a point;

run thence $S02^{\circ}$ 08' 30" E along the said mean low water line a distance of 205.26 feet to a point;

run thence SO40 00' 30" E along the said mean low water line a distance of 1097.40 feet to a point;

run thence S33° 59' W along the said mean low water line a distance of 1693.48 feet to a point;

run thence $N89^{\circ}$ 40'28" W a distance of 948.20 feet to a point;

rum thence S53⁰ 18' 32" W a distance of 550.00 feet to a point;

run thence $S19^{0}$ 11' 28" E a distance of 380.00 feet to a point;

run thence S53° 03' 32" W a distance of 568.65 feet to a point;

run thence N890 38' 49" W a distance of 192.41 feet to a point of beginning.

Containing 236.21 Acres, more or less.

AND

AREA 2 PARCEL 1

Commencing at a point on the mean low water line of Mobile Bay, said point being at local coordinate position South, 11,682.52 feet, East 4303.43; thence running along the following traverse:

879° 10' W 466.11 feet;

N40° 49' 50" W 784.85 feet;

NO20 08' 20" W 376.51 feet;

N87° 45' 40" E 206.45 feet;

NO30 34' 20" W 300.92 feet:

S88° 57' 40" W 840.31 feet;

NOOO 39' 39" E 706.85 feet to the point of beginning of property herein described;

run thence $N00^{\circ}$ 40' 41" E a distance of 1013.55 feet to a point;

rum thence S89° 38' 49" E a distance of 107.41 feet to a point;

run thence 800° 21' 11" W a distance of 1008.42 feet to a point;

Contract No: SA-IV-404

AREA 2 PARCEL 1 (Cont.)

run thence 587° 45' 41" W a distance of 113.31 feet to the point of beginning.

Containing 2.71 Acres, more or less.

AND

AREA 2 PARCEL 3

Commencing at a point on the mean low water line of Mobile Say, said point being at local coordinate position South 11,682.52 feet, East 4303.43 feet; thence running along the following traverse:

S79° 10' W 466.11 feet;

N40° 49' 50" W 784.85 feet;

NO20 08' 20" W 376.51 feet;

N87° 45' 40" E 206.45 feet;

NO30 34' 20" W. 300.92 feet;

\$88° 57' 40" W 840.31 feet;

NOOO 39' 39" E 706.85 feet;

MATOUS UNBTO 45' 41" E 1047.79 feet to the point of beginning of property herein described;

run thence $N00^{\circ}$ 39' 15" E a distance of 754.63 feet to a point;

run thence $N05^{\circ}$ 20' 39" E a distance of 1249.35 feet to a point;

run thence S890 40' 28" E a distance of 751.28 feet to the mean low water line of Mobile Bay;

WRONG

run thence S33° 59' W along said mean low water line a _ _ Z distance of 211.01 feet to a point;

run thence S29° 56' 30" W along said mean low water line a distance of 900.67 feet to a point;

run thence ${\rm S02}^{\rm O}$ 16'W along said mean low water line a distance of 1030.81 feet to a point;

run thence 587° 45' 41" W a distance of 268.47 feet to the point of beginning.

Containing 17.80 Acres, more or less.

AND

AREA 3

Beginning at a point on the present mean low water line of Mobile Bay, said point being at local coordinate position South 11,682.52 feet, East 4303.43 feet;

Contract No. SA-IV-404

AREA 3 (Cont.)

run thence 879° 10' W a distance of 466.11 feet to a point; run thence 840° 49' 50" W a distance of 784.85 feet to a point;

run thence NO2^O 08' 20" W a distance of 376.51 feet to a point;

run thence N87 45' 40" E a distance of 206.45 feet to a point;

run thence $N03^{\circ}$ 34' 20" W a distance of 300.92 feet to a point;

run thence 588° 57' 40" W.a distance of 840.31 feet to a point;

run thence $N00^{\circ}$ 39' E a distance of 706.85 feet to a point; 5-7

run thence N37 45' 41" E a distance of 1316.26 feet to a point on the present mean low water line of Mobile Bay;

run thence Southwardly along the said mean low water line along the following traverse:

S02° 16' W 918.95 feet;

S14° 11' 20" E 772.63 feet;

S32° 21' E 320.60 feet to the point of beginning.

Containing 36.69 Acres, more or less.

Area 4

COMMENCE at a point on the mean low water line of Mobile Bay, said point being at local coordinate position South 11,682.52 feet, East 4303.43 feet; thence run along the following traverse: S 79°10' W 466.11 ft.; N 40°49'50" W 784.85 ft.; N 02°08'20" W 376.51 ft.; N 87°45'40" E 206.45 ft.; N 03*34'20" W 300.92ft., 8 88*57'40" W 840.31 ft., N 00*39'39" E 706.85 ft., N 87* 45'41" E 113.31 ft. to the point of beginning of property herein described; run thence N 00°21'11" E a distance of 1008.42 ft. to a point; run thence S 89"38'49" E a distance of 85.00 ft. to a point; run thence N 53°03'32" E a distance of 568.65 feet to a point; run thence N 19°11'28" W a distance of 380.00 feet to a point; run thence N 53°18'32" E a distance of 550.00 feet to a point; run thence S 89°40'28" E a distance of 196.92 feet to a point; run thence S 05°20'39" W a distance of 1249.35 feet to a point; run thence S 00°39'15" W a distance of 754.63 feet to a point; run thence S 87"45'41" W a distance of 934.48 feet to the point of beginning, containing 33.70 acres.

EXHIBIT B LEASES

EXHIBIT B

LEASES

- 1. That certain lease dated as of September 30, 2008 and expiring on November 30, 2011, entered into by and between the University of South Alabama, as lessor, and the State of Alabama, State Department of Education, as lessee, as amended by that certain lease amendment no. 2 dated as of April 1, 2010, entered into by and between the University of South Alabama, as lessor, and the State of Alabama, State Department of Education, as lessee;
- 2. That certain lease dated as of July 22, 2009 and expiring on September 30, 2010, entered into by and between the University of South Alabama, as lessor, and the Alabama Department of Environmental Management, as lessee;
- 3. That certain lease dated as of July 22, 2009 and expiring on September 30, 2010, entered into by and between the University of South Alabama, as lessor, and the Auburn University Marine Extension, as lessee;
- 4. That certain lease dated as of August 1, 2009 and expiring on July 31, 2010, entered into by and between the University of South Alabama, as lessor, and Brent R. Murrill, as lessee;
- 5. That certain lease dated as of August 11, 2009 and expiring on September 30, 2010, entered into by and between the University of South Alabama, as lessor, and the State Oil and Gas Board of Alabama, as lessee;
- 6. That certain lease dated as of September 1, 2009 and expiring on December 31, 2010, entered into by and between the University of South Alabama, as lessor, and the Alabama Department of Public Health, Bureau of Environmental Services, Division of Food, Milk and Lodging;
- 7. That certain lease dated as of March 1, 2010 and expiring on February 28, 2011, entered into by and between the University of South Alabama, as lessor, and Janice T. Wayne, as lessee;
- 8. That certain lease dated as of March 1, 2010 and expiring on February 28, 2011, entered into by and between the University of South Alabama, as lessor, and Shirley Williams, as lessee;

9.	That certain lease dated as of March 12, 2010 and expiring on March 11, 201	1,
	entered into by and between the University of South Alabama, as lessor, and	
	, as lessee;	

- 10. That certain lease dated as of March 19, 2010 and expiring on March 31, 2011, entered into by and between the University of South Alabama, as lessor, and the National Estuary Program, as lessee; and
- 11. That certain lease dated as of April 1, 2010 and expiring on March 31, 2011, entered into by and between the University of South Alabama, as lessor, and Robert D. Speed, as lessee.

EXHIBIT C PROMISSORY NOTE

EXHIBIT C

PROMISSORY NOTE

TROMISSORT NOTE
\$16,000,000, 2010
FOR VALUE RECEIVED, the undersigned, an Alabama
Maker will pay the principal balance to University in four (4) annual installments in the amount of \$4,000,000 each, commencing on, 2011 and continuing on the same day of every year thereafter, with the final installment being due and payable on the Scheduled Maturity Date. All sums payable hereunder shall be payable in lawful money of the United States of America which shall be legal tender in payment of all debts and dues, public and private, at the time of payment. Unless otherwise required by the laws of the State of Alabama, payments will be applied as follows: each payment will be applied first to accrued but unpaid default expenses (if any), second to the accrued but unpaid default interest (if any), and then to principal. Prepayments of principal will be applied to installments due in the order of their maturity.
This Promissory Note is secured by a vendor's lien reserved in that certain Special Warranty Deed with Reservation of Vendor's Lien and Reservation of Surface Easement dated as of the date hereof by University, as grantor, to Maker, as grantee.
If any default is made in the payment of the principal balance of this Promissory Note and the default continues for a period of 5 business days after written notice of such default is received by Maker, then and in such event from and after the date of default, the principal balance of this Promissory Note shall bear interest at the annual rate equal to ten percent (10%) or the maximum rate of interest permitted by the laws of the State of Alabama, whichever is less, until paid.
The privilege is reserved to Maker to prepay the indebtedness evidenced hereby, in whole or in part, at any time or times without penalty or premium. Maker shall be obligated to prepay the indebtedness evidenced by this Promissory Note in accordance with Section 2.03 of that certain, 2010 Purchase and Sale Agreement between University and the University of South Alabama Foundation ("Foundation"). Maker shall have no other obligation to make any prepayments.

If, after default hereunder by Maker, counsel is employed to collect this obligation, Maker hereby agrees to pay the reasonable attorneys' fees, whether suit be brought or not, and all other costs and expenses incurred by University in collection of this Promissory Note, and in all litigation and appeals concerning this Promissory Note.

All notices hereunder shall be given in writing, and shall be deemed given if and when mailed by first class certified or registered mail, return receipt requested, with proper postage prepaid, addressed to Maker, c/o University of South Alabama Foundation, 211 North Conception Street, Mobile, Alabama, 36603, Attention: Maxey Roberts, and addressed if to University at the address for University where payments are to be made or in either case to such other address as either party may from time to time designate to the other by like written notice given at least seven (7) days prior to the date such change of address becomes effective.

In case any provision (or any part of any provision) contained in this Promissory Note shall for any reason be finally held by a court of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision (or remaining part of the affected provision) of this Promissory Note; and this Promissory Note shall be construed as if such invalid, illegal or unenforceable provision (or part thereof) had never been contained herein, but only to the extent it is invalid, illegal or unenforceable.

The validity and construction of this Promissory Note and all matters pertaining thereto are to be determined and construed according to the laws of the State of Alabama.

This Promissory Note is non-negotiable and may not be transferred or assigned, in whole or in part, by University. Maker and all endorsers and other parties liable under this Promissory Note hereby waive presentment, protest, notice of dishonor and of protest, demand, notice of non-payment of this Promissory Note, and expressly agree that this Promissory Note or any payment hereunder may be extended from time to time by University without in any manner affecting the liability of Maker or any such other party.

IN WITNESS WHEREOF, Maker has duly executed this Promissory Note as of the day and year first above written.

MAKER:		
an Alabama		
D		
By:	 	
Name:	 	
Its:		

EXHIBIT D-1

SPECIAL WARRANTY DEED AND BILL OF SALE

"IMPROVEMENTS DEED"

EXHIBIT D-1

SPECIAL WARRANTY DEED AND BILL OF SALE

STATE OF ALABAMA

COUNTY OF MOBILE

I. SALE OF THE PROPERTY

1.01 The Sale.

KNOW ALL MEN BY THESE PRESENTS, that for and in consideration of the sum of One Hundred and No/100 Dollars (\$100.00), the receipt and sufficiency of which is hereby acknowledged, University of South Alabama, a public body corporate created by act of the Alabama Legislature, Ala. Code §§ 16-55-1(et. seq.) (1975) (hereinafter, the "Grantor") does hereby grant, bargain, sell, and convey unto ________, an Alabama ________ (hereinafter, the "Grantee"), its successors and assigns, in fee simple, the following property rights and improvements (the "Property") located on or related to that certain parcel of real property fronting Mobile Bay in Mobile County, Alabama, and more particularly described on Exhibit "A" attached hereto (the "Land"), to-wit:

- (a) any and all buildings and other improvements located on the Land, including, without limitation the buildings, improvements and golf course located on the Land (collectively, the "Building and Improvements");
- (b) any and all leases, licenses or other occupancy agreements affecting or otherwise related to the Buildings and Improvements, including, without limitation, those agreements described on Exhibit "B" attached hereto and made a part hereof (collectively, the "Leases");
- (c) any of Grantor's licenses and permits necessary for the ownership, operation and maintenance of the Buildings and Improvements; and
 - (d) all fixtures located on or in the Land, Buildings and Improvements.

Items (a), (b), (c), and (d) being collectively, the "Property."

