UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

STANDING COMMITTEES

2010-2013

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Mr. James A. Yance, **Chair Pro Tempore**
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Mr. J. Cecil Gardner
Hon. Samuel L. Jones
Mr. John M. Peek
Dr. Steven H. Stokes, Past Chair

HEALTH AFFAIRS COMMITTEE:

Dr. Steven P. Furr, **Chair**
Dr. Scott A. Charlton
Ms. Bettye R. Maye
Ms. Arlene Mitchell
Mr. John M. Peek
Hon. Kenneth O. Simon
Dr. Steven H. Stokes

ACADEMIC AND STUDENT AFFAIRS CTE.:

Ms. Christie D. Miree**, Chair**
Dr. Scott A. Charlton
Ms. Bettye R. Maye
Hon. Bryant Mixon
Mr. John M. Peek
Mr. James H. Shumock

LONG-RANGE PLANNING COMMITTEE:

Hon. Samuel L. Jones, **Chair**
Dr. Steven P. Furr
Ms. Arlene Mitchell
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BUDGET AND FINANCE COMMITTEE / AUDIT CTE.:

Mr. E. Thomas Corcoran, **Chair**
Mr. J. Cecil Gardner
Hon. Samuel L. Jones
Ms. Christie D. Miree
Mr. James H. Shumock
Dr. Steven H. Stokes
Mr. James A. Yance

DEVELOPMENT, ENDOWMENT AND INVESTMENTS COMMITTEE:

Mr. James A. Yance, **Chair**
Mr. E. Thomas Corcoran
Mr. J. Cecil Gardner
President V. Gordon Moulton
Hon. Kenneth O. Simon
Dr. Steven H. Stokes

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

DECEMBER 6, 2012
10:30 A.M.

FREDERICK P. WHIDDON ADMINISTRATION BUILDING
BOARD ROOM

REVISED AGENDA

* *Item(s) added or revised.*

MEMORANDUM

UNIVERSITY OF SOUTH ALABAMA

November 26, 2012

TO: USA Board of Trustees

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

Included herein are the unapproved minutes for the Board meetings held September September 10, 2012. Please review these documents for amendment or approval at the December 6 Board meeting.

BRM:mgc

Enclosures

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES MEETING

September 10, 2012
10:30 a.m.

A meeting of the University of South Alabama Board of Trustees was duly convened by Mr. Jim Yance, Chair *Pro Tempore*, on September 10, 2012, at 10:33 a.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Trustees Tom Corcoran, Steve Furr, Cecil Gardner, Bettye Maye, Christie Miree, Bryant Mixon, John Peek, Jimmy Shumock, Ken Simon and Jim Yance.
Members Absent:	Trustees Robert Bentley, Tommy Bice, Scott Charlton, Sam Jones, Arlene Mitchell and Steve Stokes.
Administration and Others:	President Gordon Moulton; Drs. Mike Boyd, Joe Busta, Joel Erdmann, Julie Estis and Doug Marshall (Faculty Senate), Ron Franks, Charles Guest, Krista Harrell, David Johnson, Wanda Maulding, Carl Moore, Sean Powers, John Smith, John Steadman, David Stearns, Troy Stevens and Alec Yasinsac; Messrs. Owen Bailey, Parker Chastain (SGA), Wayne Davis, Steve Green, Stan Hammack, Mark Hoffman (NAA), Don Langham, Tom Meyer (Faculty Senate) and Abe Mitchell; and Mss. Beth Anderson and Jean Tucker.
Press:	Mss. Renee Busby (*Press Register*) and Cassie Fambro (*The Vanguard*).

Chairman Yance convened the meeting and called for adoption of the revised agenda. On motion by Ms. Maye and seconded by Ms. Miree, the revised agenda was approved unanimously. Chairman Yance called for consideration of **ITEM 1**, the minutes of the June 8, 2012, meeting of the Board of Trustees and the June 7, 2012, meeting of the Committee of the Whole. On motion by Ms. Maye, seconded by Mr. Corcoran, the minutes were adopted by unanimous vote.

Chairman Yance called upon President Moulton for presentation of **ITEM 2**, the President's Report. President Moulton introduced Mr. Mark Hoffman, President of the National Alumni Association, and congratulated Dr. Furr for his induction into the Alabama Healthcare Hall of Fame. He called attention to the recent issue of *Looking South*, published by the National Alumni Association, as well as articles featuring University news printed in the *Business View*, published by the Mobile Area Chamber of Commerce.

President Moulton reported fall enrollment at 14,883, down slightly from 15,009 in Fall 2011. The decrease is attributable, in part, to students' personal circumstances amid the economic recession, as reflected nationally, and to a one-point increase in USA's required minimum ACT score, effective with the 2012-2013 academic year. President Moulton expressed confidence that the value of a quality education from USA, in comparison to the higher costs students must pay to attend peer institutions, would sustain a steady enrollment. He stated the credentials of the freshman class are improved, citing a record 116 freshmen with ACT scores of 30 or above – a 40 percent increase over last year. He said the average ACT score is up by nearly a full point to a record 22.8, compared to national and state averages of 21.1 and 20.3, respectively. The demand for campus housing is strong as well.

President Moulton discussed a proposed constitutional amendment that, if passed by voters on September 18, would allow the transfer of oil and gas royalties from the Alabama Trust Fund, for three years, to fund public agencies, such as Alabama's Medicaid system, whose state funding has seen a significant reduction due to the economy and subsequent shortfalls in sales tax revenue. Sustained funding for Medicaid, the state's primary mechanism for health care delivery and infrastructure, is critical to the USA Health System mission of providing the highest standard of patient care and services to the community. Passage of Amendment 1 would provide a temporary fix for public funding deficits, giving legislators time to seek long-term budget reform, and protect the Education Trust Fund, that, if drawn upon, may make for additional appropriation cuts for K-12 and higher education, USA included. President Moulton encouraged the University community to vote "yes."

President Moulton updated Board members on Restore Act provisions, whereby fines collected from BP for the Deep Water Horizon oil spill in the Gulf of Mexico, are to be distributed among the five Gulf Coast states whose coasts were affected by the disaster, including Mobile and Baldwin counties in Alabama. Restore Act proceeds must be used for recovery efforts, and President Moulton stated the University is in a good position to be awarded funding for faculty projects focused on public service, shoreline quality, and studying the long-term effects of the oil spill on ecology.

President Moulton commented on significant industry developments on the local scene, which have the potential to propel Mobile's reputation as a progressive, world-class city, boosting its visibility in the market to attract business. He said local enterprise stands to capitalize from this momentum, and the University of South Alabama is at the forefront with plans to collaborate with partners in the community. President Moulton said a comprehensive report of the University's service impact is being planned.

President Moulton gave an overview of special events celebrating the University's 50 years of service, beginning with the dedication of Shelby Hall on September 9. Arts and History Day will be held on Sunday, October 14. Among the Homecoming activities planned – the dedication of the Moulton Tower murals and the unveiling of Wall of Honor plaques at Alumni Plaza will take place on Friday, October 19, as will the USA/Florida Atlantic football game on Saturday, October 20. A holiday concert is set for Thursday evening, December 6. The USA Children's & Women's Hospital expansion is nearing completion and a dedication is slated for the spring of 2013. The Distinguished Alumni and Service Awards banquet will take place on March 7, 2013. The yearlong celebration will culminate in a gala event on Friday, May 3 – a date of historical significance, in that the legislative act creating the University was executed on May 3, 1963. Spring Commencement will be held May 11. A commemorative pictorial book featuring key moments in the University's history is also planned.

President Moulton provided an update on construction and beautification projects as Board members viewed photos and drawings of Shelby Hall; the Moulton Tower murals; the site of the newest student residence hall; the expansion site at Children's & Women's Hospital; the specialized laboratory facility to be occupied by USA's Center for Infectious Diseases; and renovations at the Mobile Townhouse, to which the Office of Development will relocate. The technique for creation of the murals was described, and credit was given to Dr. Jason Guynes, Chair of the Department of Visual Arts and mural artist. Sculptural art for the campus, made possible through the generosity of donors such as David and Lynn Gwin, was showcased, including pieces entitled *Einstein*, located at Shelby Hall, and *Southpaw*, to be unveiled at the USA/Troy football game on September 29 and installed at Alumni Hall. Trustees and guests enjoyed a surprise appearance by USA's Southpaw mascot.

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

RESOLUTION
USA HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS FOR JUNE, JULY AND AUGUST 2012

WHEREAS, the medical staff appointments and reappointments for June, July and August 2012 for the University of South Alabama Hospitals are recommended for Board 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 presented **ITEM 4** as follows. On motion by Mr. Shumock, seconded by Mr. Corcoran, the resolution was approved unanimously:

RESOLUTION
USA HOSPITALS MEDICAL STAFF BYLAWS AND RULES AND REGULATIONS, REVISIONS OF AUGUST 1, 2012

WHEREAS, revisions to USA Hospitals Medical Staff Bylaws and Rules and Regulations, approved at the August 1, 2012, Medical Staff meeting and attached hereto, are recommended for approval by the Medical Staffs 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 revisions as submitted.

Dr. Franks presented **ITEM 5**, a report on the activities of the USA Health System and the Division of Health Sciences. With regard to a previous announcement of a $9.2 million competitive research grant awarded by the National Institutes of Health to the USA Center for Lung Biology (CLB), one of the largest in USA history, he introduced Dr. Troy Stevens, Director, who gave an overview of the CLB research and education mission. He discussed disease statistics, advances in treatment, such as ion technology, and USA's history of extramural support, and answered questions.

Mr. Hammack introduced Ms. Beth Anderson, Hospital Administrator at USA Medical Center, and detailed a graph showing the USA Medical Center ranked in the sixth percentile for performance among other NAPH (National Association of Public Hospitals and Health Systems) hospitals. The NAPH CEO Quality Performance Report, dated June 2012, covers patient data for the period

October 2010 through September 2011. Mr. Hammack noted high measurements across-the-board and said this level of excellence is achieved through team work. The Medical Center has received accolades for heart care and the treatment of congestive heart failure from the American Heart Association, for low-cost burn treatment, and for Medicare facilitation, and is recognized for its low mortality rate. Ms. Anderson received a round of applause for her administration of USA's Medical Center.

President Moulton presented **ITEM 6**, a report on the Mitchell Cancer Institute (MCI). He said the first round of meetings for MCI's Executive Advisory Council, chaired by internationally renowned cancer physician and researcher, Dr. Bruce Chabner, Professor of Medicine at Harvard Medical School, will take place in October.

Chairman Yance called for consideration of academic and student affairs items. Ms. Miree, Chair of the Academic and Student Affairs Committee, called upon Dr. Johnson for presentation of **ITEM 7**, a report on the activities of the Division of Academic Affairs. Dr. Johnson introduced Drs. Charles Guest - Interim Associate Vice President for Institutional Research, Planning and Assessment (IRPA); Wanda Maulding - Interim Assistant Vice President for Academic Affairs/USA liaison to the Alabama Commission on Higher Education (ACHE)/Director for College of Education accreditation through NCATE (National Council for Accreditation of Teacher Education); and Sean Powers - Chair, Department of Marine Sciences. He gave an update on the reaffirmation process for accreditation through the Commission on Colleges of the Southern Association of Colleges and Schools (SACS), detailing a timeline of the steps necessary to attain full accreditation by December 2013. He reported the first step, submission of the University's Compliance Certification Report to an external review panel, is complete. He recognized the efforts of the late Dr. Joan Exline, who coordinated USA's self-study while serving as IRPA Associate Vice President. He discussed implementation, assessment and approval of the University's Quality Enhancement Plan (QEP), which focuses on collaborative learning in the science, technology, engineering and mathematics, or STEM, disciplines to improve student learning outcomes over a five-year period, and answered questions.

Turning to Airbus developments and opportunities for USA involvement, Dr. Johnson introduced Dr. Carl Moore, Dean of the Mitchell College of Business, who reported on the SAP University Alliances program, a far-reaching global initiative whereby students at participating institutions gain exposure with innovative software, giving graduates an edge in the workplace. SAP is the world's leading provider of business software. Dr John Steadman, Dean of the College of Engineering, reported on a partnership with Airbus, through which graduate students receive hands-on experience in engineering design on location at the Brookley aeroplex, future site of the Airbus assembly plant. Dr. Alec Yasinsac, Dean of the School of Computing, discussed the potential for service opportunities for student interns among the small information technology and software firms bound to spring up in conjunction with Airbus growth.

Dr. Smith presented **ITEM 8**, a report on the activities of the Division of Student Affairs. He introduced Dr. Krista Harrell, Associate Dean of Students and Title IX Coordinator. He provided an update on housing, stating that construction of the newest 350-bed residence facility is slightly behind schedule. Upon completion, the Administration will wait one year to assess needs for additional housing. Discussion took place about competition with the private apartment developments located close to campus. Dr. Johnson gave details about the 14th Annual Undergraduate Research Symposium scheduled in October and invited Trustees to attend.

Chairman Yance called for consideration of budget and finance items. Mr. Corcoran, Budget and Finance Committee Chair, acknowledged receipt of **ITEM 9** reports titled *Monthly Fund Financial Reports for April, May and June 2012*; *Quarterly GASB Financial Statement for the Nine Months Ended June 2012*; and *Summary Comparison of Fund Financial Reports to GASB Financial Statements, June 30, 2012 and 2011*. There was no discussion.

Mr. Corcoran moved approval of **ITEM 10** as follows. Mr. Peek seconded and the resolution was approved unanimously:

RESOLUTION
ELECTION OF DIRECTORS OF THE USA RESEARCH AND TECHNOLOGY CORPORATION

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

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

WHEREAS, the Board of Directors of the Corporation has nominated for consideration and confirmation by the Board of Trustees of the University Mr. Joseph J. Adamo and Mr. Donald L. Langham for four (4) year terms beginning June 2012, and these persons have agreed to serve in this capacity if elected,

THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama does hereby elect as Directors of the USA Research and Technology Corporation Mr. Joseph J. Adamo and Mr. Donald L. Langham, both for four (4) year terms beginning June 2012.

Mr. Corcoran presented **ITEM 11** as follows, and moved approval (for copies of policies and other authorized documents, refer to **APPENDIX A**). Mr. Shumock seconded. Ms. Tucker assured compliance with all articles of the affiliation agreement between the University and the USA Research and Technology Corporation. The resolution was approved unanimously:

RESOLUTION
AFFILIATION AGREEMENT BETWEEN THE UNIVERSITY OF SOUTH ALABAMA AND THE USA RESEARCH AND TECHNOLOGY CORPORATION

WHEREAS, the USA Research and Technology Corporation ("USARTC") was established as a non-profit, educational and charitable organization for the purposes of serving the University of South Alabama ("University") and promoting the mission of the University pursuant to USARTC's Articles of Incorporation, by furthering the educational and scientific missions of University through support of its academic programs, scientific research and development initiatives, and enhancement of University's educational and training opportunities through, among other things, promotion of development, growth, and retention of high-technology industries and research in Alabama, and to create, develop, construct, operate, manage, and finance one or more research and technology parks to further the scientific research activities of University, and

WHEREAS, University and USARTC have a history of interaction and cooperation that has served the interests of University, and

WHEREAS, University and USARTC anticipate that University will provide USARTC with specified services and facilities with which to carry out its responsibilities in exchange for the development, financial, and other service, support, and assistance USARTC shall provide University, and

WHEREAS, the Board of Directors of USARTC have approved the Affiliation Agreement as it defines the arrangements concerning services, facilities, premises, and activities between University and USARTC, and

WHEREAS, the Board of Trustees of the University of South Alabama wishes to define the aforementioned arrangements with USARTC as well,

THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama hereby approves and adopts the Affiliation Agreement between University of South Alabama and the USA Research and Technology Corporation as attached hereto.

Mr. Corcoran moved approval of **ITEM 12** as follows. Ms. Maye seconded and the resolution was approved unanimously:

RESOLUTION
STUDENT CENTER RENOVATIONS

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 renovations, and

WHEREAS, on September 17, 2010, the Board of Trustees approved Harvey Gandler, Architect, to design the renovations to the current Student Center, and

WHEREAS, these renovations were put out for competitive bid in July 2012, and all bids were much higher than the available funds for the project, and

WHEREAS, the planned renovations and improvements are being reviewed and modified to meet the available budgeted funds and will be re-bid in the fall of 2012,

THEREFORE, BE IT RESOLVED that the Board of Trustees authorizes the President to oversee the bid process and to award the bid to the construction firm that is the successful low bidder.

Mr. Corcoran moved approval of **ITEM 13** as follows, noting that, in an earlier meeting, the Committee of the Whole recommended approval by the Board of Trustees. Sheriff Mixon seconded and the resolution was approved unanimously:

RESOLUTION
UNIVERSITY TOTAL BUDGET FOR 2012-2013

BE IT RESOLVED, the University of South Alabama Board of Trustees approves the 2012–2013 University of South Alabama Total Budget, which includes both the University General Budget and the Hospitals and Clinics Budget, and

BE IT FURTHER RESOLVED, the University of South Alabama Board of Trustees approves the 2012–2013 Total Budget as a continuation budget for 2013–2014 in order to be in compliance with bond trust indenture requirements if the budget process cannot be completed prior to beginning the 2013–2014 fiscal year.

With respect to the dual role served by the Budget and Finance Committee as Audit Committee of the Board, Mr. Corcoran, Committee Chair, acknowledged presentation of **ITEM 14**, a report on the KPMG audit for Fiscal Year 2012-2013, at the Committee of the Whole meeting. Presentation of **ITEM 15**, a report on USA's Office of Internal Audit, and **ITEM 15.A**, a report on the independent audit of the USA Foundation Consolidated Financial Statements and the Disproportionate Share

Hospital Funds Combined Financial Statements for June 2012 and 2011, was delivered at the Committee of the Whole meeting. There was no discussion at the Board meeting.

As chair of the Development, Endowment and Investments Committee, Chairman Yance introduced Dr. Busta for discussion of **ITEM 17**, a report on the activities of the Division of Development and Alumni Relations. As Board members viewed a visual presentation on USA's 50th Anniversary Campaign, Dr. Busta stated that division staff are focused on four primary goals – increasing alumni support, developing loyal donors, strengthening the donor base, and signing 50,000 new gifts. He reported on the success of the *JagLine* phone solicitation program and thanked the Trustees and President Moulton for their support of the initiative, through which 41,000 contacts were made, as was progress in updating managed data. He noted 71 members on the Alumni Anniversary Leadership Council, and announced the next phase of the campaign will feature the "Made at the USA" theme, to target 20,000 alumni. In November, a direct mailing will go out to 20,000 businesses. To follow, 50 business leaders will be recruited to encourage birthday gift contributions within the business community. Other direct mail and multi-media solicitations are planned, including an electronic alumni newsletter, a Web site through which donations may be processed, and a poster campaign. Dr. Busta noted 33,740 in new gifts raised thus far.

Presentation of **ITEM 16**, a report of the University's endowment and investments, took place at the Committee of the Whole meeting. There was no additional discussion by the Board of Trustees.

Chairman Yance called for presentation of **ITEM 18** as follows. Following the reading of the resolution by President Moulton, Ms. Miree moved approval, Mr. Peek seconded, and the resolution was approved unanimously. On behalf of faculty and staff, Annual Fund co-chairs Dr. Joel Erdmann and Mr. Owen Bailey accepted the framed resolution and made brief remarks:

RESOLUTION
APPRECIATION TO THE FACULTY AND STAFF FOR EXEMPLARY CONTRIBUTIONS

WHEREAS, the teaching, research, healthcare, and service programs of the University of South Alabama create positive momentum in the northern Gulf Coast communities it serves, and

WHEREAS, philanthropic support of the University's programs magnifies their beneficial effect on the quality of life, culture, economy, and health of citizens near and far, and

WHEREAS, the employees of the University, through the Faculty Staff Annual Fund, have firmly established themselves among its most loyal supporters, and

WHEREAS, the leadership of co-chairs Dr. Joel Erdmann and Mr. Owen Bailey, along with the dedicated effort of 150 divisional representatives, has propelled the 2012 Faculty Staff Annual Fund Campaign to a new milestone of achievement in attracting gifts and matching funds in excess of $1 million for the first time, and

WHEREAS, this exemplary philanthropic commitment to the mission of the University by 3,142 of those who know it best, its faculty and staff members, will go far to persuade potential students, employees, donors, and collaborators that the University of South Alabama is a trustworthy and able partner, and

WHEREAS, the extraordinary impact that $1 million will make on the progress of the University and its corresponding impact within our community deserves the gratitude and commendation of the Board of Trustees,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama does hereby thank and congratulate the donors and leaders of the 2012 Faculty Staff Annual Fund Campaign for exceptional contributions to the advancement of the University's mission and the prosperity of the Gulf Coast region.

President Moulton called upon Dr. Johnson for presentation of **ITEM 19** as follows. Mr. Steve Green, husband of the late Dr. Joan Exline, former Associate Vice President for Institutional Research, Planning and Assessment, joined Dr. Johnson for the reading of the resolution. Dr. Johnson shared highlights of Dr. Exline's distinguished career and contributions to the University. On motion by Mr. Peek, seconded by Mr. Shumock, the resolution was approved unanimously. Mr. Green made brief comments, remembering Dr. Exline's passion in life and love for the University:

RESOLUTION
COMMENDATION OF DR. JOAN L. EXLINE,
ASSOCIATE VICE PRESIDENT FOR INSTITUTIONAL RESEARCH, PLANNING, ASSESSMENT AND REGIONAL CAMPUSES

WHEREAS, the University of South Alabama seeks to honor exceptional individuals who have given a substantial part of their lives to serving others and who have distinguished themselves throughout their professional careers, and

WHEREAS, Dr. Joan L. Exline was a dedicated administrator at the University of South Alabama, serving as Associate Vice President for Institutional Research, Planning, Assessment and Regional Campuses since 2008, and

WHEREAS, Dr. Exline chaired numerous committees and developed new programs at the University, and

WHEREAS, Dr. Exline served as a valued member of the University's faculty, teaching courses in Health Administration and Policy in the Master of Public Administration program, and

WHEREAS, Dr. Exline committed her extensive time, knowledge, professionalism and leadership to the University and was instrumental in improving processes and practices to bring the University of South Alabama into compliance with the principles and standards of the Southern Association of Colleges and Schools (SACS), and

WHEREAS, the administration, faculty and staff wish to extend their appreciation and gratitude to the family of Dr. Exline for her valuable contributions to the University of South Alabama,

THEREFORE, BE IT RESOLVED that the Board of Trustees hereby expresses its sincere appreciation to the late Dr. Joan L. Exline for her generous service to the University of South Alabama, thereby benefitting the Institution, and

BE IT FURTHER RESOLVED that the many significant contributions made by Dr. Exline to the University have greatly enhanced the SACS accreditation process, thereby benefitting the University of South Alabama administration, faculty, staff and students, and

BE IT FINALLY RESOLVED, the University of South Alabama extends its deepest sympathies and condolences to the family of Dr. Joan Exline, and is sincerely grateful for the wisdom and friendship she gave to the University of South Alabama.

President Moulton presented **ITEM 20** as follows. On motion by Mr. Corcoran, seconded by Ms. Maye, the resolution was approved unanimously:

RESOLUTION
APPRECIATION TO SENATOR RICHARD C. SHELBY AND DR. ANNETTE N. SHELBY FOR OUTSTANDING CONTRIBUTIONS TO THE UNIVERSITY OF SOUTH ALABAMA

WHEREAS, United States Senator Richard C. Shelby and Dr. Annette N. Shelby have been longtime supporters of the University of South Alabama and its academic programs, and

WHEREAS, Senator Shelby and Dr. Shelby, in May 2006, were awarded Honorary Doctorates by the University in recognition of their exemplary leadership, accomplishments, and contributions to higher education, both within the state of Alabama and nationally, and

WHEREAS, in February 2007, the USA National Alumni Association also presented Senator Shelby with its highest honor, the Distinguished Service Award, and

WHEREAS, Senator Shelby has been instrumental in helping USA secure federal funding for numerous projects, supporting areas such as the USA Mitchell Cancer Institute, USA Transit System, Telemedicine, Center for Estuarine Research, Oyster Bed Restoration, Coastal Weather Research Center, Youth Violence Prevention, Rural Vehicular Trauma Study, Coastal Engineering, Hurricane Intensity Research, High Peak Power Plasma Thruster, Mitchell College of Business, High Strength Composite Materials, and many others, and

WHEREAS, Senator Shelby has also advanced the University's core missions of teaching, research, and service by helping to secure more than $40 million in federal funding for Shelby Hall, a new state-of-the-art facility that houses the College of Engineering and the School of Computing, and

WHEREAS, the 155,000-square-foot building features technologically advanced multimedia classrooms, laboratory space, study rooms and computing facilities, enhancing the quality of science, technology, engineering, and mathematics education, and

WHEREAS, this world-class engineering and computer science facility will help the University attract the best and brightest students and faculty, thus securing a better future for Mobile and the state of Alabama, and

WHEREAS, Shelby Hall is expected to spur local economic development by providing industry with highly qualified engineers and computing science professionals, creating new technology, and attracting and sustaining high-quality jobs, and

WHEREAS, new partnerships between student and faculty researchers and industry will form as a result of this new facility, providing real-world learning experiences for USA students and ensuring continued growth of the Gulf Coast economy, and

WHEREAS, the dedication of Shelby Hall marks a new era for the University and the Mobile region, forever improving the infrastructure for engineering and computer science education,

THEREFORE, BE IT RESOLVED, it is with great pride that the Shelby name will forever be a part of the University of South Alabama landscape by virtue of a prior resolution from the USA Board of Trustees naming Shelby Hall in their honor, and

BE IT FURTHER RESOLVED that the University family wishes to again express its deepest affection and appreciation for the transformational impact Senator Richard C. Shelby and Dr. Annette N. Shelby have had upon all levels of education in Alabama and across the nation.

There being no further business, the meeting was adjourned at 12:05 p.m.

Attest to:	Respectfully Submitted:
______________________	______________________
Bettye R. Maye, Secretary	James A. Yance, Chair *Pro Tempore*

UNIVERSITY OF SOUTH ALABAMA
BOARD OF TRUSTEES

AUDIT COMMITTEE
COMMITTEE OF THE WHOLE

September 10, 2012
9:00 a.m.

Meetings of the Audit Committee and Committee of the Whole were duly convened by Mr. Jim Yance, Chair *Pro Tempore*, on Thursday, September 10, 2012, beginning at 9:01 a.m. in the Board Room of the Frederick P. Whiddon Administration Building.

Members Present:	Trustees Tom Corcoran, Steve Furr, Cecil Gardner, Bettye Maye, Christie Miree, Bryant Mixon, John Peek, Jimmy Shumock, Ken Simon and Jim Yance.
Members Absent:	Trustees Robert Bentley, Tommy Bice, Scott Charlton, Sam Jones, Arlene Mitchell and Steve Stokes.
Administration and Others:	President Gordon Moulton; Drs. Mike Boyd, Joe Busta, Julie Estis and Doug Marshall (Faculty Senate), Joel Erdmann, Ron Franks, David Johnson, John Smith and David Stearns; Messrs. Terry Albano, James Brown, Parker Chastain (SGA), Ken Davis, Wayne Davis, Stan Hammack, Tom Meyer (Faculty Senate), Norman Pitman and Steve Simmons; and Ms. Jean Tucker.
Press:	Ms. Renee Busby (*Press Register*).

Chairman Yance convened a meeting of the Audit Committee and Mr. Corcoran, Committee Chair, called upon Mr. Wayne Davis for presentation of **ITEM 14**, a report on the University audit conducted by the firm of KPMG. Mr. Davis introduced KPMG partner Mr. Mark Peach, who detailed the audit process and schedule as outlined in a planning document. He encouraged Board members to communicate with the KPMG team any time. He credited the University with efficient procedures, and called for questions. There was no discussion.

Mr. Corcoran called upon Mr. Simmons, Senior Associate Vice President for Financial Affairs, to address **ITEM 15**, a report on the University's internal audit function. Mr. Simmons introduced Mr. James Brown, Chief Audit Officer, and provided an overview of USA's audit practices. He said the Office of Internal Audit stands ready assist to Trustees with questions or concerns.

Mr. Ken Davis presented **ITEM 15.A**, a report on independent audits conducted on the USA Foundation Consolidated Financial Statements and the Disproportionate Share Hospital Funds Combined Financial Statements, June 2012 and 2011. Mr. Davis said an unqualified, or clean, opinion was rendered, and noted consistency with the data reported for the previous fiscal year. He detailed net assets and reminded the Board that the Disproportionate Share Hospital Funds, which are maintained by the USA Foundation, are for the benefit of USA hospitals and health operations.

There being no further business of the Audit Committee, Chairman Yance convened a meeting of the Committee of the Whole, and a video was shown featuring an interview with Campus Crest CEO Mr. Ted Rollins on the FOX Business network, in which he referenced the University of South Alabama as a good, quality school offering students and parents a great value for their dollars. President Moulton reiterated the point that USA's programs and services are a tremendous value, adding that South Alabama is competitively positioned among peer institutions in the state. With consideration to the proposed University total budget for 2012-2013, **ITEM 13**, Chairman Yance reminded Board members of the difficult task facing the University of dealing with a $190 million cumulative decrease in state funding since the recession began. President Moulton agreed, saying the Administration is positively engaged to find creative ways to handle funding losses. He stated the budget as proposed is balanced, in contrast to the deficit budgets of the previous four years, and said there is no provision for raises. Despite the budget constraints, he advocated maintaining the University's competitive edge with regard to attracting quality faculty and compensating employees, adding that a recommendation on salary increases would be made at the December Board meeting. He stated fiscal uncertainty has been the reason for delaying a recommendation on raises.

President Moulton discussed the consequences of reduced Medicaid support to the USA Health System should a constitutional referendum, allowing oil and gas tax deposits to the Alabama General Fund, fail to pass. He said the University receives less than its fair share in Medicaid funding, but is among the largest Medicaid providers in Alabama. Should Amendment I not pass and shortfalls in the Alabama General Fund not be resolved, Medicaid and all public services in the state stand at risk of significant funding cuts, and the programs and services of the USA Health System would be compromised. He shared speculation that the Alabama Education Trust Fund may be targeted if the referendum is not passed, which would also be to the University's disadvantage. On behalf of the USA community, he encouraged support for Amendment I.

President Moulton discussed other factors that may impact the budget, including enrollment, the proposed national health plan, and Education Trust Fund revenue. He reminded the Trustees of the measure to segregate the budgets for the University's general education and health sectors for 2011-2012, addressing each according to individual financial condition. In response to questions from Trustees, President Moulton clarified that salary increases would not result in a deficit budget, as funding would be derived from other sources, such as diverting repairs.

Mr. Wayne Davis gave an overview of the budget. He advised the Trustees of the diligent efforts by the University community to trim costs where possible, and of the restructuring of departments while maintaining high standards for service. He talked about cost cutting by means of personnel changes. He detailed data from the *Budget Highlights* report and answered questions.

President Moulton addressed tuition and enrollment, noting that the slight decline in enrollment points to a national trend amid the changing economy. He expressed optimism about the freshman class, asserting that new academic admissions standards in 2012-2013 should serve to strengthen retention and graduation rates. He observed a 40 percent increase in freshmen with ACT scores of 30 or above. Dr. Johnson reported 100 fewer transfer students from junior colleges, likely due to financial aid revisions. President Moulton recommended approval of the 2012-2013 budget as submitted. He said December's salary recommendation may include differences between the University's general education and health sectors. On motion duly made and seconded, the Committee agreed unanimously to recommend approval by the Board of Trustees.

Chairman Yance called upon Mr. Albano and Mr. Pitman to report on the University's endowment and investments, **ITEM 16**. Mr. Albano noted that the return outperformed the relative index by .11 percent for Fiscal Year 2012. The return from October 1, 2011, through July 31, 2012, was 10.30 percent vs. a relative index of 10.19 percent. Mr. Albano introduced Mr. Pitman to discuss the performance of the individual managers. Mr. Pitman gave reasons for under-performance. He shared concern about the portfolio with Arlington Partners, stating the Administration will keep a close watch on performance. Judge Simon inquired about confidence in asset allocation. Mr. Albano expressed satisfaction, and reviewed the asset allocation for the 2012 Fiscal Year. He said the specific allocations fell within the provisions of the University's investment policy. He reported on endowment performance since inception, stating that performance was 3.89 percent vs. a relative index of 3.19 percent, an outperformance of .70 percent.