1.02 <u>Warranties</u>. Except for the warranty set forth in Section 1.03 below, no express, statutory, or implied warranty or representation of any kind is made by Grantor, including warranties or representations relating to (i) Grantor; (ii) title of Grantor in and to the Property (except as set forth in Section 1.03 below); (iii) the condition of the Property; (iv) any implied or express warranty of merchantability of the Property; (v) any implied or express warranty of the fitness of the Property for a particular purpose; (vi) any implied or express warranty of conformity to models or samples of materials; (vii) any and all other implied warranties existing under applicable law now or hereafter in effect; or (viii) any implied or express warranty regarding compliance with any applicable laws.

- 1.03 <u>Statutory Warranty</u>. Subject to the Permitted Exceptions (as listed on <u>Exhibit "D"</u>), Grantor will warrant and forever defend the right and title to the Property unto Grantee against the claims of those persons, whomsoever claiming by, through or under Grantor, but not otherwise. Reference to a Permitted Exception is for informational purposes only and does not constitute an acknowledgment that any such Permitted Exception has ever affected, or continues to affect, the Property. The conveyance of the Property to Grantee is made with full substitution and subrogation in and to any and all of the rights, title, interest and actions of warranty which Grantor has, or may have, against all preceding owners or vendors.
- TO HAVE AND TO HOLD the Property, together with, all and singular, the rights, privileges, tenements, improvements, hereditaments, easements, and other rights thereunto appertaining, unto the Grantee, its successors and assigns, in fee simple.

II. MISCELLANEOUS PROVISIONS

- 2.01 <u>Closing Date</u>. This Statutory Warranty Deed and Bill of Sale (this "<u>Deed</u>") shall be effective as of ______, 20__ (the "<u>Closing Date</u>").
- 2.02 <u>Purchase Agreement</u>. This Deed is made in connection with that certain Agreement of Purchase and Sale dated _______, 2010 by and between Grantor, as seller, and Grantee as assignee of the University of South Alabama Foundation (the "<u>Purchase Agreement</u>"). In the event of any conflict between this Deed and the Purchase Agreement, this Deed shall govern and control.
- 2.03 <u>Applicable Law</u>. This Deed shall be governed by and construed in accordance with the laws of the State of Alabama. The parties hereby consent to jurisdiction and venue in Mobile County, Alabama, and agree that such jurisdiction and venue shall be sole and exclusive for any and all actions or disputes related to this Agreement or any related instruments.
- 2.04 <u>Headings</u>. Descriptive headings are for convenience only and shall not control or affect the meaning or construction of any provision of this Deed.
- 2.05 <u>Binding Effect</u>. This Deed shall be binding upon and shall inure to the benefit of the parties hereto and their heirs, personal representatives, successors and assigns.
- 2.06 <u>Counterparts</u>. This Deed may be executed in any number of counterparts, each of which shall be deemed to be an original instrument, but all such counterparts together shall constitute one and the same instrument.
- 2.07 <u>Interpretation</u>. Whenever the context hereof shall so require, the singular shall include the plural, the male gender shall include the female gender and neuter and vice versa. This Deed and any related instruments shall not be construed more strictly against one party than against the other by virtue of the fact that initial drafts were made and prepared by counsel for one of the parties, it being recognized that this Deed and any related instruments are the product of extensive negotiations between the parties hereto and that both parties hereto have contributed substantially and materially

to the final preparation of this Deed and all related instruments. The words "day" as used in this Agreement shall mean and refer to a calendar day unless otherwise expressly stated.

- 2.08 <u>Severability</u>. In case any one or more of the provisions contained in this Deed shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof, and this Deed shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.
- 2.09 <u>No Waiver</u>. Neither the failure of either party to exercise any power given such party hereunder or to insist upon strict compliance by the other party with its obligations hereunder, nor any custom or practice of the parties at variance with the terms hereof shall constitute a waiver of either party's right to demand exact compliance with the terms hereof.
- 2.10 <u>Taxes</u>. All real estate taxes and personal property taxes and assessments (general and special), if any, with respect to the Property which are due and payable or accrued for periods prior to and including the Closing Date shall be paid by Grantor.
- 2.11 <u>Waiver of Certificates</u>. The Grantor and Grantee hereby acknowledge that the production of mortgage, conveyance, tax, UCC and other certificates procured herein has been waived and do hereby agree to relieve and release the Notary/Notaries before whom this Deed was passed from any and all liabilities in connection therewith. The parties further acknowledge that the undersigned Notary/Notaries have not performed an examination of the title to the Property and express no opinion on the title to the Property.
- 2.12 <u>Covenants Running With Land</u>. This Deed and the rights and obligations of the parties hereto shall run with the land and shall be binding on each party's respective successors and/or assigns in interest.
- 2.13 Waiver. Any party to this Deed may (a) extend the time for the performance of any of the obligations or other acts of the other party, or (b) waive compliance with any of the agreements of the other party or conditions to such party's obligations contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party to be bound thereby. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition of this Deed. The failure of any party hereto to assert any of its rights hereunder shall not constitute a waiver of any of such rights.
- 2.14 <u>Amendments</u>. This Deed may not be amended or modified except by an instrument in writing signed by, or on behalf of, both parties that expressly references the Section(s) of this Deed to be amended.
- 2.15 <u>Grantor's Waiver of Rights</u>. Grantor expressly waives and renounces any vendor's lien, privilege, mortgage or any other right or interest affecting the Property and expressly waives and renounces any right to rescind or dissolve the transfer of the Property conveyed to Transferee on account of non-payment of any obligations owed by Grantee or its affiliates or related entities to

Grantor, or its affiliates, subsidiaries, members, or other related entities, if any, in whole or in part, or on account of the non-fulfillment of any of Grantee's obligations hereunder, under the Purchase Agreement or under any agreement between Grantor, Grantee or University of South Alabama Foundation; and Grantor further warrants that third parties may deal with Grantee free and clear of any vendor's lien or privilege, express or implied, right of rescission, or any other right or interest which may otherwise be deemed to exist in favor of Grantor.

IN WITNESS WHEREOF, the, 20	Grantor has executed this instrument on this the _	day of
	GRANTOR:	
	University of South Alabama	
	By: Name: Its:	
IN WITNESS WHEREOF, the, 20	Grantee has executed this instrument on this the _	day of
	GRANTEE:	
	[]	
	By: Name:	(SEAL)
	Its:	

GRANTOR ACKNOWLEDGEMENT

STATE OF ALABAMA

COUNTY OF MOBILE

I, the undersigned Notary Public in whose name as public body politic crated by an act of the foregoing instrument and who is known to informed of the contents of the instrument, same voluntarily for and as the act of said	Alabama Legis o me, acknowl , he, as such of	of the Univers lature (the "Universedged before me	sity of South Alabama, a ersity"), is signed to the on this day that, being
Given under my hand and notarial	seal this the	day of	, 20
[Affix seal]	NOTARY P	PUBLIC	
My commission expires:			
This instrument prepared by:			
Ronald A. Snider Jones, Walker, Waechter, Poitevent, Carrère & Denègre, L.L.P. Mobile, Alabama 36603			
Grantor's Address:			

GRANTEE'S ACKNOWLEDGEMENT

STATE OF ALABAMA

COUNTY OF MOBILE

I, the undersigned Notary Public in and for said county in said state, hereby certify th	at
, whose name as of, and	as
Given under my hand and notarial seal this the day of, 20	
NOTARY PUBLIC [Affix seal]	
My commission expires:	
This instrument prepared by:	
Ron Snider	
Jones, Walker, Waechter, Poitevent,	
Carrère & Denègre, L.L.P. Mobile, Alabama 36603	
Grantee's Address:	
c/o University of South Alabama Foundation	
254 State Street Mobile, Alabama 36603	

{N2135459.9}

Attention: Maxey Roberts

LIST OF EXHIBITS

Exhibit "A" - Legal Description of Land

Exhibit "B" – Leases

Exhibit "C" - Permitted Exceptions

EXHIBIT D-2

SPECIAL WARRANTY DEED WITH RESERVATION OF VENDOR'S LIEN AND RESERVATION OF SURFACE EASEMENT

"CLOSING DEED"

EXHIBIT D-2

SPECIAL WARRANTY DEED WITH RESERVATION OF VENDOR'S LIEN AND RESERVATION OF SURFACE EASEMENT

STATE OF ALABAMA

COUNTY OF MOBILE

I. SALE OF THE PROPERTY AND EXCLUDED PROPERTY

1.01 The Sale.

KNOW ALL MEN BY THESE PRESENTS, that for and in consideration of the Purchase Price (as defined in Section 1.03) and subject to the Vendor's Lien (as defined in Section 1.03), University of South Alabama, a public body corporate created by act of the Alabama Legislature, Ala. Code §§ 16-55-1 et seq. (hereinafter, the "Grantor"), does hereby grant, bargain, sell, and convey unto ________, an Alabama _________ (hereinafter, the "Grantee"), its successors and assigns, in fee simple, that certain parcel of real property consisting of approximately 311 acres fronting Mobile Bay in Mobile County, Alabama, and more particularly described on Exhibit "A" attached hereto (the "Land"), together with the following (collectively, with the Land, the "Property"), to-wit:

- (a) all and singular the rights and appurtenances pertaining thereto including but not limited to any right, title and interest of Grantor in and to adjacent streets, roads, alleys, easements (other than the Surface Easement, as hereinafter defined) and rights-of-way to the extent that such right, title and interest exist;
 - (b) all accretion, alluvion and sedimentary deposits associated with the Land;
- (c) the mineral rights associated with the Land to the extent owned by Grantor or its affiliates;
- (d) all of Grantor's assignable licenses and permits necessary for the ownership, operation, maintenance or development of the Land, other than those associated with the operation of the Buildings and Improvements (herein defined);
- (e) such other rights, interests and properties as may be specified in this Special Warranty Deed With Reservation of Vendor's Lien And Reservation of Surface Easement (the "Deed") to be sold, transferred, assigned or conveyed by Grantor to Grantee;
- (f) all subsurface improvements such as sewer, drainage, and water lines to the extent owned by Grantor (the "Subsurface Improvements"); and
- (g) all roads, sidewalks, and parking surfaces to the extent owned by Grantor (the "Access Improvements").

- 1.02 The Excluded Property. It is specifically agreed to by Grantor and Grantee that the Property conveyed by Grantor to Grantee shall not include any of the following: (i) any and all buildings and other improvements located on the Land (other than the Access Improvements and the Subsurface Improvements), including, without limitation the buildings, improvements and golf course located on the Land (collectively, the "Buildings and Improvements"); (ii) any and all leases, licenses or other occupancy agreements affecting or otherwise related to the Buildings and Improvements, including, without limitation, those agreements described on Exhibit "B" (collectively, the "Leases"); (iii) any of Grantor's licenses and permits necessary for the ownership, operation and maintenance of the Buildings and Improvements (collectively, the "Licenses and Permits"); (iv) all furniture and readily removed equipment located on or used in connection with the use, maintenance and operation of the Land, Buildings and Improvements (the "Personal Property"), (v) all fixtures located on or in the Land, Buildings and Improvements, and (vi) the Surface Easement (defined hereinafter) (the Surface Easement, together with the Buildings and Improvements, Leases, Licenses and Permits, and the Personal Property, the "Excluded Property"). The Excluded Property shall be reserved by Grantor from the sale evidenced by this Deed and shall remain owned by Grantor subject to the terms and conditions of Article II of this Deed.
- 1.03 <u>Purchase Price and Reservation of the Vendor's Lien</u>. The sale is made and accepted for and in consideration of the price and sum of \$20,000,000 (the "<u>Purchase Price</u>") and other good and valuable consideration, in part payment and deduction whereof the said Grantee has well and truly paid, in ready and current money, the sum of \$4,000,000 to the said Grantor, who hereby acknowledges the receipt thereof and grants full acquittance and discharge therefore.

And for the balance of the Purchase Price amounting to the sum of \$16,000,000, the said Grantee has made and executed one certain promissory note (the "Note"), dated of even date herewith by Grantee as maker and payable to the order of Grantor. The Note is payable in 4 consecutive annual installments of \$4,000,000 each commencing on the first anniversary of the date hereof, with the last installment being due on the fourth anniversary date hereof.

AND NOW, IN ORDER TO SECURE the full and punctual payment of the Note, a vendor's lien (the "Vendor's Lien") on the conveyed Property in favor of Grantor is hereby retained and reserved by Grantor and granted by said Grantee.

THE VENDOR's LIEN is subject to the covenants, conditions, agreements, and provisions set forth below.

(a) That any promise made by Grantee herein to pay money may be enforced by a suit at law, and the security of this Vendor's Lien shall not be waived thereby. As to the debt secured by this Vendor's Lien, the Grantee waives all right of exemption under the laws and Constitution of the State of Alabama and agrees to pay, as permitted by law, a reasonable attorney's fee for collection thereof, which shall be limited by the terms of the instruments of indebtedness secured hereby.

- That it is further agreed that if Grantee shall fail to pay, or cause to be paid, (b) any indebtedness secured by this Vendor's Lien, whether in whole or any portion of the principal sum or any installment due thereon, as they or any of them mature, either by lapse of time or otherwise, in accordance with the agreements and covenants herein contained, then and in that event the whole of said principal sum, with interest thereon, and all other indebtedness hereby secured, shall, at the option of the then holder of said indebtedness, and upon 5 business days advance written notice to Grantee by Grantor, be and become immediately due and payable and Grantor shall have the right to enter upon and take possession of the Property and after, or without, taking such possession of same, sell the Property at public outcry, in front of the courthouse door of the county wherein the Property is located, to the highest bidder for cash, either in person or by auctioneer, after first giving notice of the time, place, and terms of such sale by publication once a week for three (3) consecutive weeks in a newspaper published in said county and, upon the payment of the purchase money, the Grantor or any person conducting said sale for it is authorized and empowered to execute to the purchaser at said sale a deed to the Property. Grantor may bid at such sale and become the purchaser of the Property if Grantor is the highest bidder thereof. The proceeds of any such sale shall be applied first to the expenses incurred in making the sale and in all prior efforts to effect collection of the indebtedness secured by the Vendor's Lien or to enforce or protect the interest of Grantor, including a reasonable attorney's fee, as permitted by law for such services as may be, or have been, necessary in any one or more of the foreclosure of this Vendor's Lien, the collection of said indebtedness, and the pursuit of any efforts theretofore directed to that end, including, but not limited to, the defense of any proceedings instituted by Grantee or anyone liable for said indebtedness or interested in the Property to prevent or delay, by any means, the exercise of said power of sale and the foreclosure of this Vendor's Lien; then to the payment of whatever advances or sums Grantor may have paid out or become liable to pay, in carrying out the provisions of this Section 1.03 together with interest thereon; then to the payment and satisfaction of accrued interest on the principal indebtedness to the day of sale; then to the payment of the principal indebtedness secured hereby and any other indebtedness secured by this mortgage; and the balance, if any, shall be paid over to that entity or entities which may be lawfully entitled to receive the same, including the Grantee, or the Grantee's successors or assigns. In any event, the purchaser under any foreclosure sale, as provided herein, shall be under no obligation to see to the proper application of the purchase money.
- c) That it is the intent of the Grantee and Grantor to only secure the indebtedness evidenced by the Note and any and all extensions or renewals of same; that it is expressly agreed that any indebtedness at any time secured hereby may be extended, rearranged, or renewed, and that any part of the security herein described may be waived or released without in any way altering, varying, or diminishing the force, effect, or lien of the Vendor's Lien; and the Vendor's Lien shall continue as a first lien on all of the Property and not be expressly released until all sums with interest and charges hereby secured are fully paid; and no other security now existing or hereafter taken to secure the payment of said indebtedness or any part thereof shall in any manner be impaired or affected by the execution of this Deed; and no security subsequently taken by Grantor or other holder of said indebtedness shall in any manner impair or affect the security given by the Vendor's Lien; and all security for the

payment of said indebtedness or any part thereof shall be taken, considered and held as cumulative.

- (d) Provided always that if Grantee pays the Note and reimburses Grantor, its successors and assigns, for any amount it may have expended pursuant to the authorization of this mortgage, and shall do and perform all other acts and things herein agreed to be done, the Vendor's Lien shall be null and void and Grantor shall execute any and all releases requested by Grantee to evidence the release of the Vendor's Lien.
- 1.04 <u>Representations</u>. Except for the warranty set forth in Section 1.05 below and those representations and covenants made by Grantor in Section 3.01 of the Purchase Agreement, herein defined (collectively, the "<u>Purchase Agreement Warranties</u>"), which Purchase Agreement Warranties are incorporated herein by reference and shall survive the closing and delivery of this Deed, no express, statutory, or implied warranty or representation of any kind is made by Grantor.
- 1.05 Special Warranty. In addition to the Purchase Agreement Warranties but subject to the Permitted Exceptions (as defined in the Purchase Agreement) listed on Exhibit "C", Grantor will warrant and forever defend the right and title to the Property unto Grantee against the claims of those persons, whomsoever claiming by, through or under Grantor, but not otherwise. Reference to a Permitted Exception is for informational purposes only and does not constitute an acknowledgment that any such Permitted Exception has ever affected, or continues to affect, the Property. The conveyance of the Property to Grantee is made with full substitution and subrogation in and to any and all of the rights, title, interest and actions of warranty which Grantor has, or may have, against all preceding owners or vendors.

TO HAVE AND TO HOLD the Property, together with, all and singular, the rights, privileges, tenements, improvements, hereditaments, easements, and other rights thereunto appertaining, unto the Grantee, its successors and assigns, in fee simple.

II. USE PERIOD AND SURFACE EASEMENT

2.01 <u>Reservation of Surface Easement</u>. Grantor does hereby reserve for itself an easement over the surface of the Land permitting the continued location and use of the Buildings and Improvements on the Land and the use of the Subsurface Improvements and Access Improvements in conjunction with the Buildings and Improvements (collectively, the "<u>Surface Easement</u>").

TO HAVE AND TO HOLD the Surface Easement, together with the right of ingress, egress, and regress over the Property for enjoyment of the Surface Easement, unto Grantor, until the fifth anniversary of the date hereof (the "<u>Use Period</u>"), subject to the terms, conditions and other agreements set forth in this Article II, including the termination rights under Section 2.06. Upon expiration of the Use Period, all rights and interests reserved unto Grantor under the Surface Easement shall revert to and vest in Grantee without further act of the parties hereto, unless required by Section 2.06 hereof.

2.02 <u>Consideration</u>. The consideration for the Surface Easement and all of Grantor's obligations in connection therewith is the conveyance of the Property by Grantor to Grantee and the consideration paid by Grantee to Grantor for the Property.

- 2.03 <u>Delegation of Rights</u>. Grantor may delegate its rights under the Surface Easement to Grantor's affiliates, subsidiaries, employees, licensees, agents, contractors, lessees, invitees and guests (each, a "Related Party" and, collectively, the "Related Parties").
- 2.04 <u>Use Restrictions</u>. The following use restrictions (the "<u>Use Restrictions</u>") shall apply with respect to the Surface Easement and Excluded Property at all times during the Use Period:
- (a) <u>Unrestricted Use and Access</u>. The Surface Easement shall afford unrestricted pedestrian, commercial and non-commercial use, passage, way, ingress and egress, on a twenty-four (24) hour, seven (7) day a week basis, of, over and across the surface of the Land on the Access Improvements that exist on the date hereof in order to facilitate the use, operation and maintenance of the Buildings and Improvements, provided such use is consistent with the Permitted Use (hereinafter defined).
- (b) <u>Permitted Use</u>. From and after the Closing Date up to and through the expiration or early termination of the Use Period pursuant to this Deed, the Excluded Property and Surface Easement (including the Subsurface Improvements and the Access Improvements) (collectively, the "<u>Premises</u>") shall be solely used by Grantor for: (i) the maintenance and operation of the current golf course (the "<u>Golf Course</u>"); (ii) pedestrian/recreational uses; (iii) classroom and administrative uses associated with Grantor's university operations; (iv) residential rentals; (v) office and other commercial or recreational rentals; and (vi) all commercial activities that comply with the remaining Use Restrictions below (collectively, the "<u>Permitted Use</u>").
- (c) New Leases. Without the prior written consent of Grantee, no Leases shall be altered or amended on or after the Closing Date and Grantor shall not enter into any new leases or contracts affecting the Premises without the prior written consent of Grantee, which consent is in Grantee's sole and absolute discretion, that would (i) extend or establish a Lease term beyond the scheduled expiration date of the Use Period or (ii) not include a provision allowing the lessor to terminate on no more than 90 days' notice without payment of a penalty. The Premises shall not be leased or subleased to any person for a Prohibited Use.
- (d) <u>Hazardous Substances</u>. Grantor hereby agrees that (i) no activity will be conducted in, at, on or about the Premises, that will produce any Hazardous Substances (as defined in the Purchase Agreement) except for Hazardous Substances produced in de minimis amounts in strict compliance with applicable laws and regulations; (ii) the Premises will not be used in any manner for the storage of any Hazardous Substances except in strict compliance with applicable laws and regulations; and (iii) Grantor will not permit any Hazardous Substances to be brought onto the Premises except for use ancillary to tenant activities in strict compliance with applicable laws and regulations.
- (e) <u>Taxes</u>. Grantee shall pay and punctually discharge ad valorem taxes and any special governmental assessments on the Property and the Excluded Property (other than the Personal Property) for the period from and after the Closing Date but shall have no liability for such taxes and assessments, if any, accruing with respect to periods prior to the Closing Date. Grantor

shall pay all ad valorem taxes, if any, due with respect to its Personal Property.

(f) <u>Improvements, Repairs and Additions</u>.

- (i) Grantor shall, at its own cost and expense, obtain and maintain all necessary licenses, permits, variances and other approvals to operate and maintain the Premises. Grantor may not construct new improvements on the Land without Grantee's prior written consent and then only in accordance with plans approved by Grantee.
- (ii) Grantor may at any time demolish improvements that are part of the Excluded Property so long as Grantor performs such demolition in accordance with applicable laws and regulations, removes all resulting debris, safely caps off all gas and other utility lines affected, and notifies Grantee at least 30 days in advance of the planned demolition.
- (iii) Upon reasonable notice to the Grantor, Grantee (and any mortgagee of the Premises) will have a right to enter the Premises, including all Buildings and Improvements, at any reasonable time to inspect the condition thereof and for other purposes permitted hereunder.
- (g) Requirements of Public Authority. During the Use Period, Grantor shall, at its own cost and expense, promptly observe and comply with (and cause all Related Parties to observe and comply with) all applicable present and future laws, ordinances and all other requirements of the federal, state governments and of all other governmental authorities affecting the Premises whether the same are in force at the Closing Date or may in the future be passed, enacted or directed.
- (h) <u>Covenants Against Liens</u>. Voluntary or consensual liens granted by the Grantor in any rights reserved to the Grantor pursuant to the terms hereof are strictly prohibited. If any person, firm or corporation files a mechanic's lien or materialmen's lien against the Property, including, without limitation, the Premises or the Grantor's interest therein, Grantor covenants and agrees that it will cause any such lien to be removed, bonded off or discharged of record within 30 days after written notice from Grantee.
- (i) Maintenance of Grounds. During the Use Period, Grantor will, at its own cost and expense, cut the grass, trim trees and shrubs, remove dead trees, and otherwise maintain the landscaping of the Property in accordance with Grantor's customary practices prior to the date hereof (provided, however, that Grantor may abandon the golf course and thereafter maintain the former golf course under the same standards that Grantor maintains the remainder of the Property). During the Use Period, Grantor will, at its own cost and expense to the extent not performed by the applicable utility companies and public authorities, also maintain the Subsurface Improvements and Access Improvements as necessary for the safe use of such by Grantor, Grantor's tenants, and their invitees. Grantor may at any time abandon any such Subsurface Improvements and Access Improvements no longer required by Grantor, Grantor's tenants or their invitees, so long as any utilities are disconnected and the abandonment does not jeopardize the safety of any such persons.
- (j) <u>Utilities</u>. Grantor will, at its own cost and expense, pay for (or cause to be paid) all tap fees, impact fees and the like, and shall pay for all water, sanitary sewer, gas, electricity, heat, light, power, telephone service and other utilities of every kind furnished to and used in the

Property, including, without limitation, the Premises, throughout the Use Period and so long as the Surface Easement remains in effect and will indemnify Grantee from any charge, cost or liability therefore, such payments shall be made directly to the supplier of any utility to the Property, including, without limitation, the Premises.

- 2.05 <u>Conveyance of Excluded Property at end of the Use Period</u>. Grantor shall reserve and retain ownership of the Excluded Property until the expiration or early termination of the Use Period, and, upon the expiration or early termination of the Use Period, title to the Excluded Property, other than the Personal Property, shall be conveyed to Grantee in accordance with the Purchase Agreement.
- 2.06 Evidence of Surface Easement Release. Within 10 days of Grantee's request, Grantor shall execute any partial release of the Surface Easement as Grantee reasonably requests to evidence in the public records the expiration of the Use Period or the exercise of its early termination rights under the Purchase Agreement.