President Moulton referenced an article in the *Chronicle of Higher Education* that compared institutions as to endowment value. He said the University's position in the ranking is respectable. He talked about USA's licensing revenue in relation to other schools. Discussion took place about entrepreneurship opportunities among the colleges, specifically, for the engineering and computing disciplines. President Moulton assured that the University is primed to move forward with respect to collaboration, technology transfer, and the USA Technology and Research Park mission.

There being no further business, the meeting was adjourned at 10:12 a.m.

Attest to:	Respectfully Submitted:
_____________________________	_____________________________
Bettye R. Maye, Secretary	James A. Yance, Chair *Pro Tempore*

RESOLUTION

USA HOSPITALS MEDICAL STAFF APPOINTMENTS AND REAPPOINTMENTS FOR SEPTEMBER AND OCTOBER 2012

WHEREAS, the Medical Staff appointments and reappointments for September and October 2012 for the University of South Alabama Hospitals are recommended for Board 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.

OFFICE OF THE PRESIDENT

NOV 08 2012

UNIVERSITY OF SOUTH ALABAMA

UNIVERSITY OF SOUTH ALABAMA

STANLEY K. HAMMACK
VICE PRESIDENT
HEALTH SYSTEM

TELEPHONE: (251) 471-7118
2451 FILLINGIM STREET, SUITE 2110
MOBILE, ALABAMA 36617-2293
FAX: (251) 471-7751

MEMORANDUM

TO: V. Gordon Moulton
President

FROM: Stan Hammack SKH

DATE: November 7, 2012

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

Resolution – University of South Alabama Hospitals Medical Staff Appointments and Reappointments for September and October 2012

- Credentials Report –September and October 2012

Resolution – University of South Alabama Hospitals Medical Staff Bylaws and Rules and Regulations Revisions of November 1, 2012

- Summary of Revisions

SKH:eb

Attachments

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
September and October 2012

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

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Bass, John B., MD	N/A	N/A	N/A	Reappt.	Active	Internal Med.	Reappt.	Active	Internal Medicine
Byrd, Carolyn W., CCC-SLP	Reappt.	Affiliate	Surgery	Reappt.	Affiliate	Surgery	Reappt.	Affiliate	Surgery
Cale, Michelle L., RDH	New Appt.	Affiliate	Surgery	N/A	N/A	N/A	N/A	N/A	N/A
Collins, Charmaine D., RN	Reappt.	Affiliate	Internal Med.	Reappt.	Affiliate	Internal Med.	N/A	N/A	N/A
Cook, Amy L, CRNP	Reappt.	Affiliate	Pediatrics	N/A	N/A	N/A	Reappt.	Affiliate	Pediatrics
Coumanis, Lewis G., MD	Reappt.	Active	Radiology	Reappt.	Active	Radiology	Reappt.	Active	Radiology
Crews, LaDonna M., MD	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics
Daniels, Larkin J., MD	Reappt.	Courtesy	Surgery	Reappt.	Courtesy	Surgery	N/A	N/A	N/A
Desverreaux, John N.,III., MD	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesiology
Dipalma, Jack, MD	Reappt.	Active	Internal Med.	Reappt.	Active	Internal Med.	Reappt.	Active	Internal Medicine
Donald, Stacey N., RN	Reappt.	Affiliate	Internal Med.	Reappt.	Affiliate	Internal Med.	N/A	N/A	N/A
Drinkard, Cammie R., CRNP	N/A	N/A	N/A	New Appt.	Affiliate	Internal Med.	New Appt.	Affiliate	Internal Medicine
Eggl, Kellie B., CRNP	N/A	N/A	N/A	New Appt.	Affiliate	Surgery	New Appt.	Affiliate	Surgery
Epsten, Mary Lynn, MD	New Appt.	Active	Pediatrics	N/A	N/A	N/A	New Appt.	Active	Pediatrics
Eyrich, George A., MD	N/A	N/A	N/A	Reappt.	Courtesy	Internal Med.	N/A	N/A	N/A
Finn, Edgar W., MD	New Appt.	Courtesy	Psychiatry	New Appt.	Courtesy	Psychiatry	N/A	N/A	N/A
Formwalt, David J., Psy.D	Reappt.	Affiliate	Psychiatry	Reappt.	Affiliate	Psychiatry	N/A	N/A	N/A
Franklin, Alan J., MD	Reappt.	Active	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
Gandy, Roy E., MD	Reappt.	Active	Surgery	Reappt.	Active	Surgery	Reappt.	Active	Surgery
Green, William K., MD	Reappt.	Active	Internal Med.	Reappt.	Active	Internal Med.	Reappt.	Active	Internal Medicine
Grenoble, Severin W., MD	New Appt.	Courtesy	Psychiatry	New Appt.	Courtesy	Psychiatry	N/A	N/A	N/A
Hamm, Charles R., Jr., MD	Reappt.	Active	Pediatrics	Reappt.	Courtesy	Pediatrics	Reappt.	Active	Pediatrics
Hanes, Charles R. II., MD	Reappt.	Courtesy	OB/GYN	N/A	N/A	N/A	N/A	N/A	N/A
Hannon, Jeffrey K., MD	Reappt.	Courtesy	Surgery	Reappt.	Courtesy	Surgery	N/A	N/A	N/A
Hart, Eugene L., MD	Reappt.	Active	Pathology	Reappt.	Active	Pathology	Reappt.	Active	Pathology
Hart, Katharine E., CRNP	New Appt.	Affiliate	Pediatrics	N/A	N/A	N/A	New Appt.	Affiliate	Pediatrics
Hartman, Catherine S., CRNP	Reappt.	Affiliate	Pediatrics	N/A	N/A	N/A	Reappt.	Affiliate	Pediatrics
Harwood, Brent, M., DPM	Reappt.	Affiliate	Orthopaedics	Reappt.	Affiliate	Orthopaedics	N/A	N/A	N/A

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
September and October 2012

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

NAME	USACWH			USAMC			AMBULATORY CARE		
Haynes, Johnson Jr., MD	Reappt.	Active	Internal Med.	Reappt.	Active	Internal Med.	Reappt.	Active	Internal Medicine
Herrera, Jorge L, MD	Reappt.	Active	Internal Med.	Reappt.	Active	Internal Med.	Reappt.	Active	Internal Medicine
Higgs, William R., MD	Reappt.	Active	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
Hires, Alicia R., RN	Reappt.	Affiliate	Internal Med.	Reappt.	Affiliate	Internal Med.	N/A	N/A	N/A
Howell, John B., III., MD	Reappt.	Courtesy	OB/GYN	Reappt.	Courtesy	OB/GYN	N/A	N/A	N/A
Hupp, Saunders L., MD	N/A	N/A	N/A	Reappt.	Active	Surgery	N/A	N/A	N/A
Hutchens, Dennis W., MD	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesiology
Jones, Richard E., MD	Reappt.	Refer/Follow	Pediatrics	Reappt.	Refer/Follow	Pediatrics	N/A	N/A	N/A
Jubran, Ihab, MD	Reappt.	Active	Pediatrics/CEC	N/A	N/A	N/A	Reappt.	Active	Pediatrics/CEC
Jurasek, Meleah A., CRNP	Reappt.	Affiliate	Pediatrics	N/A	N/A	N/A	Reappt.	Affiliate	Pediatrics
Kays, Arlene J., RN	Reappt.	Affiliate	OB/GYN	Reappt.	Affiliate	OB/GYN	Reappt.	Affiliate	OB/GYN
Kohaut, Edward C., MD	Reappt.	Active	Pediatrics	N/A	N/A	N/A	Reappt.	Active	Pediatrics
Koonce, Cassidy J., MD	N/A	N/A	N/A	New Appt.	Contract	Emerg. Med.	New Appt.	Contract	Emergency Medicine
Lafleur, John C., MD	Reappt.	Active	OB/GYN	Reappt.	Active	OB/GYN	Reappt.	Active	OB/GYN
Lane, Daniel R., MD	Reappt.	Active	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
Laskay, Kathleen M., CRNP	Reappt.	Affiliate	Pediatrics	N/A	N/A	N/A	Reappt.	Affiliate	Pediatrics
Lightfoot, William M., MD	Reappt.	Courtesy	Surgery	Reappt.	Courtesy	Surgery	N/A	N/A	N/A
Logan, Mary S., MD	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesiology
Madison, Betty G., CRNP	Reappt.	Affiliate	Pediatrics	N/A	N/A	N/A	Reappt.	Affiliate	Pediatrics
Maertens, Paul, MD	Reappt.	Active	Neurology	Reappt.	Active	Neurology	Reappt.	Active	Neurology
Magnone, Mario MD	Reappt.	Active	Internal Med.	Reappt.	Active	Internal Med.	Reappt.	Active	Internal Medicine
Manci, Elizabeth A., MD	Reappt.	Active	Pathology	Reappt.	Active	Pathology	Reappt.	Active	Pathology
Maurtua-Neumann, Paola, MD	New Appt.	Active	Pediatrics	N/A	N/A	N/A	New Appt.	Active	Pediatrics
Mayer, David C., MD	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics	N/A	N/A	N/A
McGee, Gregory S., MD	Reappt.	Active	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
Mcmullan, Eddrice M., MD	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesiology
Mullenix, Christopher D., MD	Reappt.	Courtesy	Surgery	N/A	N/A	N/A	N/A	N/A	N/A
Murphy, Patrick L, MD	N/A	N/A	N/A	Reappt.	Courtesy	Internal Med.	N/A	N/A	N/A
Naritoku, Dean K., MD	Reappt.	Active	Neurology	Reappt.	Active	Neurology	Reappt.	Active	Neurology

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NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Neely, Megan M.A., RDH	Reappt.	Affiliate	Surgery	N/A	N/A	N/A	N/A	N/A	N/A
Norden-Wiseman, Carol, MD	New Appt.	Active	Internal Med.	New Appt.	Active	Internal Med.	New Appt.	Active	Internal Medicine
O'Dowd, John M., MD	N/A	N/A	N/A	Reappt.	Courtesy	Internal Med.	N/A	N/A	N/A
O'Gorman, Ronald B., MD	Reappt.	Active	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
Owens, Sheri A., MD	Reappt.	Active	OB/GYN	Reappt.	Active	OB/GYN	Reappt.	Active	OB/GYN
Park, Christopher A., MD	Reappt.	Active	Surgery	N/A	N/A	N/A	N/A	N/A	N/A
Pearsall, Albert W., MD	Reappt.	Active	Orthopaedics	Reappt.	Active	Orthopaedics	Reappt.	Active	Orthopaedics
Reed, Jason M., CRNA	Reappt.	Affiliate	Anesthesia	Reappt.	Affiliate	Anesthesia	Reappt.	Affiliate	Anesthesiology
Revere, Cherie J., CRNP	N/A	N/A	N/A	Reappt.	Affiliate	Internal Med.	Reappt.	Affiliate	Internal Medicine
Rich, Leonard S., MD	Reappt.	Active	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
Rigsby, Brenda D., CRNP	N/A	N/A	N/A	Reappt.	Affiliate	Internal Med.	Reappt.	Affiliate	Internal Medicine
Roberson-Trammell, Katrina, MD	Reappt.	Active	EC/Pediatrics	N/A	N/A	N/A	Reappt.	Active	EC/Pediatrics
Roca, Theresa, MD	Reappt.	Courtesy	Pediatrics	Reappt.	Courtesy	Pediatrics	N/A	N/A	N/A
Rogers, Vera R., RN	Reappt.	Affiliate	OB/GYN	Reappt.	Affiliate	OB/GYN	Reappt.	Affiliate	OB/GYN
Rosenbaum, Michael S., Ph.D	Reappt.	Affiliate	Psychiatry	Reappt.	Affiliate	Psychiatry	N/A	N/A	N/A
Roveda, Mary Kelly, MD	New Appt.	Active	Pathology	New Appt.	Active	Pathology	New Appt.	Active	Pathology
Rubenstein, Howard, MD	Reappt.	Courtesy	Family Med.	Reappt.	Courtesy	Family Med.	N/A	N/A	N/A
Rutecki, Gregory W., MD	Reappt.	Courtesy	Internal Med.	Reappt.	Active	Internal Med.	Reappt.	Active	Internal Medicine
Setzler, Roger M., MD	Reappt.	Courtesy	Orthopaedics	Reappt.	Courtesy	Orthopaedics	N/A	N/A	N/A
Shaw, David M., MD	N/A	N/A	N/A	Reappt.	Courtesy	Internal Med.	N/A	N/A	N/A
Shaw, Dewey P., MD	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesia	Reappt.	Active	Anesthesiology
Shoemaker, Megan C., PA	Reappt.	Affiliate	Surgery	N/A	N/A	N/A	N/A	N/A	N/A
Simons, Brenda W., CRNP	Reappt.	Affiliate	Pediatrics	N/A	N/A	N/A	Reappt.	Affiliate	Pediatrics
Sindel, Lawrence J., MD	Reappt.	Active	Pediatrics	N/A	N/A	N/A	N/A	N/A	N/A
Singh, Lalit K., MD	New Appt.	Courtesy	Psychiatry	New Appt.	Courtesy	Psychiatry	N/A	N/A	N/A
Stella, Felicia B., MD	Reappt.	Courtesy	OB/GYN	N/A	N/A	N/A	N/A	N/A	N/A
Stover, Phillip R., MD	Reappt.	Refer/Follow	Pediatrics	Reappt.	Refer/Follow	Pediatrics	N/A	N/A	N/A
Terry, William J., MD	Reappt.	Courtesy	Surgery	N/A	N/A	N/A	N/A	N/A	N/A
Thompson, Jack H., MD	Reappt.	Refer/Follow	Pediatrics	Reappt.	Refer/Follow	Pediatrics	N/A	N/A	N/A

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
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	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Thrasher, Michelle, CRNP	Reappt.	Affiliate	Pediatrics	N/A	N/A	N/A	Reappt.	Affiliate	Pediatrics
Tucker, Joseph A., MD	Reappt.	Active	Pathology	Reappt.	Active	Pathology	Reappt.	Active	Pathology
Val-Gallas, John M., MD	Reappt.	Courtesy	OB/GYN	N/A	N/A	N/A	N/A	N/A	N/A
Vidal, Rosa A., MD	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics	Reappt.	Active	Pediatrics
Weaver, Yaffa K., MD	N/A	N/A	N/A	Reappt.	Active	Surgery	N/A	N/A	N/A
Weinstein, Leonard S., MD	Reappt.	Active	Surgery	Reappt.	Active	Surgery	N/A	N/A	N/A
White-Spunner, Suanne, MD	Reappt.	Courtesy	Orthopaedics	Reappt.	Courtesy	Orthopaedics	N/A	N/A	N/A
Williams, Lucile T., Psy.D	Reappt.	Affiliate	Psychiatry	Reappt.	Affiliate	Psychiatry	N/A	N/A	N/A
Wrights, Sharienne, MD	Reappt.	Active	Pediatrics	N/A	N/A	N/A	N/A	N/A	N/A
Zarzour, Robert J., MD	Reappt.	Courtesy	Orthopaedics	Reappt.	Courtesy	Orthopaedics	N/A	N/A	N/A

UNIVERSITY OF SOUTH ALABAMA HEALTHCARE NETWORK
MEDICAL STAFF APPOINTMENTS/REAPPOINTMENTS
FOR BOARD OF TRUSTEE APPROVAL
September and October 2012

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

NAME	USACWH			USAMC			AMBULATORY CARE		
	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser	Type/Stat	Category	Dept/Ser
Change Request									
Hodge, Juvonda S., MD	Add Priv's	Active	Surgery	Add Priv's	Active	Surgery			
Retired Resigned									
Name	**Reason**	**Date**	**Dept.**	**Reason**	**Date**	**Dept.**			
Beaver, Barney, DO	Resigned	8/23/2012	Internal Med.	Resigned	8/23/2012	Internal Med.			
Beville, Lindsey C., PA	Resigned	9/20/2012	Surgery	Resigned	9/20/2012	Surgery			
Craig, Thomas E., III., MD	N/A	N/A	N/A	Resigned	5/16/2012	Internal Med.			
Cucoranu, Delia, MD	Resigned	6/30/2012	Internal Med.	Resigned	6/30/2012	Internal Med.			
Koch, Daniel, Ph.D	Retired	8/30/2012	Psychiatry	Retired	8/30/2012	Psychiatry			
LaChance, Chad A., MD	N/A	N/A	N/A	Resigned	9/1/2012	Emergency Med.			
Malozzi, Christopher M., MD	Resigned	9/6/2012	Internal Med.	Resigned	9/6/2012	Internal Med.			
Michalski, Joseph P., MD	Resigned	9/6/2012	Internal Med.	Resigned	9/6/2012	Internal Med.			
Offner, Stuart A., MD	Moved	6/30/2012	Internal Med.	Moved	6/30/2012	Internal Med.			
Reed, Eddie, MD	Moved	9/30/2012	Internal Med.	Moved	9/30/2012	Internal Med.			
Sforzini, Michael J., MD	Resigned	9/13/2012	Internal Med.	Resigned	9/13/2012	Internal Med.			
Sosnowski, Jeffrey, MD	Resigned	6/1/2012	Pathology	Resigned	6/1/2012	Pathology			
Thomas, Christian, DA	Temps. expired	9/28/2012	Surgery	N/A	N/A	N/A			
Walker, Andrew, MD	Temps. expired	9/30/2012	Surgery	N/A	N/A	N/A			
Walker, Teresa G., MD	Resigned	9/13/2012	Anesthesiology	Resigned	9/13/2012	Anesthesiology			

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

September and October 2012

LEGEND:

New Appt.	New application for medical staff privileges recommended for approval.
Reappt.	Reappointment application for medical staff privileges recommended for approval.
No Privs.	No privileges requested
Change in Status	Added privileges Change Department
Retired Resigned	Moved, Retired or Resigned

RECOMMENDED BY:

Ehab A. Molokhia, M.D., Chair of Medical Executive Committee or Chair Elect
USA Children's & Women's Hospital

Anthony M. Martino, M.D., Chair of Medical Executive Committee or Chair Elect
USA Medical Center

Stanley K. Hammack
Stanley K. Hammack
Vice President, USA Health Systems

RESOLUTION

USA HOSPITALS MEDICAL STAFF BYLAWS AND RULES AND REGULATIONS REVISIONS OF NOVEMBER 1, 2012

WHEREAS, revisions to USA Hospitals Medical Staff Bylaws and Rules and Regulations, approved at the November 1, 2012, Medical Staff meeting and attached hereto, are recommended for approval by the Medical Staffs 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 revisions as submitted.

Proposed Changes to USA Hospitals Medical Staff Bylaws and Rules and Regulations
Revision Descriptions
Approved at the USA Hospitals General Medical Staff Meeting on November 1, 2012

Medical Staff Bylaws

1) **ARTICLE III – CATEGORIES OF THE MEDICAL STAFF**
Section 3.03 The Consulting Physician Staff-clarified description
Section 3.04 Refer and Follow Staff-addition of no voting, serving on committees and holding of office.

2) **ARTICLE IV – The ALLIED HEALTH STAFF**
Clarified the supervision requirement as being under the physician or employer.
Added FPPE and OPPE activity requirements

3) **ARTICLE V- CATEGORIES OF TEMPORARY STAFF**
Section 5.03 Temporary Privileges-Important patient. Defined the maximum timeframe of 120 days
Section 5.04 Temporary Privileges-Disaster Privileges. Changed USAMC to not utilize volunteers. Only temporary privileges will be granted if a specific clinical service need is identified.

4) **ARTICLE VI – GENERAL CONDITIONS OF APPOINTMENT**
Section 6.02 – Board Certification-Revised to require physicians seeking reappointment after January 1st 2013 to obtain at least one Board Certification.

5) **ARTICLE XII – APPOINTMENTS**
Section 12.02 – Submission of Application-allowed for separate processes for the "care of specific patient" and the Refer and Follow categories.

6) **ARTICLE XXVII – HISTORY AND PHYSICALS**
Section 28.01 Content - Revised to include MCI to utilize a detailed office note for non-oncology outpatient medication administration patients.

7) **ARTICLE XXVII-HOSPITAL COMMITTEES**
Revised committee lists for both hospitals.

Medical Staff Rules and Regulations

1) **2.2 Hospital Committees**
Removed duplicate location of the committee list (now only located in the bylaws).

2) **3.4.9 Anesthetic Record**
Revised post anesthesia reassessment timeframe to 48 hours.

3) **7.0 Emergency Department/Evaluation Center**
Section 7.1-Revised CW Evaluation Center to allow Sexual Assault Nurse Examiner to perform a medical screening examination.

UNIVERSITY OF SOUTH ALABAMA HOSPITALS
MEDICAL STAFF MEETING
November 1, 2012

MINUTES

The quarterly meeting of the Medical Staff of the University of South Alabama Hospitals was held at the Faculty Clubhouse on Thursday November 1, 2012. Beth Anderson, Administrator of USA Medical Center, called the meeting to order at 6:58 p.m. A roster of attendees is available in the Medical Staff Credentials Office.

Ms. Anderson introduced Anthony Martino, M.D., Chair of the Medical Executive Committee for USA Medical Center. Dr. Martino presented the Medical Staff By-Laws and Rules and Regulations revisions for discussion. Dr. John Russell questioned an item on page 5 of the handout, which Sharon Ezelle, Director of Quality Management for USA Medical Center provided a detailed explanation. With no other discussion, a motion was made by Dr. David Gremse and seconded by Dr. William Richards to accept the By-Laws and Rules and Regulations revisions as presented.

Beth Anderson, USAMC administrator, reported that the Cardiac Cath Lab will go live next week. The MRI installation has been delayed due to failed shielding inspections. The MRI (3.0 TESLA) should be installed by the end of December. The Post-Op area should be ready for use in January or February with demolition scheduled to begin in the next two weeks. With the changes that have recently taken place at Infirmary West, USAMC has been successful in accommodating all the surgery requests from the various departments. This should continue to be a positive move for USA.

Ms. Anderson introduced Owen Bailey, USACW Administrator. Mr. Bailey expressed his appreciation to Amy McRae, Director of Quality Management at CW and to the Quality Management Department in their recent efforts of the quality improvement indicators. The outreach programs and events in the community are going very well. These events included meetings with Congressman Jo Bonner, various civic groups, and the monthly community luncheons. With the new tower coming to USACW, Dr. David Gremse, Owen Bailey and Becky Tate, Health Services Foundation CEO, have recently visited three large pediatric groups in Mobile and Baldwin Counties. Their next visit will be to Mississippi to discuss how USA can be of service to them and obtain additional referrals from the surrounding communities. The USACW target completion date has been moved to late spring due to the efforts of bringing the building up to code for Public Health. Phase II will be initiated after the completion of Phase I. This will include the courtyard with lighthouse, demolition of the old cafeteria, and modification to the lobby and gift shop.

Dr. Ronald Franks spoke of the dramatic changes in Medicaid. He stated that Mr. Stan Hammack, Vice President for USA Health System has been appointed by the Governor to the Alabama Medicaid Advisory Commission and attended the first meeting today. Medicaid will need to move away from fee for service and be based as episodes of care and patient outcomes. Dr. Robert Allen Perkins is working with Dr. Gene Lammers in an effort to have a similar program at USA and extending through the PCP Network, measuring quality of care with patient outcomes. This expansion to Medicaid would be a great benefit for USA because it will allow for reimbursement of a large number of patients that are currently being treated at USA. He spoke of the Physician Office Building project and what is the most efficient way to proceed. The services included are Orthopedics, OBGYN, Family Practice and Digestive Health. Each service has met with the architects to create mock-ups. Mrs. Becky Tate, Health Services Foundation CEO, is coordinating this project.

Dr. Ronald Franks explained that Infirmary West services are being absorbed in the system with 90% of the orthopedic cases transferred to USA Medical Center. The Post-Op area and the physician lounge will be completed by the end of February. The sleep lab is still under discussion. The GI lab will probably be able to remain in their present location.

Dr. Ronald Franks shared that discussions are being held with officials concerning services for VA patients and their needs. Senators are strongly supportive that the VA should lease the Infirmary West location and operate their clinics there. To date, they have rejected this suggestion.

Dr. Ronald Franks reported on the construction of the College of Medicine development of a standardized patient mock facility clinic for students and residents to work with patient care. This should be operational shortly after the first of the year.

Dr Eichold questioned the expansion of Medicaid. Dr. Allen Perkins responded that physicians cannot be forced to participate in Medicaid. They can opt not to participate.

With no further business, the meeting was adjourned at 7:20 p.m. by Dr. Ronald Franks.

Respectfully submitted,

Juliana Kuck

Juliana Kuck
Medical Credentialing Specialist

RESOLUTION

PROFESSOR EMERITUS

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

Lary M. Dilsaver, Ph.D., Professor of Earth Sciences
Paul A. Helminger, Ph.D., Professor of Physics

and,

WHEREAS, in recognition of their contributions to the University through exemplary accomplishments in teaching and in the generation of new knowledge through research and scholarship, and for serving as an inspiring influence to students, and

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

NOW THEREFORE, BE IT RESOLVED that the Board of Trustees of the University of South Alabama in a seated meeting held on December 6, 2012, hereby appoints the aforenamed individuals to the rank of Professor Emeritus with the rights and privileges thereunto appertaining, and

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

RECEIVED
OFFICE OF THE PRESIDENT
NOV 02 2012
UNIVERSITY OF SOUTH ALABAMA

MEMORANDUM

UNIVERSITY OF SOUTH ALABAMA

OFFICE OF ACADEMIC AFFAIRS

November 2, 2012

TO: Gordon Moulton

FROM: G. David Johnson

RE: Professor Emeritus Recommendation

In accordance with the recommendation of the faculty and Chair of the respective disciplines and Dean of the College of Arts and Sciences, I recommend that the retired University of South Alabama faculty members listed below be granted the status of *Professor Emeritus* effective upon approval of you and the Board of Trustees.

- Dr. Lary M. Dilsaver, Professor of Earth Sciences, Retired May 2012
- Dr. Paul A. Helminger, Professor of Physics, Retired May 2012

A resolution for the Board of Trustees is attached.

GDJ/njc

RESOLUTION

SABBATICAL AWARDS

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

THEREFORE, BE IT RESOLVED, that the University of South Alabama Board of Trustees approves said Sabbatical Awards on this date, December 6, 2012, for the 2013-2014 academic year.

NAME	DISCIPLINE	TIME PERIOD
Dr. Scott L. Douglass	Civil Engineering	Fall 2013
Dr. Sytske K. Kimball	Earth Sciences	Fall 2013
Dr. Cornelius Pillen	Mathematics and Statistics	Spring 2014
Dr. Ted L. Poston	Philosophy	Fall 2013
Dr. Christopher T. Raczkowski	English	Spring 2014
Mr. R. Tony Wright	Visual Arts	Fall 2013

MEMORANDUM

UNIVERSITY OF SOUTH ALABAMA — OFFICE OF ACADEMIC AFFAIRS

December 5, 2012

TO: V. Gordon Moulton

FROM: G. David Johnson

SUBJECT: Sabbatical Recommendation for Academic Year 2013-2014

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

Dr. Scott L. Douglass	Civil Engineering	Fall 2013
Dr. Sytske K. Kimball	Earth Sciences	Fall 2013
Dr. Cornelius Pillen	Mathematics and Statistics	Spring 2014
Dr. Ted L. Poston	Philosophy	Fall 2013
Dr. Christopher T. Raczkowski	English	Spring 2014
Mr. R. Tony Wright	Visual Arts	Fall 2013

Teaching coverage has been addressed in a satisfactory manner for all recommended proposals. Proposals have been reviewed and recommended at the discipline and college level. Full applications and supporting materials are available in the Office of Academic Affairs. A brief summary of each request is attached.

GDJ/njc

MEMORANDUM

UNIVERSITY OF SOUTH ALABAMA

October 24, 2012

TO: Dr. David Johnson, Sr VP for Academic Affairs

FROM: J. David Stearns, Associate Vice President for Enrollment Services

SUBJECT: Proposal for the Presidential Scholarship Award

Pursant to our discussion with Dr. John Smith, Mr. Wayne Davis and Dr. Joe Busta, I am recommending that we adopt this new scholarship proposal effective Fall 2013.

ACT	**SAT Equiv**	**In-State Award Amount**	**Difference In-State Tuition= $8300**	**Out of State Award Amount**	**Difference Out-of-State Tuition =$16,600**
23	1050-1080	$2,500	($5,800)	$5,000	($11,600)
24-27	1090-1240	$3,500	($4,800)	$7,000	($9,600)
28-29	1250-1320	$5,000	($3,300)	$10,000	($6,600)
30-31	1330-1390	$8,000	($300)	$12,000	($4,600)
32	1400-1430	$9,000	$700	$12,000	($4,600)
33 & >	1440 & >	$11,000	$2,700	$12,000	($4,600)

This new scholarship proposal will enhance our ability to not only attract more students but also academically talented students from other states. This net effect will allow our Freshmen class to grow and also allow the ACT composite score to increase.

Approve **Disapprove**

RESOLUTION

AFFILIATION AGREEMENT BETWEEN THE UNIVERSITY OF SOUTH ALABAMA AND THE UNIVERSITY OF SOUTH ALABAMA JAGUAR ATHLETIC FUND, INC.

WHEREAS, the University of South Alabama Jaguar Athletic Fund, Inc., ("USAJAF") was established as a non-profit, educational and charitable organization under Section 501(c)(3) of the Internal Revenue Code of 1986 for the purposes of serving the University of South Alabama ("University") and supports University and promotes its mission by, among other things, providing support to University's educational and athletic functions, including its athletic programs, and

WHEREAS, University and USAJAF have a history of interaction and cooperation that has served the interests of University, and

WHEREAS, University and USAJAF anticipate that University will provide USAJAF with specified services and facilities with which to carry out its responsibilities in exchange for the development, financial, and other service, support, and assistance USAJAF shall provide University, and

WHEREAS, the Board of Directors of USAJAF have approved the Affiliation Agreement as it defines the arrangements concerning services, facilities, premises, and activities between University and USAJAF, and

WHEREAS, the Board of Trustees of the University of South Alabama wishes to define the aforementioned arrangements with USAJAF as well,

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama hereby approves and adopts the Affiliation Agreement between University of South Alabama and the University of South Alabama Jaguar Athletic Fund, Inc., as attached hereto.

CAMPUS MEMORANDUM
UNIVERSITY OF SOUTH ALABAMA

Date: **November 21, 2012**

To: **President V. Gordon Moulton**

From: **Joel W. Erdmann, Ph.D.**

Subject: **Agenda Item for December 6, 2012, University of South Alabama Board of Trustees Meeting -Affiliation Agreement Between University of South Alabama and the University of South Alabama Jaguar Athletic Fund, Inc.**

Attached is a resolution for consideration by the Board of Trustees of the University of South Alabama concerning the adoption of the Affiliation Agreement Between University of South Alabama and the University of South Alabama Jaguar Athletic Fund, Inc., which discusses obligations and expectations of each to the other. This Affiliation Agreement has been approved by the Board of Directors of the University of South Alabama Jaguar Athletic Fund, Inc. With your approval, this item will be presented to Board of Trustees for approval. Further, I recommend the adoption of the resolution by the Board of Trustees.

Attachment

**AFFILIATION AGREEMENT
BETWEEN
UNIVERSITY OF SOUTH ALABAMA
AND THE
JAGUAR ATHLETIC FUND, INC.**

This Agreement is made and entered into this ________ day of ________________, 2012 (the Effective Date) by and between University of South Alabama (hereinafter "USA" or "University"), a public body corporate, and the Jaguar Athletic Fund, Inc., a corporation duly organized under the laws of the State of Alabama (hereinafter "JAF").

RECITALS

WHEREAS, USA is a state institution of higher learning established pursuant to the laws of the State of Alabama; and

WHEREAS, JAF has been established as a non-profit, educational and charitable organization under Section 501(c)(3) of the Internal Revenue Code of 1986 for the purposes outlined in its Articles of Incorporation, a copy of which is attached to this Agreement as "Exhibit A;" and

WHEREAS, JAF serves University and promotes its mission as indicated in "Exhibit A," by, among other things, providing support to its educational and athletic functions, including its athletic programs; and

WHEREAS, JAF has the responsibility as an affiliated entity to use its resources in a responsible and effective manner to further the mission of University and to support University; and

WHEREAS, University and JAF have a history of interaction and cooperation that has served the interests of University; and

WHEREAS, University has the authority and right to enter into agreements with affiliated 501(c)(3), not-for-profit organizations; and

WHEREAS, University and JAF anticipate that University will provide JAF with specified services and facilities with which to carry out its responsibilities in exchange for the development, financial, and other service, support and assistance JAF shall provide University; and

WHEREAS, USA and JAF desire to define the arrangements concerning services, facilities, premises and activities as set forth in this Agreement.