III. <u>MISCELLANEOUS PROVISIONS</u>

- 3.01 <u>Closing Date</u>. This Deed shall be effective as of ______, 2010 (the "<u>Closing Date</u>").
- 3.02 <u>Purchase Agreement</u>. This Deed is made in connection with that certain Agreement of Purchase and Sale dated ______, 2010 by and between Grantor, as seller, and Grantee as assignee of the University of South Alabama Foundation (the "<u>Purchase Agreement</u>"). In the event of any conflict between this Deed and the Purchase Agreement, this Deed shall govern and control.
- 3.03 <u>Applicable Law</u>. This Deed shall be governed by and construed in accordance with the laws of the State of Alabama. The parties hereby consent to jurisdiction and venue in Mobile County, Alabama, and agree that such jurisdiction and venue shall be sole and exclusive for any and all actions or disputes related to this Agreement or any related instruments.
- 3.04 <u>Headings</u>. Descriptive headings are for convenience only and shall not control or affect the meaning or construction of any provision of this Deed.
- 3.05 <u>Binding Effect</u>. This Deed shall be binding upon and shall inure to the benefit of the parties hereto and their heirs, personal representatives, successors and assigns.
- 3.06 <u>Counterparts</u>. This Deed may be executed in any number of counterparts, each of which shall be deemed to be an original instrument, but all such counterparts together shall constitute one and the same instrument.
- 3.07 <u>Interpretation</u>. Whenever the context hereof shall so require, the singular shall include the plural, the male gender shall include the female gender and neuter and vice versa. This Deed and any related instruments shall not be construed more strictly against one party than against the other by virtue of the fact that initial drafts were made and prepared by counsel for one of the parties, it

being recognized that this Deed and any related instruments are the product of extensive negotiations between the parties hereto and that both parties hereto have contributed substantially and materially to the final preparation of this Deed and all related instruments. The words "day" as used in this Agreement shall mean and refer to a calendar day unless otherwise expressly stated.

- 3.08 <u>Severability</u>. In case any one or more of the provisions contained in this Deed shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof, and this Deed shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.
- 3.09 <u>Time of Essence</u>. Time is of the essence of each and every term, provision and covenant of this Deed. All time periods expressed as days shall be computed in calendar days. The expiration of any period of time prescribed in this Deed shall occur at 5:00 p.m. of the last day of the period. Should any period of time specified herein end on a Saturday, Sunday or legal holiday (recognized in Mobile County, Alabama), the period of time shall automatically be extended to 5:00 p.m. of the next full business day.
- 3.10 <u>No Waiver</u>. Neither the failure of either party to exercise any power given such party hereunder or to insist upon strict compliance by the other party with its obligations hereunder, nor any custom or practice of the parties at variance with the terms hereof shall constitute a waiver of either party's right to demand exact compliance with the terms hereof.
- 3.11 <u>Waiver of Certificates</u>. The Grantor and Grantee hereby acknowledge that the production of mortgage, conveyance, tax, UCC and other certificates procured herein has been waived and do hereby agree to relieve and release the Notary/Notaries before whom this Deed was passed from any and all liabilities in connection therewith. The parties further acknowledge that the undersigned Notary/Notaries have not performed an examination of the title to the Property and express no opinion on the title to the Property.
- 3.12 <u>Covenants Running With Land</u>. This Deed and the rights and obligations of the parties hereto shall run with the land and shall be binding on each party's respective successors and/or assigns in interest.
- 3.13 <u>Waiver</u>. Any party to this Deed may (a) extend the time for the performance of any of the obligations or other acts of the other party, or (b) waive compliance with any of the agreements of the other party or conditions to such party's obligations contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party to be bound thereby. Any waiver of any term or condition shall not be construed as a waiver of any subsequent breach or a subsequent waiver of the same term or condition, or a waiver of any other term or condition of this Deed. The failure of any party hereto to assert any of its rights hereunder shall not constitute a waiver of any of such rights.
- 3.14 <u>Amendments</u>. This Deed may not be amended or modified except by an instrument in writing signed by, or on behalf of, both parties that expressly references the Section(s) of this Deed to be amended.

day of	rantor has executed this instrument on this the	IN WITNESS WHEREOF, the, 2010.
	GRANTOR:	
	University of South Alabama	
	By:	
	Name: Its:	
day of	rantee has executed this instrument on this the	IN WITNESS WHEREOF, the , 2010.
	GRANTEE:	
	By:	
	Name: Its:	

GRANTOR ACKNOWLEDGEMENT

STATE OF ALABAMA

COUNTY OF MOBILE

I, the undersigned Notary Public in and for said county in said state, hereby certify that, whose name as of the University of South Alabama, a public body corporate created by act of the Alabama Legislature (the "University"), is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the instrument, he, as such officer and with full authority executed the same voluntarily for and as the act of said University.
Given under my hand and notarial seal this the day of, 2010.
NOTARY PUBLIC
[Affix seal]
My commission expires:
This instrument prepared by:
Ronald A. Snider
Jones, Walker, Waechter, Poitevent,
Carrère & Denègre, L.L.P. Mobile, Alabama 36603
Grantor's Address:

GRANTEE'S ACKNOWLEDGEMENT

STATE OF ALABAMA

COUNTY OF MOBILE

I, the undersigned Notary Public in and for said county in said state, hereby certify that, whose name as of, an Alabama, is signed to the foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the instrument, he, as such officer and with full authority executed the same voluntarily for and as the act of said				
Given under my hand and notarial seal this the day of, 2010.				
NOTARY PUBLIC [Affix seal]				
My commission expires:				
This instrument prepared by:				
Ronald A. Snider Jones, Walker, Waechter, Poitevent, Carrère & Denègre, L.L.P. Mobile, Alabama 36603				
Grantee's Address:				
c/o University of South Alabama Foundation 254 State Street Mobile, Alabama 36603				

Attention: Maxey Roberts

LIST OF EXHIBITS

Exhibit "A" - Legal Description of Land

Exhibit "B" – Leases

Exhibit "C" – Permitted Exceptions

Consolidated Financial Statements as of and for the Years Ended June 30, 2010 and 2009, and Independent Auditors' Report



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Deloitte

Deloitte & Touche LLP Suite 2000 191 Peachtree Street NE Atlanta, GA 30303-1943

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of University of South Alabama Foundation:

We have audited the accompanying consolidated statements of financial position of the University of South Alabama Foundation (the "Foundation") as of June 30, 2010 and 2009, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 Foundation'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 provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Foundation as of June 30, 2010 and 2009, and the related activities and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

August 12, 2010

Peloise & Touche LLP

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2010 AND 2009

(Dollars in thousands)

ASSETS	2	2010	:	2009
CASH AND CASH EQUIVALENTS	\$	868	\$	2,298
INVESTMENTS AT FAIR VALUE: Equity securities Timber and mineral properties Real estate Other		92,053 56,465 8,727 5,535		33,884 50,211 8,573 5,519
OTHER ASSETS		806		527
TOTAL	<u>\$ 26</u>	54,454	\$ 2:	51,012
LIABILITIES AND NET ASSETS				
LIABILITIES: Accounts payable Other liabilities Total liabilities	\$	204 616 820	\$	169 672 841
NET ASSETS: Unrestricted Temporarily restricted Permanently restricted Total net assets		55,627 39,120 68,887	1	55,053 26,295 68,823 50,171
TOTAL	<u>\$ 2</u>	64,454	<u>\$ 2</u>	51,012

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2010

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, LOSSES, AND OTHER SUPPORT: Net realized and unrealized gains				
on investments	\$ 6,110	\$ 12,385	\$ 7	\$ 18,502
Rents, royalties, and timber sales Interest and dividends	4,368 389	1,322	28 6	4,396 1,717
Gifts	22	1	13	14
Other income Required match of donor contributions	23 (11)	1	10	23
Interfund interest	(187)	187		-
Net assets released from program restrictions (Note 8)	1,071	(1,071)		
Total revenues, gains, losses, and other support	11,763	12,825	64	24,652
EXPENDITURES:				
Program services: Faculty support	2,149			2,149
Scholarships Other and device and	1,009			1,009
Other academic programs	1,237			1,237
Total program services	4,395	-	-	4,395
Management and general Other investment expense	1,606			1,606
Depletion expense	1,440 3,695			1,440 3, 6 95
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

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, LOSSES, AND OTHER SUPPORT:				
Net realized and unrealized losses on investments	\$ (24,589)	\$ (10,367)	\$ (114)	\$ (35,070)
Rents, royalties, and timber sales Interest and dividends	5,852 816	1,225	71 10	5,923 2,051
Gifts Required match of donor contributions	5 (13)	6 13	2	13
Interfund interest Transfers Reclassification of net assets	(118) 125	118 (43)	(82)	-
based on change in law Net assets released from program	(1,931)	1,931		-
restrictions (Note 8)	1,327	(1,327)		-
Total revenues, gains, losses, and other support	(18,526)	(8,444)	(113)	_(27,083)
EXPENDITURES:				
Program services: Faculty support Scholarships Other academic programs	2,299 1,065 1,506			2,299 1,065
. 0				1,506
Total program services	4,870	-	-	4,870
Management and general Other investment expense Depletion expense Depreciation expense	1,536 1,675 5,564 49			1,536 1,675 5,564 49
Total expenditures	13,694			13,694
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	\$ 55,053	\$ 26,295	\$ 168,823	\$250,171

FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (Dollars in thousands)

	2010	2009
OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 13,463	\$ (40,777)
Adjustments to reconcile increase (decrease) in net assets to		
net cash (used in) provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(18,502)	35,070
Depletion	3,695	5,564
Depreciation	53	49
Changes in operating assets and liabilities:		
Other assets	(249)	(2)
Accounts payable	35	88
Other liabilities	(56)	27
Net cash (used in) provided by operating activities	(1,561)	19
INVESTING ACTIVITIES:		
Purchase of securities	(819)	(956)
Sale of securities	1,750	2,506
Reforestation of timber property	(180)	(314)
Purchase of timberland	(293)	(190)
Purchase of mineral interest	(225)	` ,
Purchase of furniture, fixtures, and equipment	(102)	(104)
Net cash provided by investing activities	131	942
1		772
NET (DECREASE) INCREASE IN CASH AND CASH		
EQUIVALENTS	(1,430)	961
CASH AND CASH EQUIVALENTS — Beginning of year	2,298	1,337
CASH AND CASH EQUIVALENTS — End of year	\$ 868	\$ 2,298



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009 (Dollars in thousands)

1. ORGANIZATION

The University of South Alabama Foundation (the "Foundation") was incorporated in March 1968 for the purpose of promoting education, scientific research, and charitable purposes and to assist in developing and advancing the University of South Alabama (the "University") in furthering, improving, and expanding its properties, services, facilities, and activities. Revenues are derived principally from investment income.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying consolidated financial statements include the accounts of the Foundation's wholly owned subsidiaries Knollwood Development, Inc., and Shubuta Timber Services, Inc. All significant intercompany transactions have been eliminated in consolidation.

Codification of Accounting Standards — In June 2009, the Financial Accounting Standards Board (FASB) issued guidance now codified as Accounting Standards Codification (ASC) Topic 105, Generally Accepted Accounting Principles, the single source of authoritative nongovernmental accounting principles generally accepted in the United States of America (U.S. GAAP). ASC Topic 105 does not change current GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place (the "Codification"). On the effective date of this statement, the Codification superseded all then-existing non-Securities and Exchange Commission (SEC) accounting and reporting standards, and all other nongrandfathered non-SEC accounting literature not included in the Codification became nonauthoritative. The provisions of ASC Topic 105 are effective for interim and annual periods ending after September 15, 2009. The Foundation adopted ASC 105 as of June 30, 2010. This pronouncement had no effect on the consolidated statement of financial position, statement of activities and changes in net assets, and statement of cash flows, but impacted the financial reporting process by replacing all references to pre-Codification standards with references to the applicable Codification topic.

Net Assets — In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Foundation, the accounts of the Foundation are maintained on the accrual basis in accordance with the principles of "fund accounting." Thus, resources for various purposes are classified into funds that are in accordance with activities or objectives specified. ASC 958, Not-for-Profit Entities, (formerly FASB Statement No. 117, Financial Statements of Not-for-Profit Organizations), requires classification of an organization's net assets and its revenue, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions using three classifications: permanently restricted, temporarily restricted, and unrestricted. These three classifications are defined as follows:

 Permanently restricted net assets contain donor-imposed restrictions that stipulate that resources be maintained permanently, but permit the Foundation to use or expend part or all of the income derived from the donated assets for specified or unspecified purposes.

- Temporarily restricted net assets contain donor-imposed restrictions that permit the Foundation to
 use or expend the donated assets as specified and are satisfied either by the passage of time or by
 actions of the Foundation.
- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired.

The Foundation considers all of its assets to be endowment assets for the support of the University. It therefore classifies all of its assets as, "endowment funds" for purpose of required disclosures for such funds. In the absence of directions imposed by donors to utilize such funds for specific programs or purposes at the University, the Foundation classifies the net assets of such funds as "unrestricted."

The Foundation adopted FASB Staff Position (FSP) Financial Accounting Standards (FAS) 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds, for the fiscal year ended June 30, 2009. FSP FAS 117-1 (now codified in ASC 958-205) provides guidance on the net asset classification of donor-restricted funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 and requires additional disclosures as presented in Note 5. Adoption of FSP FAS 117-1 resulted in the transfer of \$1,931 in assets that lack explicit donor-stipulated time restrictions from unrestricted net assets to temporarily restricted net assets until such time that these assets are appropriated for expenditure by the Board of Directors.

Support and Expenses — Contributions received and unconditional promises to give are measured at their fair values and are reported as increases in net assets at the date of receipt. The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor restriction expires, i.e., when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from program restrictions.

The Foundation sometimes receives restricted contributions that are conditional on the Foundation matching the contribution. Upon approval of the Board of Directors, such matches are reported as a reclassification of unrestricted net assets to restricted net assets.

Cash Equivalents — The Foundation considers temporary cash investments with an original maturity date of three months or less when purchased to be cash equivalents. The carrying amounts reported in the accompanying consolidated statements of financial position for cash and cash equivalents approximate their fair value.

Investments in Securities — Investments in marketable equity securities with readily determinable fair market values are maintained and administered in a common pool and are recorded at fair value based on quoted market prices of each security in the accompanying consolidated statements of financial position. Separate accounts are maintained for each fund, as applicable.

Investments in Commonfund — The Commonfund for Nonprofit Organizations ("Commonfund") is a membership corporation that operates endowment funds for the exclusive benefit of institutions eligible for membership in the Commonfund. The Foundation holds investments in the Multi-Strategy Equity Fund and the International Equity Fund of the Commonfund. The objective of the Multi-Strategy Equity Fund is to offer an investment in a single fund to provide all of the strategy and manager diversification that an endowment would normally require for equity allocation. The fund is designed to add value over long periods of time and to reduce volatility. The investment objective of the International Equity Fund is to seek to diversify a U.S. equity portfolio with equity investments in companies domiciled abroad.

The Foundation's units in the Multi-Strategy Equity Fund and the International Equity Fund are valued at their unit values as determined by Commonfund. Commonfund generally determines the unit values of each of its funds by reference to the fair values of the underlying investments, the majority of which consists of exchange-traded equity securities. Further information about Commonfund's valuation procedures are as follows:

In the Multi-Strategy Equity Fund and the International Equity Fund, as managed by the Commonfund, equity securities listed on securities exchanges are valued at the last sale price except for those securities reported through the National Association of Securities Dealers Automated Quotation (NASDAQ) system, for which the NASDAQ official closing price is used. In the absence of either, the current bid price is used. Unlisted securities are valued at the current bid prices obtained from reputable brokers. Certain investments held by the funds may be traded by a market maker who may also be utilized to provide pricing information used to value such investments. Investments in units of other funds within Commonfund (known as crossfund investments) are carried at the unit value of the crossfund investment.

In these funds, investments in limited partnerships and other investment funds are valued at fair value, which is generally the latest net asset value made available by the fund manager or administrator prior to the valuation date. Other securities that are not readily marketable are also valued at fair value as deemed appropriate by management of Commonfund in consultation with the respective investment manager, with consideration given to the financial condition and operating results of the issuer, meaningful third-party transactions in the private market, and other factors deemed relevant. The amounts realized upon disposition of these investments may differ from the value reflected in the consolidated financial statements and the differences could be material.

Timber — Timber and timberlands, including logging roads, are stated at fair value, based on an independent appraisal, derived from the application of the cost approach, the sales comparison approach, and the income capitalization approach, less the accumulated depletion for timber when harvested. The Foundation capitalizes timber and timberland purchases and reforestation costs and other costs associated with the planting and growing of timber, such as site preparation, seedling purchases, planting, herbicide application, and thinning of tree stands to improve growth. Timber costs, such as real estate taxes, forest management personnel salaries and fringe benefits, and other costs related to the timberlands, are expensed as incurred.

Timber sale revenues for clear-cut or lump-sum sales are recognized when legal ownership or the risk of loss transfers to the purchaser of the timber. Timber deeds set forth the legal rights and responsibilities of the buyer, and at closing the full amount of the sale is due and payable and recognized at that time. Revenues from thinning of tree stands to improve growth are recognized as revenue as the buyer harvests the timber that is to be thinned. Timberland depletion is calculated on a unit cost basis and recognized when the related revenue is recognized.

Mineral Properties — Mineral properties are stated at estimated fair market value as determined by independent appraisals. Depletion of mineral properties is recognized over the remaining producing lives of the properties based on total estimated production and current-period production.

Real Estate — Real estate held for investment is stated at its estimated fair value based on independent appraisals.

Common Investment Pool — On June 5, 2006, the board of directors of the Foundation approved the establishment of a new investment pool, which consists of (1) all marketable equity securities held by the Foundation and (2) the Foundation's interest in land and timber, consisting of approximately

55,600 acres of timberland, known as the Equitable Tract, which the Foundation acquired in 1997 with financing that was provided, in part, from the Disproportionate Share Hospital Funds to the Foundation's Equitable Timber Fund.

Investment Income — Investment income or loss (including gains and losses on investments, interest, dividends, rents, royalties, and timber sales) is included in the accompanying consolidated statements of activities and changes in net assets as increases or decreases in unrestricted net assets, unless the income or loss is restricted by donor or law, in which case it is classified as temporarily or permanently restricted, as appropriate. Interfund interest is recorded at prevailing market rates on loans between funds to maintain the integrity of each fund's net assets.

Income Tax Status — The Internal Revenue Service has determined that the Foundation is a tax-exempt organization under Internal Revenue Code Section 501(c)(3).

Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Foundation's investments include marketable equity securities valued by reference to quoted market prices, investments in Commonfund portfolios valued at unit values based on the fair values of underlying investments and timberland, mineral properties, and other real estate valued by appraisals. Such assets are subject to fluctuation in value due to normal market volatility and to estimation risk in the case of assets for which quoted market values are not available. The values ultimately realized by the Foundation for all such assets may be different from the values reported and these fluctuations may impact the Foundation's consolidated financial statements.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS AND OTHER INVESTMENTS

The following methods and assumptions were used by the Foundation in estimating the fair value of its investments:

- Cash and cash equivalents: The carrying amount reported in the accompanying consolidated statements of financial position for cash and cash equivalents approximates their fair value.
- Equity securities include investments in marketable equity securities and investments in Commonfund.

Marketable Equity Securities: Fair values are based on quoted market prices of each security with readily determinable fair values. The Foundation's investment in marketable equity securities was \$39,094 and \$35,358 at June 30, 2010 and 2009, respectively.

Investments in Commonfund: Fair values are based on unit values, as determined by Commonfund. As more fully described in Note 2, Commonfund determines unit values for each of its portfolios based on the fair values of the underlying assets. The Foundation's investment in Commonfund portfolios was \$52,959 and \$48,526 at June 30, 2010 and 2009, respectively.

- Timber, mineral properties, and real estate: Fair values of timberland, mineral properties, and real estate are determined by independent third-party appraisers using standard appraisal practices particular to the investment being appraised.
- Other consists primarily of the Foundation's interest in the Stallworth Land Company (the "Company"), a timberland management company (see Note 4).

4. INVESTMENTS

Investment income for the years ended June 30, 2010 and 2009, consisted of the following:

	2010	2009
Unrealized gains (losses) Realized gains (losses)	\$ 18,407 <u>95</u>	\$ (32,468) (2,602)
Net realized and unrealized gains (losses) on investments	18,502	(35,070)
Timber sales Rents Royalties	3,646 594 156	5,135 589 199
Rents, royalties, and timber sales	4,396	5,923
Interest and dividends	1,717	2,051
Total investment income	\$ 24,615	\$ (27,096)

Investment-related expenses of \$ 224 and \$214 are included in the Foundation's management and general expenses in the accompanying consolidated statements of activities and changes in net assets for the years ended June 30, 2010 and 2009, respectively.

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

	2010	2009
Land and land improvements — held for investment Building and building improvements — held for investment	\$7,576 1,151	\$7,443 1,130
Total	\$ 8,727	\$ 8,573

Other — Investments at June 30, 2010 and 2009, include an equity interest in a timberland management company. That Company's primary asset consists of timberland. The Foundation's proportionate share of the fair value of that Company is based upon the valuation of the trustee responsible for the management of the Company and the timber valuation. The equity interest resulted from a bequest known as the Stallworth Gift, which was received through bequest and devise under the Will of N. Jack Stallworth.

The Foundation adopted ASC 820, Fair Value Measurements and Disclosures (formerly 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 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 are summarized based on the criteria of ASC 820, at June 30, 2010 and 2009, are as follows:

	Fair Value Measurements at June 30, 2010			
Description	Observable Values Based on Quoted Prices	Other Observable Values	Unobservable Values	Total
Marketable equity securities Timber and mineral properties Real estate Other investments	\$ 39,094 \$ 39,094	\$ 52,959 	\$ - 156,465 8,727 5,535 \$ 170,727	\$ 92,053 156,465 8,727 5,535 \$ 262,780
	Observable	Other	ents at June 30, 2	2009
Description	Values Based on Quoted Prices	Observable Values	Unobservable Values	Total
Marketable equity securities Timber and mineral properties Real estate Other investments	\$ 35,358	\$ 48,526	\$ - 150,211 8,573 5,519	\$ 83,884 150,211 8,573 5,519
	\$ 35,358	\$48,526	\$ 164,303	\$ 248,187

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

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

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

	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) Additions Reforestation Depreciation/depletion	809 190 314 (5,564)	(1,198) 6 (27)	19	(370) 196 314 (5,591)
Ending balance	\$150,211	\$ 8,573	\$ 5,519	\$164,303

5. ENDOWMENT

The Foundation's endowment funds consist of individual funds established for a variety of purposes. Endowment funds include both donor-restricted endowment funds and board-designated endowment funds. As required by U.S. GAAP, net assets associated with endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of the Law

The Foundation conducts the operations of the Foundation in accordance with the Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA), effective January 1, 2009, and continuing thereafter unless otherwise determined by the Foundation. The Board of Directors and management of the Foundation interpret UPMIFA as obligating the Foundation to preserve, as donor-restricted assets, each original gift received by the Foundation as donor-restricted endowment funds. The Foundation, accordingly, classifies each such original gift, and any subsequent gifts, as permanently restricted. The remaining portion of any donor-restricted endowment that is not classified as permanently restricted is classified as temporarily restricted net assets, until such time as any of such remaining portion is appropriated for expenditure. In managing each endowment fund held by it, the Foundation considers, if relevant, the duration and preservation of the fund, the purposes of the Foundation and the fund, general economic conditions, any restrictions imposed by the donor, the possible effect of inflation or deflation, the expected total return from income and appreciation of investments, the other resources of the Foundation, and the investment policy of the Foundation.

Endowment net asset composition at June 30, 2010, by type of fund is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds Board-Designated Endowment Funds	\$31,774 _23,853	\$ 39,120	\$ 168,887	\$ 239,781 23,853
Total	\$ 55,627	\$ 39,120	\$ 168,887	\$ 263,634

Endowment net asset composition at June 30, 2009, by type of fund is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds Board-Designated Endowment Funds	\$31,667 23,386	\$ 26,295	\$ 168,823	\$ 226,785 23,386
Total	\$ 55,053	\$ 26,295	\$ 168,823	\$250,171

Changes in endowment net assets at June 30, 2010, are as follows:

	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	\$ 31,667	\$23,386	\$ 26,295	\$168,823	\$250,171
Investment return:					
Investment income	4,544	236	1,322	34	6,136
Net unrealized and					,
realized gains	5,387	723	12,385	7	18,502
Interfund interest	(193)	6	187		
Total investment					
return	9,738	965	13,894	41	24,638
Gifts			1	13	14
Required match	(11)		1	10	
Net assets released	, ,				
from restrictions	1,569	(498)	(1,071)		
Expenditures	(11,189)				_(11,189)
Net change	107	467	12,825	64	13,463
Ending balance	<u>\$ 31,774</u>	\$23,853	\$ 39,120	\$168,887	\$263,634

Changes in endowment net assets at June 30, 2009, are as follows:

	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	\$ 58,392	\$28,881	\$ 34,739	\$168,936	\$290,948
Investment return: Investment income Net unrealized and	6,069	599	1,225	81	7,974
realized losses Interfund interest	(20,326) (155)	(4,263) <u>37</u>	(10,367) 118	(114)	(35,070)
Total investment return	(14,412)	(3,627)	(9,024)	(33)	(27,096)
Gifts Required match Net assets released	5 (13)		6 13	2	13
from restrictions Reclassification of	3,195	(1,868)	(1,327)		
net assets Transfers Expenditures	(1,931) 125 (13,694)		1,931 (43)	(82)	_(13,694)
Net change	(26,725)	(5,495)	(8,444)	(113)	(40,777)
Ending balance	\$ 31,667	\$23,386	\$ 26,295	\$168,823	\$250,171

Funds With Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the amount classified as permanently restricted. These deficiencies are typically a result of unfavorable market fluctuations. The total amount of deficiencies reported in donor-restricted funds are \$5,675 and \$13,846 as of June 30, 2010 and 2009, respectively. Such deficiencies have been charged to unrestricted net assets reflecting the Foundation's requirement to maintain the original contributed value of the related funds in perpetuity.