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, University and JAF do hereby agree as follows:

ARTICLE 1. PERSONNEL AND SERVICES

JAF may utilize, with the approval of the President of University, such University administrative, professional and other employees from time to time as are needed to carry out the purposes of JAF as agreed by University.

ARTICLE 2. JAF OBLIGATIONS

2.1 JAF agrees to provide the services and compensate University as requested by University.

2.2 JAF agrees that it may only use its resources to advance University's mission as outlined in its Articles of Incorporation.

2.3 JAF agrees to maintain its financial and accounting records in accordance with Generally Accepted Accounting Principles. JAF agrees to retain all books, accounts, reports, files and other records of JAF relating to this Agreement, if any, and make such records available at all reasonable times for inspection and audit by University, or their agents, during the term of and for a period of five years after the completion of this Agreement.

2.4 JAF agrees to submit to an audit, by request of University, of JAF's books, records, and expenditures, if any. University shall have the right to audit all records, financial and otherwise, if any, of JAF to assure that funds, resources and services provided by University are expended for the ultimate benefit of University and are expended by JAF for purposes consistent with the terms of this Agreement. If University funds are expended by JAF for purposes inconsistent with this Agreement, JAF, upon demand by University, shall reimburse University for such misused funds, and University shall have all rights provided by law, including the right to suspend further provision of resources under this Agreement and to terminate this Agreement.

2.5 To the extent that JAF engages in fundraising on behalf of University, JAF agrees to accept or solicit only those gifts that are consistent with University's missions, goals or objectives.

2.6 JAF shall not accept any gift, donation, grant or enter into any transaction that creates any liability for University, without advance written approval of the University President.

2.7 JAF acknowledges and agrees that University owns all copyright, interest in and right to all trademarks, trade names, logos, and service marks developed by University for use by JAF, including all such trademarks, service marks, and trade names historically associated with JAF.

2.8 JAF shall adopt and maintain a conflict of interest policy.

2.9 JAF shall provide the University President reasonable notice of any regular, annual, or special meetings of its Board of Directors or of any such Executive Committee as may be formed, and the President or his designee shall have the right to attend any such meetings as well as the meetings of any other JAF committees.

2.10 If JAF should cease to exist, any JAF assets donated to JAF for the benefit of University will be transferred to University for the use of USA Athletics.

2.11 University may from time to time make other requests of JAF or seek other assistance from JAF in accomplishing the mission of University, and JAF agrees that it will not unreasonably deny any such requests or assistance.

ARTICLE 3. UNIVERSITY OBLIGATIONS AND OTHER IN-KIND SUPPORT

3.1 University grants JAF a non-exclusive, non-transferable license to use University trademarks, service marks, and logos consistent with University policy and its agreement with any outside contractors pertaining to the licensing thereof, including but not limited to a license to use marks developed by University for use by JAF.

3.2 University grants JAF an exclusive, transferable license to use University trademarks, service marks, and logos historically associated with JAF or developed by University or JAF for JAF's use.

3.3 University agrees to designate JAF as an official affiliated entity of University.

3.4 University shall provide JAF such other rights, privileges or benefits as it may under applicable law and as the University President, in the President's sole discretion, may determine will assist JAF in discharging its obligations under this Agreement.

3.5 The University President, or his/her designee, shall be a director on the Board of JAF and shall be given reasonable notice of any meeting of the Board or Executive Committee.

3.6 Subject to the availability of funding and the budget process, University agrees to provide JAF with resources suitable in University's judgment for the accomplishment of JAF's activities for University's benefit, and may include services and supplies, staff support, office space, and such financial support as agreed upon between the parties from time to time. The amount and nature of such resources shall be determined annually, on a fiscal year basis, in connection with the program planning and budget processes of University and JAF. No provision in this Agreement shall be construed to give JAF any legal entitlement to any University funding, personnel or other resources in any particular fiscal year. All University assets, including personal property, made available to JAF under the terms of this Agreement shall remain the property of University unless sold, conveyed or transferred to JAF by way of a separate written agreement.

3.7 The University President will encourage all parts of University to collaborate with JAF in implementing JAF's programs and services.

3.8 The University President agrees to inform JAF on a regular basis of University's needs and priorities.

ARTICLE 4. COMPLIANCE

JAF shall comply with any and all applicable federal, state, and local laws and regulations.

ARTICLE 5. INDEMNIFICATION

JAF agrees to indemnify and hold harmless University, including its agents and employees from any and all claims, demands, suits or liabilities of any nature, or on account of any of the actions or inactions of JAF. JAF agrees to reimburse University and its agents and employees for any expenses incurred by them or as a result of legal action or inaction, including reasonable attorney fees, provided funds are available for such purpose.

ARTICLE 6. INSURANCE

JAF agrees to carry insurance satisfactory to University through the appropriate and approved University fund or outside agency to cover directors' and officers' liability, special event liability, premises liability, and general liability.

ARTICLE 7. REPORTING

JAF shall, within one hundred twenty (120) days following the close of its Fiscal Year, submit a detailed annual report of the work and financial condition of JAF to the President of University, and any other reports as required by this Agreement, by the Bylaws of JAF, or by applicable law.

ARTICLE 8. TERMINATION AND RENEWAL

8.1 This Agreement shall have a term of five years, if not renewed by mutual consent of the parties before that date.

8.2 This Agreement may be terminated for any reason by written approval and consent of University upon ninety (90) days written notice.

8.3 Either party may terminate this Agreement for cause, including a breach of this Agreement, upon thirty (30) days written notice.

8.4 If this Agreement is terminated for any reason, including because the Agreement has expired without being renewed under Article 8.1, the following articles shall survive the termination: Articles 2.10, 5, 8 and 9.

8.5 The JAF agrees to cease using the University's name, marks and logos in the event the JAF dissolves, ceases to be a non-profit corporation, ceases to be recognized as a tax exempt entity under Section 501(c)(3) of the Internal Revenue Code, or this Agreement is terminated.

ARTICLE 9. MISCELLANEOUS PROVISIONS

9.1 This Agreement shall be construed, governed, interpreted and applied in accordance with the laws of the State of Alabama.

9.2 The parties agree that JAF is not the agent or employee of University, and nothing in this Agreement creates an employment or other agency relationship between the parties. JAF is not a subsidiary of University and is not directly or indirectly controlled by University.

9.3 University and the JAF agree that JAF's donor and giving records and any other financial or commercial information possessed by JAF or provided by JAF to University concerning individuals or corporations that provide JAF financial support are confidential and proprietary. Unless required to disclose such information by applicable law, University and JAF agree not to disclose to third parties and to keep confidential the giving records, giving history, and financial or commercial information of individuals and corporations that provide financial support to JAF.

9.4 In the performance of this Agreement, JAF shall not deny opportunities, employment or otherwise, to any person on the basis of race, color, religion, national origin, age, sex, sexual orientation, disability status, genetic information or veteran status.

9.5 The parties hereto acknowledge that this Agreement sets forth the entire Agreement and understanding of the parties hereto as to the subject matter hereof, and shall not be subject to any change or modification except by the execution of a written instrument subscribed to by the parties hereto.

9.6 The provisions of this Agreement are severable, and in the event that any provisions of this Agreement shall be determined to be invalid or non-enforceable under any controlling body of the law, such invalidity or non-enforceability shall not in any way affect the validity or enforceable nature of the remaining provisions hereof.

9.7 The failure of either party to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right or excuse a similar subsequent failure to perform any such term or condition by the other party.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals and duly executed this Agreement the day and year set forth below.

University of South Alabama		Jaguar Athletic Fund, Inc.	
By:		By:	
Name:		Name:	JAMES H SHUMOCK
Title:		Title:	PRESIDENT
Date:		Date:	11/20/2012

RESOLUTION

AFFILIATION AGREEMENT BETWEEN THE UNIVERSITY OF SOUTH ALABAMA AND THE UNIVERSITY OF SOUTH ALABAMA NATIONAL ALUMNI ASSOCIATION

WHEREAS, The University of South Alabama National Alumni Association ("Association") was established as a non-profit, educational and charitable organization under Section 501(c)(3) of the Internal Revenue Code of 1986 for the purposes of serving the University of South Alabama ("University") and has as its mission "to support and positively influence the goals of the University through an active relationship with the University, its alumni, students and friends[, and] to provide comprehensive programs, services and resources to benefit the University, its alumni, students and friends," and

WHEREAS, University and Association have a history of interaction and cooperation that has served the interests of University, and

WHEREAS, University and Association anticipate that University will provide Association with specified services and facilities with which to carry out its responsibilities in exchange for the development, financial, and other service, support, and assistance Association shall provide University, and

WHEREAS, the Board of Directors of Association have approved the Affiliation Agreement as it defines the arrangements concerning services, facilities, premises, and activities between University and Association, and

WHEREAS, the Board of Trustees of the University of South Alabama wishes to define the aforementioned arrangements with Association as well,

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama hereby approves and adopts the Affiliation Agreement between University of South Alabama and The University of South Alabama National Alumni Association as attached hereto.

REC'D
OFFICE OF THE PRESIDENT

NOV 21 2012

UNIVERSITY OF SOUTH ALABAMA

CAMPUS MEMORANDUM
UNIVERSITY OF SOUTH ALABAMA

Date: **November 21, 2012**

To: **President V. Gordon Moulton**

From: **Joseph F. Busta, Jr., Ph.D.**

Subject: **Agenda Item for December 6, 2012, University of South Alabama Board of Trustees Meeting -Affiliation Agreement between University of South Alabama and the University of South Alabama National Alumni Association**

Attached is a resolution for consideration by the Board of Trustees of the University of South Alabama concerning the adoption of the Affiliation Agreement between University of South Alabama and the University of South Alabama National Alumni Association which discusses obligations and expectations of each to the other. This Affiliation Agreement has been approved by the Board of Directors of the University of South Alabama National Alumni Association. With your approval, this item will be presented to Board of Trustees for approval. Further, I recommend the adoption of the resolution by the Board of Trustees.

Attachment

Affiliation Agreement
Between the
University of South Alabama
and
The University of South Alabama National Alumni Association

This Agreement is made and entered into this ________ day of __________________, 2012 (the Effective Date) by and between University of South Alabama (hereinafter "USA" or "University"), a public body corporate, and The University of South Alabama National Alumni Association, a corporation duly organized under the laws of the State of Alabama (hereinafter "Association").

RECITALS

WHEREAS, USA is a state institution of higher learning established pursuant to the laws of the State of Alabama; and

WHEREAS, Association has been established as a non-profit, educational and charitable organization under Section 501(c)(3) of the Internal Revenue Code of 1986 for the purposes outlined in its Articles of Incorporation and amendments thereto, a copy of which are attached to this Agreement as "Exhibit A;" and

WHEREAS, Association has as its mission "to support and positively influence the goals of the University through an active relationship with the University, its alumni, students and friends [, and] to provide comprehensive programs, services and resources to benefit the University, its alumni, students and friends," as indicated in its Constitution, which is attached hereto as "Exhibit B;" and

WHEREAS, Association has the responsibility as an affiliated entity to use its resources in a responsible and effective manner to further the mission of University and to support University; and

WHEREAS, University and Association have a history of interaction and cooperation that has served the interests of University; and

WHEREAS, University has the authority and right to enter into agreements with affiliated 501(c)(3), not-for-profit organizations; and

WHEREAS, University and Association anticipate that University will provide Association with specified services, financial resources and facilities with which to carry out its responsibilities in exchange for the program, financial, private gifts support, and other service, support and assistance Association shall provide University; and

WHEREAS, USA and Association desire to define the arrangements concerning services, facilities, activities, program and financial relationship as set forth in this Agreement.

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, University and Association do hereby agree as follows:

ARTICLE 1. PERSONNEL AND SERVICES

Association may utilize, with the approval of the President of University, such University administrative, professional and other employees from time to time as are needed to carry out the purposes of Association as agreed by University.

ARTICLE 2. ASSOCIATION OBLIGATIONS

2.1 Association agrees to provide the services and compensate University as requested by University.

2.2 Association agrees that it may only use its resources to advance University's mission as outlined in its Articles of Incorporation.

2.3 Association agrees to maintain its financial and accounting records in accordance with Generally Accepted Accounting Principles. Association agrees to retain all books, accounts, reports, files and other records of Association relating to this Agreement, if any, and make such records available at all reasonable times for inspection and audit by University, or their agents, during the term of and for a period of five years after the completion of this Agreement.

2.4 Association agrees to submit to an audit, by request of University, of Association's books, records, and expenditures, if any. University shall have the right to audit all records, financial and otherwise, if any, of Association to assure that funds, resources and services provided by University are expended for the ultimate benefit of University and the Association, and are expended by Association for purposes consistent with the terms of this Agreement. If University funds are expended by Association for purposes inconsistent with this Agreement, Association, upon demand by University, shall reimburse such misused funds, and University shall have all rights provided by law, including the right to suspend further provision of resources under this Agreement and to terminate this Agreement.

2.5 To the extent that Association engages in fundraising on behalf of University, Association agrees to accept or solicit only those gifts that are consistent with University's missions, goals or objectives.

2.6 Association shall not accept any gift, donation, grant or enter into any transaction that creates any liability for University, without advance written approval of the University President.

2.7 Association grants University a non-exclusive, non-transferable license to use trademarks, service marks, and logos to the extent which are owned by Association.

2.8 Association shall adopt and maintain a conflict of interest policy.

2.9 Association shall provide the University President reasonable notice of any regular, annual, or special meetings of its Board of Directors or of Executive Committee, and the President or his designee shall have the right to attend any such meetings as well as the meetings of any other Association committees.

2.10 If Association should cease to exist, any Association assets donated to Association for the benefit of University must be transferred to University or to another 501(c)(3) non-profit entity designated by University through its Board of Trustees. If the University should cease to exist, Association assets shall be utilized in such as manner as to carry out as closely as possible the intentions of the donors of the funds, to the extent applicable at the time.

2.11 University may from time to time make other requests of Association or seek other assistance from Association in accomplishing the mission of University, and Association agrees that it will not unreasonably deny any such requests or assistance.

ARTICLE 3. UNIVERSITY OBLIGATIONS AND OTHER IN-KIND SUPPORT

3.1 University grants Association a non-exclusive, non-transferable license to use University trademarks, service marks, and logos consistent with University policy and its agreement with any outside contractors pertaining to the licensing thereof, including but not limited to a license to use marks developed by University for use by Association.

3.2 University grants Association an exclusive, transferable license to use University trademarks, service marks, and logos historically associated with Association or developed by University or Association for Association's use.

3.3 University agrees to designate Association as an official affiliated entity of University.

3.4 University shall provide Association such other rights, privileges or benefits as it may under applicable law and as the University President, in the President's sole discretion, may determine will assist Association in discharging its obligations under this Agreement.

3.5 Subject to the availability of funding and the budget process, University agrees to provide Association with resources suitable in University's judgment for the accomplishment of Association's activities for University's benefit, and may include services and supplies, staff support, office space, and such financial support as agreed upon between the parties from time to time. The amount and nature of such resources shall be determined annually, on a fiscal year basis, in connection with the program planning and budget processes of University and Association. No provision in this Agreement shall be construed to give Association any legal entitlement to any University funding, personnel or other resources in any particular fiscal year. All University assets, including personal property, made available to Association under the terms of this Agreement shall remain the property of University unless sold, conveyed or transferred to Association by way of a separate written agreement.

3.6 The University President will encourage all parts of University to collaborate with Association in implementing Association's programs and services.

3.7 The University President agrees to inform Association on a regular basis of University's needs and priorities.

ARTICLE 4. COMPLIANCE

Association shall comply with any and all applicable federal, state, and local laws and regulations.

ARTICLE 5. INDEMNIFICATION

Association agrees to indemnify and hold harmless University, including its agents and employees from any and all claims, demands, suits or liabilities of any nature, or on account of any of the actions or inactions of Association. Association agrees to reimburse University and its agents and employees for any expenses incurred by them or as a result of legal action or inaction, including reasonable attorney fees, provided funds are available for such purpose.

ARTICLE 6. INSURANCE

Association agrees to carry insurance satisfactory to University through the appropriate and approved University fund or outside agency to cover directors' and officers' liability, special event liability, premises liability, and general liability.

ARTICLE 7. REPORTING

Association shall, within one hundred twenty (120) days following the close of its Fiscal Year, submit a detailed annual report of the work and financial condition of Association to the President of University, and any other reports as required by this Agreement, by the Bylaws of Association, or by applicable law.

ARTICLE 8. TERMINATION AND RENEWAL

8.1 This Agreement shall have a term of five years, if not renewed by mutual consent of the parties before that date.

8.2 This Agreement may be terminated for any reason by written approval and consent of University and Association upon ninety (90) days written notice.

8.3 Either party may terminate this Agreement for cause, including a breach of this Agreement, upon thirty (30) days written notice.

8.4 If this Agreement is terminated for any reason, including because the Agreement has expired without being renewed under Article 8.1, the following articles shall survive the termination: Articles 2.10, 5, 8 and 9.

8.5 The Association agrees to cease using the University's name, marks and logos in the event the Association dissolves, ceases to be a non-profit corporation, ceases to be recognized as a tax exempt entity under Section 501(c)(3) of the Internal Revenue Code, or this Agreement is terminated.

ARTICLE 9. MISCELLANEOUS PROVISIONS

9.1 This Agreement shall be construed, governed, interpreted and applied in accordance with the laws of the State of Alabama.

9.2 The parties agree that Association is not the agent or employee of University, and nothing in this Agreement creates an employment or other agency relationship between the parties. Association is not a subsidiary of University and is not directly or indirectly controlled by University.

9.3 University and the Association agree that Association's donor and giving records and any other financial or commercial information possessed by Association or provided by Association to University concerning individuals or corporations that provide Association financial support are confidential and proprietary. Unless required to disclose such information by applicable law, University and Association agree not to disclose to third parties and to keep confidential the giving records, giving history, and financial or commercial information of individuals and corporations that provide financial support to Association.

9.4 In the performance of this Agreement, Association shall not deny opportunities, employment or otherwise, to any person on the basis of race, color, religion, national origin, age, sex, sexual orientation, disability status, genetic information or veteran status.

9.5 The parties hereto acknowledge that this Agreement sets forth the entire Agreement and understanding of the parties hereto as to the subject matter hereof, and shall not be subject to any change or modification except by the execution of a written instrument subscribed to by the parties hereto.

9.6 The provisions of this Agreement are severable, and in the event that any provisions of this Agreement shall be determined to be invalid or non-enforceable under any controlling body of the law, such invalidity or non-enforceability shall not in any way affect the validity or enforceable nature of the remaining provisions hereof.

9.7 The failure of either party to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right or excuse a similar subsequent failure to perform any such term or condition by the other party.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals and duly executed this Agreement the day and year set forth below.

University of South Alabama

By: ______________________

Name: ______________________

Title: ______________________

Date: ______________________

The University of South Alabama National Alumni Association

By: ______________________

Name: Mark Hoffman

Title: President

Date: 11-26-12

University of South Alabama

By: ______________________

Name: ______________________

Title: ______________________

Date: ______________________

RESOLUTION

RESTATEMENT OF UNIVERSITY OF SOUTH ALABAMA SUPPLEMENTARY RETIREMENT PLANS

WHEREAS, the University of South Alabama currently has two 403(b) retirement plans, the University of South Alabama Tax Deferred Annuity Plan, last amended in 2010, and the University of South Alabama Matching Plan, last restated in 2008, and

WHEREAS, merging the two 403(b) plans into one plan will allow for administrative economy with no adverse impact on the purpose of such a retirement plan, and

WHEREAS, the University of South Alabama, in 2004, authorized the establishment of a 401(a) Money Purchase Pension Plan, which was restated to comply with the administrative requirements of the Economic Growth and Tax Relief Reconciliation Act of 2001, said restatement having been submitted to and approved in September of 2012 by the Internal Revenue Service, conditioned upon the adoption of the restated plan,

THEREFORE, BE IT RESOLVED, the Board of Trustees of the University of South Alabama hereby approves the merging of the two aforementioned 403(b) retirement plans into one plan which is attached hereto and named the University of South Alabama 403(b) Plan and authorizes the President of the University or other University Contract Officer to sign the plan adoption agreement, and

BE IT FURTHER RESOLVED, the Board of Trustees of the University of South Alabama hereby approves and adopts the attached Restated 401(a) Money Purchase Pension Plan, as submitted to and approved by the Internal Revenue Service, and authorizes the President of the University or other University Contract Officer to sign the plan document.

USA

REC'D
OFFICE OF THE PRESIDENT

NOV 29 2012

UNIVERSITY OF SOUTH ALABAMA

UNIVERSITY OF SOUTH ALABAMA
Vice President for Financial Affairs
AD 170

MEMORANDUM

TO: President V. Gordon Moulton

FROM: M. Wayne Davis

SUBJECT: Amendments to Supplementary Retirement Plans

DATE: November 28, 2012

The University has four supplementary retirement plans as listed below:

1. Section 403(b) plan (University of South Alabama Matching Plan) - This was originally funded as an employee/employer matching plan on up to three percent of salary for employees who were hired before October 1, 2009. Eligibility was limited to tenured faculty and management personnel. Employees hired October 1, 2009, or later, as well as eligible employees who did not elect to participate before October 1, 2009, are not eligible for this matching plan. Last year, the University's contribution was $984,000, and this amount will gradually reduce and eventually disappear as employees transition to retirement or other employment.
2. Section 403(b) plan (University of South Alabama Tax-Deferred Annuity Plan) for employee-only optional contributions
3. Section 457(b) plan (University of South Alabama 457(b) Deferred-Compensation Plan)
4. Section 401(a) plan (University of South Alabama Money Purchase Pension Plan)

First, we request approval to combine the two 403(b) plans. By combining these two plans the University will save approximately $5,000 per year in administrative costs.

Second, we request approval and adoption of the restated 401(a) plan in compliance with the administrative requirements of the Economic Growth and Tax Relief Reconciliation Act of 2001.

There is no cost to the University for these changes. With your concurrence, this item, along with a resolution for approval of the above requests, will be placed on the agenda for the Board of Trustees meeting on December 6, 2012.

MWD/cbm

UNIVERSITY OF SOUTH ALABAMA

401(a) Money Purchase Pension Plan

As Amended and Restated
Effective January 1, 2008

Table of Contents

Page

ARTICLE 1.

Definitions

ARTICLE 2.

Eligibility for Participation

ARTICLE 3.

Employer Contributions

ARTICLE 4.

Vesting

ARTICLE 5.

Benefits

ARTICLE 6.

Administration

ARTICLE 7.

Funding Vehicles

ARTICLE 8.

Claims Procedures

ARTICLE 9.

Amendment And Termination

ARTICLE 10.

Miscellaneous

ARTICLE 1.
Definitions

Section 1.1 Accumulation Account means the separate account established for each Participant under the Plan.

Section 1.2 Annual Compensation Limit shall mean the limit for contributions to a 401(a) Plan set forth in Code Section 401(a) (17), as the same is adjusted from year to year.

Section 1.3 Annuity Starting Date shall mean (i) the first day of the first period for which an amount is payable as an annuity, or (ii) in the case of a benefit not payable in the form of an annuity, the first day in which all events have occurred which entitle the Participant to such benefit.

Section 1.4 Balance shall mean, with respect to an Accumulation Account at any time, the dollar amount of the balance of such Accumulation Account determined as of the preceding Quarter End, increased by the amount or amounts, if any, credited to such Accumulation Account pursuant to the terms of the Plan since such preceding Quarter End and reduced by the amount of any distributions made and any other amount or amounts, if any, charged to and removed from such Accumulation Account pursuant to the terms of the Plan since such preceding Quarter End.

Section 1.5 Beneficiary(ies) "Beneficiary" means the individual, institution, trustee, or estate designated by the Participant to receive benefits on the death of the Participant.

Section 1.6 Board means the Institution's Board of Trustees.

Section 1.7 Code means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code includes not only the section, but any comparable section or sections of any future legislation that amends, supplements, or supersedes the section.

Section 1.8 Compensation means wages paid to a Participant by the Institution that must be reported as wages on the Participant's W-2 Form. "Compensation" includes those wages that are not included in the Participant's gross income due to Participant participation in an IRC Section 125, 132(f)(4), 401(k), 403(b) elective deferral plan, 414(h)(1)(B), 414(h)(2), or 457 salary reduction agreement.

Notwithstanding any other stated Plan provision to the contrary, the annual compensation to be considered for each 401(a) Plan Participant shall not exceed the OBRA '93 annual compensation limit. The OBRA '93 annual compensation limit for Plan Year 2004 is $205,000. The annual compensation limit will be adjusted by the Commissioner of the Internal Revenue Service for increases in the cost-of-living and will be consistent with Section 401(a)(17)(B) of the Internal Revenue Code. The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which compensation is determined (determination period) beginning in such calendar year. If a determination period consists of fewer than 12 months, the OBRA '93 annual compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator of which is 12.

Notwithstanding the foregoing, Compensation for all applicable purposes under the Plan of Section 415 of the Code ("415 Compensation") shall be adjusted for the following types of compensation paid after a Participant's severance from employment with the Employer (or any other entity that is treated as the Employer pursuant to Sections 414(b), (c), (m) or (o) of the Code): regular pay, leave cashouts, and deferred compensation, salary continuation payments for military service Participants, and salary continuation payments for disabled Participants. However, leave cashouts and deferred compensation as described below may only be included in 415 Compensation to the extent such amounts are paid by the later of 2 ½ months after severance from employment or by the end of the Limitation Year that includes the date of such severance from employment. Any other payment of compensation paid after severance of employment that is not described in the following types of compensation is not considered 415 Compensation within the meaning of Section 415(c)(3) of the Code, even if payment is made within the time period specified above.

With regard to regular pay, 415 Compensation shall include regular pay after severance of employment if: (1) the payment is regular compensation for services during the Participant's regular working hours, or compensation for services outside the Participant's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments; and (2) the payment would have been paid to the Participant prior to a severance from employment if the Participant had continued in employment with the Employer.

With regard to leave cashouts and deferred compensation, leave cashouts shall be included in 415 Compensation if those amounts would have been included in the definition of 415 Compensation if they were paid prior to the Participant's severance from employment, and the amounts are payment for unused accrued bona fide sick, vacation, or other leave, but only if the Participant would have been able to use the leave if employment had continued. In addition, deferred compensation shall be included in 415 Compensation if the compensation would have been included in the definition of 415 Compensation if it had been paid prior to the Participant's severance from employment, and the compensation is received pursuant to a nonqualified unfunded deferred compensation plan, but only if the payment would have been paid at the same time if the Participant had continued in employment with the Institution and only to the extent that the payment is includible in the Participant's gross income.

With regard to salary continuation for military service Participants, 415 Compensation includes payments to an individual who does not currently perform services for the Employer by reason of qualified military service (as that term is used in Section 414(u)(1) of the Code) to the extent those payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the Employer rather than entering qualified military service.

With regard to payments for disabled Participants, 415 Compensation does not include compensation paid to a Participant who is permanently and totally disabled (as defined in Section 22(e)(3) of the Code).

415 Compensation for a Limitation Year shall not include amounts earned but not paid during the Limitation Year solely because of the timing of pay periods and pay dates.

Section 1.9 Date of Employment or Reemployment means the first day in which an Eligible Employee is paid for the performance of services for the most recent period of service with the Institution. For a faculty member Date of Employment or Reemployment is the date of appointment.

Section 1.10 Direct Rollover shall mean a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

Section 1.11 Distributee shall mean an Eligible Employee or former Eligible Employee. In addition, the Eligible Employee's or former Eligible Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are Distributees with regard to the interest of the spouse or former spouse.

Section 1.12 Effective Date means January 1, 2008 for this amendment and restatement. The original Effective Date of this Plan was January 1, 2004.

Section 1.13 Election Period shall mean with respect to a Participant's election not to receive a Qualified Joint and Survivor Annuity, the 90-day period ending on the Annuity Starting Date. With respect to a Participant's election not to receive a Qualified Preretirement Survivor Annuity, the period which begins on the first day of the Plan Year in which the Participant attains age 35 (or, if later, the date on which the Participant commences participation in the Plan) and ends on the date of the Participant's death. If a Participant separates from service prior to the first day of the Plan Year in which age 35 is attained, with respect to benefits accrued prior to separation, the Election Period shall begin on the date of separation.

Section 1.14 Eligible Compensation shall mean all such compensation, not in excess of the Annual Compensation Limit that can be utilized for contributions to the University of South Alabama Money Purchase Pension Plan, based upon the limits of Code Section 401(a) (17), as the same are adjusted from year to year.

Section 1.15 Eligible Employee means the full-time employee holding the office of President of the University of South Alabama, as of January 1, 2004 and any other employee of the Institution approved by the Institution. The term Eligible Employee shall not include self-employed individuals, as defined by Section 401(c)(1) of the Code.

Section 1.16 Eligible Retirement Plan shall mean an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the Distributee' s Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

Section 1.17 Eligible Rollover Distribution shall mean any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to Employer securities); and, effective for distributions on after January 1, 1999, any hardship distribution described in Section 401(k)(2)(B)(IV) of the Code.

Section 1.18 Funding Vehicles means a tax deferred annuity, fixed or variable in nature or a combination thereof, or a mutual fund issued for the purpose of funding accrued benefits under the 401(a) Plan, which annuity contracts are described in Section 401(g) of the IRC.

Section 1.19 Institution or Employer means the University of South Alabama, which is an agency and instrumentality of the State of Alabama.

Section 1.20 Institution Contribution or Employer Contribution means contributions made by the Institution under this Plan.

Section 1.21 Limitation Year means the calendar year. The Limitation Year may only be changed by a Plan amendment. Furthermore, if the Plan is terminated effective as of a date other than the last day of the Plan's Limitation Year, then the Plan is treated as if the Plan had been amended to change its Limitation Year.

Section 1.22 Normal Retirement Age means age 65.

Section 1.23 Normal Retirement Date shall mean for any Participant the first day of the month in which such Participant attains age 65.

Section 1.24 Participant means any Eligible Employee of the Institution who participates in the Plan in accordance with Article 2.

Section 1.25 Plan means the Institution's 401(a) Money Purchase Pension Plan as set forth in this document.

Section 1.26 Plan Administrator means the Institution as more particularly described in Section 6.1.

Section 1.27 Plan Entry Date means the first day after the date that the employee has met the participation requirements set forth in Article 2.

Section 1.28 Plan Year means the calendar year.

Section 1.29 Qualified Election shall mean an election in writing signed by the Participant and filed with the Plan Administrator waiving the Qualified Joint and Survivor Annuity or the Qualified Preretirement Survivor Annuity during the Participant's Election Period. No such election shall become effective unless the Participant's Spouse has consented in writing to such election (including, if applicable, the identity of any Beneficiary designated by the Participant) and the Spouse's consent acknowledges the effect of such election and is witnessed by a Plan representative or a notary public. Unless it is established to the satisfaction of the Plan representative that the consent required may not be obtained because the Spouse cannot be located or because of such other circumstances as the Secretary of the Treasury may by regulations prescribe. A Qualified Election may be revoked by the Participant in writing, without consent of a Spouse, at any time during the applicable Election Period. A Participant may make any number of Qualified Elections and revocations thereof.

Section 1.30 Qualified Joint and Survivor Annuity shall mean an annuity for the life of a Participant with a survivor annuity for the life of the Participant's Spouse which is one-half of the annuity payments during the joint lives of the Participant and the Participant's Spouse. In the case of a Participant who does not have a Spouse, the term Qualified Joint and Survivor Annuity shall mean an annuity for the life of the Participant.

Section 1.31 Qualified Preretirement Survivor Annuity shall mean an annuity for the life of the Participant's surviving Spouse, the actuarial equivalent of which is not less than 50% of the Balance of the Participant's Accumulation Accounts as of the date of death.

Section 1.32 Quarter End shall mean the last day of each calendar quarter, namely March 31, June 30, September 30 and December 31, commencing with December 31, 2004.

Section 1.33 Spouse shall mean the spouse to whom a Participant is married as of the earlier of the date payment of the benefit due the Participant is paid or commences to be paid or the date of the Participant's death.

Section 1.34 Required Beginning Date shall mean April 1 following the later of (i) the calendar year in which the Participant attains age 70 ½, and (ii) the calendar year in which the Participant separates from service.