6. NATURE AND AMOUNT OF TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2010 and 2009, temporarily restricted net assets were available for the following purposes:

	2010	2009
Instruction	\$ 16,284	\$ 13,960
Hospital, clinics, and related programs	10,091	3,247
College of medicine — other than instruction	6,366	4,786
Student aid	4,022	2,471
Other	2,357	1,831
Total	\$39,120	\$ 26,295

7. NATURE AND AMOUNT OF PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2010 and 2009, only the income from the following permanently restricted net assets was permitted to be used for the purposes indicated:

	2010	2009
Hospital, clinics, and related programs	\$ 131,586	\$131,586
Instruction	19,180	19,176
Student aid	9,158	9,135
College of medicine — other than instruction	2,125	2,456
Other	6,838	6,470
Total	<u>\$ 168,887</u>	<u>\$168,823</u>

8. NET ASSETS RELEASED FROM PROGRAM RESTRICTIONS

Expenses were incurred that met temporary purpose-related restrictions on the use of certain net assets, resulting in a reclassification of net assets from temporarily restricted to unrestricted during the years ended June 30, 2010 and 2009, as follows:

	2010	2009
Instruction College of medicine — other than instruction	\$ 836	\$ 846 94
Student aid Other	142 93	171 216
Total	\$1,071	\$1,327

9. RELATED-PARTY TRANSACTIONS

At June 30, 2010 and 2009, net assets held by the Foundation, irrevocably for the benefit, as determined by the Foundation, of the University's hospitals, clinics, and related programs (Disproportionate Share Hospital Funds), were \$126,163 and \$118,303, respectively.

By a resolution adopted on May 22, 2008, the Foundation approved a contribution to the University in support of the Pediatric Expansion of USA Children's and Women's Hospital in the amount of Twenty Million Dollars (\$20,000), to be given over a seven-year period, to begin in the year of the commencement of the expansion. This contribution was to be disbursed from the Foundation's Disproportionate Share Hospital Funds (the "DSH Funds"), with disbursements being made in accordance with the resolution. To date, the Pediatric Expansion has not commenced, and the DSH Funds are not at their required level to provide funding, and therefore, no disbursement has been made.

By a resolution adopted on May 27, 2010, in an effort to assist the University in furtherance of its tax-exempt purpose and in order to accelerate its provision to support the Pediatric Expansion of USA Children's and Women's Hospital, the Board authorized the Foundation to negotiate an agreement to purchase the Brookley Center campus owned by the University. It is anticipated that the University and the Foundation will enter into an agreement whereby the Foundation will pay the University, in five annual installments of Four Million Dollars (\$4,000) each, a total purchase price of Twenty Million Dollars (\$20,000), with the University to retain title to and use of the improvements situated on the Brookley property for a period of five years, unless the Foundation should exercise its option to prepay the balance of the purchase price and take title earlier. It is further the intention and expectation of the

Board of the Foundation that after it has completed payment of the purchase price, the Foundation would begin funding to the University an annual target distribution of 3% of the net assets of the DSH Funds held by the Foundation, subject to certain financial and other conditions.

10. RETIREMENT PLANS

The Foundation sponsors a contributory defined-contribution retirement plan for certain employees. The Foundation's contributions to the retirement plan were approximately \$128 and \$127 for the years ended June 30, 2010 and 2009, respectively.

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Disproportionate Share Hospital Funds Combined Financial Statements as of and for the Years Ended June 30, 2010 and 2009, and Independent Auditors' Report



DISPROPORTIONATE SHARE HOSPITAL FUNDS TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of University of South Alabama Foundation:

We have audited the accompanying combined statements of financial position of the Disproportionate Share Hospital Funds (the "DSH Funds") of the University of South Alabama Foundation (the "Foundation") as of June 30, 2010 and 2009, and the related combined statements of activities and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 DSH Funds' 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 provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the combined financial position of the DSH Funds at June 30, 2010 and 2009, and the related activities and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

August 12, 2010

Deloise & Journe LLP

DISPROPORTIONATE SHARE HOSPITAL FUNDS COMBINED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2010 AND 2009

(Dollars in thousands)

ASSETS		2010		2009
INVESTMENTS: New Investment Pool—at fair value Real estate RECEIVABLE FROM AFFILIATES	\$	121,990 3,600 573	\$	114,269 3,600 434
TOTAL	<u>\$</u>	126,163	<u>\$</u>	118,303
LIABILITIES AND NET ASSETS				
LIABILITIES	\$		\$	
NET ASSETS: Unrestricted Temporarily restricted Permanently restricted		(15,513) 10,090 131,586		(16,529) 3,246 131,586
Total net assets		126,163		118,303
TOTAL	\$	126,163	<u>\$</u>	118,303

DISPROPORTIONATE SHARE HOSPITAL FUNDS COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2010

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT: Net realized and unrealized gains on investments Interest and dividends Interfund interest	\$ 868 140 21	\$ 5,999 734 111	\$	\$ 6,867 874 132
Total revenues, gains, and other support	1,029	6,844		7,873
EXPENDITURES: Program services: Scholarships Other academic programs Total program services				
Other investment expense	13			13
Total expenditures	13			13
INCREASE IN NET ASSETS	1,016	6,844		7,860
NET ASSETS AT BEGINNING OF YEAR	(16,529)	3,246	131,586	118,303
NET ASSETS AT END OF YEAR	\$ (15,513)	\$ 10,090	<u>\$ 131,586</u>	\$ 126,163

DISPROPORTIONATE SHARE HOSPITAL FUNDS COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT: Net realized and unrealized losses on investments Interest and dividends Interfund interest	\$ (16,679) 1,540 127	\$ (3,244) 267 51	\$	\$ (19,923) 1,807 178
Total revenues, gains, and other support	(15,012)	(2,926)		(17,938)
EXPENDITURES: Program services: Scholarships Other academic programs Total program services				
Other investment expense	12	-		12
Total expenditures	12			12
DECREASE IN NET ASSETS	(15,024)	(2,926)		(17,950)
NET ASSETS AT BEGINNING OF YEAR	(1,505)	6,172	131,586	136,253
NET ASSETS AT END OF YEAR	\$ (16,529)	\$ 3,246	<u>\$ 131,586</u>	\$ 118,303

DISPROPORTIONATE SHARE HOSPITAL FUNDS COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Dollars in thousands)

	2010	2009
OPERATING ACTIVITIES:		
Increase (decrease) in net assets Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:	\$ 7,860	S (17,950)
Net unrealized loss (gain) on investments	(8,154)	16,237
Loss on sale of investments	1,287	3,686
Changes in operating assets and liabilities: Receivable from affiliate	(139)	25
Receivable from armiate	(139)	
Net cash provided by operating activities	854	1,998
INVESTING ACTIVITIES:		
Purchases of securities	(1,017)	(2,141)
Sale of securities	163	143
Net cash used in investing activities	(854)	(1,998)
NET CHANGE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS—Beginning of year		
CASH AND CASH EQUIVALENTS—End of year	\$	



DISPROPORTIONATE SHARE HOSPITAL FUNDS NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

(Dollars in thousands)

1. ORGANIZATION

The University of South Alabama Foundation (the "Foundation" or USAF) was incorporated in March 1968 for the purpose of promoting education, scientific research, and charitable purposes, and to assist in developing and advancing the University of South Alabama (the "University") in furthering, improving, and expanding its properties, services, facilities, and activities. Revenues are derived principally from investment income and contributions.

The Disproportionate Share Hospital Funds (the "DSH Funds") were matching funds disbursed by the Health Care Financing Administration of the United States Department of Health and Human Services to the states through their Medicaid agencies for the purpose of compensating hospitals, such as those operated by the University, that provided medical care and treatment to a disproportionate share of indigent patients in their respective areas.

Access to the DSH Funds for Alabama was made possible by the University of South Alabama Foundation Board, beginning in October 1989, when the Board of the Foundation approved the entry into the matching program. Over a one-year period, the Foundation made a monthly revolving contribution of \$2 million, which yielded approximately \$24 million in federal grant monies. The Board of Trustees of the University adopted a resolution in March 1990, authorizing the transfer of the DSH Funds to the Foundation to be held by it to preserve and ensure the continued viability of the University of South Alabama Hospitals ("University Hospitals") and their overall mission.

Litigation relating to the transfer of the DSH Funds was settled in November 1993, when an agreement was reached among the Department of Examiners of Public Accounts of the State of Alabama, the Board of Trustees of the University, and the Board of Directors of the Foundation, which required that all Medicaid disproportionate share hospital funds received through September 30, 1994, be transferred to the Foundation and held irrevocably for the benefit, as determined by the Foundation, of the University Hospitals and clinics and the other programs of the University that benefit such hospitals and clinics. Further, the agreement recognized the Foundation as the lawful holder and owner of the DSH Funds and that the investment and management of the DSH Funds were solely within the authority of the Foundation's Board.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying combined financial statements include the DSH Funds and Knollwood Development, Inc., a wholly owned subsidiary of the Foundation and an affiliate originally funded by DSH Funds. All significant interfund transactions have been eliminated in combination.

Codification of Accounting Standards—In June 2009, the Financial Accounting Standards Board (FASB) issued guidance now codified as Accounting Standards Codification (ASC) Topic 105, Generally Accepted Accounting Principles ("ASC Topic 105") as the single source of authoritative nongovernmental accounting principles generally accepted in the United States of America (U.S. GAAP). ASC Topic 105 does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place (the "Codification"). On the effective date of this statement, the Codification superseded all then-existing non-Securities and Exchange Commission (SEC) accounting and reporting standards, and all other nongrandfathered non-SEC accounting literature not included in the Codification became nonauthoritative. The provisions of ASC Topic 105 are effective for interim and annual periods ending after September 15, 2009. The Foundation adopted ASC 105 as of June 30, 2010. This pronouncement had no effect on the combined statement of financial position, statement of activities and changes in net assets, and statement of cash flows, but impacted the financial reporting process by replacing all references to pre-Codification standards with references to the applicable Codification topic.

Net Assets—In order to ensure observance of limitations and restrictions placed on the use of the resources available to the DSH Funds, the accounts of the DSH Funds are maintained on the accrual basis in accordance with the principles of "fund accounting." Thus, resources for various purposes are classified into funds that are in accordance with activities or objectives specified. ASC 958 (formerly FASB Statement No. 117, Financial Statements of Not-for-Profit Organizations), requires classification of an organization's net assets and its revenue, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions, using three classifications: permanently restricted; temporarily restricted; and unrestricted. These three classifications are defined as follows:

- Permanently restricted net assets contain donor-imposed restrictions that stipulate that resources be maintained permanently but permit the use or expenditure of part or all of the income derived from the donated assets for specified or unspecified purposes.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the use or expenditure of the donated assets as specified and are satisfied either by the passage of time or by actions of the Foundation.
- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired.

The Foundation adopted FASB Staff Position (FSP) No. FAS 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds (now codified in ASC 958-205), for the fiscal year ending June 30, 2009. FSP No. FAS 117-1 provides guidance on the net asset classification of donor restricted funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 and requires additional disclosures as presented in Note 8. Adoption of FSP No. FAS 117-1 did not have a material impact on the DSH Funds combined financial statements.

Support—Contributions received and unconditional promises to give are measured at their fair values and are reported as increases in net assets at the date of receipt. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is

accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities and changes in net assets as net assets released from restrictions.

Cash Equivalents—Temporary cash investments with an original maturity date of three months or less when purchased are considered to be cash equivalents. The carrying amounts reported in the accompanying combined statements of financial position for cash and cash equivalents approximate their fair value.

Investments in Securities—Investments in equity securities are maintained and administered in a common pool by the Foundation. Amounts presented in these financial statements represent the DSH Funds proportionate share of the Foundation's investments.

Investments in Commonfund—The Commonfund for Nonprofit Organizations ("Commonfund") is a membership corporation that operates investment funds for the exclusive benefit of institutions eligible for membership in the Commonfund. The Foundation holds investments in the Multi-Strategy Equity Fund and the International Equity Fund of the Commonfund. The objective of the Multi-Strategy Equity Fund is to offer an investment in a single fund to provide all of the strategy and manager diversification that an endowment would normally require for equity allocation. The fund is designed to add value over long periods of time and to reduce volatility. The investment objective of the International Equity Fund is to seek to diversify a U.S. equity portfolio with equity investments in companies domiciled abroad.

The Foundation's units in the Multi-Strategy Equity Fund and the International Equity Fund are valued at their unit values as determined by Commonfund. Commonfund generally determines the unit values of each of its Funds by reference to the fair values of the underlying investments, the majority of which consists of exchange-traded equity securities. Further information about Commonfund's valuation procedures follows.

In the Multi-Strategy Equity Fund and the International Equity Fund, as managed by Commonfund, equity securities listed on securities exchanges are valued at the last sale price, except for those securities reported through the National Association of Securities Dealers Automated Quotation System (NASDAQ), for which the NASDAQ Official Closing Price is used. In the absence of either, the current bid price is used. Unlisted securities are valued at the current bid prices obtained from reputable brokers. Certain investments held by the funds may be traded by a market maker who may also be utilized to provide pricing information used to value such investments. Investments in units of other funds within Commonfund (known as "crossfund investments") are carried at the unit value of the crossfund investment.

In these funds, investments in limited partnerships and other investment funds are valued at fair value, which is generally the latest net asset value made available by the fund manager or administrator prior to the valuation date. Other securities that are not readily marketable are also valued at fair value as deemed appropriate by management of Commonfund in consultation with the respective investment manager, with consideration given to the financial condition and operating results of the issuer, meaningful third-party transactions in the private market, and other factors deemed relevant. The amounts realized upon disposition of these investments may differ from the value reflected in the financial statements and the differences could be material.

Investment Income—Investment income or loss (including gains and losses on investments, interest, dividends, rents, royalties, and timber sales) is included in the accompanying combined statement of activities and changes in net assets as increases or decreases in unrestricted net assets,

unless the income or loss is restricted by donor or law, in which case it is classified as temporarily or permanently restricted, as appropriate. Interfund interest is recorded at prevailing market rates on loans between funds to maintain the integrity of each fund's net assets.

Income Allocation—The DSH Funds participate in the New Investment Pool (the "Pool") as described in Note 4. Funds that participate in the Pool, including DSH Funds, receive a monthly allocation of income and loss experienced by the Pool. Allocations made by the Pool to its participants are based on the relative participation levels of investment in the Pool by each participating fund.

Income Tax Status—The Internal Revenue Service has determined that the Foundation is a tax-exempt organization under Internal Revenue Code Section 501(c)(3).

Estimates—The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates. The DSH Funds participate in the Foundation's New Investment Pool (see Note 4). The New Investment Pool consists of the Foundation's investment in marketable securities, valued by reference to quoted market prices, investments in Commonfund portfolios valued at unit values based on the fair values of the underlying investments, and timberland, mineral properties, and other real estate valued by appraisals. Such assets are subject to fluctuation in value due to normal market volatility, and to estimation risk in the case of assets for which market values are not available. The values ultimately realized by the Foundation for all such assets may be different from the values reported and these fluctuations may impact the DSH Fund's financial statements.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS AND OTHER INVESTMENTS

The following methods and assumptions were used by the Foundation in estimating the fair value of its investments:

- Cash and Cash Equivalents: The carrying amount reported in the accompanying combined statement of financial position for cash and cash equivalents approximates its fair value.
- Equity Securities: Includes investments in marketable securities and investments in Commonfund:

Marketable Equity Securities: Fair values are based on quoted market prices of each security with readily determinable fair values.

Investments in Commonfund: Fair values are based on unit values, as determined by Commonfund. As more fully described in Note 2, Commonfund determines unit values for each of its portfolios based on the fair values of the underlying assets.

• Timberland, Mineral Properties, and Real Estate: Fair values of timberland, mineral properties, and real estate are determined by independent third-party appraisers using standard appraisal practices particular to the investment being appraised.

4. INVESTMENTS

Investments consisted of participation in the Foundation's pooled investment funds. On June 5, 2006, the Board of the Foundation approved the establishment of a New Investment Pool, which consists of (1) all marketable equity securities held by the Foundation, and (2) the Foundation's interest in the land and timber consisting of approximately 55,600 acres of timberland known as the Equitable Tract, which the Foundation acquired in 1997 with financing that was provided, in part, from the DSH Funds to the Foundation's Equitable Timber Fund. Effective June 30, 2006, upon establishment of the Pool, the interest in the Pool allocated to the DSH Funds was equal in value to the sum of (1) the value of the interest that was allocated to the DSH Funds in the Foundation's existing securities pool at June 30, 2006, and (2) the amount of the aggregate receivable for principal and interest owed by the Equitable Timber Fund to the DSH at June 30, 2006. All pooled investment activity subsequent to June 30, 2006, is allocated between DSH Funds and other USAF funds based on each fund's initial share of the Pool, adjusted for subsequent contributions and distributions.

Investment income for the years ended June 30, 2010 and 2009, consisted of the following:

	2010	2009
Unrealized gains (losses)	\$ 8,154	\$(16,237)
Realized losses	(1,287)	(3,686)
Interest and dividends	874	1,807
Interfund interest	132	178
	<u>\$ 7,873</u>	<u>\$(17,938)</u>

Real estate at June 30, 2010 and 2009, consisted of land and land improvements.

The Foundation adopted ASC 820 (formerly FASB Statement No. 157, Fair Value Measurements), 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 Investment Pool's observable values consist of investments in exchange traded equity securities with a readily determinable market price. Other observable values are fair value measurements derived either directly or indirectly from quoted market prices. The Investment Pool's other observable values are an investment in a managed fund held by a third party. Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable. The DSH Funds' unobservable values consist of its interest in the Investment Pool's timberland and real estate with fair values based on extensive independent third-party appraisals performed by qualified appraisers specializing in timber and real estate investments.

The Foundation's Investment Pool assets are summarized based on the criteria of ASC 820 as follows:

	Fair Va	lue Measureme	ents at June 30, 2	2010
Description	Observable Values Based on Quoted Prices	Other Observable Values	Unobservable Values	Total
Investment Pool interest in marketable equity securities Investment Pool interest in timber Real estate	\$ 39,094	\$ 52,959	\$ 107,300 3,600	\$ 92,053 107,300 3,600
	\$ 39,094	\$52,959	<u>\$ 110,900</u>	\$202,953
	Fair Va	alue Measurem	ents at June 30,	2009
Description	Observable Values Based on Quoted Prices	Other Observable Values	Unobservable Values	Total
Investment Pool interest in marketable equity securities Investment Pool interest in timber Real estate	\$ 35,358	\$48,526	\$ 104,000 3,600	\$ 83,884 104,000 3,600

For the year ended June 30, 2010, activity in the Foundation's Pooled Investment assets valued at fair value based on unobservable values is as follows:

\$48,526

\$ 107,600

<u>\$191,484</u>

\$ 35,358

	Investment Pool Interest in Timber	Real Estate	Total
Beginning balance	\$ 104,000	\$3,600	\$107,600
Total gains (realized/unrealized) Reforestation Depletion	5,611 491 (2,802)		5,611 491 (2,802)
Ending balance	\$107,300	\$3,600	\$110,900

For the year ended June 30, 2009, activity in the Foundation's Pooled Investment assets valued at fair value based on unobservable values is as follows:

	Investment Pool Interest in Timber	Real Estate	Total
Beginning balance Total gains or losses	\$104,600	\$4,000	\$108,600
(realized/unrealized)	3,854	(400)	3,454
Reforestation	312		312
Depletion	(4,766)		(4,766)
Ending balance	\$104,000	\$3,600	\$107,600

The DSH Funds' holds a proportionate interest in the value of the Foundation's Investment Pool. On June 30, 2010, the value of DSH units in the Pool was \$121,990 and at June 30, 2009, the value of DSH units in the Pool was \$114,269.

5. RELATED-PARTY TRANSACTIONS

At June 30, 2010 and 2009, receivables from affiliated entities totaled \$573 and \$434, respectively. These amounts are due to the DSH Funds from other entities owned by the Foundation. These receivables earn interest at a standard market rate, based on the applicable federal rates (rates used for federal tax purposes). Interest income was \$132 and \$178 for the years ended June 30, 2010 and 2009, respectively. As described in Note 4, effective June 30, 2006, the DSH Funds participate in the Pool of the Foundation and the DSH Funds earn a proportionate share of investment income of the Pool.

By a resolution adopted on May 22, 2008, the Foundation approved a contribution to the University in support of the Pediatric Expansion of USA Children's and Women's Hospital in the amount of Twenty Million Dollars (\$20,000), to be given over a seven-year period, to begin in the year of the commencement of the expansion. This contribution was to be disbursed from the Foundation's Disproportionate Share Hospital Funds (the "DSH Funds"), with disbursements being made in accordance with the resolution. To date, the Pediatric Expansion has not commenced, and the DSH Funds are not at their required level to provide funding, and therefore, no disbursement has been made.

By a resolution adopted on May 27, 2010, in an effort to assist the University in furtherance of its tax-exempt purpose and in order to accelerate its provision to support the Pediatric Expansion of USA Children's and Women's Hospital, the Board authorized the Foundation to negotiate an agreement to purchase the Brookley Center campus owned by the University. It is anticipated that the University and the Foundation will enter into an agreement whereby the Foundation will pay the University, in five annual installments of Four Million Dollars (\$4,000) each, a total purchase price of Twenty Million Dollars (\$20,000), with the University to retain title to and use of the improvements situated on the Brookley property for a period of five years, unless the Foundation should exercise its option to prepay the balance of the purchase price and take title earlier. It is further the intention and expectation of the Board of the Foundation that after it has completed payment of the purchase price, the Foundation would begin funding to the University an annual target distribution of 3% of the net assets of the DSH Funds held by the Foundation, subject to certain financial and other conditions.

6. NATURE AND AMOUNT OF TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2010 and 2009, temporarily restricted net assets of \$10,090 and \$3,246, respectively, were available for the support of hospitals, clinics, and related programs of the University.

7. NATURE AND AMOUNT OF PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2010 and 2009, permanently restricted net assets of \$131,586 and \$131,586, respectively, are restricted to investments in perpetuity, the income from which may be used for the support of hospitals, clinics, and related programs of the University.

8. ENDOWMENT

Interpretation of the Law

The University of South Alabama Foundation conducts the operations of the Foundation in accordance with the Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA), effective January 1, 2009, and continuing thereafter unless otherwise determined by the Foundation. The Board of Directors and management of the Foundation interpret UPMIFA as obligating the Foundation to preserve, as donor-restricted assets, each original gift received by the Foundation as donor-restricted endowment funds.

The Foundation, accordingly, classifies each such original gift, and any subsequent gifts, as permanently restricted. The remaining portion of any donor-restricted endowment that is not classified as permanently restricted is classified as temporarily restricted net assets, until such time as any of such remaining portion is appropriated for expenditure. In managing each endowment fund held by it, the Foundation considers, if relevant, the duration and preservation of the fund, the purposes of the Foundation and the fund, general economic conditions, any restrictions imposed by the donor, the possible effect of inflation or deflation, the expected total return from income and appreciation of investments, the other resources of the Foundation, and the investment policy of the Foundation

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the amount classified as permanently restricted. These deficiencies are typically a result of unfavorable market fluctuations. The total amount of deficiencies reported in the DSH Funds is \$5,423 and \$13,283 as of June 30, 2010 and 2009. Such deficiencies have been charged to unrestricted nets assets reflecting the DSH Funds' requirement to maintain the original contributed value of its assets in perpetuity.

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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.

Endowment Funds Investment Policies and Guidelines

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

I. Purpose of the Endowment Funds

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

II. Purpose of the Investment Policy

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

- 1. Define and assign the responsibilities of all involved parties.
- 2. Establish a clear understanding of all involved parties of the investment goals and objectives of Endowment Funds assets.
- 3. Offer guidance and limitations to Investment Manager(s) regarding the investment of Endowment Funds assets.
- 4. Establish a basis of evaluating investment results.
- 5. Manage Endowment Funds assets according to prudent standards as established in the laws of the State of Alabama.
- 6. Establish the relevant investment horizon for which the Endowment Funds assets will be managed.

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

III. Delegation of Authority

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

- 1. Investment Management Consultant(s). The consultant may assist the Board of Trustees in: establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
- 2. Investment Manager(s). The investment manager has discretion to purchase or sell, in the University's name, the specific securities that will be used to meet the Endowment Funds investment objectives.
- 3. Funds Custodian(s). The custodian will physically (or through securities owned by the Fund) collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets, owned, purchased or sold as well as movement of assets into and out of the Endowment Funds accounts.