Section 1.35 Year End shall mean December 31 of each Plan Year.

ARTICLE 2.
Eligibility for Participation

Section 2.1 Participation. All eligible employees will begin participation in this Plan on the Plan Entry Date during the first Plan Year beginning on or after the Effective Date.

If an individual is classified as an independent contractor or leased employee during any period of providing services to the Institution, such individual will be deemed to be in an ineligible class of employees for purposes of the Plan during such period, even if the individual is determined to be a common law employee during such period pursuant to a government audit or litigation.

Section 2.2 Notification. The Institution will notify each Eligible Employee in writing of eligibility to participate in the Plan. Each Participant is entitled to the benefits and is bound by all of the terms, provisions, and conditions of this Plan, including any and all amendments which from time to time may be adopted, including the terms, provisions and conditions of any Funding Vehicle(s) to which Employer Contributions have been applied.

Section 2.3 Reemployment. A Participant shall resume participation in the Plan immediately upon reemployment provided that he/she meets the qualifications set forth in Section 2.1 of Article 2.

Section 2.4 Return to Eligible Class. In the event a Participant is no longer a member of an eligible class of employees and becomes ineligible to participate, such employee will participate immediately upon returning to an eligible class of employee.

Section 2.5 Termination of Participation. A Participant will continue to be eligible for the Plan until one of the following conditions occur:

(a) he or she retires or is separated from employment as an Eligible Employee;

(b) the Plan is terminated;

(c) he or she elects phased retirement.

ARTICLE 3.
Employer Contributions

Section 3.1 Contributions. For each Plan Year beginning on and after January 1, 2004, the Institution shall contribute to the Plan for those Eligible Employees who have become Participants pursuant to Article 2 hereof an amount equal to twenty-five percent (25%) of such Participant's Compensation.

Employer Contributions are considered to be credited to Participants no later than the next business day following the day for which the Employer Contributions are made.

The Annual Compensation Limit will be adjusted by the Commissioner of the Internal Revenue Service for increases in the cost-of-living and will be consistent with Section 401(a)(17)(B) of the Code. The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which compensation is determined (determination period) beginning in such calendar year. If a determination period consists of fewer than 12 months, the OBRA '93 annual compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator of which is 12.

Section 3.2 Allocation of Contributions. Employer Contributions shall be invested in the Investment Funds selected by a Participant, in accordance with the procedures established by the Plan Administrator as soon as practicable upon receipt of such Employer Contributions. Employer Contributions may be allocated by the Participant to one or more Investment Funds in whole number percentages.

Section 3.3 Participant Statements. At least once a year the Fund Sponsors to whom the Participant has allocated contributions will send the Participant a report summarizing the status of that portion of his or her Accumulation Account with that Fund Sponsor.

Section 3.4 Limitations. Notwithstanding anything to the contrary contained in this Plan, the obligation of the Institution to make contributions is subject to the provisions relating to the amendment and termination of the Plan. However, no amendment or termination will affect any obligation of the Institution to make contributions with respect to Compensation earned by Participants prior to the date of amendment or termination.

Section 3.5 Maximum Employer Contributions. Notwithstanding anything contained in this Plan to the contrary, the total Employer Contributions made for any Participant for any year will not exceed the amount permitted under Section 415 of the Code ("Maximum Annual Additive"). The limitations of Code Section 415 are hereby incorporated by reference.

For the purpose of calculating the limits of Code Section 415, compensation means 415 Compensation (as described in Section 1.6). Notwithstanding anything in the Plan to the contrary, the Maximum Annual Addition for purposes of Code Section 415 shall not include restorative payments. A restorative payment is a payment made to restore losses to the Plan resulting from actions by a fiduciary for which there is reasonable risk of liability for breach of a fiduciary duty under applicable federal or state law, where Participants who are similarly situated are treated similarly with respect to the payments. Generally, payments are restorative payments only if the payments are made in order to restore some or all of the Plan's losses due to an action (or a failure to act) that creates a reasonable risk of liability for such a breach of fiduciary duty (other than a breach of fiduciary duty arising from failure to remit contributions to the Plan). This includes payments to the Plan made pursuant to a court-approved settlement to restore losses to a qualified defined contribution plan on account of the breach of fiduciary duty (other than a breach of fiduciary duty arising from failure to remit contributions to the Plan).

The Maximum Annual Addition for purposes of Code Section 415 shall not include: (1) the direct transfer of a benefit or employee contributions from a qualified plan to this Plan; (2) rollover contributions (as described in Code Sections 401(a)(31), 402(c)(1), 403(a)(4), 403(b)(8), 408(d)(3), and 457(e)(16)); (3) repayments of loans made to a Participant from the Plan; and (4) repayments of amounts described in Code Section 411(a)(7)(B) (in accordance with Code Section 411(a)(7)(C)) and Code Section 411(a)(3)(D) or repayment of contributions to a governmental plan (as defined in Code Section 414(d)) as described in Code Section 415(k)(3), as well as Institution restorations of benefits that are required pursuant to such repayments.

Institution contributions are treated as credited to a participant's account for a particular Limitation Year only if the contributions are actually made to the plan no later than the 15th day of the tenth calendar month following the end of the calendar year or fiscal year (as applicable, depending on the basis on which the employer keeps its books) with or within which the particular Limitation Year ends.

Compensation shall include any elective deferral (as defined in Section 402(g)(3) of the Code) and any amount which is contributed or deferred by the Institution at the election of the Participant and which is not includible in the gross income of the Participant by reason of Sections 125, 132(f)(4) or 457 of the Code.

Notwithstanding any provision of the Plan to the contrary, if the annual additions (within the meaning of Code Section 415) are exceeded for any participant, then the Plan may only correct such excess in accordance with the Employee Plans Compliance Resolution System (EPCRS) as set forth in Revenue Procedure 2006-27 or any superseding guidance, including, but not limited to, the preamble of the final Section 415 regulations.

To the extent permitted by Section 415 of the Code and the regulations promulgated thereunder, if the Institution Contributions exceed the Maximum Annual Addition, the excess amounts will be held unallocated in a suspense account and will be applied to reduce Institution Contributions in succeeding Limitation Years.

For purposes of applying the limitations of Code Section 415, all defined contribution plans (without regard to whether a plan has been terminated) ever maintained by the Institution (or a "predecessor employer") under which the participant receives annual additions are treated as one defined contribution plan. The "Institution" means the Institution and all members of a controlled group or an affiliated service group that includes the Institution (within the meaning of Code Sections 414(b), (c), (m) or (o)), except that for purposes of this Section, the determination shall be made by applying Code Section 415(h), and shall take into account tax-exempt organizations under Regulation Section 1.414(c)-5, as modified by Regulation Section 1.415(a)-1(f)(1). For purposes of this Section:

(1) A former employer is a "predecessor employer" with respect to a participant in a plan maintained by the Institution if the Institution maintains a plan under which the participant had accrued a benefit while performing services for the former employer, but only if that benefit is provided under the plan maintained by the Employer. For this purpose, the formerly affiliated plan rules in Regulation Section 1.415(f)-1(b)(2) apply as if the Institution and predecessor employer constituted a single employer under the rules described in Regulation Section 1.415(a)-1(f)(1) and (2) immediately prior to the cessation of affiliation (and as if they constituted two, unrelated employers under the rules described in Regulation Section 1.415(a)-1(f)(1) and (2) immediately after the cessation of affiliation) and cessation of affiliation was the event that gives rise to the predecessor employer relationship, such as a transfer of benefits or plan sponsorship.

(2) With respect to the Institution, a former entity that antedates the Institution is a "predecessor employer" with respect to the participant if, under the facts and circumstances, the employer constitutes a continuation of all or a portion of the trade or business of the former entity.

For purposes of aggregating plans for Code Section 415, a "formerly affiliated plan" of an employer is taken into account for purposes of applying the Code Section 415 limitations to the employer, but the formerly affiliated plan is treated as if it had terminated immediately prior to the "cessation of affiliation." For purposes of this paragraph, a "formerly affiliated plan" of an employer is a plan that, immediately prior to the cessation of affiliation, was actually maintained by one or more of the entities that constitute the employer (as determined under the employer affiliation rules described in Regulation Section 1.415(a)-1(f)(1) and (2)), and immediately after the cessation of affiliation, is not actually maintained by any of the entities that constitute the employer (as determined under the employer affiliation rules described in Regulation Section 1.415(a)-1(f)(1) and (2)). For purposes of this paragraph, a "cessation of affiliation" means the event that causes an entity to no longer be aggregated with one or more other entities as a single employer under the employer affiliation rules described in Regulation Section 1.415(a)-1(f)(1) and (2) (such as the sale of a subsidiary outside a controlled group), or that causes a plan to not actually be maintained by any of the entities that constitute the employer under the employer affiliation rules of Regulation Section 1.415(a)- 1(f)(1) and (2) (such as a transfer of plan sponsorship outside of a controlled group).

Two or more defined contribution plans that are not required to be aggregated pursuant to Code Section 415(f) and the Regulations thereunder as of the first day of a Limitation Year do not fail to satisfy the requirements of Code Section 415 with respect to a participant for the Limitation Year merely because they are aggregated later in that Limitation Year, provided that no annual additions are credited to the participant's account after the date on which the plans are required to be aggregated.

If the Maximum Annual Addition is exceeded because the Participant is also participating in another Plan required to be aggregated with this Plan for Section 415 of the Code, then the extent to which annual contributions under this Plan will be reduced, as compared with the extent to which annual benefits or contributions under any other plans will be reduced, will be determined by the Employer in a manner as to maximize the aggregate benefits payable to the Participant from all plans. If the reduction is under this Plan, the Institution will advise affected Participants of any additional limitation on their annual contributions required by this paragraph.

ARTICLE 4.
Vesting

All Employer Contributions shall be fully vested and non-forfeitable when such Employer Contributions are made.

ARTICLE 5.
Benefits

Section 5.1 Normal Retirement. If a Participant ceases to be an Eligible Employee on or after his Normal Retirement Date, all Accumulation Accounts maintained for him at the date he ceases to be an Eligible Employee shall be consolidated into a single Accumulation Account, the Balance of which shall be paid to such Participant as his benefit hereunder in accordance with the provisions of Section 5.5 hereof. Payment of such benefit shall be made or commenced as promptly as reasonably practicable after the end of the Plan Year in which such Participant ceases to be an Eligible Employee on or after his Normal Retirement Date.

Section 5.2 Total and Permanent Disability. If, while an Eligible Employee, a Participant shall become totally and permanently disabled, he shall be retired for disability under the Plan. All Accumulation Accounts maintained for him at the date he ceases to be an Eligible Employee shall be consolidated into a single Accumulation Account, the Balance of which shall be paid to such Participant as his benefit hereunder in accordance with the provisions of Section 5.5 hereof. Payment of such benefit shall be made or commenced as promptly as reasonably practicable after the Plan Administrator has accepted and approved the medical evidence of such total and permanent disability.

Total and permanent disability shall mean a physical or mental impairment which, in the judgment of the Plan Administrator, based upon medical reports and other evidence acceptable to the Plan Administrator, prevents an Eligible Employee (presumably on a permanent basis) from satisfactorily performing either his usual and normal duties for the Employer or the duties of such other position or job which the Employer makes available to him and for which such Eligible Employee is qualified by reason of his training, education or experience. In determining whether a Participant has become totally and permanently disabled, the Plan Administrator shall require such medical proof as it, in its discretion, may deem appropriate, which proof may include the certificate of one or more licensed physicians selected by the Plan Administrator that the Participant has become totally and permanently disabled as provided herein. If such disability was a direct result of any criminal or other illegal act of the Participant, then the Participant shall not be considered totally and permanently disabled under the terms of this Plan.

Section 5.3 Death.

(a) If a Participant shall die while he is an Eligible Employee, such Participant's Beneficiary shall have a 100% vested interest in all Accumulation Accounts maintained for the Participant at the date of his death. If such Participant is survived by a Spouse and the Participant has not made a Qualified Election during the applicable Election Period, such benefit shall be paid to the surviving Spouse in the form of a Qualified Preretirement Survivor Annuity, the actuarial equivalent of which is not less than 50% of the Participant's Accumulation Account as of the date of the Participant's death and which the Spouse may elect to have immediately distributed; provided, however, that such Spouse may elect to receive such benefits in one of the forms specified in subparagraph (i) or (ii) below rather than in the form of a Qualified Preretirement Survivor Annuity. The remainder of the death benefits or, if the

Participant has made a Qualified Election, the entire amount of such death benefit shall be paid to the Beneficiary of the Participant in one of the following forms as the Beneficiary may elect:

(i) in a lump sum; or

(ii) in annual, semi-annual, quarterly, or monthly installments over a period not in excess of ten years.

The amount of each such installment payment shall be equal to the result obtained by dividing the Balance of the Accumulation Account immediately prior to payment of such installment by the number of installments then remaining to be paid.

Such an election may be effected by filing with the Plan Administrator a written instrument in such form as the Plan Administrator may prescribe prior to the date payment of such benefit is made or commenced. Payment of such benefit shall be made or commenced as promptly as practicable after such Participant's death.

Notwithstanding any provisions of the Plan to the contrary that would otherwise limit a Distributee's election under this section, a Distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

(b) Within the period beginning on the first day of the Plan Year in which the Participant attains age 32 and ending on the last day of the Plan Year immediately preceding the Plan Year in which the Participant attains age 35, the Plan Administrator shall provide the Participant with a written explanation of:

(i) the terms and conditions of the Qualified Preretirement Survivor Annuity;

(ii) the Participant's right to make a Qualified Election not to have his death benefit distributed in the form of a Qualified Preretirement Survivor Annuity and the effect of such a Qualified Election;

(iii) the right of the Spouse to consent to the Qualified Election; and

(iv) the Participant's right to revoke the Qualified Election and the effect of such a revocation.

If a Participant becomes a Participant after the first day of the Plan Year in which he attains age 32, the Plan Administrator shall provide such Participant with such notice no later than the day of the second Plan Year following the date on which such Participant became a Participant.

Section 5.4 Other Cessation of Employment. If a Participant ceases to be an Eligible Employee under circumstances other than those described in Section 5.1, Section 5.2 or Section 5.3, payment of the benefit, if any, to which such Participant is entitled shall be paid, or commenced to be paid, to him in accordance with the provisions of Section 5.5 hereof as promptly as reasonably practicable after the Quarter End of the Plan Year in which the Participant ceases to be an Eligible Employee.

Section 5.5 Form of Benefit Payment.

(a) Subject to the provisions set forth in subsection (b) of this Section 5.5, payment of the benefit to which a Participant has become entitled pursuant to the provisions of Section 5.1, Section 5.2, Section 5.3, or Section 5.4 hereof shall be made by applying the Participant's interest in the Accumulation Account maintained for such Participant to purchase from an insurance company licensed to do business in the State of Alabama an annuity contract providing for payment of a Qualified Joint and Survivor Annuity.

(b) A Participant who has become entitled to a benefit pursuant to the provisions of Section 5.1, Section 5.2, Section 5.3, or Section 5.4 hereof may, at any time during his Election Period, make a Qualified Election to have his benefit paid in a lump sum or in annual, semi-annual, quarterly, or monthly installments over a period not in excess of ten years instead of the form specified in subsection (a) above. If a Participant elects to have his benefit paid in installments, the amount of each such installment payment shall be equal to the result obtained by dividing the Balance of the Accumulation Account immediately prior to payment of such installment by the number of installments then remaining to be paid. Such election shall be made by executing and filing with the Plan Administrator a written instrument in such form as the Plan Administrator may prescribe or approve at any time during the Participant's Election Period. No such election shall become effective unless if the Participant has a Spouse at the date payment of his benefit is to commence, the Spouse has consented in writing to such election (including, if applicable, the identity of any Beneficiary designated by the Participant) and the Spouse's consent acknowledges the effect of such election and is witnessed by a Plan representative or a notary public, unless it is established to the satisfaction of the Plan representative that the consent required may not be obtained because the Spouse cannot be located or because of such other circumstances as the Secretary of the Treasury may by regulation prescribe.

(c) The Plan Administrator shall at least 90 days prior to the Participant's Election Period provide the Participant with a written explanation of

(i) the terms and conditions of the Qualified Joint and Survivor Annuity;

(ii) the Participant's right to make, and the effect of, an election under this paragraph (b) to have his benefit provided in an alternative form;

(iii) the rights of the Participant's Spouse under this paragraph (b); and

(iv) the right to make, and the effect of, a revocation of an election under this paragraph (b).

Section 5.6 Death of Participant Prior to Receipt of Benefit. In the event of the death of a Participant after he has become entitled to receive a benefit hereunder and prior to the distribution to such Participant of his benefit, such benefit shall be paid to such Participant's Beneficiary as provided in Section 5.3 hereof; provided, however, that if payment is not made in the form of a Qualified Preretirement Survivor Annuity pursuant to Section 5.3 hereof, payment of the entire amount of such Participant's benefit must be distributed within five (5) years after the death of the Participant, except that:

(a) If any portion of the Participant's benefits are payable to or for the benefit of a Beneficiary and distribution commences to such Beneficiary within one year after the Participant's date of death (or such date as may be prescribed in regulations issued by the Secretary of the Treasury) then such benefits of the Beneficiary may be distributed over the life of such Beneficiary or over a period not extending beyond the life expectancy of such Beneficiary.

(b) If the deceased Participant's Beneficiary is his Spouse, benefits in accordance with subparagraph (a) above may commence on the date that the Participant would have attained age 70-1/2, and if the Spouse dies before such distributions begin, this section shall be applied as if the Spouse was the Participant.

(c) Any amount paid to a minor shall be treated as if it had been paid to the Spouse if such amount becomes payable to the Spouse upon such minor reaching majority.

In the event that the distribution of a Participant's benefit has commenced prior to his death, the remaining benefit shall be distributed to the Participant's Beneficiary at least as rapidly as under the method of distribution being employed at the Participant's death.

Section 5.7 Beneficiary.

(a) The Beneficiary of a Participant who is married at the date of his death shall be the Participant's Spouse unless

(i) the Participant has designated a person or persons (including a trust or a Participant's estate) other than his Spouse as his Beneficiary by written notice filed with the Plan Administrator in a form satisfactory to the Plan Administrator;

(ii) the Spouse of the Participant has consented in writing to such designation and has acknowledged the effect of such designation; and

(iii) the Spouse's consent to such designation and acknowledgment of the effect of such designation is witnessed by a Plan representative or a notary public.

(b) The Beneficiary of a Participant who is not married at the date of his death shall be the person or persons (including a trust or a Participant's estate) last designated by the Participant by written notice filed with the Plan Administrator which designation may be changed from time to time by the Participant by written notice filed with the Plan Administrator in a form satisfactory to the Plan Administrator.

Section 5.8 Administrative Delay. If, on the date payment of a benefit, or an installment thereof, is due, the Balance of a Participant's or Beneficiary's Accumulation Account cannot be determined because the appropriate allocations to such Accumulation Account as of the preceding Year End have not been completed, payment of such benefit, or installment thereof, shall be deferred until such allocations have been completed and shall be made as promptly as practicable thereafter.

Section 5.9 Required Distributions.

(a) Notwithstanding the foregoing provisions hereof, under no circumstances shall payment of the benefit due a Participant be made or commenced later than the Participant's Required Beginning Date in accordance with the applicable requirements of Section 401(a)(9) of the Code and the Treasury Regulation promulgated with respect to benefits thereto.

(b) If such a Participant continues service as an Eligible Employee beyond such date, any additional amounts which may be credited to his Accumulation Account after said date shall be distributed on or before December 31 of the calendar year following the calendar year as of which such amounts were credited to such Accumulation Account.

Section 5.10 Compliance with Section 414(u) of the Code. Notwithstanding any provision of the Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.

ARTICLE 6.
Administration

Section 6.1 Plan Administrator. The Institution, located at Office of the Vice President for Financial Affairs, Administration Building, Room 338, Mobile, AL, 36688, is the administrator of this Plan and is responsible for enrolling Participants and for performing other duties required for the operation of the Plan.

Section 6.2 Authority of the Institution. The Institution, by action of its Board or Board designee, may designate a person or persons other than the Institution to carry out any of its powers, authority, or responsibilities. Any delegation will be set forth in writing. The Institution has all the powers and authority expressly conferred upon it herein and further has the discretionary and final authority to determine all questions concerning eligibility and contributions under the Plan, including any uncertain terms and to resolve any disputes arising under and all questions concerning administration of the Plan. Any determination made by the Institution shall be given deference, if it is subject to judicial review, and shall be overturned only if it is arbitrary or capricious. In exercising these powers and authority, the Institution will at all times exercise good faith, apply standards of uniform application, and refrain from arbitrary action. The Institution may employ attorneys, agents, and accountants as it finds necessary or advisable to assist it in carrying out its duties.

Section 6.3 Action of the Institution. Any act authorized, permitted, or required to be taken by the Institution under the Plan, which has not been delegated in accordance with Section 6.2, may be taken by the members of the Board as indicated or required by the bylaws of the Board. All notices, advice, directions, certifications, approvals, and instructions required or authorized to be given by the Institution under the Plan will be in writing and signed by either (i) a majority of the members of the Board, or by any member or members as may be designated by an instrument in writing, signed by all members, as having authority to execute the documents on its behalf, or (ii) a person who becomes authorized to act for the Institution in accordance with the provisions of Section 6.2. Any action taken by the Institution which is authorized, permitted, or required under the Plan and is in accordance with Funding Vehicle's contractual obligations, is final and binding upon the Institution, all persons who have or who claim an interest under the Plan, and third parties dealing with the Institution.

Section 6.4 No reversion. Under no circumstances or conditions will any contributions of the Institution revert to, be paid to or inure to the benefit of, directly or indirectly the Institution. However, if Employer Contributions are made by the Institution by mistake of fact, these contributions may be returned to the Institution within one year of the date that the mistake of fact is discovered.

Section 6.5 Relationship of Federal and State Law. The Plan is intended to satisfy the applicable requirements of Section 401(a) of the Code that apply to government plans as defined in Section 414(d) including regulations and other authoritative pronouncements. To the extent not governed by the provisions of the Code or other federal laws, the Plan shall be administered and interpreted in accordance with the law of the State of Alabama.

ARTICLE 7.
Funding Vehicles

Section 7.1 Investment of Plan Contributions. Plan Contributions must be invested in one or more Funding Vehicles of the Sponsoring Organizations and any other Funding Vehicles for the Plan that the Employer makes available to Participants.

Section 7.2 Funding Vehicles. Plan Contributions are invested in one or more Funding Vehicles available to Participants under the University of South Alabama's 401(a) Plan. The Fund Sponsors are:

(a) Teachers Insurance and Annuity Association (TIAA)

TIAA Group Retirement Annuity (GRA)

Traditional Annuity
Real Estate Account

(b) College Retirement Equities Fund (CREF)

CREF Group Retirement Unit-Annuity (GRA)

Stock Account
Money Market Account
Bond Market Account
Social Choice Account
Global Equities Account
Growth Account
Equity Index Account
Inflation-Linked Bond Account

TIAA-CREF International Equity Fund
TIAA-CREF Growth and Income Fund
TIAA-CREF Social Choice Equity Fund
TIAA-CREF S&P 500 Index Fund
TIAA-CREF Real Estate Securities Fund
TIAA-CREF Large-Cap Value Fund
TIAA-CREF Mid-Cap Value Fund
TIAA-CREF Mid-Cap Growth Fund
TIAA-CREF Small-Cap Equity Fund

Section 7.3 Fund Transfers. Subject to a Funding Vehicle's rules for transfers and in accordance with the provisions of the Code for maintaining the tax deferral of the Accumulation Account(s), a Participant may transfer funds accumulated under the Plan among the Plan's approved Funding Vehicles to the extent permitted by the Funding Vehicles.

ARTICLE 8.
Claims Procedures

Section 8.1 Claims for Benefits. It shall not be necessary for a Participant or Beneficiary who has become entitled to receive a benefit hereunder to file a claim for such benefit with any person as a condition precedent to receiving a distribution of such benefit. However, any Participant or Beneficiary who believes that he has become entitled to a benefit hereunder and who has not received, or commenced receiving, a distribution of such benefit, or who believes that he is entitled to a benefit hereunder in excess of the benefit which he has received, or commenced receiving, may file a written claim for such benefit with the Plan Administrator at any time on or prior to the end of the Plan Year next following the Plan Year in which he allegedly became entitled to receive a distribution of such benefit. Such written claim shall set forth the Participant's or Beneficiary's name and address and a statement of the facts and a reference to the pertinent provisions of the Plan upon which such claim is based. The Plan Administrator shall, within ninety (90) days (45 days for a claim for benefits on account of disability) after such written claim is filed, provide the claimant with written notice of its decision with respect to such claim. If such claim is denied in whole or in part, the Plan Administrator shall, in such written notice to the claimant, set forth in a manner calculated to be understood by the claimant the specific reason or reasons for denial; specific references to pertinent provisions of the Plan upon which the denial is based; a description of any additional material or information necessary for the claimant to perfect his claim and an explanation of why such material or information is necessary; and an explanation of the provisions for review of claims set forth in Section 8.2 hereof.

Section 8.2 Review of Claims. A Participant or Beneficiary who had filed a written claim for benefits with the Plan Administrator which has been denied may appeal such denial to the Plan Administrator and receive a full and fair review of his claim by filing with the Plan Administrator a written application for review at any time within sixty (60) days (180 days for a claim for benefits on account of disability) after receipt from the Plan Administrator of the written notice of denial of his claim provided for in Section 8.1 above. A Participant or Beneficiary who submits a timely written application for review, shall be entitled to review any and all documents pertinent to his claim and may submit issues and comments to the Plan Administrator in writing. Not later than sixty (60) days (45 days for a claim for benefits on account of disability) after receipt of a written application for review, the Plan Administrator shall give the claimant written notice of its decision on review, which written notice shall set forth in a manner calculated to be understood by the claimant specific reasons for its decision and specific references to the pertinent provisions of the Plan upon which the decision is based.

Section 8.3 Miscellaneous. Any act permitted or required to be taken by a Participant or Beneficiary by this Article 8 may be taken for and on behalf of such Participant or Beneficiary by such Participant's or Beneficiary's duly authorized representative.

Any claim, notice, application of other writing permitted or required to be filed with or given to a party by this Article 8 shall be deemed to have been filed or given when deposited in the U.S. mail, postage prepaid, and properly addressed to the party to whom it is to be given or with whom it is to be filed. Any such claim, notice, application, or other writing deemed filed or given pursuant to the next foregoing sentence shall, in the absence of clear and convincing evidence to the contrary, be deemed to have been received on the fifth business day following the date upon which it was filed or given. Any such claim, notice, application or other writing directed to the Plan Administrator shall be deemed properly addressed if addressed as follows:

Plan Administrator Money Purchase Pension Plan
University of South Alabama
Office of the Vice President for Financial Affairs
Administration Building
Room 338
Mobile, Alabama 36688

Any such notice, application, or other writing directed to a Participant or Beneficiary shall be deemed properly addressed if directed to the address set forth in the written claim filed by such Participant or Beneficiary.

ARTICLE 9.
Amendment And Termination

Section 9.1 Amendment and Termination. The Plan may be amended or terminated at any time by the Board or its designee. In the event of a termination of the Plan, the Institution will notify all Participants of the termination. As of the date of termination, all Accumulation Accounts of affected Participants will become nonforfeitable to the extent funded.

Section 9.2 Limitation. Notwithstanding the provisions of the "Amendment and Termination" section above, the following conditions and limitations apply:

(a) No amendment will be made which will operate to recapture for the Institution any contributions previously made under this Plan. However, Employer Contributions made based on a mistake of fact may be returned to the Institution within one year of the date on which the Employer Contribution was made. Also, Employer Contributions made in contemplation of approval by the Internal Revenue Service may be returned to the Institution if the Internal Revenue Service fails to approve the Plan.

(b) No amendment will deprive, take away, or alter any then accrued right of any Participant.

ARTICLE 10.
Miscellaneous

Section 10.1 Plan Non-Contractual. Nothing contained in this Plan will be construed as a commitment or agreement on the part of any person to continue his or her employment with the Institution, and nothing contained in this Plan will be construed as a commitment on the part of the Institution to continue the employment or the rate of compensation of any person for any period, and all Eligible Employees of the Institution will remain subject to discharge to the same extent as if the Plan had never been put into effect.

Section 10.2 Consent. Upon becoming a Participant, a Participant shall be conclusively deemed to have consented to all the terms and conditions of the Plan, as the same may be from time to time amended, and shall be bound thereby with the same force and effect as if he were a party thereto.

Section 10.3 Duty to Furnish Information. Each Participant shall from time to time furnish the Plan Administrator with such information as shall reasonably be required by the Plan Administrator on such form as the Plan Administrator shall from time to time prescribe.

Section 10.4 Claims of Other Persons. The provisions of the Plan will in no event be construed as giving any Participant or any other person, firm, or corporation, any legal or equitable right against the Institution, its officers, employees, or directors, except the rights as are specifically provided for in this Plan or created in accordance with the terms and provisions of this Plan.

Section 10.5 Non-Alienation of Retirement Rights or Benefits. Except to the extent required under applicable law, no benefit under the Plan may, at any time be subject in any manner to alienation, encumbrance, the claims of creditors or legal process. No person will have power in any manner to transfer, assign, alienate or in any way encumber his or her benefits under the Plan, or any part thereof, and any attempt to do so will be void and of no effect. However, this Plan will comply with any judgment, decree or order which establishes the rights of another person to all or a portion of a Participant's benefit under this Plan to the extent that is determined to be a qualified domestic relations order, as defined in Section 414(p) of the Code, or any offset of a Participant's benefits which satisfies the requirements of Section 401(a)(13)(C) of the Code. If any Participant or Beneficiary shall attempt to dispose of his right to any benefit hereunder, or in the event there should be an effort to cease any such benefit by attachment, execution or other legal or equitable process, such right may pass and be transferred, at the discretion of the Plan Administrator or, to such person or persons as may be selected by the Plan Administrator from among the Beneficiaries, if any, theretofore designated by the Participant (if a Participant is involved), or from the spouse, children or other dependents of the Participant or Beneficiary in such shares as the Plan Administrator may appoint. Any appointment so made by the Plan Administrator may be revoked by it at any time and further appointments made by it may include the Participant.

Section 10.6 Exclusive Benefit. The Trust Fund is to be held and maintained for the exclusive purposes of providing the benefits specified herein for Participants and Beneficiaries and defraying reasonable expenses of administering the Plan. No Employer shall have a beneficial interest in the Trust Fund, and no part of the Trust Fund shall ever revert or be repaid to an Employer, directly or indirectly, except as follows:

If all or any portion of an Employer Contribution has been paid by mistake of fact, such Employer Contribution, or portion thereof, which has been paid by mistake of fact shall be returned to such Employer at any time within one calendar year after the date of payment thereof, upon such Employer's filing a written request therefore with the Plan Administrator.

The Contribution of the Employer made with respect to the first Plan Year ending on or after the date of adoption of the Plan by the Employer is expressly conditioned upon the qualification of the Plan under Section 401 of the Code, and if the Plan does not so qualify, such Contributions shall be returned to the Employer within one (1) year after the date of denial of qualification of the Plan upon the Employer's filing a written request therefore with the Plan Administrator.

The Employer Contribution for each Plan Year is expressly conditioned upon the deductibility of such Employer Contribution for such Plan Year under Section 404 of the Code. If, and to the extent that, the Employer is disallowed a deduction for a contribution, such contribution (to the extent disallowed as a deduction) shall be returned to the Employer within one (1) year after disallowance of such deduction upon the Employer's filing a written request therefore with the Plan Administrator.

Section 10.7 Merger, Consolidation, or Transfers of Plan Assets. The Plan will not be merged or consolidated with any other plan, nor will any of its assets or liabilities be transferred to another plan, unless, immediately after the merger, consolidation, or transfer of assets and liabilities, each Participant would receive a benefit under the Plan that is at least equal to the benefit that he/she would have received immediately prior to a merger, consolidation, or transfer of assets or liabilities assuming in each instance that the Plan had then been terminated.

IN WITNESS WHEREOF, the University of South Alabama has, by action duly taken, caused this Plan to be executed this __________ day of _________________, 2012.