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

IV. Assignment of Responsibility

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

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

B. Responsibility of the Endowment Committee

The specific authority and responsibilities of the Endowment Committee relating to the

investment management of Endowment Funds assets include:

- 1. Projecting the Endowment Funds financial needs, and communicating such needs to the Investment Manger(s) on a timely basis.
- 2. Determining the Endowment Funds risk tolerance and investment horizon, and communicating these to the appropriate parties.
- 3. Establishing reasonable and consistent investment objectives, policies, <u>time</u> <u>frames</u> and guidelines which will direct the investment of the Endowment Funds assets.
- 4. Prudently and diligently selecting qualified investment professionals, including Investment Manager(s), Investment Consultant(s), and Custodian(s).
- 5. Regularly evaluating the performance of the Investment Manager(s) to assure adherence to policy guidelines and monitor investment objectives progress.
- 6. Developing and enacting proper control procedures: For example, replacing Investment Manager(s) due to fundamental changes in the investment management process, or failure to comply with established guidelines.
- 7. Making direct investments in cases in which selection of an investment manager is not appropriate.
- 8. Recommending an endowment spending policy to the Board of Trustees for approval.
- 9. Reporting periodically to the Board of Trustees Endowment Committee actions and recommendations and investment performance of the Endowment Funds.

C. Responsibility of the Investment Manager(s)

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

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

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

- 1. Discretionary investment management including decisions to buy or sell individual securities, and to alter asset allocation with the annual guidelines established by the Endowment Committee.
- 2. Reporting, on a timely basis, quarterly investment performance results.
- 3. Providing monthly valuation of the investment portfolio based on the previous month's closing prices.
- 4. Communicating any major changes in economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objectives progress of the Endowment Funds investment management.
- 5. Informing the Endowment Committee regarding any qualitative change in the investment management organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
- 6. Providing the Endowment Committee with proof of liability and fiduciary insurance coverage.
- 7. Acknowledging in writing an ability and agreement to invest within the guidelines set forth in the investment policy.
- 8. Meeting with the Endowment Committee at least annually.
- 9. Voting proxies on behalf of the Endowment Funds and communicating such voting records on a timely basis. In cases in which the University desires to vote proxies related to specific topics, it will so notify Manager(s).
- 10. The Board of Trustees may from time to time request that the Investment Manager(s) allocate commissions to those brokerage firms providing other investment management services to the University. Good execution and commission prices are primary considerations in routing business to the said brokerage firms. If at any time any Investment Manager believes that any policy guideline inhibits investment performance, it is their responsibility to communicate this to the Endowment Committee.

V. General Investment Principles

- 1. Investments shall be made solely in the interest of the purposes of the University of South Alabama.
- 2. The Endowment Funds shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person in a like position would exercise under similar circumstances in a manner the Board of Trustees reasonably believe to be in the best interest of the University.
- 3. Investment of the Endowment Funds shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
- 4. The Board of Trustees may employ one or more investment managers of varying styles and philosophies to attain the Endowment Funds objectives.
- 5. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

VI. Investment Objectives

In order to meet its needs, the investment strategy of the University of South Alabama Endowment Funds is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. The total Endowment Funds shall be monitored for return relative to objectives, consistency of investment philosophy, and investment risk. The Endowment Funds results shall be evaluated on a rolling five-year basis against a market benchmark weighted 55 percent in favor of the MSCI World_(US Dollar) Index, 25 percent toward the Barclay's Capital US Aggregate Bond Index and 20 percent Treasury-bill rate plus 3 percent.

VII. Portfolio Composition and Risk

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

	Range	Long-term neutral
Fixed Income	15-35%	25%
Equity	35-75%	55%
Fixed Income Alternative	10-30%	20%
Cash	0-5%	0%

The purpose of dividing the Endowment Funds in this manner is to ensure that the overall asset allocation among major asset classes remains under the regular scrutiny of the Endowment Committee and is not allowed to become the residual

- of separate manager decisions. Over the long run, the allocation among the major asset classes may be the single most important determinant of the endowment funds investment performance.
- B. The purpose of the fixed income fund is to provide a hedge against deflation, to reduce the overall volatility of returns of the Endowment Funds, in order to produce current income in support of spending needs.
- C. The percentage of total Endowment Funds assets allocated to the fixed-income fund at any time should be sufficient to provide that neither the current income nor the capital value or the total Endowment Funds declines by an intolerable amount during an extended period of deflation. The fixed-income fund should normally represent approximately 15-35 percent of total Endowment Funds assets at market value. Although the actual percentage will fluctuate with market conditions, levels outside this range should be closely monitored by the Endowment Committee.
- D. The purpose of the equity fund is to provide appreciation of principal that more than offsets inflation and to provide a growing stream of current income. It is recognized that the pursuit of this objective could entail the assumption of greater market variability and risk than investment in fixed-income securities. Equity and equity-substitute investments are broadly defined as common stocks, high-yield bonds, reorganization securities, venture capital, leveraged buyout investments, equity real estate, reorganization securities, exchange traded index funds, etc.
- E. The purpose of the fixed income alternative component is to provide the Endowment a source of returns with low correlation to equity markets and volatility of one third to one half that of the U.S. equity market, while still achieving equity-like returns of Treasury Bills plus 2-8% over time. The Fixed Income Alternative should normally represent approximately 10-30 percent of total Endowment Funds.
- F. Any assets not committed to the fixed-income fund or fixed income alternative shall be allocated to the equity fund. The equity fund should normally represent approximately 35-75 percent of total Endowment Funds assets at market value. Although the actual percentage of equities will vary with market conditions, levels outside this range should be closely monitored by the Investment Committee.
- G. The Endowment includes investments in several categories, and the Endowment Committee targets allocations for the following:

	Long-Term	
Asset Class	Strategic Target (%) of Endowed Funds	Range
DOMESTIC EQUITY	47%	30-60%
Large/Mid-Cap	40%	25-55%
Small Cap	5%	3-8%
High Yield Debt	2%	0-5%
INTERNATIONAL STOCKS	10%	5-15%
Developed Markets	6%	3-10%
Emerging Markets	4%	0-6%
TOTAL EQUITY COMPONENT	57%	35-75%
ALTERNATIVE INVESTMENTS	20%	10-30%
Absolute Return	15%	12-205
Long/Short Equity	5%	0-10%
TOTAL ALTERNATIVE COMPONENT	20%	10-30%
Fixed Income Component	23%	15-35%
U.S. Core Bonds	16%	12-20%
Global Bonds	4%	0-7%
TIPS	2%	0-5%
Emerging Markets Debt	1%	0-2%
TOTAL FIXED INCOME COMPONENT	23%	15-35%
CASH AND EQUIVALENTS	0%	0-5%

- H. Within the equity fund, certain investments can be included, with Endowment Committee approval, to provide a hedge against unanticipated, rapidly accelerating inflation. These include cash, real estate and oil and gas investments. While the Endowment Committee recognizes the argument for having a separate allocation to inflation-hedging assets, at this time, these investments are evaluated primarily as equity-substitutes. The Endowment Committee will periodically review the adoption of an inflation-hedging fund allocation separate from the equity allocation.
- I. Within the equity fund, in addition to cash reserves held by managers, there is normally an investment in cash or short-term instruments. Although the Endowment Committee has not adopted a cash allocation, new gifts to the endowment and endowment income in excess of budgetary distributions generate cash inflow to the Endowment Fund. The level of cash should be closely monitored by the committee.

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

VIII. Spending Policy

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

IX. Volatility of Returns

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

X. Liquidity

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

XI. Marketability of Assets

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

XII. Investment Guidelines

A. Allowable Assets

1. Cash Equivalents

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

2. Fixed Income Securities

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

3. Fixed Income Alternatives

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

4. Equity Securities

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

5. Mutual Funds

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

Other Assets:

Derivative Securities: options and future contracts

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

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

(Is now covered under the derivative section)

The Endowment will avoid highly leveraged strategies and managers who provide insufficient transparency of their actions for adequate monitoring of the risks they are taking.

B. Guidelines for Fixed Income Investments and Cash Equivalents

- 1. Investment in fixed income securities shall be restricted to only investment grade bonds rated BAA or higher.
- 2. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's.
- 3. Investment in fixed income securities within the fixed income portfolio shall be restricted to only investment grade bonds rated BAA or higher. Any investment in below investment grade bonds shall be considered an equity or fixed income alternative investment.

C. Guidelines for Fixed Income Alternatives

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

D. Limitations on Manager Allocations

- 1. No more than 5% of the Endowment Fund assets shall be allocated to an individual Investment Manager.
- 2. No more than 25% of the Endowment Fund assets shall be allocated to a "Fund of Funds" or multi-manager fund.

XIII. Investment Manager Performance Review and Evaluation

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

- 1. Investment performance which is significantly less than anticipated, given the discipline employed and risk parameters established, or unacceptable justification of poor results.
- 2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
- 3. Significant qualitative changes to the investment management organization.

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

XIV. Investment Policy Review

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

Investment Manager Selection

- 1. The Endowment Committee will decide on guidelines for the desired investment philosophy, asset mix, and performance objectives of the new manager.
- 2. The Endowment Committee will employ, if appropriate, Investment Consultant(s) to identify potential managers.
- 3. Potential managers will be reviewed by the Endowment Committee in some or all of the following areas with the importance of each category determined by the Endowment Committee:

Organization

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

Performance

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

Securities Summary – Equities

- Yield
- Profit/earnings
- Quality
- Growth
- Beta

Securities Summary - Fixed Income

- Quality
- Maturity
- Duration
- Government/non-government
- Investment decision-making process
- Top down/bottom up
- Quantitative/qualitative/traditional
- Expected performance characteristics

Securities Summary - Fixed Income Alternative

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

Skill Set Analysis

- Market timing
- Sector diversification
- Security selection
- Security consideration
- 4. Final selection of a new manager resides with the Endowment Committee.

UNIVERSITY OF SOUTH ALABAMA NON-ENDOWMENT CASH POOL INVESTMENT POLICIES

Purpose

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

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

INVESTMENT OBJECTIVES

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

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

Maintenance of Adequate Liquidity

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

Return on Investments

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

DELEGATION OF AUTHORITY

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

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

IMPLEMENTATION OF THE INVESTMENT POLICY

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

AUTHORIZED INVESTMENT INSTRUMENTS

Short-Term Operational Funds

Safety of Capital

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

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

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

- 1. Checking and Money Market deposit accounts in banks. These funds are subject to full collateralization for the amounts above the FDIC \$100,000.00 coverage limit, or participation by the Bank in the State of Alabama's Security for Alabama Funds Enforcement Program.
- Certificates of Deposit issued by banks and fully collateralized for the amounts above the FDIC \$100,000.00 coverage limit or participation by the bank in the State of Alabama's Security for Alabama Funds Enforcement Program. Negotiable Certificates of Deposit or

Deposit Notes issued by credit worthy U.S. Banks in amounts not to exceed the FDIC \$100,000.00 coverage limit.

- 3. Direct obligations of the United States or obligations unconditionally guaranteed as to principal and interest by the Unites States.
- 4. Obligations of a Federal Agency (including mortgage backed securities) or a sponsored instrumentality of the United States including but not limited to the following:
 - Federal Home Loan Bank (FHLB)
 - Federal Home Loan Mortgage Corporation (FHLMC)
 - Federal Farm Credit Banks (FFCB)
 - Government National Mortgage Association (GNMA)
 - Federal National Mortgage Association (FNMA)
 - Student Loan Marketing Association (SLMA)
 - Financing Corp (FICO)
 - Tennessee Valley Authority (TVA)
 - Government Trust Certificates (GTC)
- 5. Commercial paper of corporate issuers with a minimum quality rating of P-1 by Moody's, A-1 by Standard and Poor's or F-1 rating by Fitch. Corporate bonds will maintain a minimum "A" rating by both Moody's and Standard and Poor's at the time of purchase. No more than ten percent (10%) of the Total Cash and Investments shall be invested in a single corporation for Commercial Paper/Short-term Corporate Bonds and thirty-five percent (35%) per Federal Agency Obligation as described above. There will be no limit on U.S. Treasury Obligations. All such securities must have an active secondary market.

The maturity range of Short-Term Operational Funds Investments shall be consistent with liquidity requirements of the funds category. However, funds established under certain debt instruments may be invested in accordance with the applicable criteria. Typical maturity will range from 1 year and less.

Intermediate-Term Investment of Operational Funds

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

AUTHORIZED INVESTMENT INSTRUMENTS

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

Long-Term Investment of Operational Funds

Investments for those Operational Funds designated by the Campus President as benefiting from a longer-term investment strategy will use the same investment and management criteria as those applicable under the University's Endowment Investment Policy.

PASS THROUGH OR DESIGNATED FUNDS

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

PRUDENCE AND ETHICAL STANDARDS

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

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

EFFECTIVE DATE

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

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 athletic director in 1981 and assumed the leadership role of athletic 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*.

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.

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.