By: ___________________________________

Title: ___________________________________

ATTEST:

By: ______________________________

Title: ______________________________

Employer Identification number 63-0477348
Plan Number MPP1

Specimen Governmental 403(b) Plan
Adoption Agreement

TIAA CREF
FINANCIAL SERVICES FOR THE GREATER GOOD®

EMPLOYER INFORMATION

Name of Adopting Employer University of South Alabama

Address USA Technology and Research Park Bldg III, 307 N University Blvd. Ste 2200

City Mobile State AL Zip 36608-3074

Telephone 251-460-6133 Adopting Employer's Federal Tax Identification Number 630477348

Adopting Employer's Tax Year End *(specify month and day)* 09/30

Name of Plan University of South Alabama 403(b) Plan

Plan Sequence Number ______ Account Number 150393 & 150395

Related Employers – If the Adopting Employer is part of a group of Related Employers, then such Related Employers will participate in this Plan only if listed on Attachment B, *Related Employer Participation Form.* Additions to or deletions from Attachment B, *Related Employer Participation Form,* do not constitute amendments to this Plan.

SECTION ONE: EFFECTIVE DATES
Complete Part A or B

Part A. ☐ **New Plan Effective Date**
This is the initial adoption of a 403(b) plan by the Adopting Employer.
The Effective Date of the Plan is ____________________.

NOTE: *The Effective Date is usually the first day of the Plan Year in which this Adoption Agreement is signed and may not be earlier than such date. Elective Deferrals (whether or not resulting from automatic enrollment), Nondeductible Employee Contributions, and Mandatory Employee Contributions, however, cannot be made available before the later of the date this Adoption Agreement is signed or the Effective Date for such contributions. Special Effective Dates that apply to these types of contributions or other Plan features, if applicable, are listed on Attachment C, Special Effective Dates.*

Part B. ☑ **Existing Plan Amendment or Restatement Date**
This is an amendment or restatement of an existing 403(b) plan (a Prior Plan).
The Prior Plan was initially effective on 01/01/1964.
The Effective Date of this amendment or restatement is 12/15/2012.

NOTE: *The restatement Effective Date is generally the first day of the Plan Year in which this Adoption Agreement is signed. Notwithstanding the foregoing, Effective Dates for other items are governed by the dates specified in the Basic Plan Document. If Elective Deferrals, Nondeductible Employee Contributions, or Mandatory Employee Contributions are being made available for the first time as a result of this amendment or restatement, these contributions cannot be made available before the later of the date this Adoption Agreement is signed or the special Effective Date listed on Attachment C, Special Effective Dates. Special Effective Dates that apply to other Plan features, if applicable, are also listed on Attachment C.*

SECTION TWO: ELIGIBILITY
Complete Parts A through E

NOTE: *The age and Years of Eligibility Service requirements specified below for Matching Contributions and Employer Contributions will not apply to Elective Deferrals unless the Adopting Employer maintains another plan providing for elective deferrals that satisfies the universal availability requirements under Code Section 403(b)(12) and the corresponding Treasury Regulations. Eligibility requirements selected for Elective Deferrals will also apply to Nondeductible Employee Contributions if such contributions are permitted in the Plan. Eligibility requirements selected for Employer Contributions will also apply to Mandatory Employee Contributions, if applicable, except as set forth in Adoption Agreement Section Three, Part B.*

Part A. Age and Years of Eligibility Service

1. **Age Requirement**

   a. **Elective Deferrals**
   If Elective Deferrals are permitted in Adoption Agreement Section Three, Part A, an Employee will be eligible to become a Participant in the Plan for purposes of becoming a Contributing Participant (and thus eligible to make Elective Deferrals) unless they are part of an excluded class of Employees as described in Adoption Agreement Section Two, Part C. There is no minimum age an Employee must attain to become a Participant in this Plan for purposes of making Elective Deferrals unless the Adopting Employer maintains another plan providing for elective deferrals that satisfies the universal availability requirements under Code Section 403(b)(12) and the corresponding Treasury Regulations. If the Adopting Employer maintains another plan, then the age specified below for Matching Contributions and Employer Contributions will apply to Elective Deferrals.

   b. **Matching Contributions and Employer Contributions**
   If Matching Contributions or Employer Contributions will be made to the Plan, unless they are part of an excluded class of Employees as described in Adoption Agreement Section Two, Part C, the Employee will become a Participant in the Plan for purposes of receiving Matching Contributions or receiving an allocation of any Employer Contributions, as applicable, pursuant to Adoption Agreement Section Three, after attaining age 18.

   NOTE: *If no age is specified in item (b) above, there will be no age requirement.*

2. **Years of Eligibility Service Requirement**

a. **Elective Deferrals**

If Elective Deferrals are permitted in Adoption Agreement Section Three, Part A, an Employee will be eligible to become a Participant in the Plan for purposes of becoming a Contributing Participant (and thus eligible to make Elective Deferrals) unless they are part of an excluded class of Employees as described in Adoption Agreement Section Two, Part C. There is no minimum Years of Eligibility Service an Employee must meet to become a Participant in this Plan for purposes of making Elective Deferrals unless the Adopting Employer maintains another plan providing for elective deferrals that satisfies the universal availability requirements under Code Section 403(b)(12) and the corresponding Treasury Regulations. If the Adopting Employer maintains another plan, then the Years of Eligibility Service requirements specified below for Matching Contributions and Employer Contributions will apply to Elective Deferrals.

b. **Matching Contributions and Employer Contributions**

If Matching Contributions or Employer Contributions will be made to the Plan, unless they are part of an excluded class of Employees as described in Adoption Agreement Section Two, Part C, the Employee will become a Participant in the Plan for purposes of receiving Matching Contributions or receiving an allocation of any Employer Contributions, as applicable, pursuant to Adoption Agreement Section Three, after satisfying the following Years of Eligibility Service requirements *(select one)*:

Option 1: ☐ No Years of Eligibility Service required.

Option 2: ☐ After completing ______ consecutive Months of Eligibility Service *(no more than 12)*.

Option 3: ☐ After completing ______ Years of Eligibility Service.

Option 4: ☑ Other: Refer to Other Plan Information.

NOTE: *If no option is selected, Option 1 will apply.*

Part B. Employees Employed as of the Effective Date

Will an Employee (other than an Employee who either is part of an excluded class of Employees as described in Adoption Agreement Section Two, Part C or is employed by a Related Employer that does not participate in the Plan) employed as of the Effective Date listed in Adoption Agreement Section One, Part A, who has not otherwise met the age and Years of Eligibility Service requirements listed above be considered to have met those requirements as of the Effective Date and be eligible to become a Participant in the Plan for purposes of receiving Matching Contributions or receiving an allocation of any Employer Contributions, as applicable, made pursuant to Adoption Agreement Section Three *(select one)*?

Option 1: ☐ Yes.

Option 2: ☑ No.

NOTE: *If no option is selected, Option 2 will apply.*

Part C. Exclusion of Certain Classes of Employees

1. **Elective Deferrals**

If Elective Deferrals are authorized in Adoption Agreement Section Three, Part A, all Employees shall be eligible to become Participants in the Plan for purposes of making Elective Deferrals except those Employees who are *(select all that apply)*:

☐ Eligible to participate in a Code Section 401(k) plan maintained by the Employer in which Employees may make elective deferrals.

☐ Eligible to participate in another Code Section 403(b) plan maintained by the Employer in which Employees may make elective deferrals.

☐ Eligible to participate in a Code Section 457(b) eligible governmental plan (a deferred compensation arrangement of a governmental entity described in Code Section 457(e) that satisfies the requirements of Code Section 457(b)) maintained by the Employer in which Employees may make elective deferrals.

☐ Non-resident aliens (within the meaning of Code Section 7701(b)(1)(B)) who received no earned income (within the meaning of Code Section 911(d)(2)) from the Employer which constitutes income from sources within the United States (within the meaning of Code Section 861(a)(3)).

☑ Students performing services described in Code Section 3121(b)(10) (generally, this refers to students who are enrolled and regularly attending classes offered by the Employer where the Employer is a school, college or university).

☐ Employees who normally work fewer than 20 hours per week (within the meaning of Treasury Regulation 1.403(b)-5(b)(4)(iii)(B)).

2. **Matching Contributions and Employer Contributions**

All Employees shall be eligible to become Participants in the Plan for purposes of receiving Matching Contributions and receiving an allocation of any Employer Contributions, as applicable, pursuant to Adoption Agreement Section Three, except those Employees who are *(select all that apply)*:

☐ Non-resident aliens (within the meaning of Code Section 7701(b)(1)(B)) who received no earned income (within the meaning of Code Section 911(d)(2)) from the Employer which constitutes income from sources within the United States (within the meaning of Code Section 861(a)(3)).

☑ Those Employees included in a unit of Employees covered by a collective bargaining agreement between the Employer and Employee representatives, if retirement benefits were the subject of good faith bargaining and if two percent or less of the Employees who are covered pursuant to that agreement are professionals as defined in Treasury Regulation 1.410(b)-9. For this purpose, the term "employee representatives" does not include any organization more than half of whose members are Employees who are owners, officers, or executives of the Employer.

☑ Students performing services described in Code Section 3121(b)(10) (generally, this refers to students who are enrolled and regularly attending classes offered by the Employer where the Employer is a school, college or university).

☑ Employees who normally work fewer than 20 hours per week (within the meaning of Treasury Regulation 1.403(b)-5(b)(4)(iii)(B)).

☑ Other: *(Describe the classification(s) of Employees that will be excluded from the Plan.)*
See "Other Plan Information" attachment

NOTE: *A Related Employer will be excluded from the Plan unless such employer signs Attachment B, Related Employer Participation Form.*

Part D. Entry Dates

Employees will enter the Plan for purposes of becoming a Contributing Participant (and thus eligible to make Elective Deferrals and/or Nondeductible Employee Contributions, if applicable) as soon as administratively feasible following the Employee's Employment Commencement Date in accordance with Plan Section 2.02(B), unless they are part of an excluded class of Employees selected in Adoption Agreement Section Two, Part C, or they are eligible under another plan of the Adopting Employer that provides for elective deferrals and that satisfies the universal availability requirements under Code Section 403(b)(12) and the corresponding Treasury Regulations. For Matching Contributions, Employer Contributions, and any other types of contributions under the Plan, the Entry Dates selected below will apply after the Employee satisfies all applicable age and Years of Eligibility Service requirements selected in Adoption Agreement Section Two, Part A *(select one)*:

Option 1: ☑ Immediately – The day the age and Years of Eligibility Service requirements in Adoption Agreement Section Two, Part A, are satisfied.

Option 2: ☐ Monthly – The first day of each month of the Plan Year.

Option 3: ☐ Quarterly – The first day of the Plan Year and the first day of the fourth, seventh, and tenth months of the Plan Year.

Option 4: ☐ Semi-Annually – The first day of the Plan Year and the first day of the seventh month of the Plan Year.

Option 5: ☐ Annually – The first day of the Plan Year.

Option 6: ☐ Other *(define Entry Date(s))* ____________________.

NOTE: *If no option is selected, Option 1 will apply.*

Part E. Eligibility Computation Period

An Employee's Eligibility Computation Period after their initial Eligibility Computation Period shall be *(select one)*:

Option 1: ☑ The Plan Year commencing with the Plan Year beginning during their initial Eligibility Computation Period.

Option 2: ☐ The 12-consecutive month period commencing on the anniversary of their Employment Commencement Date.

NOTE: *If no option is selected, Option 1 will apply.*

SECTION THREE: CONTRIBUTIONS

Complete Parts A through E

Part A. Elective Deferrals

1. Authorization of Elective Deferrals

Will Elective Deferrals be permitted under this Plan *(select one)*?

Option 1: ☑ Yes *(complete the following)*:

Will Roth Elective Deferrals be permitted under this Plan in addition to Pre-Tax Elective Deferrals?

Suboption (a): ☑ Yes.

Suboption (b): ☐ No.

NOTE: *If no suboption is selected, Suboption (b) will apply.*

Option 2: ☐ No.

NOTE: *If no option is selected, Option 2 will apply. Complete the remainder of Part A only if Option 1 is selected.*

2. Catch-up Contributions

a. Age 50 Catch-up Contributions

Will eligible Contributing Participants be permitted to make Age 50 Catch-up Contributions pursuant to Plan Section 3.01(D)(1) *(select one)*?

Option 1: ☑ Yes.

Option 2: ☐ No.

NOTE: *If no option is selected, Option 1 will apply.*

b. Special Code Section 403(b) Catch-up Contributions

Will eligible Contributing Participants be permitted to make Special Code Section 403(b) Catch-up Contributions pursuant to Plan Section 3.01(D)(2) if they have 15 years of service (as defined in Plan Section 3.01(D)(2)) with a qualified organization described in Code Section 402(g)(7) *(select one)*?

Option 1: ☑ Yes.

Option 2: ☐ No.

NOTE: *If no option is selected, Option 2 will apply.*

3. **Automatic Enrollment for Elective Deferrals**

a. **Authorization of Automatic Elective Deferrals**

Will the automatic Elective Deferral enrollment provisions in Plan Section 3.01(E) apply *(select one)*?

Option 1: ☐ Yes, the Automatic Contribution Arrangement (ACA) provisions will apply.

Option 2: ☐ Yes, the Eligible Automatic Contribution Arrangement (EACA) provisions will apply *(complete the following)*.

Will the Employer permit withdrawals of Elective Deferrals contributed under an EACA and the earnings attributable to such Elective Deferrals during a Participant's initial 90-day period as described in Plan Section 5.01(A)(4) *(select one)*?

Suboption (a): ☐ Yes.

Suboption (b): ☐ No.

NOTE: *If no option is selected, Suboption (a) will apply.*

Option 3: ☑ No.

NOTE: *If no option is selected, Option 3 will apply. Any elections made on the Adoption Agreement (e.g., the rate of Matching Contributions, or any vesting schedules that apply to such Matching Contributions) will also apply to the ACA or EACA options selected above. This may affect, for example, the total amount of Matching Contributions made by the Employer. If Option 2 is selected, the Plan must include a qualified default investment alternative described in ERISA Section 404(c)(5) and the accompanying Labor Regulations, unless and until such time as this requirement is modified or eliminated by applicable laws and regulations. Complete the remainder of this item 3 only if Option 1 or Option 2 is selected.*

b. **Employees Subject to Automatic Enrollment**

The following Employees will be automatically enrolled in the Plan.

Option 1: ☐ New Employees.

Option 2: ☐ New Employees and current Employees.

NOTE: *If no option is selected, Option 1 will apply. Notwithstanding the foregoing, if the EACA provisions are selected in item 3(a) above, Option 2 must be selected (and, if no Option is selected, Option 2 will apply) unless and until final Treasury Regulations under Code Section 1.414(w) permit Option 1 to be applied in conjunction with the EACA provisions of the Plan.*

c. **Initial Amount of Automatic Elective Deferral**

The following percentage or amount of each Eligible Employee's Compensation will be automatically withheld and contributed to the Plan as a Pre-Tax Elective Deferral if Option 1 or Option 2 was selected in item 3(a) above *(select and complete one)*:

Option 1: ☐ ______ Percent.

Option 2: ☐ $____________.

NOTE: *If no option is selected, Option 1 will apply and three percent of Compensation will be withheld. If the EACA provisions are selected in item 3(a) above, a percentage of Compensation must be designated rather than a dollar amount. If Option 2 is designated above and the Employer elects to apply the EACA provisions by selecting Option 2 under item 3(a) above, three percent of Compensation will be withheld.*

d. **Automatic Deferral Increases**

i. Will Elective Deferrals be increased automatically each year for Employees who are automatically enrolled under item 3(a) above *(select one)*?

Option 1: ☐ Yes.

Option 2: ☐ No.

NOTE: *If no option is selected, Option 2 will apply.*

ii. If Option 1 is selected in item (d)(i) above, such increases will occur in the following increments *(select one)*:

Option 1: ☐ _______ percent per year up to a maximum of _______ percent.

Option 2: ☐ $____________ per year up to a maximum of $__________.

Option 3: ☐ Other ____.

NOTE: *If no option is selected, Option 1 will apply and annual increases will be made in increments of one percent of Compensation up to a maximum of ten percent of Compensation. If the EACA provisions are selected in item 3(a) above, a percentage of Compensation must be designated rather than a dollar amount.*

Part B. Mandatory Employee Contributions

1. Application of Mandatory Employee Contributions

Will Mandatory Employee Contributions be required under this Plan *(select one)*?

Option 1: ☐ Yes *(select one)*:

Suboption (a): ☐ as a condition of employment (after meeting the Plan's age and Years of Eligibility Service requirements, as applicable, described in Adoption Agreement Section Two, Part A).

Suboption (b): ☐ as a condition of employment after *(check all that apply)*:

☐ Age ______.

☐ ______ Years of Eligibility Service.

NOTE: *If no Suboption is selected, Suboption (a) will apply. If Suboption (b) is selected, the Plan's age and Years of Eligibility Service requirements will not apply for purposes of Mandatory Employee Contributions.*

Option 2: ☑ No.

NOTE: *If no option is selected, Option 2 will apply.*

2. Amount of Mandatory Employee Contribution

The following percentage or amount of each Employee's Compensation will be automatically withheld and contributed to the Plan as a Mandatory Employee Contribution subject to Suboption (a) or Suboption (b), as applicable, if Option 1 was selected in item 1 above *(select and complete one)*:

Option 1: ☐ ______ Percent.

Option 2: ☐ $____________.

3. Matching Contributions on Mandatory Employee Contributions

a. Authorization for Matching Contributions

Will the Employer make Matching Contributions to the Plan on behalf of each Employee who makes Mandatory Employee Contributions *(select one)*?

Option 1: ☐ Yes.

Option 2: ☐ No.

NOTE: *If no option is selected, Option 2 will apply.*

b. Matching Contribution Formula

If the Employer elected to make Matching Contributions in item 3(a) above, then the amount of such Matching Contributions each Plan Year shall be *(select one)*:

Option 1: ☐ Percentage of Compensation Match.

An amount equal to ________ percent of such Employee's Compensation.

Option 2: ☐ Other formula *(specify an amount equal to a percentage of the Mandatory Employee Contributions).*

____

Part C. Matching Contributions

NOTE: *If Matching Contributions are authorized in item 1 below, Elective Deferrals (and/or Nondeductible Employee Contributions, if applicable) must also be authorized in this Adoption Agreement Section Three.*

1. Authorization of Matching Contributions

Will the Employer make Matching Contributions to the Plan on behalf of a Qualifying Contributing Participant *(select one)*?

Option 1: ☑ Yes, with respect to the following types of contributions *(select all that apply)*:

Suboption (a): ☑ Pre-Tax Elective Deferrals.

Suboption (b): ☐ Roth Elective Deferrals.

Suboption (c): ☐ Nondeductible Employee Contributions.

NOTE: *If no Suboption is selected, Suboption (a) will apply.*

Option 2: ☐ No.

NOTE: *If no option is selected, Option 2 will apply. Complete the remainder of this Part C only if Option 1 is selected.*

2. Matching Contribution Formula

If the Employer elected to make Matching Contributions in item 1 above, then the amount of such Matching Contributions made on behalf of a Qualifying Contributing Participant each Plan Year shall be *(select one)*:

Option 1: ☐ Percentage of Compensation Match.

An amount equal to ________ percent of such Qualifying Contributing Participant's Compensation provided a Qualifying Contributing Participant's Elective Deferrals (and/or Nondeductible Employee Contributions, if applicable) equal or exceed ________ percent of the Qualifying Contributing Participant's Compensation.

Option 2: ☑ Percentage of Contribution Match.

That percentage of each Qualifying Contributing Participant's Elective Deferrals (and/or Nondeductible Employee Contributions, if applicable) determined by the Qualifying Contributing Participant's rate of Elective Deferrals (and/or Nondeductible Employee Contributions, if applicable) as specified in the matching schedule below.

Contribution Percentage	Matching Percentage
Less than or equal to 3 %	100 %

Notwithstanding the Matching Contribution formula specified above, no Matching Contributions in excess of $________ or ______ percent of a Qualifying Contributing Participant's Compensation will be made with respect to any Qualifying Contributing Participant for any Plan Year *(complete the applicable blank(s), if any).*

Option 3: ☐ Multi-Tiered Percentage of Contribution Match.

That percentage of each Qualifying Contributing Participant's Elective Deferrals (and/or Nondeductible Employee Contributions, if applicable) determined by the Qualifying Contributing Participant's rate of Elective Deferrals (and/or Nondeductible Employee Contributions, if applicable) as specified in the matching schedule below.

	Contribution Percentage	Matching Percentage
Base Rate	Less than or equal to ______%	______%
Tier 2	Greater than _____, but less than or equal to ______%	______%
Tier 3	Greater than _____, but less than or equal to ______%	______%
Tier 4	Greater than _____%	______%

Notwithstanding the Matching Contribution formula specified above, no Matching Contributions in excess of $________ or ______ percent of a Qualifying Contributing Participant's Compensation will be made with respect to any Qualifying Contributing Participant for any Plan Year *(complete the applicable blank(s), if any).*

Option 4: ☐ Discretionary Match.

That percentage of each Qualifying Contributing Participant's Elective Deferrals (and/or Nondeductible Employee Contributions, if applicable) which the Employer, in its sole discretion, determines from year to year. The amount, the allocation formula, and the percentage or dollar amount limit applicable to such match, if any, is at the complete and sole discretion of the Employer and may vary from year to year. Any Matching Contribution will be allocated in a nondiscriminatory manner based upon each Qualifying Contributing Participant's Elective Deferrals (and/or Nondeductible Employee Contributions, if applicable).

Option 5: ☐ Age- or Service-Graded Match

Suboption (a): ☐ Age-Graded Match.

That percentage of each Qualifying Contributing Participant's Elective Deferrals (and/or Nondeductible Employee Contributions, if applicable) determined based on the age of the Participant as specified in the matching schedule below.

	Age	Matching Percentage
Base Rate	Less than or equal to ______ years	______%
Tier 2	Greater than _____, but less than or equal to _____ years	______%
Tier 3	Greater than _____, but less than or equal to _____ years	______%
Tier 4	Greater than _____ years	______%

Notwithstanding the Matching Contribution formula specified above, no Matching Contributions in excess of $________ or ______ percent of a Qualifying Contributing Participant's Compensation will be made with respect to any Qualifying Contributing Participant for any Plan Year *(complete the applicable blank(s), if any).*

Suboption (b): ☐ Service-Graded Match.

An amount equal to a percentage of each Qualifying Contributing Participant's Elective Deferral (and/or Nondeductible Employee Contribution, if applicable) determined by the number of such Qualifying Contributing Participant's Years of *(select one)* ☐ Eligibility ☐ Vesting Service with the Employer as specified in the matching schedule below.

	Years of Service	Matching Percentage
Base Rate	Less than or equal to ______ years	______%
Tier 2	Greater than _____, but less than or equal to _____ years	______%
Tier 3	Greater than _____, but less than or equal to _____ years	______%
Tier 4	Greater than _____ years	______%

Notwithstanding the Matching Contribution formula specified above, no Matching Contributions in excess of $________ or ______ percent of a Qualifying Contributing Participant's Compensation will be made with respect to any Qualifying Contributing Participant for any Plan Year *(complete the applicable blank(s), if any).*

Option 6: ☐ Match Based on Job Classification or Business Location.

For each Plan Year the Employer will contribute a Matching Contribution in the percentages listed below for each Qualifying Contributing Participant based on the Elective Deferrals (and/or Nondeductible Employee Contributions, if applicable) for each Qualifying Contributing Participant who satisfies the job classification or business location requirement listed below.

Job Classification or Business Location	Matching Percentage
______________________________	______%
______________________________	______%
______________________________	______%
______________________________	______%

Notwithstanding the Matching Contribution formula specified above, no Matching Contributions in excess of $__________ or _______ percent of a Qualifying Contributing Participant's Compensation will be made with respect to any Qualifying Contributing Participant for any Plan Year *(complete the applicable blank(s), if any).*

Option 7: ☐ Other formula *(Specify an amount equal to a percentage of the Elective Deferrals (and/or Nondeductible Employee Contributions, if applicable) of each Qualifying Contributing Participant entitled thereto).*

____

____

NOTE: *If no option is selected, Option 4 will apply.*

3. Qualifying Contributing Participants

A Contributing Participant will be a Qualifying Contributing Participant, and thus entitled to share in Matching Contributions for any Plan Year, only if the Participant has satisfied all of the eligibility requirements described in Adoption Agreement Section Two on at least one day of such Plan Year and satisfies the following additional conditions *(select one)*:

Option 1: ☐ The following additional conditions apply *(select all that apply)*:

☐ Hours of Service Requirement. The Contributing Participant completes at least ________ *(not more than 1,000)* Hours of Service during the Plan Year.

☐ Last Day Requirement. The Contributing Participant is an Employee of the Employer on the last day of the Plan Year.

Option 2: ☑ No additional conditions apply.

NOTE: *If no option is selected, Option 2 will apply.*

Part D. Employer Contributions

1. Authorization of Employer Contributions

Will the Employer make Employer Contributions to the Plan on behalf of Qualifying Participants *(select one)*?

Option 1: ☐ Yes.

Option 2: ☑ No.

NOTE: *If no option is selected, Option 2 will apply. Complete the remainder of Part D only if Option 1 is selected.*

2. Contribution and Allocation Formula

Employer Contributions will be allocated to the Individual Accounts of Qualifying Participants as follows: *(Select one contribution and allocation formula below. For the option selected (except Option 6), designate whether the contribution will be nondiscretionary and contributed each year or will be discretionary and the Employer will determine from year to year whether to make the Employer Contribution.)*

Option 1: ☐ **Pro Rata Formula.**

a. Contribution Amount

Employer Contributions will be allocated to the Individual Accounts of Qualifying Participants each Plan Year equal to _______ percent of Compensation *(specify a percentage of Compensation).*

b. Contribution Requirement

The amount of the Employer Contribution allocated to Qualifying Participants each Plan Year will be:

Suboption (i): ☐ Nondiscretionary.

Suboption (ii): ☐ Discretionary.

Option 2: ☐ **Flat Dollar Formula.**

a. Contribution Amount

Employer Contributions will be allocated to the Individual Accounts of Qualifying Participants for each Plan Year in the amount of $____________ for each Qualifying Participant.

b. Contribution Requirement

The amount of the Employer Contribution allocated to Qualifying Participants each Plan Year will be:

Suboption (i): ☐ Nondiscretionary.

Suboption (ii): ☐ Discretionary.

Option 3: ☐ **Integrated Formula.**

a. **Contribution Amount**
Employer Contributions will be allocated to the Individual Accounts of Qualifying Participants each Plan Year equal to the sum of the amounts determined in Steps 1 and 2:

Step 1. An amount equal to ______ percent *(the base contribution percentage)* of the Qualifying Participant's Compensation for the Plan Year up to the integration level; plus

Step 2. An amount equal to ______ percent *(not to exceed the base contribution by more than the lesser of: (1) the base contribution percentage, or (2) the maximum disparity rate as described in Plan Section 3.04(B)(2))* of such Qualifying Participant's Compensation for the Plan Year in excess of the integration level.

The integration level will be *(select one)*:

Suboption (i): ☐ The Taxable Wage Base.

Suboption (ii): ☐ $___________ *(a dollar amount less than the Taxable Wage Base).*

Suboption (iii): ☐ ______ percent *(not more than 100 percent)* of the Taxable Wage Base.

NOTE: *If no suboption is selected, Suboption (i) will apply.*

b. **Contribution Requirement**
The amount of the Employer Contribution contributed to Qualifying Participants each Plan Year will be:

Suboption (i): ☐ Nondiscretionary.

Suboption (ii): ☐ Discretionary.

Option 4: ☐ **Age- or Service-Graded Formula.**

a. **Contribution Amount**

Suboption (i): ☐ Age-Graded Employer Contribution.

Employer Contributions will be allocated to the Individual Accounts of Qualifying Participants each Plan Year equal to a percentage of each Qualifying Participant's Compensation determined based on the age of the Participant as specified in the schedule below.

	Age	Contribution Percentage
Base Rate	Less than or equal to _______ years	______%
Tier 2	Greater than ______, but less than or equal to ______ years	______%
Tier 3	Greater than ______, but less than or equal to ______ years	______%
Tier 4	Greater than ______ years	______%

Suboption (ii): ☐ Service-Graded Employer Contribution.

Employer Contributions will be allocated to the Individual Accounts of Qualifying Participants each Plan Year equal to a percentage of each Qualifying Participant's Compensation determined by the number of such Participant's Years of *(select one)* ☐ Eligibility ☐ Vesting Service with the Employer as specified in the schedule below.

	Years of Service	Contribution Percentage
Base Rate	Less than or equal to _______ years	______%
Tier 2	Greater than ______, but less than or equal to ______ years	______%
Tier 3	Greater than ______, but less than or equal to ______ years	______%
Tier 4	Greater than ______ years	______%

b. **Contribution Requirement**
The amount of the Employer Contribution contributed to Qualifying Participants each Plan Year will be:

Suboption (i): ☐ Nondiscretionary.

Suboption (ii): ☐ Discretionary.

Option 5: ☐ **Business Location or Job Classification Formula.**

a. **Contribution Amount**
Employer Contributions will be allocated to the Individual Accounts of Qualifying Participants for each Plan Year equal to a percentage of each Qualifying Participant's Compensation determined based on the job classification or business location of the Participant as specified in the schedule below.

Job Classification or Business Location	Percentage of Compensation
________________________________	______%
________________________________	______%
________________________________	______%
________________________________	______%

b. **Contribution Requirement**
The amount of the Employer Contribution contributed to Qualifying Participants each Plan Year will be:

Suboption (i): ☐ Nondiscretionary.

Suboption (ii): ☐ Discretionary.

Option 6: ☐ **Discretionary Employer Contributions.**

The Employer will be permitted to make an Employer Contribution in an amount to be determined from year to year at the Employer's discretion which will be allocated to the Individual Accounts of Qualifying Participants in the ratio that each Qualifying Participant's Compensation for the Plan Year bears to the total Compensation of all Qualifying Participants for the Plan Year.

NOTE: *If no option is selected, Option 6 will apply.*

3. Supplemental Employer Contribution

Will the Employer be permitted to make supplemental Employer Contributions, in an amount to be determined from year to year at the Employer's discretion, in addition to the Employer Contributions described in item 2 above *(select one)*?

Option 1: ☐ Yes.

If Option 1 is selected, the supplemental Employer Contributions will be allocated to each Qualifying Participant in accordance with the following Employer Contribution formula (select one):

Suboption (a): ☐ Discretionary Employer Contribution, in the ratio that each Qualifying Participant's Compensation for the Plan Year bears to the total Compensation of all Qualifying Participants for the Plan Year.

Suboption (b): ☐ Other *(specify)* ____

____.

NOTE: *If Option 1 is selected under item 3 and no suboption is selected, Suboption (a) will apply.*

Option 2: ☐ No.

NOTE: *If no option is selected, Option 2 will apply.*

4. Qualifying Participants

a. Additional Conditions

A Participant will be a Qualifying Participant, and thus entitled to share in Employer Contributions for any Plan Year, only if the Participant has satisfied all of the eligibility requirements described in Adoption Agreement Section Two on at least one day of such Plan Year and satisfies the following additional conditions *(select one)*:

Option 1: ☐ The following additional conditions apply *(select all that apply)*:

☐ Hours of Service Requirement. The Participant completes at least ________ *(not more than 1,000)* Hours of Service during the Plan Year.

☐ Last Day Requirement. The Participant is an Employee of the Employer on the last day of the Plan Year.

Option 2: ☐ No additional conditions apply.

NOTE: *If no option is selected, Option 2 will apply.*

b. Participants on a Paid Leave of Absence

Will a Qualifying Participant include a Participant on a paid leave of absence?

Option 1: ☐ Yes.

Option 2: ☐ No.

NOTE: *If no option is selected, Option 2 will apply. If Option 2 applies, it will not eliminate the leave protections for certain absences granted by ERISA or related law or regulations (e.g., military leave).*

5. Contributions To Disabled Participants

Will a Participant who has incurred a Disability be entitled to an Employer Contribution pursuant to Plan Section 3.04(B)(1) and Code Section 415(c)(3)(C) *(select one)*?

Option 1: ☐ Yes.

Option 2: ☐ No.

NOTE: *If no option is selected, Option 2 will apply.*

6. Contributions to Former Employees

Will a Participant who has incurred a Severance from Employment be entitled to receive an allocation of any Employer Contributions pursuant to Plan Section 3.04(B)(1) and Treasury Regulation 1.403(b)-4(d) *(select one)*?

Option 1: ☐ Yes.

Option 2: ☐ No.

NOTE: *If no option is selected, Option 2 will apply. If Option 1 is selected, Compensation for purposes of Employer Contributions allocated to a former Employee under this section shall mean their Includible Compensation. The amount, the allocation formula, and the class of former Employees eligible to receive Employer Contributions shall be determined by the Employer, in its sole discretion, from year to year.*

Part E. Other Contributions

1. **Rollover Contributions**

   a. **Rollover Availability**

   May Participants make rollover contributions to the Plan pursuant to Plan Section 3.05 *(select one)?*

   Option 1: ☑ Yes.

   Option 2: ☐ No.

   NOTE: *If no option is selected, Option 1 will apply.*

   b. **Rollover Contributions from IRAs**

   Will the Plan accept a Participant's rollover contributions of the portion of a distribution from an individual retirement account or annuity described in Code Section 408(a) or 408(b) that is eligible to be rolled over and would otherwise be includible in gross income *(select one)*?

   Option 1: ☑ Yes.

   Option 2: ☐ No.

   NOTE: *If no option is selected, Option 1 will apply.*

2. **Plan-to-Plan Transfer Contributions**

   May an Employee make transfer contributions to the Plan pursuant to Plan Section 3.06 *(select one)?*

   Option 1: ☐ Yes, for current Employees only.

   Option 2: ☐ Yes, for current and former Employees.

   Option 3: ☐ Yes, but only if the Employee is part of a class of Employees whose assets are being transferred as a result of a merger or acquisition and the employee's entire interest is being transferred.

   Option 4: ☑ No.

   NOTE: *If no option is selected, Option 4 will apply.*

3. **Nondeductible Employee Contributions**

   May an Employee who satisfies the eligibility requirements specified in the Adoption Agreement for making Elective Deferrals, and who is not a member of an excluded class of Employees as specified in Adoption Agreement Section Two, Part C, item 2 make Nondeductible Employee Contributions pursuant to Plan Section 3.07 *(select one)*?

   Option 1: ☐ Yes.

   Option 2: ☑ No.

   NOTE: *If no option is selected, Option 2 will apply.*

SECTION FOUR: VESTING AND FORFEITURES

Complete Parts A through C

Part A. Vesting Schedule for Matching Contributions and Employer Contributions

A Participant will become Vested in the portion of their Individual Account derived from Matching Contributions and Employer Contributions, if applicable, made pursuant to Adoption Agreement Section Three as follows:

YEARS OF VESTING SERVICE	Option 1 ☑	Option 2 ☐	Option 3 ☐ *(Complete if chosen.)*
Less than One	100%	0%	______ %
1	100%	0%	______ %
2	100%	20%	______ %
3	100%	40%	______ %
4	100%	60%	______ %
5	100%	80%	______ %
6	100%	100%	______ %
7	100%	100%	______ %
8	100%	100%	______ %
9	100%	100%	______ %
10	100%	100%	100%

Part B. Exclusion of Certain Years of Vesting Service

All of an Employee's Years of Vesting Service with the Employer are counted to determine the Vested percentage in the Participant's Individual Account except *(select any that apply)*:

☐ Years of Vesting Service before the Employee reaches age 18.

☐ Years of Vesting Service before the Employer maintained this Plan or a predecessor plan.

Part C. Allocation of Forfeitures

Forfeitures of Matching Contributions and Employer Contributions shall be *(select one)*:

Option 1: ☐ Allocated to the Individual Accounts of Participants in the ratio that each Participant's Compensation for the Plan Year bears to the total Compensation of all Participants for such Plan Year.

The Participants entitled to receive allocations of such Forfeitures shall be *(select one)*:

Suboption (a): ☐ Qualifying Contributing Participants (for Forfeitures of Matching Contribution) and Qualifying Participants (for Forfeitures of Employer Contributions).

Suboption (b): ☐ All Participants.

NOTE: *If no suboption is selected, Suboption (a) will apply.*

Option 2: ☑ Applied to reduce Plan Contributions.

NOTE: *If no option is selected, Option 2 will apply. Pursuant to Plan Section 3.04(C) and notwithstanding the election made above, the Employer may first apply Forfeitures to either the payment of the Plan's administrative expenses or the restoration of Participants' Individual Accounts pursuant to Plan Section 4.01(B)(4).*

SECTION FIVE: DISTRIBUTIONS

Complete Parts A through C

Part A. Eligibility for Distributions *(Answer each of the following items.)*

1. **Cashout Distributions Upon Severance from Employment**

For purposes of applying the cashout rules in Plan Section 4.01(B) and 5.01(B), the cashout level will be *(select one)*:

Option 1: ☑ Not Applicable. The cashout distribution provisions in Plan Sections 4.01(B) and 5.01(B) will not apply.

Option 2: ☐ $5,000.

Option 3: ☐ $1,000.

Option 4: ☐ $200.

Option 5: ☐ $__________ *(specify an amount less than $1,000).*

NOTE: *If no option is selected, Option 1 will apply. A cashout level exceeding $1,000 will subject the Plan to the automatic rollover requirements of Code Section 401(a)(31)(B) as described in Plan Section 5.01(B).*

2. **Distribution Events** *(Select the criteria that a Participant must satisfy to be eligible for a distribution from the Plan.)*

Distribution Event	**Elective Deferrals**	**Employer Contributions & Matching Contributions** **Annuity Contracts**	**Employer Contributions & Matching Contributions** **Custodial Accounts**
Upon Severance from Employment	✓	✓	✓
Upon incurring a Disability	✓	✓	✓
Upon attainment of age 59½	✓	✓	✓
Upon attainment of Normal Retirement Age before Severance from Employment *(an option for Elective Deferrals and custodial account distributions only if Normal Retirement Age is greater than age 59½)*			
Upon attainment of age: *(must be at least age 59½ for Elective Deferrals and custodial account distributions)*	59.5		
After participating in the Plan for a period of five years	N/A		N/A
After participating in the Plan for a period of years equal to (a) and attainment of age (b) *(must be at least age 59½ for Elective Deferrals and custodial account distributions)*	(a) (b)	(a) (b)	(a) (b)
On account of hardship	✓	✓	N/A
At any time with respect to pre-1989 Elective Deferrals in an annuity contract	✓	N/A	N/A
At any time with respect to pre-2009 Employer Contributions and Matching Contributions in an annuity contract	N/A		N/A

NOTE: *Place a "✓" or enter the specific criteria (e.g., age, years of participation, etc.) in each box, as applicable. A Participant need only satisfy one of the criteria to be eligible for a distribution. If no selections or entries are made in the table above, Plan Section 5.01 will apply in determining whether a Participant is entitled to a distribution. Plan Section 5.01(C)(2) sets forth the conditions for a hardship distribution. Use Attachment A, Prior Plan Provisions, to preserve any additional distribution options available in a Prior Plan.*

3. **Miscellaneous Distribution Issues**

a. **Withdrawals of Rollover Contributions**

Will a Participant be entitled to request a distribution of their rollover contributions at any time, provided the rollover contributions have been properly segregated *(select one)*?

Option 1: ☑ Yes.

Option 2: ☐ No.

NOTE: *If no option is selected, Option 1 will apply.*

b. **Withdrawals of Transfer Contributions**

Will an Employee be entitled to request a distribution of their transfer contributions at any time subject to the restrictions of Plan Section 5.01 *(select one)*?

Option 1: ☐ Yes.

Option 2: ☑ No.

NOTE: *If no option is selected, Option 1 will apply.*

c. **Qualified Reservist Distributions**

Will Qualified Reservist Distributions of Elective Deferrals be permitted pursuant to Plan Section 5.01(D)(2) *(select one)*?

Option 1: ☑ Yes.

Option 2: ☐ No.

NOTE: *If no option is selected, Option 1 will apply.*

NOTE: *If Option 2 applies for any of items (a) through (c), the Plan's provisions governing distributions will apply according to Plan Section 5.01.*

Part B. Form of Distribution

Income options will be permitted as provided by the terms of the Funding Vehicles. All forms of distribution shall be subject to the terms of the Individual Agreements. *(Answer each of the following items.)*

1. **Individual Account Balances of $1,000 or Less**

If permitted, cashout distributions of $1,000 or less that are Eligible Rollover Distributions and are made to terminated Participants pursuant to Plan Section 5.01(B) shall be *(select one)*:

Option 1: ☑ Paid in a lump sum distribution.

Option 2: ☐ Paid in a Direct Rollover to an individual retirement account *(as defined in Code Sections 408(a), 408(b) or 408A)*.

NOTE: *If no option is selected, Option 1 will apply.*

2. **Individual Account Balances Exceeding $1,000**

a. **Lump Sum**

Will a Participant be entitled to request a distribution of the Vested portion of their Individual Account in a lump sum, subject to Plan Section 5.02 *(select one)*?

Option 1: ☑ Yes.

Option 2: ☐ No.

b. **Partial Payments**

Will a Participant be entitled to request a partial distribution of the Vested portion of their Individual Account, subject to Plan Section 5.02 *(select one)*?

Option 1: ☑ Yes.

Option 2: ☐ No.

c. **Installment Payments**

Will a Participant be entitled to request a distribution of the Vested portion of their Individual Account over a period not to exceed the life expectancy of the Participant or the joint and last survivor life expectancy of the Participant and their designated Beneficiary, subject to Plan Section 5.02 *(select one)*?

Option 1: ☑ Yes.

Option 2: ☐ No.

d. **Annuity Contracts**

Will a Participant be entitled to apply the Vested portion of their Individual Account toward the purchase of an annuity contract, subject to Plan Section 5.02 *(select one)*?

Option 1: ☑ Yes.

Option 2: ☐ No.

NOTE: *Option 1 must be selected for at least one of items (a) through (d) in Part B, item 2 above. If Option 1 is not selected for at least one of items (a) through (d) above, then Option 1 will apply for items (a) and (d). If this Plan is restating a Prior Plan, the forms of distribution under this Plan must generally be at least as favorable as under the Prior Plan.*

Part C. Loans

May a Participant request a loan pursuant to Plan Section 5.11 *(select one)*?

Option 1: ☑ Yes. See attached "Loan Information Sheet" for more information.

Option 2: ☐ No.

NOTE: *If no option is selected, Option 2 will apply.*

SECTION SIX: DEFINITIONS

Complete Parts A through E

Part A. Compensation

1. Base Definition

Compensation will mean all of each Participant's *(select one)*:

Option 1: ☑ W-2 wages.

Option 2: ☐ Section 3401(a) wages.

Option 3: ☐ 415 safe-harbor compensation.

NOTE: *If no option is selected, Option 1 will apply.*

2. Exclusions from Compensation

Compensation shall not include the following. *(Select all that apply.)*

☑ Bonuses

☑ Overtime

☐ Compensation due to a paid leave of absence

☑ Other summer pay, additional faculty pay, grant incentives excluded for purposes of all Matching and Employer contributions.

3. Inclusion of Elective Deferrals

Will Compensation include contributions made by the Employer pursuant to a salary reduction agreement that are not includible in the gross income of the Employee under Code Sections 125 (cafeteria plans), 132(f)(4) (transportation fringe benefits), 402(e)(3) (401(k) Plans), 408(k) (salary deferral SEP Plans), 403(b) (tax-sheltered annuity plans), or 457 (deferred compensation plans of state and local governments and tax-exempt organizations) *(select one)*?

Option 1: ☑ Yes.

Option 2: ☐ No.

NOTE: *If no option is selected, Option 1 will apply.*

4. Pre-Entry Date Compensation

The Employee's Compensation that will be taken into account for purposes of the Plan will be *(select one)*:

Option 1: ☑ Compensation from the Entry Date.

Option 2: ☐ Compensation for the full Plan Year.

NOTE: *If no option is selected, Option 1 will apply.*

5. Post-Severance Compensation

a. Leave Cashouts

In addition to any adjustment to Compensation selected above, will Compensation exclude leave cashouts paid after Severance from Employment as described in the Basic Plan Document *(select one)*?

Option 1: ☑ Yes.

If Option 1 is selected, any adjustment to Compensation will apply to the following contributions *(select all that apply)*:

☐ Elective Deferrals, Mandatory Employee Contributions, and Nondeductible Employee Contributions.

☑ Matching Contributions and Employer Contributions.

Option 2: ☐ No.

NOTE: *If no option is selected, Option 1 will apply with respect to all Plan Contributions.*

b. Deferred Compensation

In addition to any adjustment to Compensation selected above, will Compensation exclude deferred compensation paid after Severance from Employment as described in the Basic Plan Document *(select one)*?

Option 1: ☑ Yes.

Option 2: ☐ No.

NOTE: *If no option is selected, Option 1 will apply.*

6. Permanently and Totally Disabled Employees

In addition to the basic definition of Compensation selected above, will Compensation include compensation defined in Code Section 415(c)(3)(C) for Participants who are permanently and totally disabled *(select one)*?

Option 1: ☐ Yes.

Option 2: ☑ No.

NOTE: *If no option is selected, Option 2 will apply.*

Part B. Hours of Service – Method of Determining Service

Hours of service will be determined on the basis of *(select one)*:

Option 1: ☐ Elapsed Time.

Option 2: ☑ Actual hours for which an Employee is paid or entitled to payment.

Option 3: ☐ Days worked. An Employee will be credited with 10 Hours of Service if under the definition of Hours of Service such Employee would be credited with at least one Hour of Service during the day.

Option 4: ☐ Weeks worked. An Employee will be credited with 45 Hours of Service if under the definition of Hours of Service such Employee would be credited with at least one Hour of Service during the week.

Option 5: ☐ Semi-Monthly payroll periods worked. An Employee will be credited with 95 Hours of Service if under the definition of Hours of Service such Employee would be credited with at least one Hour of Service during the semi-monthly payroll period.

Option 6: ☐ Months worked. An Employee will be credited with 190 Hours of Service if under the definition of Hours of Service such Employee would be credited with at least one Hour of Service during the month.

NOTE: *If no option is selected, Option 2 will apply.*

Part C. Plan Year

Option 1: ☐ The 12-consecutive month period which coincides with the Adopting Employer's tax year.

Option 2: ☐ The calendar year.

Option 3: ☑ Other 12-consecutive month period *(specify a 12-consecutive month period selected in a uniform and nondiscriminatory manner).* 10/01-09/30

NOTE: *If no option is selected, Option 1 will apply.*

If the initial Plan Year or any subsequent Plan Year is less than 12 months (a short Plan Year) specify such Plan Year's beginning and ending dates. ____________________

Part D. Predecessor Employer Service

In addition to the Hours of Service credited when an Employer maintains the plan of a predecessor employer, Hours of Service with a predecessor employer will be credited for the following purposes where the Employer does not maintain the plan of a predecessor employer *(select all that apply)*:

☐ Eligibility.

☐ Vesting.

☐ Allocation of Contributions.

Service from the following named predecessor employer(s), if any, will apply.

____

____

In addition to any predecessor employer(s) that may be named above, employers from the following types of organizations will also constitute predecessor employers from which hours of service will apply. *(Select all that apply.)*

☐ An educational organization.

☐ An organization that meets the eligibility requirements of Code Section 403(b)(1).

☐ A teaching institution.

☐ An institution of higher education.

☐ A non-profit (research) institution.

Part E. Retirement Age

1. Early Retirement Age

The Early Retirement Age under the Plan will be *(select one)*:

Option 1: ☐ An Early Retirement Age is not applicable under the Plan.

Option 2: ☑ A Participant satisfies the Plan's Early Retirement Age conditions by attaining age 55 and completing 0 Years of Vesting Service.

NOTE: *If no option is selected, Option 1 will apply.*

2. Normal Retirement Age

The Normal Retirement Age under the Plan will be *(select and complete one)*:

Option 1: ☑ Age 59.5.

Option 2: ☐ The later of age ________ or the ________ anniversary of the first day of the first Plan Year in which the Participant commenced participation in the Plan.

NOTE: *If no option is selected, Option 1 and age 59½ will apply.*

SECTION SEVEN: MISCELLANEOUS

Complete Parts A and B

Part A. Participant Direction

1. Will Participants be responsible for directing the investment of their Plan assets pursuant to Plan Section 7.01(C) *(select one)*?

   Option 1: ☑ Yes.

   Option 2: ☐ No.

   NOTE: *If no option is selected, Option 1 will apply.*

2. If Option 1 was selected above, what investments will be available for transfer of Participant's Individual Accounts *(select one)*?

   Option 1: ☑ Only approved investment options of Vendors eligible under the Plan to accept Plan Contributions.

   Option 2: ☐ Investment options of Vendors eligible under the Plan to accept Plan Contributions and investment options of other Vendors not eligible to accept Plan Contributions but only if in accordance with the requirements of Plan Section 7.01(E).

   NOTE: *If no option is selected, Option 1 will apply.*

Part B. Purchase of Permissive Service Credit

May a Participant elect to transfer assets from their Individual Account to a qualified defined benefit plan that is a governmental plan as defined in Code Section 414(d) *(select one)*?

Option 1: ☑ Yes.

Option 2: ☐ No.

NOTE: *If no option is selected, Option 1 will apply.*

SECTION EIGHT: EMPLOYER SIGNATURE

Plan Administrator

☐ Check here and provide the applicable information below if someone other than the Adopting Employer will be the Plan Administrator.

Name of Plan Administrator ____________________

Address ____________________

City ____________________ State ____________ Zip ________

Telephone ____________________

Signature of Plan Administrator ____________________ Date Signed ____________

Type Name ____________________

Check the applicable box if there is an attachment(s) that applies to this Plan other than a separate Individual Agreement.

☐ Attachment A, Prior Plan Provisions.

☐ Attachment B, Related Employer Participation Form.

☐ Attachment C, Special Effective Dates.

☑ Other: *(If this box is checked, please describe the attachment(s))* Other Plan Information See attachment.

I am an authorized representative of the Adopting Employer named above and I state the following:

1. I acknowledge that I have relied upon my own advisors regarding the completion of this Adoption Agreement and the legal and tax implications of adopting this Plan.
2. I understand that this Adoption Agreement and the corresponding Basic Plan Document are specimen documents that have not been reviewed or approved by the IRS. I further understand that TIAA-CREF cannot and does not provide legal or tax advice.
3. I have received a copy of this Adoption Agreement and the corresponding Basic Plan Document.

Signature of Adopting Employer ____________________ Date Signed ____________________

Type Name ____________________ Title ____________________

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Heroes Earnings and Assistance Relief Tax Act of 2008 (HEART) Adoption Agreement Amendment

This amendment of the Plan (hereinafter referred to as "the Amendment") is comprised of this Heroes Earnings and Assistance Relief Tax Act of 2008 (HEART) Adoption Agreement Amendment (the "Adoption Agreement Amendment") and the corresponding Basic Plan Document Amendment. The Amendment is adopted to reflect the provisions of the Heroes Earnings and Assistance Relief Tax Act of 2008 (HEART). The Amendment is intended to provide good faith compliance with HEART and related guidance until the Plan is formally restated to incorporate such guidance. The Amendment is effective as specified in this Adoption Agreement Amendment except as otherwise provided in the Basic Plan Document Amendment. The Amendment supersedes the existing provisions of the Plan to the extent that those provisions are inconsistent with the provisions of the Amendment.

EMPLOYER INFORMATION

Name of Plan University of South Alabama 403(b) Plan

Plan Sequence Number ____________ Account Number 150393 & 150395

CONTRIBUTIONS
Complete Part A

Part A. Benefit Accrual in the Case of Death or Disability Resulting from Qualified Military Service

Will the benefit accrual provisions under Code Section 414(u)(9) apply to individuals who are unable to be reemployed on account of death or Disability while performing qualified military service as defined in Code Section 414(u) *(select one)*?

Option 1: ☑ Yes, effective 01/01/2007 *(Specify a date that is on or after January 1, 2007, or, if later, the Effective Date of the Plan.)*

Option 2: ☐ No.

NOTE: *If no option is selected, Option 2 will apply.*

VESTING AND FORFEITURES
Complete Part A

Part A. Vesting in the Case of Disability Resulting from Qualified Military Service

Will Years of Vesting Service be credited to individuals who are unable to be reemployed on account of Disability while performing qualified military service as defined in Code Section 414(u) *(select one)*?

Option 1: ☐ Yes, effective ________________ *(Specify a date that is on or after January 1, 2007, or, if later, the Effective Date of the Plan.)*

Option 2: ☐ No.

Option 3: ☑ Not applicable. Individuals become 100% Vested upon Disability under the terms of the Plan.

NOTE: *If no option is selected, Option 2 will apply. Regardless of which option is selected, individuals who are unable to be reemployed on account of death while performing qualified military service must be credited with Years of Vesting Service.*

DISTRIBUTIONS
Complete Part A

Part A. Deemed Severance from Employment

May a Participant request a distribution of their Elective Deferrals and earnings on account of Deemed Severance from Employment while performing military service as defined in Code Section 3401(h)(2)(A) *(select one)*?

Option 1: ☑ Yes, effective 01/01/2009 *(Specify a date that is on or after January 1, 2009, or, if later, the Effective Date of the Plan.)*

Option 2: ☐ No.

NOTE: *If no option is selected, Option 1 will apply.*

DEFINITIONS
Complete Part A

Part A. Differential Wage Payments

Unless a different definition of Compensation is required by the Code, will Differential Wage Payments be included in Compensation for contribution, allocation and other general Plan purposes *(select one)*?

Option 1: ☑ Yes, effective 01/01/2009 *(Specify a date that is on or after January 1, 2009, or, if later, the Effective Date of the Plan.)*

Option 2: ☐ No.

NOTE: *If no option is selected, Option 1 will apply and the effective date will be the later of January 1, 2009, or the Effective Date of the Plan.*

EMPLOYER SIGNATURE

Signature of Employer

1. **I acknowledge that I have relied upon my own advisers regarding the completion of the Amendment and the legal and tax implications of amending this Plan;**
2. **I understand that my failure to properly complete the Amendment may result in disqualification of the Plan; and**
3. **I have received a copy of the Amendment.**

Signature of Adopting Employer ______________________________ Date Signed ______________________

Type Name ____ Title __________________________

Worker, Retiree and Employer Recovery Act of 2008 (WRERA) Adoption Agreement Amendment

This amendment of the Plan (hereinafter referred to as "the Amendment") is comprised of this Worker, Retiree and Employer Recovery Act of 2008 (WRERA) Adoption Agreement Amendment (the "Adoption Agreement Amendment") and the corresponding Basic Plan Document Amendment. The Amendment is adopted to reflect the provisions of WRERA. The Amendment is intended to provide good faith compliance with WRERA and related guidance until the Plan is formally restated to incorporate such guidance. The Amendment is effective January 1, 2009, and such provisions apply to Plan operations during the period beginning on December 1, 2009, and ending on December 31, 2009. The IRS will not consider the Plan to have failed to operate in accordance with its terms merely because during the period beginning on January 1, 2009, and ending on November 30, 2009, the Plan's operation conflicted with the provisions of the Amendment pertaining to required minimum distributions (RMDs) for 2009. The Amendment supersedes the existing provisions of the Plan to the extent that those provisions are inconsistent with the provisions of the Amendment.

EMPLOYER INFORMATION

Name of Plan University of South Alabama 403(b) Plan

Plan Sequence Number ____________ Account Number 150393 & 150395

DISTRIBUTIONS
Complete Parts A through B

Part A. 2009 RMD Payment Election

May Participants and Beneficiaries who would have otherwise been required to receive RMDs for 2009 but for the enactment of Code Section 401(a)(9)(H) choose whether to remove their 2009 RMD or Extended 2009 RMD from the Plan *(select one)*?

Option 1: ☐ Yes. *(Complete the following)*

If a Participant or Beneficiary does not choose whether to remove their 2009 RMD or Extended 2009 RMD, the Employer will *(select one)*:

Suboption (a): ☐ retain such amount within the Plan.

Suboption (b): ☐ distribute such amount to the Participant or Beneficiary.

NOTE: *If no suboption is selected, Suboption (a) will apply.*

Option 2: ☐ No. *(Complete the following)*

The Employer will *(select one)*:

Suboption (a): ☐ retain such amount within the Plan.

Suboption (b): ☐ distribute such amount to the Participant or Beneficiary.

NOTE: *If no suboption is selected, Suboption (a) will apply.*

NOTE: *If no option is selected, Option 1 will apply.*

Part B. Definition of Eligible Rollover Distribution

For purposes of the Direct Rollover distribution provisions of the Plan, the following will also be treated as Eligible Rollover Distributions *(select one)*:

Option 1: ☐ 2009 RMDs and Extended 2009 RMDs.

Option 2: ☐ 2009 RMDs.

Option 3: ☐ Neither 2009 RMDs nor Extended 2009 RMDs.

NOTE: *If no option is selected, Option 1 will apply.*

EMPLOYER SIGNATURE

Signature of Employer

1. **I acknowledge that I have relied upon my own advisers regarding the completion of the Amendment and the legal and tax implications of amending this Plan;**
2. **I understand that my failure to properly complete the Amendment may result in disqualification of the Plan; and**
3. **I have received a copy of the Amendment.**

Signature of Adopting Employer ____________ Date Signed ____________

Type Name ____________ Title ____________

OTHER PLAN INFORMATION

University of South Alabama 403(b) Plan

Years of Eligibility Service Requirement - Section Two, Part A.2.b.

CLASS:	YEARS OF ELIGIBILITY SERVICE REQUIREMENT:
Executive/Administrative/Managerial	No Years of Eligibility Service Required
Professor	No Years of Eligibility Service Required
Associate Professor	No Years of Eligibility Service Required
Head Coach	No Years of Eligibility Service Required
Assistant Professor	After completing 3 Years of Eligibility Service
Instructor	After completing 6 Years of Eligibility Service

OTHER EXCLUDED EMPLOYEES -- Section Two, Part C.2.

* Employees not listed in the Years of Eligibility Service Requirement
* The following categories of employees listed in the Years of Eligibility Service Requirement
    * Employees hired on or after October 1, 2009,
    * Employees who were eligible to participate in the Plan as of September 30, 2009 but who did not elect to participate on or before that date, and
    * Employees who, as of October 1 of any year (the "Testing Date"), had gross earnings during the twelve months immediately preceding the Testing Date exceeding the amount prescribed by Internal Revenue Code Section 414(q), as adjusted

As a participant in the 403(b) retirement plan adopted by your employer, you may be able to borrow a portion of your vested account balance for a term of one to five years (up to 10 years for a loan to purchase your primary residence). The loan program adopted by your employer is available on a uniform basis to all plan participants who meet loan qualification requirements. For additional information about the loan program available under your employer's plan, contact the loan program administrator listed below.

NOTE: *If your employer is required to provide you with a Summary Plan Description (SPD), this Loan Information Sheet constitutes part of the SPD of your 403(b) Plan and should be kept with your other SPD documents.*

PLAN LOAN INFORMATION

Plan Name University of South Alabama 403(b) Plan

Plan Number 150393 & 150395 Plan Year End 09/30

EFFECTIVE DATE

The effective date of the plan loan program is 01/01/1992

LOAN PROGRAM ADMINISTRATOR

The person responsible for administering your loan program is __________

Your loan program administrator may be reached at the following address and/or telephone number:

____

LOAN APPLICATION PROCEDURE

To apply for a loan under this plan, you must complete and return to the loan program administrator a Loan Application, furnishing all information requested and pay any required loan application processing fees. In addition, you must follow the procedures described below *(specify)*. __________

LIMITATIONS ON TYPES OF LOANS

(for mutual fund loans only)

Loans from this plan may be used for the following purposes:

- ☑ all
- ☐ purchase of your principal residence
- ☐ post-secondary tuition for you or your immediate family
- ☐ medical expenses for you or your immediate family
- ☐ rent or mortgage payments to prevent eviction or foreclosure from your principal residence
- ☐ funeral expenses
- ☐ uninsured damage to principal residence *(under code Sec. 165)*
- ☐ other *(specify)* __________

SOURCE OF FUNDS AVAILABLE FOR LOANS

The following sources of funds are available for loans from this plan:

- ☑ Pre-Tax Elective Deferrals that are:
  - ☐ Matched by the Employer.
  - ☑ Not matched by the Employer.
- ☑ Nondeductible Employee Contributions that are:
  - ☐ Matched by the Employer.
  - ☑ Not matched by the Employer.
- ☐ Mandatory Employee Contributions that are:
  - ☐ Matched by the Employer.
  - ☐ Not matched by the Employer.
- ☐ Matching Contributions and Employer Contributions.

LOAN APPROVAL STANDARDS

Decisions approving or denying loans from this Plan will be based on the following criteria:

- ☑ the value of your vested individual account balance
- ☐ other *(specify)* __________

NOTE: *Loan approval basis selected must not cause loans to be made available on a discriminatory basis.*

The maximum number of outstanding loans permitted at any time is: __________

LOAN PRINCIPAL LIMITATIONS Generally the minimum loan amount is $1,000 and the maximum loan amount is $50,000. The maximum amount you can borrow may be less, however, depending on two factors: 1) the amount of your accumulation, and 2) whether you have had any other loans from any of this Employer's plans within the last year.

If you have not had a plan loan in the previous year, your maximum loan cannot exceed

1) the lesser of one-half of your vested account balance or $50,000;

If your loan is from your TIAA-CREF Annuity, your maximum loan amount is further limited to

1) 45% of your combined TIAA and CREF accumulation attributable to participation under this plan; or
2) 90% or your CREF and TIAA Real Estate accumulation attributable to participation under this plan for RL loans or
3) 90% of your TIAA Annuity accumulation attributable to participation under this plan for a GSRA loan.

If you have had another loan from any plan of this Employer within the last year, the maximum you can borrow will be reduced by that amount. In addition, if you default on a loan, your right to a future loan may be restricted. Further, the maximum loan amount will be reduced by the amount in default (plus interest) until the defaulted amount can be deducted from your accumulation. Also, if more than one employer contributed to your TIAA-CREF Annuities, you can only take loans against the amount you accumulated under this Employer's plan. You should check with your other employers for their rules on loans. Loans using your TIAA-CREF mutual funds are limited to 3 at any one time (from all plans of all employers).

INTEREST CALCULATION Interest on loans from this plan will be computed on the following basis for retirement plans using the Group Supplemental Retirement Unity-Annuity (GSRA) contract:

- The interest rate is variable and can increase or decrease every three months. The interest rate you pay initially will be the higher of 1) the Moody's Corporate Bond Yield Average for the calendar month ending two months before your loan is issued; or 2) the interest rate credited before your annuity starting date, as stated in the applicable rate schedule, plus 1 percent. Thereafter, the rate may change quarterly, but only if the new rate differs from your current rate by at least ½ percent.

Interest on loans from this plan will be computed on the following basis for retirement plans using the Retirement Loan (RL) contract:

- For all Employers except those located in Arkansas, Hawaii, or New Jersey:
  - The interest rate you pay initially will be the higher of 1) the Moody's Corporate Bond Yield Average for the calendar month ending two months before your loan is issued; or 2) the interest credited before your annuity starting date, as stated in the applicable rate schedule, plus 1 percent. Thereafter the rate will change annually, but only if the Moody's Corporate Bond Yield Average for the calendar month ending two months before the anniversary of your loan differs from your current rate by at least a half percent. If the latest average differs by less, your interest rate will remain the same for the next year.
- For Employers located in Arkansas, Hawaii, or New Jersey:
  - The interest rate will be a fixed rate of 8 percent.

Interest on loans from this plan will be computed on the following basis for retirement plans using your TIAA-CREF mutual funds:

- The interest rate will fixed for the term of the loan and will be equal to the Federal Reserve Board Bank prime loan rate plus 1% at the time of the loan origination.

COLLATERAL PLEDGE A percentage of your vested account balance equal to the amount borrowed divided by your vested account balance is pledged as security for repayment of loans under this program.

DEFAULT PROVISIONS The following are deemed to be acts of default under your 403(b) loan program:

- failure to remit payment in a timely manner as required under the Loan Agreement
- breach of any of your obligations or duties under the Loan Agreement
- termination of employment (for mutual fund loans only)
- other *(specify)* ____________________

Upon default, your loan program administrator is entitled to foreclose its security interest in your vested account balance pledged for repayment upon the occurrence of an event which triggers a distribution of your benefits.

In addition, the loan program administrator will report as taxable any amounts in default (which will generally include your entire outstanding loan balance plus accrued interest) – as a result of your failing to make timely loan payments. And if you are under age 59½, this could further result in a 10% penalty.

SPECIMEN GOVERNMENTAL 403(b) PLAN

BASIC PLAN DOCUMENT

TIAA CREF

FINANCIAL SERVICES
FOR THE GREATER GOOD℠

TABLE OF CONTENTS

DEFINITIONS

SPECIMEN GOVERNMENTAL 403(b) PLAN
Basic Plan Document

PURPOSE

This Plan is intended to be used by a State, including a political subdivision of a State or an agency or instrumentality of a State, with respect to Employees of the State, in order to satisfy the requirements for an arrangement described in Code Section 403(b) that may include Employee Elective Deferrals, Mandatory Employee Contributions and Nondeductible Contributions. It also allows for Matching Contributions and Employer Contributions. Accordingly, the Plan is not designed to comply with ERISA. The Plan assets may be invested in Code Section 403(b)(1) annuity contracts or Code Section 403(b)(7) custodial accounts that are authorized by the Employer for use under the Plan. It is not intended that this specimen plan be used by churches and tax-exempt entities to establish a 403(b) retirement plan.

DEFINITIONS

The following words and phrases when used in the Plan with initial capital letters shall, for the purpose of this Plan, have the meanings set forth below unless the context indicates that other meanings are intended:

ADOPTING EMPLOYER
Means any eligible employer named in the Adoption Agreement and any successor who by merger, consolidation, or otherwise assumes the obligations of the Plan.

ADOPTION AGREEMENT
Means the document executed by the Adopting Employer through which it adopts the Plan and thereby agrees to be bound by all terms and conditions of the Plan.

AGE 50 CATCH-UP CONTRIBUTION
Means Elective Deferrals made pursuant to Plan Section Three that are in excess of an otherwise applicable Plan limit and that are made by Participants who are age 50 or older by the end of their taxable years. An otherwise applicable Plan limit is a limit in the Plan that applies to Elective Deferrals without regard to Catch-up Contributions, such as the limits on Annual Additions, the dollar limitation on Elective Deferrals under Code Section 402(g) (not counting Catch-up Contributions), or any other allowable limit imposed by the Employer. Age 50 Catch-up Contributions for a Participant for a taxable year may not exceed (1) the dollar limit on Age 50 Catch-up Contributions under Code Section 414(v)(2)(B)(i) for the taxable year or (2) when added to other Elective Deferrals, an amount that would enable the Employer to satisfy other statutory or regulatory requirements (e.g., income tax withholding, FICA and FUTA withholding, etc.). The dollar limit on Age 50 Catch-up Contributions in Code Section 414(v)(2)(B)(i) is $1,000 for taxable years beginning in 2002, increasing by $1,000 for each year thereafter up to $5,000 for taxable years beginning in 2006 and later years. After 2006, the $5,000 limit will be adjusted by the Secretary of the Treasury for cost-of-living increases under Code Section 414(c)(2)(C). Any such adjustments will be in multiples of $500.

Age 50 Catch-up Contributions shall be subject to the Matching Contribution formula if the employer has elected to make Matching Contributions on Elective Deferrals in the Adoption Agreement.

ALTERNATE PAYEE
Means any Spouse, former Spouse, child, or other dependent of a Participant who is recognized by a Domestic Relations Order as having a right to receive all, or a portion of, the benefits payable under the Plan with respect to such Participant.

ANNUAL ADDITIONS
Means, the sum of the following amounts credited to a Participant for the Limitation Year under this Plan and other plans deemed to be maintained by the Participant as described in Plan Section 3.08:

a. Plan Contributions,
b. Forfeitures,
c. similar contributions or amounts under such other plans deemed to be maintained by the Participant, and
d. any additional amounts required by regulations under Code Section 415.

Means, for purposes of Plan Section 3.08(B), the sum of the following amounts credited to a Participant for the Limitation Year under this Plan and plans maintained by employers described in Plan Section 3.08(B):

a. Plan Contributions,
b. Forfeitures,
c. similar contributions or amounts under plans maintained by such other employers,
d. amounts allocated to an individual medical account, as defined in Code Section 415(l)(2), which is part of a pension or annuity plan,
e. amounts derived from contributions paid or accrued which are attributable to post-retirement medical benefits, allocated to the separate account of a key employee (as defined in Code Section 419A(d)(3)), under a welfare benefit fund (as defined in Code Section 419(e)),
f. amounts allocated under a simplified employee pension plan, and
g. any additional amounts required by regulations under Code Section 415.

BASIC PLAN DOCUMENT
Means this specimen 403(b) Plan document.

BENEFICIARY
Means the individual(s) or entity(ies) designated pursuant to Plan Section 5.03(A).

BREAK IN ELIGIBILITY SERVICE
Means a 12-consecutive month period that coincides with an Eligibility Computation Period during which an Employee fails to complete more than 500 Hours of Service or such periods specified in the Elapsed Time definition, if applicable.

BREAK IN VESTING SERVICE
Means a Plan Year (or other vesting computation period described in the definition of Years of Vesting Service) during which an Employee fails to complete more than 500 Hours of Service or such period specified in the Elapsed Time definition, if applicable.

CATCH-UP CONTRIBUTIONS
Means, Age 50 Catch-up Contributions and, if elected in the Adoption Agreement, the Special Code Section 403(b) Catch-up Contributions.

CODE
Means the Internal Revenue Code of 1986 as amended from time to time.

COMPENSATION

A. General Definition

Base Definition
Means the Compensation received from the Participant's Employer and, as elected by the Employer in the Adoption Agreement, (and if no election is made, W-2 wages will apply), Compensation shall mean one of the following:

1. W-2 wages – Compensation is defined as information required to be reported under Code Sections 6041 and 6051, and 6052 (Wages, tips and other compensation as reported on Form W-2). Compensation is defined as wages within the meaning of Code Section 3401(a) and all other payments of compensation to an Employee by the Employer (in the course of the Employer's trade or business) for which the Employer is required to furnish the Employee a written statement under Code Sections 6041(d) and 6051(a)(3), and 6052. Compensation must be determined without regard to any rules under Code Section 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed. (such as the exception for agricultural labor in Code Section 3401(a)(2)).

2. Section 3401(a) wages – Compensation is defined as wages within the meaning of Code Section 3401(a), for the purposes of income tax withholding at the source but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code Section 3401(a)(2)).

3. 415 safe-harbor compensation –

   a. Items includible as Compensation. Compensation is defined as:

      1. Wages, salaries, fees for professional services, and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer maintaining the Plan, to the extent that the amounts are includible in gross income (or to the extent amounts would have been received and includible in gross income but for an election under Code Sections 125(a), 132(f)(4), 402(e)(3), 402(h)(1)(B), 402(k), or 457(b)). These amounts include, but are not limited to, commissions paid to salespersons, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, and reimbursements or other expense allowances under a nonaccountable plan as described in Treasury Regulation 1.62-2(c).

      2. Amounts described in Code Section 104(a)(3), 105(a), or 105(h), but only to the extent that these amounts are includible in the gross income of the Employee.

      3. Amounts paid or reimbursed by the Employer for moving expenses incurred by an Employee, but only to the extent that at the time of the payment it is reasonable to believe that these amounts are not deductible by the Employee under Code Section 217.

      4. The value of a nonstatutory option (which is an option other than a statutory option as defined in Treasury Regulation 1.421-1(b)) granted to an Employee by the Employer, but only to the extent that the value of the option is includible in the gross income of the Employee for the taxable year in which granted.

      5. The amount includible in the gross income of an Employee upon making the election described in Code Section 83(b).

      6. Amounts that are includible in the gross income of an Employee under the rules of Code Sections 409A or Section 457(f)(1)(A) or because the amounts are constructively received by the Employee.

b. Items not includible as Compensation. The term Compensation does not include –

   1. Contributions (other than elective contributions described in Code Sections 402(e)(3), 408(k)(6), 408(p)(2)(A)(i), or 457(b)) made by the Employer to a plan of deferred compensation (including a simplified employee pension described in Code Section 408(k) or a simple retirement account described in Code Section 408(p), and whether or not qualified) to the extent that the contributions are not includible in the gross income of the Employee for the taxable year in which contributed. In addition, any distributions from a plan of deferred compensation (whether or not qualified) are not considered as Compensation for Code Section 415 purposes, regardless of whether such amounts are includible in the gross income of the Employee when distributed.

   2. Amounts realized from the exercise of a nonstatutory option (which is an option other than a statutory option as defined in Treasury Regulation 1.421-1(b)), or when restricted stock or other property held by an Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture (see Code Section 83 and regulations promulgated under Code Section 83).

   3. Other amounts that receive special tax benefits, such as premiums for group term life insurance (but only to the extent that the premiums are not includible in the gross income of the employee and are not salary reduction amounts that are described in Code Section 125).

   4. Other items of remuneration that are similar to any of the items listed in paragraphs (b)(1) through (b)(3) of this subparagraph.

B. Determination Period And Other Rules

Payments made after Severance from Employment will be either included or excluded from Compensation within the meaning of Code Section 415(c)(3), depending on the category of such compensation. Whether or not such compensation is included or excluded is based on the definition below and the elections made by the Employer in the Adoption Agreement. Such payments, if included, must meet the following requirements:

1. Compensation described in paragraph (2) of this subparagraph will be included in the definition of Compensation (within the meaning of Code Section 415(c)(3)). In addition, compensation described in paragraphs (3) and (4) of this subparagraph will be excluded from the definition of Compensation (within the meaning of Code Section 415(c)(3)) unless otherwise elected in the Adoption Agreement. If the Adopting Employer elects in the Adoption Agreement to include compensation described in paragraphs (3) or (4) or both, such payments must also meet the following requirements:

   a. Those amounts are paid by the later of 2½ months after Severance from Employment with the Employer maintaining the Plan or the end of the Limitation Year that includes the date of Severance from Employment with the Employer maintaining the Plan; and

   b. Those amounts would have been included in the definition of Compensation if they were paid prior to the Employee's Severance from Employment with the Employer maintaining the Plan.

   c. A governmental plan (as defined in Code Section 414(d)) may provide for the substitution of the calendar year in which the Severance from Employment with the Employer maintaining the Plan occurs for the Limitation Year in which the Severance from Employment with the Employer maintaining the Plan occurs.

2. Regular Pay. An amount is described in this paragraph (2) if –

   a. The payment is regular Compensation for services during the Employee's regular working hours, or Compensation for services outside the Employee's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments; and

   b. The payment would have been paid to the Employee prior to a Severance from Employment if the Employee had continued in employment with the Employer.

3. Leave Cashouts. An amount is described in this paragraph (3) if –

   a. The payment is for unused accrued bona fide sick, vacation, or other leave, but only if the Employee would have been able to use the leave if employment had continued.

4. Deferred Compensation. An amount is described in this paragraph (4) if the payment is an amount received by an Employee pursuant to a nonqualified unfunded deferred compensation plan, but only if the payment would have been paid to the Employee at the same time if the Employee had continued in employment with the Employer and only to the extent that the payment is includible in the Employee's gross income.

5. Other post-severance payments. If Employer Contributions for former Employees are elected in the Adoption Agreement, such former Employees' compensation will be Includible Compensation. Any other payment that is not described in paragraph (2), (3), or (4) of this subparagraph is not considered Compensation under paragraph (1) of this subparagraph if paid after Severance from Employment with the Employer maintaining the Plan, even if it is paid within the time period described in paragraph (1) of this subparagraph. Thus, Compensation does not include severance pay, or parachute payments within the meaning of Code Section 280G(b)(2), if they are paid after Severance from Employment with the Employer maintaining the Plan, and does not include post-severance payments under a nonqualified unfunded deferred compensation plan unless the payments would have been paid at that time without regard to the Severance from Employment. Any payments not described above are not considered Compensation if paid after Severance from Employment, even if they are paid within 2½ months following Severance from Employment, except for payments to an individual who does not currently perform services for the Employer by reason of qualified military service (within the meaning of Code Section 414(u)(1)) to the extent these payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the Employer rather than entering qualified military service.

C. Limits On Compensation

The annual Compensation of each Participant taken into account in determining allocations shall not exceed $200,000, as adjusted for cost-of-living increases in accordance with Code Section 401(a)(17)(B). Annual Compensation means Compensation during the Plan Year or such other consecutive 12-month period over which Compensation is otherwise determined under the Plan ("determination period"). The cost-of-living adjustment in effect for the calendar year applies to annual Compensation for the determination period that begins with or within such calendar year.

Amounts under Code Section 125 exclude any amounts not available to a Participant in cash in lieu of group health coverage (deemed Code Section 125 compensation). An amount will be treated as an amount under Code Section 125 only if the Employer does not request or collect information regarding the Participants' other health coverage as part of the enrollment process for the health plan.

If a determination period consists of fewer than 12 months, the annual Compensation limit is an amount equal to the otherwise applicable annual Compensation limit multiplied by a fraction, the numerator of which is the number of months in the short determination period, and the denominator of which is 12.

If Compensation for any prior determination period is taken into account in determining an Employee's allocations or benefits for the current determination period, the Compensation for such prior determination period is subject to the applicable annual Compensation limit in effect for that prior period.

Notwithstanding the foregoing, if the Employer adopting this Plan is a governmental employer, Employees of such Employer who became Participants in the Plan before the first day of the Plan Year beginning after December 31, 1995 will be subject to the annual compensation limit in effect under the Plan before that date as determined by IRS regulations.

CONTRIBUTING PARTICIPANT

Means a Participant who has enrolled as a Contributing Participant pursuant to Plan Section 3.01 or 3.07 and on whose behalf the Employer is contributing Elective Deferrals (and Nondeductible Employee Contribution, if applicable) to the Plan.

DESIGNATED BENEFICIARY

Means the individual who is designated by the Participant (or the Participant's surviving Spouse) as the Beneficiary of the Participant's interest under the Plan and who is the designated Beneficiary under Code Section 401(a)(9) and Treasury Regulation 1.401(a)(9)-4.

DIRECT ROLLOVER

Means a payment by the Plan to the Eligible Retirement Plan specified by the Recipient (or, if necessary pursuant to Plan Section 5.01(B)(1), an individual retirement account (IRA) under Code Sections 408(a), 408(b), or 408A (for Roth Elective Deferrals), as selected by the Adopting Employer in the Adoption Agreement).

DISABILITY

Means the inability to engage in any substantial, gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. The permanence and degree of such impairment shall be supported by medical evidence satisfactory to the Plan Administrator.

DISTRIBUTION CALENDAR YEAR

Means a calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin pursuant to Plan Section 5.05(D). The required minimum distribution for the Participant's first Distribution Calendar Year will be made on or before the Participant's Required Beginning Date. The required minimum distribution for other Distribution Calendar Years, including the required minimum distribution for the Distribution Calendar Year in which the Participant's Required Beginning Date occurs, will be made on or before December 31 of that Distribution Calendar Year.

DOMESTIC RELATIONS ORDER

Means any judgment, decree, or order (including approval of a property settlement agreement) that:

a. relates to the provision of child support, alimony payments, or marital property rights to a Spouse, former Spouse, child, or other dependent of a Participant, and

b. is made pursuant to state domestic relations law (including applicable community property laws).

EARLY RETIREMENT AGE

Means the age specified in the Adoption Agreement. The Plan will not have an Early Retirement Age if none is specified in the Adoption Agreement.

EFFECTIVE DATE

Means the date the Plan or amendment or restatement becomes effective as indicated in the Adoption Agreement.

ELAPSED TIME – Means

A. Special Rules Where Elapsed Time Method is Being Used

If elected in the Adoption Agreement, the following definition of Elapsed Time shall apply for purposes of determining service. When this definition applies, the definitions of break in service and hour of service in the Elapsed Time definition will replace the definitions of Break in Eligibility Service, Break in Vesting Service, and Hours of Service found in the Definitions Section of the Plan.

For purposes of determining an Employee's initial or continued eligibility to participate in the Plan or the Vested interest in the Participant's Individual Account balance derived from Employer Contributions, an Employee will receive credit for the aggregate of all time periods commencing with the Employee's first day of employment or reemployment and ending on the date a break in service begins. The first day of employment or reemployment is the first day the Employee performs an hour of service. An Employee will also receive credit for any period of severance of less than 12 consecutive months. Fractional periods of a year will be expressed in terms of months or days.

For purposes of this definition, hour of service will mean each hour for which an Employee is paid or entitled to payment for the performance of duties for the Employer. Break in service is a period of severance of at least 12 consecutive months. Period of severance is a continuous period of time during which the Employee is not employed by the Employer. Such period begins on the date the Employee retires, quits, or is discharged, or if earlier, the 12-month anniversary of the date on which the Employee was otherwise first absent from service.

In the case of an individual who is absent from work for maternity or paternity reasons, the 12-consecutive month period beginning on the first anniversary of the first date of such absence shall not constitute a break in service. For purposes of this Elapsed Time definition, an absence from work for maternity or paternity reasons means an absence 1) by reason of the pregnancy of the individual, 2) by reason of thc birth of a child of the individual, 3) by reason of the placement of a child with the individual in connection with the adoption of such child by such individual, or 4) for purposes of caring for such child for a period beginning immediately following such birth or placement.

Each Employee will share in Employer Contributions for the period beginning on the date the Employee commences participation under the Plan and ending on the date on which such Employee severs employment with the Employer or is no longer a member of an eligible class of Employees.

If the Employer is a member of an affiliated service group (under Code Section 414(m)), a controlled group of corporations (under Code Section 414(b)), a group of trades or businesses under common control (under Code Section 414(c)), or any other entity required to be aggregated with the Employer pursuant to Code Section 414(o), service will be credited for any employment for any period of time for any other member of such group. Service will also be credited for any individual required under Code Section 414(n) or Code Section 414(o) to be considered an Employee of any Employer aggregated under Code Section 414(b), (c), or (m). However, those employers that must be so aggregated shall be determined under the guidance of IRS Notice 89-23 or any subsequent successor guidance, as such guidance relates to employers who are eligible employers as described in the Plan definition of Employer.

B. Changes In Methods of Crediting Service
The Plan may be amended to change the method of crediting service between the general rules discussed in this Elapsed Time definition and the Hours of Service method discussed in the Hours of Service definition provided each Employee with respect to whom the method of crediting service is changed is afforded the protection described in Treasury Regulation 1.410(a)-7(g) and other applicable rules promulgated by the IRS.

ELECTIVE DEFERRALS
Means Plan Contributions made either as Pre-Tax Elective Deferrals or as Roth Elective Deferrals to the Plan at the election of the Participant or pursuant to automatic Elective Deferral enrollment, in lieu of cash compensation, and shall include contributions made pursuant to a salary reduction agreement. With respect to any taxable year, a Participant's Elective Deferrals are the sum of all Employer contributions madc on behalf of such Participant pursuant to an election to defer under any qualified cash or deferred arrangement as described in Code Section 401(k), any simplified employee pension plan cash or deferred arrangement as described in Code Section 408(k)(6), any SIMPLE IRA Plan described in Code Section 408(p), any plan as described under Code Section 501(c)(18), and any Employer contributions made on the behalf of a Participant for the purchase of an annuity contract under Code Section 403(b) pursuant to a salary reduction agreement. Elective Deferrals shall not include any deferrals properly distributed as Excess Annual Additions or distributed pursuant to the permissible withdrawal provisions of Plan Section 5.01(A)(4).

No Participant shall be permitted to have Elective Deferrals made under this Plan, or any other plan maintained by the Employer, during any taxablc year of the Participant, in excess of the dollar limitation contained in Code Section 402(g) in effect at the beginning of such taxable year. In the case of a Participant age 50 or over by the end of the taxable year, the dollar limitation described in the preceding sentence is increascd by the amount of Elective Deferrals that can be Age 50 Catch-up Contributions. In addition, if applicable, the dollar limitation described in this paragraph is increased by the amount of Elective Deferrals that can be Special Code Section 403(b) Catch-up Contributions. The dollar limitation contained in Code Section 402(g) is $10,500 for taxable years beginning in 2000 and 2001 increasing to $11,000 for taxable years beginning in 2002 and increasing by $1000 for each year thereafter up to $15,000 for taxable years beginning in 2006 and later years. After 2006, the $15,000 limit will be adjusted by the Secretary of the Treasury for cost-of-living increases under Code Section 402(g)(4). Any adjustments will be in multiples of $500.

ELIGIBLE AUTOMATIC CONTRIBUTION ARRANGEMENT (EACA)
Means an Eligible Automatic Contribution Arrangement described in Plan Section 3.01(E) whereby Eligible Employees are automatically enrolled as Contributing Participants in the Plan.

ELIGIBLE EMPLOYEE
If the Employer has elected to apply the EACA provisions of Plan Section 3.01(E), means an Employee eligible to make Elective Deferrals under the Plan for any part of the Plan Year or who would be eligible to make Elective Deferrals but for a suspension due to a hardship distribution described in Plan Section 5.01(C)(2) of the Plan or to statutory limitations, such as Code Sections 402(g) and 415.

ELIGIBILITY COMPUTATION PERIOD
Means, with respect to an Employee's initial Eligibility Computation Period, the 12-consecutive month period commencing on the Employee's Employment Commencement Date. Unless otherwise specified in the Adoption Agreement, the Employee's subsequent Eligibility Computation Periods shall be the Plan Year commencing with the Plan Year beginning during the Employee's initial Eligibility Computation Period. An Employee shall not be credited with a Year of Eligibility Service before the end of the 12-consecutive month period regardless of when during such period the Employee completes the required number of Hours of Service.

ELIGIBLE RETIREMENT PLAN
Means, for purposes of the Direct Rollover provisions of the Plan, an individual retirement account described in Code Sections 408(a) or 408A, an individual retirement annuity described in Code Section 408(b), an annuity plan described in Code Section 403(a), an annuity contract described in Code Section 403(b), an eligible plan under Code Section 457(b) which is maintained by a state, political subdivision of a state, or an agency or instrumentality of a state or political subdivision of a state (and which agrees to separately account for amounts transferred into such plan from this Plan), or a qualified plan described in Code Section 401(a) that accepts the Recipient's Eligible Rollover Distribution. The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving Spouse, or to a Spouse or former Spouse who is the Alternate Payee under a Qualified Domestic Relations Order, as defined in Code Section 414(p).

If any portion of an Eligible Rollover Distribution is attributable to payments or distributions of Roth Elective Deferrals, an Eligible Retirement Plan with respect to such portion shall mean: 1) a qualified plan under Code Section 401(a) or a tax-sheltered annuity under Code Section 403(b) and only if such plan permits Roth elective deferrals of Roth payments, or 2) a Roth individual retirement account described in Code Section 408A.

The definition of Eligible Retirement Plan shall include an inherited individual retirement account or annuity described in Code Sections 408(a), 408(b), or 408A in the case of a distribution to a Beneficiary that is made after December 31, 2006.

ELIGIBLE ROLLOVER DISTRIBUTION
Means any distribution of all or any portion of the balance to the credit of the Recipient, except that an Eligible Rollover Distribution does not include

a. any distribution that is one of a series of substantially equal periodic payments (paid at least annually) made for the life (or Life Expectancy) of the Recipient or the joint lives (or joint life expectancies) of the Recipient and the Recipient's Designated Beneficiary, or for a specified period of ten years or more;

b. any distribution to the extent such distribution is required under Code Section 401(a)(9);

c. any hardship distribution described in Plan Section 5.01(C)(2);

d. any other distribution(s) that is reasonably expected to total less than $200 during a year;

e. any contributions made to the Plan as Elective Deferrals under the EACA provisions of Plan Section 3.01(E) which are subsequently distributed from the Plan in accordance with the permissible withdrawal provisions found in Plan Section 5.01(A)(4).

For distributions made after December 31, 2001, a portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions that are not includible in gross income.

For distributions after December 31, 2006, Eligible Rollover Distribution shall also mean any distribution to a Beneficiary which would be treated as an Eligible Rollover Distribution by reason of Code Section 403(b)(8)(B) if the requirements of Code Section 402(c)(11) were satisfied.

EMPLOYEE
Means any person employed by an Employer maintaining the Plan or of any other employer required to be aggregated with such Employer under Code Sections 414(b), (c), (m) or (o). However, those employers that must be so aggregated shall be determined under the guidance of IRS Notice 89-23 or any subsequent successor guidance, as such guidance relates to employers who are eligible employers as described in the Plan definition of Employer.

EMPLOYER
Means the Adopting Employer and Related Employers listed on a Related Employer Participation Form who meet the definition of an eligible employer described in Treasury Regulation 1.403(b)-2(b)(8)(i)(A) (a State, but only with respect to an Employee of the State performing services for a Public School (see Revenue Ruling 73-607 and any subsequent guidance)) or Treasury Regulation 1.403(b)-2(b)(8)(i)(B).

EMPLOYER CONTRIBUTION
Means the amount, if any, contributed to the Plan under Adoption Agreement Section Three, Part D by the Employer each Plan Year as a discretionary or fixed Employer Contribution.

EMPLOYMENT COMMENCEMENT DATE
Means, with respect to an Employee, the date such Employee first performs an Hour of Service for the Employer.

ENTRY DATES
Means as soon as administratively feasible, unless the Employer has specified different dates in the Adoption Agreement. For purposes of Elective Deferrals, an Employee's Employment Commencement Date shall be considered an Entry Date, unless the Employee may make Elective Deferrals to another plan maintained by the Employer that satisfies the universal availability requirements.

EXCESS ANNUAL ADDITIONS
Means the excess of the Participant's Annual Additions for the Limitation Year over the Maximum Permissible Amount.

EXCESS ELECTIVE DEFERRALS
Means those Elective Deferrals that either (1) are made during the Participant's taxable year and exceed the dollar limitation under Code Section 402(g) (increased, if applicable, by the dollar limitation on Age 50 Catch-up Contributions defined in Code Section 414(v) or Special Code Section 403(b) Catch-up Contributions) for such year; or (2) are made during a calendar year and exceed the dollar limitation under Code Section 402(g) (increased, if applicable, by the dollar limitation on Age 50 Catch-up Contributions defined in Code Section 414(v) or Special Code Section 403(b) Catch-up Contributions) for the Participant's taxable year beginning in such calendar year, counting only Elective Deferrals made under this Plan and any other plan, contract or arrangement maintained by the Employer. Excess Elective Deferrals shall be treated as Annual Additions under the Plan, unless such amounts are distributed no later than the first April 15 following the close of the Participant's taxable year.

FORFEITURE
Means that portion of a Participant's Individual Account derived from Employer Contributions and Matching Contributions that the Participant is not entitled to receive (i.e., the nonvested portion).

FUNDING VEHICLE
Means an annuity contract or custodial account that meets the requirements of Code Section 403(b) and is available for investment of Plan Contributions pursuant to Plan Section 7.01.

HOURS OF SERVICE – Means

A. General Rules For Crediting Hours of Service

1. Each hour for which an Employee is paid, or entitled to payment, for the performance of duties for the Employer. These hours will be credited to the Employee for the computation period in which the duties are performed; and

2. Each hour for which an Employee is paid, or entitled to payment, by the Employer on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty or leave of absence. No more than 501 Hours of Service will be credited under this paragraph for any single continuous period (whether or not such period occurs in a single computation period). Hours under this paragraph shall be calculated and credited pursuant to Labor Regulation 2530.200b-2 that is incorporated herein by this reference.

3. Each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer. The same Hours of Service will not be credited both under paragraph (1) or paragraph (2), as the case may be, and under this paragraph (3). These hours will be credited to the Employee for the computation period or periods to which the award or agreement pertains rather than the computation period in which the award, agreement, or payment is made.

4. Solely for purposes of determining whether a Break in Eligibility Service or a Break in Vesting Service has occurred in a computation period (the computation period for purposes of determining whether a Break in Vesting Service has occurred is the Plan Year or other vesting computation period described in the definition of a Year of Vesting Service), an individual who is absent from work for maternity or paternity reasons shall receive credit for the Hours of Service which would otherwise have been credited to such individual but for such absence, or in any case in which such hours cannot be determined, eight Hours of Service per day of such absence. For purposes of this paragraph, an absence from work for maternity or paternity reasons means an absence 1) by reason of the pregnancy of the individual, 2) by reason of a birth of a child of the individual, 3) by reason of the placement of a child with the individual in connection with the adoption of such child by such individual, or 4) for purposes of caring for such child for a period beginning immediately following such birth or placement. The Hours of Service credited under this paragraph shall be credited 1) in the Eligibility Computation Period or Plan Year in which the absence begins if the crediting is necessary to prevent a Break in Eligibility Service or a Break in Vesting Service in the applicable period, or 2) in all other cases, in the following Eligibility Computation Period or Plan Year.

5. Hours of Service will be credited for employment with other members of an affiliated service group (under Code Section 414(m)), a controlled group of corporations (under Code Section 414(b)), or a group of trades or businesses under common control (under Code Section 414(c)) of which the Adopting Employer is a member, and any other entity required to be aggregated with the Employer pursuant to Code Section 414(o) and the Treasury Regulations thereunder. However, those entities that must be so aggregated shall be determined under the guidance of IRS Notice 89-23 or any subsequent successor guidance, as such guidance relates to employers who are eligible employers as described in the Plan definition of Employer.

   Hours of Service will also be credited for any individual considered an Employee for purposes of this Plan under Code Sections 414(n) or 414(o) and the regulations thereunder.

6. Where the Employer maintains the plan of a predecessor employer, service for such predecessor employer shall be treated as service for the Employer. If the Employer does not maintain the plan of a predecessor employer, service for such predecessor employer will not be treated as service for the Employer unless specifically elected in the Adoption Agreement.

7. The above method for determining Hours of Service may be altered as specified in the Adoption Agreement.

   Hours of Service shall apply unless the Adopting Employer has indicated in the Adoption Agreement that a method other than Hours of Service will be used for determining service.

B. Changes In Methods of Crediting Service
The Plan may be amended to change the method of crediting service between the general rules discussed in paragraph (A) and the Elapsed Time method discussed in the Elapsed Time definition provided each Employee with respect to whom the method of crediting service is changed is afforded the protection described in Treasury Regulation 1.410(a)-7(g) and other applicable rules promulgated by the IRS.

INCLUDIBLE COMPENSATION
Means the Employee's compensation received from the Employer that is includible in gross income for Federal income tax purposes (computed without regard to Code Section 911) for the most recent period that constitutes a year of service, as that term is defined in the Treasury Regulations under Code Section 403(b). Includible Compensation includes any amounts deferred by the Employer at the election of the Employee that would be includible in gross income but for the rules of Code Sections 125, 132(f), 402(e)(2), 402(h)(1)(B), 402(k), or 457(b).

Includible Compensation does not include any compensation received during a period when the Employer is not an eligible employer within the meaning of Code Section 403(b).

The amount of Includible Compensation is determined without regard to any community property laws.

For purposes of determining the limitation under Code Section 415(c), a former Employee is deemed to have monthly Includible Compensation for the period through the end of the taxable year in which such Employee ceases employment and through the end of each of the next five taxable years. The monthly amount is equal to one-twelfth of the former Employee's Includible Compensation during the former Employee's most recent year of service as described in Treasury Regulation 1.403(b)-4(d).

INDIRECT ROLLOVER
Means a rollover contribution received by this Plan from a Participant that previously received a distribution from another plan rather than having such amount directly rolled over to this Plan from the distributing plan.

INDIVIDUAL ACCOUNT
Means the accounting record established and maintained under this Plan for each Participant in accordance with Plan Section 7.02.

INDIVIDUAL AGREEMENT
The agreement between the Vendor and the Employer or Participant that constitutes or governs the annuity contract or custodial account used as a Funding Vehicle under the Plan

ISSUER
Means an insurance or other company who issues annuity contracts described in Code Section 403(b)(1) that are authorized by the Employer for use under the Plan.

LIFE EXPECTANCY
Means life expectancy as computed by using the Single Life Table in Treasury Regulation 1.401(a)(9)-9, Q&A-1.

LIMITATION YEAR
Means the calendar year with respect to a Participant if the Participant is not in control of any employer as described in Plan Section 3.08(B). However, if permitted by the Plan Administrator, the Participant may elect to change the Limitation Year to another 12-month period. To change the Limitation Year, the Participant must attach a statement to their income tax return for the taxable year in which the change is made and the change must comply with Treasury Regulation 1.415(j)-1(d). If the Participant is in control of an employer as described in Plan Section 3.08(B), the Limitation Year is the limitation year of that employer. If the Plan is terminated effective as of a date other than the last day of the Plan's Limitation Year, the Plan is treated as if the Plan was amended to change its Limitation Year. As a result of this deemed amendment, the Code Section 415(c)(1)(A) dollar limit must be prorated under the short Limitation Year rules.

MANDATORY EMPLOYEE CONTRIBUTION
Means any pre-tax contribution made to the Plan by or on behalf of a Participant that is mandatory as a condition of employment or pursuant to other similar criteria as designated by the Adopting Employer in the Adoption Agreement.

MATCHING CONTRIBUTION
Means a contribution made to this or any other defined contribution plan by the Employer on behalf of a Participant on account of an Elective Deferral, Nondeductible Employee Contribution, or a Mandatory Employee Contribution made by such Participant under a plan maintained by the Employer.

MAXIMUM PERMISSIBLE AMOUNT
Means the maximum Annual Addition that may be contributed or allocated to a Participant's Individual Account under the Plan for any Limitation Year in accordance with Treasury Regulation 1.415(c)-1(a)(1), which is the lesser of $40,000, as adjusted for cost-of-living under Code Section 415(d), or 100% of the Participant's compensation for the Limitation Year. Generally, that compensation is the Participant's Includible Compensation for the Limitation Year. However, if a Participant is required to aggregate contributions under this Plan with contributions made to a qualified plan of an employer controlled by the Participant as described in Plan Section 3.08(B), then in applying the Maximum Permissible Amount in connection with the aggregation of this Plan with the qualified plan, the total compensation from the controlled employer and the Employer shall be taken into account. If a short Limitation Year is created because of an amendment changing the Limitation Year to a different 12-consecutive month period, the Maximum Permissible Amount will not exceed $40,000, as adjusted under Code Section 415(d), multiplied by the following fraction:

$$\frac{\text{Number of months in the short Limitation Year}}{12}$$

MONTH OF ELIGIBILITY SERVICE
Means the calendar month during which the Employee completes the number of Hours of Service designated in the Adoption Agreement. If the Adoption Agreement indicates a specific number of Months of Eligibility Service and no Hours of Service requirement is selected, the Employee will be deemed to be required to complete 83⅓ Hours of Service if actual hours are used to determine eligibility. If an Hours of Service requirement is designated per month, that number when multiplied by the number of Months of Eligibility Service indicated in the Adoption Agreement cannot exceed 1,000 hours. Employees not meeting the hours requirement within the initial number of months indicated in the Adoption Agreement will satisfy the Month of Eligibility Service requirement when they complete 1,000 Hours of Service within the Eligibility Computation Period.

NONDEDUCTIBLE EMPLOYEE CONTRIBUTIONS
Means any contribution, other than Roth Elective Deferrals, made to the Plan by or on behalf of a Participant that is included in the Participant's gross income in the year in which made and that is maintained under a separate account to which earnings and losses are allocated.

NORMAL RETIREMENT AGE
Means the age specified in the Adoption Agreement. If the Employer enforces a mandatory retirement age, the Normal Retirement Age is the lesser of that mandatory age or the age specified in the Adoption Agreement. If no age is specified in the Adoption Agreement, the Normal Retirement Age shall be age 59½.

PARTICIPANT
Means any Employee or former Employee of the Employer who has met the Plan's age and service requirements, has entered the Plan and who is or may become eligible to receive a benefit of any type from this Plan or whose Beneficiary may be eligible to receive any such benefit.

PARTICIPANT'S BENEFIT
Means the Participant's Individual Account as of the last Valuation Date in the calendar year immediately preceding the Distribution Calendar Year (valuation calendar year) increased by the amount of any contributions made and allocated or Forfeitures allocated to the Participant's Individual Account as of dates in the valuation calendar year after the Valuation Date and decreased by distributions made in the valuation calendar year after the Valuation Date. The Participant's Benefit for the valuation calendar year includes any amounts rolled over or transferred to the Plan either in the valuation calendar year or in the Distribution Calendar Year if distributed or transferred in the valuation calendar year. For purposes of determining the value of a Participant's Individual Account, the portion of the Individual Account equal to the value of Participant's Individual Account as of December 31, 1986 (pre-87 balance) may be excluded for purposes of the required minimum distribution calculation until the Participant reaches age 75. If, for any year, the Participant receives a distribution greater than the amount required to satisfy the current years required minimum distribution, such excess amount shall be deemed distributed from the pre-1987 balance.

PLAN
Means this 403(b) Plan adopted by the Adopting Employer. The Plan consists of this Basic Plan Document plus the corresponding Adoption Agreement as completed and signed by the Adopting Employer and any other documents required to be considered part of the Plan by the IRS, including but not limited to those that contain any of the material terms and conditions for eligibility, benefits, applicable limitations, the time and form under which benefit distributions may be made and other optional features allowed under Code Section 403(b).

PLAN ADMINISTRATOR
The Adopting Employer shall be the Plan Administrator unless the managing body of the Adopting Employer designates a person or persons other than the Adopting Employer as the Plan Administrator. The Adopting Employer shall also be the Plan Administrator if the person or persons so designated ceases to be the Plan Administrator. The Adopting Employer may establish an administrative committee that will carry out the Plan Administrator's duties. Members of the administrative committee may allocate the Plan Administrator's duties among themselves. If the managing body of the Adopting Employer designates a person or persons other than the Adopting Employer as Plan Administrator, such person or persons shall serve at the pleasure of the Adopting Employer and shall serve pursuant to such procedures as such managing body may provide. The term Plan Administrator shall include any person authorized to perform the duties of the Plan Administrator.

PLAN CONTRIBUTIONS
Means any amounts contributed by the Employer each year as determined under this Plan, including Matching Contributions and Employer Contributions. The term Plan Contribution shall also include Elective Deferrals, Nondeductible Employee Contributions, and Mandatory Employee Contributions made to the Plan unless such contributions are intended to be excluded for purposes of either the Plan or any act under the Code or any additional rules, regulations, or other pronouncements promulgated by the IRS.

PLAN SEQUENCE NUMBER
Means the three digit number the Adopting Employer assigned to the Plan in the Adoption Agreement. The Plan Sequence Number identifies the number of plans the Employer maintains or has maintained. The Plan Sequence Number is 001 for the Employer's first plan, 002 for the second, etc.

PLAN YEAR
Means the 12-consecutive month period that coincides with the Adopting Employer's tax year unless the Adopting Employer has selected another 12-consecutive month period in the Adoption Agreement.

PRE-TAX ELECTIVE DEFERRALS
Means Elective Deferrals that are not included in a Contributing Participant's gross income at the time deferred. Elective Deferrals will be characterized as Pre-Tax Elective Deferrals unless the Roth Elective Deferral option is selected in the Adoption Agreement and, if the Plan permits Roth Elective Deferrals in addition to Pre-Tax Elective Deferrals, the Contributing Participant also designates the deferral as a Roth Elective Deferral.

PRIOR PLAN
Means a plan that was replaced by adoption of this Plan document as indicated in the Adoption Agreement.

PUBLIC SCHOOL
Means a State-sponsored educational organization described in Code Section 170(b)(1)(A)(ii) (relating to educational organizations that normally maintain a regular faculty and curriculum and normally have a regularly enrolled body of pupils or students in attendance at the place where educational activities are regularly carried on).

QUALIFIED DOMESTIC RELATIONS ORDER

A. In General
Means a Domestic Relations Order

1. that creates or recognizes the existence of an Alternate Payee's rights to, or assigns to an Alternate Payee the right to, receive all or a portion of the benefits payable with respect to a Participant under the Plan, and

2. with respect to which the requirements described in the remainder of this definition are met.

B. Specification of Facts
A Domestic Relations Order shall be a Qualified Domestic Relations Order only if the order clearly specifies

1. the name and last known mailing address (if any) of the Participant and the name and mailing address of each Alternate Payee covered by the order,
2. the amount or percentage of the Participant's benefits to be paid by the Plan to each such Alternate Payee, or the manner in which such amount or percentage is to be determined,
3. the number of payments or period to which such order applies, and
4. each plan to which such order applies.

C. Additional Requirements
In addition to paragraph (B) above, a Domestic Relations Order shall be considered a Qualified Domestic Relations Order only if such order

1. does not require the Plan to provide any type or form of benefit, or any option not otherwise provided under the Plan,
2. does not require the Plan to provide increased benefits, and
3. does not require benefits to an Alternate Payee that are required to be paid to another Alternate Payee under another order previously determined to be a Qualified Domestic Relations Order.

D. Exception for Certain Payments
A Domestic Relations Order shall not be treated as failing to meet the requirements above solely because such order requires that payment of benefits be made to an Alternate Payee

1. as if the Participant had retired on the date on which such payment is to begin under such order, and
2. in any form in which such benefits may be paid under the Plan to the Participant with respect to the Alternate Payee and their subsequent spouse.

QUALIFYING PARTICIPANT
A Participant is a Qualifying Participant and is entitled to share in the Employer Contribution for any Plan Year if the Participant was a Participant on at least one day during the Plan Year and satisfies any additional conditions specified in the Adoption Agreement. The determination of whether a Participant is entitled to share in the Employer Contribution shall be made as of the last day of each Plan Year. If the Elapsed Time method of determining service applies, each Employee will share in Employer Contributions for the period beginning on the date the Employee commences participation under the Plan and ending on the date on which such Employee severs employment with the Employer or is no longer a member of an eligible class of Employees.

QUALIFYING CONTRIBUTING PARTICIPANT
Means a Contributing Participant who satisfies the requirements described in Plan Section 3.03 to be entitled to receive a Matching Contribution (and Forfeitures, if applicable) for a Plan Year.

RECIPIENT
A Recipient includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving Spouse and the Employee's or former Employee's Spouse or former Spouse who is the Alternate Payee under a Qualified Domestic Relations Order, as defined in Code Section 414(p), are Recipients with regard to the interest of the Spouse or former Spouse. With respect to distributions made after December 31, 2006, a Recipient includes a Beneficiary.

RELATED EMPLOYER
Means an employer that is part of a controlled group of corporations (as defined in Code Section 414(b)), a group of commonly controlled trades or businesses (as defined in Code Section 414(c)) or an affiliated service group (as defined in Code Section 414(m)) of which the Adopting Employer is a part, or any other entity required to be aggregated with the Adopting Employer pursuant to Code Section 414(o). However, those employers that must be so aggregated shall be determined under the guidance of IRS Notice 89-23 or any subsequent successor guidance, as such guidance relates to employers who are eligible employers as described in the Plan definition of Employer.

REQUIRED BEGINNING DATE
Means April 1 of the calendar year following the calendar year in which the Participant attains age 70½ or retires, whichever is later. However, the portion of a Participant's Individual Account attributable to the period before 1987 shall not be subject to required minimum distributions until the Participant reaches age 75. If, in any year, a Participant withdraws an amount greater than the required minimum, such additional amounts are considered to be distributed from the pre-1987 balance.

ROTH ELECTIVE DEFERRALS
Means Elective Deferrals that are includible in a Contributing Participant's gross income at the time deferred and have been irrevocably designated as Roth Elective Deferrals by the Contributing Participant in their deferral election.

SEVERANCE FROM EMPLOYMENT
Means an Employee ceases to be an Employee of the Employer, and any Related Employer listed on a Related Employer Participation Form, maintaining the Plan, or one of their Related Employers (as described in Treasury Regulation 1.401(k)-1(d)). An employee does not have a Severance from Employment if, in connection with a change of employment, the Employee's new employer maintains the Plan with respect to the Employee.

Severance from Employment occurs on any date on which an Employee ceases to be an employee of an eligible employer as defined in Treasury Regulation 1.403(b)-2(b)(8), which describes employers that may participate in 403(b) arrangements, even though the Employee may continue to be employed either (1) by another entity that is treated as the same employer where the other entity is not an eligible employer or (2) in a capacity for the same employer that is not employment with such eligible employer.

SPECIAL CODE SECTION 403(b) CATCH-UP CONTRIBUTIONS
Means, if applicable, Elective Deferrals that exceed an otherwise applicable Plan limit and that are made by a qualified employee of a qualified organization in accordance with Code Section 402(g)(7), as described in Plan Section 3.01(D)(2).

If Special Code Section 403(b) Catch-up Contributions are permitted by the Employer in the Adoption Agreement, any Elective Deferrals that exceed an otherwise applicable Plan limit will first be applied as Special Code Section 403(b) Catch-up Contributions, with any additional Elective Deferrals being treated as Age 50 Catch-up Contributions, if applicable.

SPOUSE
Means the Spouse or surviving Spouse of the Participant, provided that a former Spouse will be treated as the Spouse or surviving Spouse and a current Spouse will not be treated as the Spouse or surviving Spouse to the extent provided under a Qualified Domestic Relations Order.

STATE
Means a State, a political subdivision of a State, or any agency or instrumentality of a State and any other entity described in Treasury Regulation 1.403(b)-2(b)(20).

TAXABLE WAGE BASE
Means, with respect to any taxable year, the contribution and benefit base in effect in Section 230 of the Social Security Act at the beginning of the Plan Year.

VALUATION DATE
The Valuation Date shall be the last day of the Plan Year and each other date designated by the Plan Administrator which is selected in a uniform and nondiscriminatory manner when the assets of the Plan are valued at their then fair market value.

VENDOR
Means the provider of an annuity contract or custodial account approved by the Employer for use under this Plan. Vendors are either insurance companies who may issue annuity contracts described in Treasury Regulation 1.403(b)-2(b)(2) or a bank or other person (described in Treasury Regulation 1.403(b)-8(d)(2)) who may hold amounts in a custodial account that meets the requirements of Treasury Regulation 1.403(b)-8(d) including the requirement that the amounts are invested in stock of a regulated investment company.

VESTED
Means nonforfeitable, that is an unconditional and legally enforceable claim against the Plan obtained by a Participant or the Participant's Beneficiary to that part of an immediate or deferred benefit under the Plan that arises from a Participant's Years of Vesting Service.

VESTED ACCOUNT BALANCE
Means the aggregate value of the Participant's Vested account balances derived from Plan Contributions (including rollovers), whether Vested before or upon death, including the proceeds of insurance contracts, if any, on the Participant's life. This definition shall apply to a Participant who is vested in amounts attributable to Plan Contributions at the time of death or distribution.

YEAR OF ELIGIBILITY SERVICE
Means a 12-consecutive month period that coincides with an Eligibility Computation Period during which an Employee completes at least 1,000 Hours of Service An Employee does not complete a Year of Eligibility Service before the end of the 12 consecutive month period regardless of when during such period the Employee completes the required number of Hours of Service.

YEAR OF VESTING SERVICE
Means a Plan Year during which an Employee completes at least 1,000 Hours of Service.

Years of Vesting Service shall not include any period of time excluded from Years of Vesting Service in the Adoption Agreement. However, if an Employee becomes ineligible to participate in the Plan because they are no longer a member of an eligible class of Employees, but has not incurred a Break in Vesting Service, such Employee shall continue to accumulate Years of Vesting Service.

In the event the Plan Year is changed to a new 12-month period, Employees shall receive credit for Years of Vesting Service, in accordance with the preceding provisions of this definition, for each of the Plan Years (the old and new Plan Years) that overlap as a result of such change.

SECTION ONE: EFFECTIVE DATES

Pursuant to the Definitions Section of the Plan, the Effective Date means the date the Plan becomes effective as indicated in the Adoption Agreement. However, certain provisions of the Plan may have effective dates different from the Plan Effective Date, if, for example, the Plan is amended subsequent to the Effective Date.

SECTION TWO: ELIGIBILITY

2.01 ELIGIBILITY TO PARTICIPATE

If the Adopting Employer so allows in the Adoption Agreement, each Employee of the Employer, except an Employee who belongs to a class of Employees excluded from participation as indicated in the Adoption Agreement Section Two, Part C, shall be eligible to participate in this Plan by electing to contribute a portion of their Compensation as an Elective Deferral if any other Employee may elect to make Elective Deferrals. If permitted by the Adoption Agreement, an Employee who may make Elective Deferrals may also make Nondeductible Employee Contributions. For all other types of contributions under the Plan, each Employee except an Employee who belongs to a class of Employees excluded from participation as indicated in the Adoption Agreement, shall be eligible to participate in the Plan upon satisfying the age and Years of Eligibility Service requirements specified in the Adoption Agreement and, for Mandatory Employee Contributions, such alternative conditions, if any, specified in the Adoption Agreement. If no age is specified in the Adoption Agreement, there will not be an age requirement. If no Years of Eligibility Service are specified, no Years of Eligibility Service will apply. There is no minimum age an Employee must attain to become a Participant in this Plan for purposes of making Elective Deferrals unless the Adopting Employer maintains another plan providing for elective deferrals that satisfies the universal availability requirements under Code Section 403(b)(12) and the corresponding Treasury Regulations. If the Adopting Employer maintains another plan, then the age specified in the Adoption Agreement for Matching Contributions and Employer Contributions will apply to Elective Deferrals.

2.02 PLAN ENTRY

A. **Plan Restatement** – If this Plan is an amendment or restatement of a Prior Plan, each Employee who was a Participant in the Prior Plan before the Effective Date shall continue to be a Participant in this Plan.

B. **Effective Date** – Employees will enter the Plan for purposes of making Elective Deferrals (or Nondeductible Employee Contributions, if permitted in the Adoption Agreement) as soon as administratively feasible following the Employee's Employment Commencement Date and following the completion of administrative requirements (equally applicable to all Employees) established by the Plan Administrator for purposes of orderly and reasonable administration of the Plan, unless they are in an excluded class of Employees listed in Adoption Agreement Section Two, Part C. For purposes of all other contributions, an Employee will become a Participant in the Plan as of the Effective Date if the Employee has met the eligibility requirements of Plan Section 2.01 as of such date. After the Effective Date, each Employee shall become a Participant for that purpose on the first Entry Date coinciding with or following the date the Employee satisfies the eligibility requirements of Plan Section 2.01, unless the Adopting Employer selects retroactive Entry Dates in the Adoption Agreement or on Attachment C, Special Effective Dates.

C. **Notification** – The Plan Administrator shall notify each Employee who becomes eligible to be a Participant under this Plan and shall furnish the Employee with the enrollment forms or other documents which are required of Participants. Such notification shall be in writing (or any other form permitted under rules promulgated by the IRS). The eligible Employee shall execute such forms or documents and make available such information as may be required in the administration of the Plan.

2.03 TRANSFER TO OR FROM INELIGIBLE CLASS

If an Employee who had been a Contributing Participant becomes ineligible to make Elective Deferrals (or Nondeductible Employee Contributions, if applicable) because the Employee is no longer a member of an eligible class of Employees who may make Elective Deferrals, such Employee shall participate as a Contributing Participant as soon as administratively feasible following the Employee's return to an eligible class of Employees who may make Elective Deferrals and following the completion of administrative requirements (equally applicable to all Employees) established by the Plan Administrator for purposes of orderly and reasonable administration of the Plan.

An Employee who is not a member of an eligible class of Employees who may make Elective Deferrals (or Nondeductible Employee Contributions, if applicable) may become a Contributing Participant as soon as administratively feasible following the Employee's becoming a member of an eligible class of Employees who may make Elective Deferrals and following the completion of administrative requirements (equally applicable to all Employees) established by the Plan Administrator for purposes of orderly and reasonable administration of the Plan.

If an Employee who had been a Participant becomes ineligible to participate for the purpose of contributions other than Elective Deferrals (or Nondeductible Employee Contributions, if applicable) because the Employee is no longer a member of an eligible class of Employees for that purpose, but has not incurred a Break in Eligibility Service, such Employee shall participate for that purpose immediately following the Employee's return to an eligible class of Employees. If such Employee incurs a Break in Eligibility Service, the Employee's eligibility to participate for that purpose shall be determined by Plan Section 2.04.

An Employee who is not a member of an eligible class of Employees for purposes of contributions other than Elective Deferrals (or Nondeductible Contributions, if applicable) will become a Participant for that purpose immediately upon becoming a member of that eligible class provided such Employee has satisfied the age and Years of Eligibility Service requirements. If such Employee has not satisfied the age and Years of Eligibility Service requirements as of the date the Employee becomes a member of that eligible class, such Employee shall become a Participant for that purpose on the first Entry Date coinciding with or following the date the Employee satisfies those requirements.

2.04 RETURN AS A PARTICIPANT AFTER BREAK IN ELIGIBILITY SERVICE

A. **Employee Not Participant Before Break** – If an Employee incurs a Break in Eligibility Service before satisfying the Plan's eligibility requirements for contributions other than Elective Deferrals (or Nondeductible Employee Contributions, if applicable), such Employee's Years of Eligibility Service before such Break in Eligibility Service will not be taken into account.

B. **Employee A Participant Before Break** – If a Participant incurs a Break in Eligibility Service, such Participant shall continue to participate in the Plan, or, if terminated, shall participate immediately following the date of reemployment.

2.05 DETERMINATIONS UNDER THIS SECTION

The Plan Administrator shall determine the eligibility of each Employee to become a Participant. This determination shall be conclusive and binding upon all persons except as otherwise provided herein or by law.

2.06 TERMS OF EMPLOYMENT

Nothing with respect to the establishment of the Plan or any action taken with respect to the Plan, nor the fact that a common law Employee has become a Participant shall give to that Employee any right to employment or continued employment or to grant any other rights except as specifically set forth in this Plan document or other applicable law; nor shall the Plan limit the right of the Employer to discharge an Employee or to otherwise deal with an Employee without regard to the effect such treatment may have upon the Employee's rights under the Plan.

2.07 INFORMATION PROVIDED BY THE EMPLOYEE

Each Employee who participates in the Plan shall provide to the Plan Administrator both at the time of initial enrollment, and on an ongoing basis, any information reasonably necessary or advisable for the Plan Administrator to administer the Plan, including any information regarding the Individual Agreements sunder the Plan.

2.08 RECLASSIFICATION

No judicial or administrative reclassification, or reclassification by the Employer, of an individual as a common law employee will be applied to grant retroactive eligibility to any individual under this Plan.

SECTION THREE: CONTRIBUTIONS

3.01 ELECTIVE DEFERRALS

If elected in the Adoption Agreement, each Employee who is not a member of an excluded class as specified in Adoption Agreement Section Two, Part C, may begin making Elective Deferrals to the Plan by enrolling as a Contributing Participant as described below.

A. Requirements To Enroll As A Contributing Participant – Each Employee who is not a member of an excluded class of Employees as specified in Adoption Agreement, Section Two, Part C, may enroll as a Contributing Participant with respect to the type of Elective Deferrals elected by the Adopting Employer in the Adoption Agreement.

A Participant shall be eligible to enroll as a Contributing Participant as soon as administratively feasible following their Employment Commencement Date and following the completion of administrative requirements (equally applicable to all Employees) established by the Plan Administrator for purposes of orderly and reasonable administration of the Plan, or if applicable, as soon as administratively feasible following the Employee's return to an eligible class of Employees who may make Elective Deferrals and following the completion of administrative requirements (equally applicable to all Employees) established by the Plan Administrator for purposes of orderly and reasonable administration of the Plan. A Participant who wishes to enroll as a Contributing Participant must deliver (either in writing or in any other form permitted by the IRS) a salary reduction agreement to the Plan Administrator except as set forth in Plan Section 3.01(E) below. The Plan Administrator may establish an annual minimum Elective Deferral amount no higher than $200, and may change such minimum to a lower amount from time to time.

Except for occasional, bona fide administrative considerations as set forth in the Treasury Regulations, contributions made pursuant to such election cannot precede the earlier of 1) the date on which services relating to the contribution are performed, and 2) the date on which the Compensation that is subject to the election would be payable to the Employee in the absence of an election to defer.

If the Plan permits both Pre-Tax Elective Deferrals and Roth Elective Deferrals and the Participant fails to designate whether their Elective Deferrals are Pre-Tax or Roth Elective Deferrals, the Participant will be deemed to have designated the Elective Deferral as Pre-Tax.

Notwithstanding anything in this Plan to the contrary, Elective Deferrals shall be transferred to the applicable Funding Vehicle as soon as such contributions can reasonably be segregated from the general assets of the Employer.

B. Pre-Tax vs. Roth Elective Deferrals – If the Adopting Employer so elects in Adoption Agreement Section Three, Part A, each Employee who enrolls as a Contributing Participant may specify whether their Elective Deferrals are to be characterized as Pre-Tax Elective Deferrals, Roth Elective Deferrals, or a specified combination. A Contributing Participant's election will remain in effect until superseded by another election. Elective Deferrals contributed to the Plan as one type, either as Roth Elective Deferrals or Pre-Tax Elective Deferrals, may not later be reclassified as the other type. A Contributing Participant's Roth Elective Deferrals will be deposited in the Contributing Participant's Roth Elective Deferral subaccount in the Plan. No contributions other than Roth Elective Deferrals and properly attributable earnings will be credited to each Contributing Participant's Roth Elective Deferral subaccount, and gains, losses, and other credits or charges will be allocated on a reasonable and consistent basis to such subaccount.

C. Ceasing or Changing Elective Deferral Amounts – A Contributing Participant or a Participant who has met the eligibility requirements in Adoption Agreement Section Two but who is not currently making Elective Deferrals (or Nondeductible Employee Contributions, if applicable), may modify their salary reduction agreement (or agreement to make Nondeductible Employee Contributions, if applicable) to increase or decrease or cease Elective Deferrals (or Nondeductible Employee Contributions, if applicable) at least annually and as of any such additional times established by the Plan Administrator in a uniform and nondiscriminatory manner.

1. **Notice to Cease or Change Elective Deferral Amounts** – A Contributing Participant who desires to modify their elections shall complete and deliver (either in writing or in any other form permitted by the IRS) a new salary reduction agreement (or agreement to make Nondeductible Employee Contributions, if applicable) to the Plan Administrator either changing the amount of their Elective Deferrals (or Nondeductible Employee Contributions, if applicable) or revoking the authorization to the Employer to make Elective Deferrals (or Nondeductible Employee Contributions, if applicable) on their behalf. The Plan

Administrator may prescribe such uniform and nondiscriminatory rules as it deems appropriate to carry out the terms of this Plan Section 3.01(C). A Participant shall automatically cease to be a Contributing Participant upon their Severance from Employment, or on account of termination of the Plan.

2. **Return As A Contributing Participant After Ceasing Elective Deferrals** – A Participant who has withdrawn as a Contributing Participant in Plan Section 3.01(C)(1)) (or because the Participant has taken a hardship distribution pursuant to Plan Section 5.01(C)(2)) may not again become a Contributing Participant until the first day of the Plan Year or the first day of the seventh month of the Plan Year following such withdrawal, unless the Plan Administrator, in a uniform and nondiscriminatory manner, permits withdrawing Participants to resume their status as Contributing Participants sooner (provided that Participants who take withdrawals pursuant to Plan Section 5.01(C)(2) shall be subject to the conditions of that Plan Section).

D. Catch-up Contributions

1. **Age 50 Catch-up Contributions** – Unless otherwise elected in Adoption Agreement Section Three, Part A, all Employees who are eligible to make Elective Deferrals under this Plan and who are age 50 or older by the end of their taxable year will be eligible to make Age 50 Catch-up Contributions. Age 50 Catch-up Contributions are not subject to the limits on Annual Additions under Code Section 415.

2. **Special Code Section 403(b) Catch-up Contributions (Employees With 15 Years of Service)** – If the Adopting Employer so elects in Adoption Agreement Section Three, Part A, and if the Employer is a qualified organization (within the meaning of Treasury Regulation 1.403(b)-4(c)(3)(ii)), all qualified Employees will be eligible to make Special Code Section 403(b) Catch-up Contributions equal to the lesser of:

   a. $3,000;

   b. The excess of:
      1. $15,000, over
      2. The total Special Code Section 403(b) Catch-up Contributions made for the qualified Employee by the qualified organization for prior years; or

   c. The excess of:
      1. $5,000 multiplied by the number of years of service (as defined in Treasury Regulations 1.403(b)-2(b)(21) and 1.403(b)-4(e)) of the Employee with the qualified organization, over
      2. The total Elective Deferrals made for the Employee by the qualified organization for prior years.

   For purposes of this Plan Section 3.01(D), a qualified Employee means an Employee who has completed at least 15 years of service (as defined in Treasury Regulations 1.403(b)-2(b)(21) and 1.403(b)-4(e)) taking into account only employment with the Employer.

   Matching Contributions shall be made, in accordance with the Matching Contribution formula specified in the Adoption Agreement, with regard to both the Age 50 Catch-up Contributions and Special Code Section 403(b) Catch-up Contributions. Catch-up Contributions made under this Plan Section 3.01(D) shall be allocated first to the Special Code Section 403(b) Catch-up Contributions under Plan Section 3.01(D)(2) and next as an Age 50 Catch-up Contribution under Plan Section 3.01(D)(1). However, in no event can the amount of the Elective Deferrals for a Participant's taxable year be more than the Participant's Compensation for the year.

E. Automatic Elective Deferrals

1. <u>Automatic Contribution Arrangements (ACA) and Eligible Automatic Contribution Arrangements (EACA)</u> – Each Employee who is not a member of an excluded class of Employees, as specified in Adoption Agreement Section Two, Part C, will be given a reasonable opportunity to enroll as a Contributing Participant. Notwithstanding the foregoing, if the Adopting Employer so elected in the Adoption Agreement, eligible Employees who fail to provide the Employer a salary reduction agreement indicating either 1) their desire not to make Elective Deferrals, or 2) the amount or percentage of Compensation to be deferred, will automatically have the amount or percentage of Compensation listed in the Adoption Agreement withheld from their Compensation and contributed to the Plan as an Elective Deferral. The Employer shall establish a uniform and nondiscriminatory policy to determine whether or not a Participant has made a timely affirmative election to defer at a rate (including zero percent) that is different from the rate selected for automatic Elective Deferrals in the Adoption Agreement. Elective Deferrals for such automatically enrolled Contributing Participants shall continue at the rate specified in the Adoption Agreement until 1) the Contributing Participant provides the Employer a salary reduction agreement (either in writing or in any other form permitted under rules promulgated by the IRS) to the contrary, or unless 2) Elective Deferrals are increased in accordance with Plan Section 3.01(E)(3). Contributions made pursuant to this Plan Section 3.01(E) will be characterized as Pre-Tax Elective Deferrals. Except as otherwise indicated in this Plan Section 3.01(E) or as otherwise indicated in rules promulgated by the IRS, Elective Deferrals made to the Plan pursuant to this Plan Section 3.01(E) will be subject to all Plan rules otherwise applicable to Elective Deferrals.

   An Adopting Employer who adopts automatic Elective Deferrals as described in this Plan Section 3.01(E)(1) shall establish uniform and nondiscriminatory procedures designed to ensure that each eligible Employee and Contributing Participant is provided an effective opportunity to make and modify their salary deferral election. Such procedures shall include, but are not limited to, the means by which notice will be provided to each eligible Employee or Contributing Participant of their right to complete a salary reduction agreement specifying a different amount or percentage of Compensation (including no Compensation) to be contributed to the Plan and a reasonable period of time for completing such a salary reduction agreement.

Under Adoption Agreement Section Three, Part A, the Adopting Employer may elect either an ACA or an EACA provision. The EACA option is an ACA option that also is designed to be an EACA by permitting withdrawals described in Plan Section 5.01(A)(4) and satisfying the additional requirements described in Plan Section 3.01(E)(4).

2. Employees Potentially Affected by Automatic Enrollment – Unless otherwise elected in Adoption Agreement Section Three, Part A, only Employees hired on or after the ACA or EACA provisions become effective and who fail to timely provide the Employer a salary reduction agreement, will have a portion of such Employees' Compensation automatically withheld and contributed to the Plan as an Elective Deferral.

   If elected in the Adoption Agreement, current Employees who are not Contributing Participants (i.e., are deferring zero percent) will also be automatically enrolled in accordance with Plan Section 3.01(E).

3. Automatic Elective Deferral Increases (ACA and EACA) – If the Adopting Employer so elects in Adoption Agreement Section 3, Part A, the Elective Deferral percentage or amount for Contributing Participants will be adjusted automatically each Plan Year (or such other uniform and nondiscriminatory period permitted by law or regulations) by the Employer in the increments stated in the Adoption Agreement. Automatic Elective Deferral increases will be initiated by the Adopting Employer only for those Contributing Participants who are automatically enrolled pursuant to Plan Section 3.01(E)(1). In addition to the foregoing, the Plan Administrator, in a uniform and nondiscriminatory manner, may establish operational procedures to enable all Contributing Participants, including those who were not automatically enrolled as Contributing Participants pursuant to Plan Section 3.01(E)(1), to elect to have their Elective Deferrals automatically increased.

   An Employer who adopts the automatic Elective Deferral increase feature described in this Plan Section 3.01(E)(3) shall establish uniform and nondiscriminatory procedures designed to ensure that each Contributing Participant is provided an effective opportunity to make and modify their salary deferral election such that automatic Elective Deferral increases will not apply to such Participant. Such procedures shall include, but are not limited to, the means by which notice will be provided to such Contributing Participant of their right to complete a salary reduction agreement discontinuing automatic Elective Deferral increases and a reasonable period of time for completing such a salary reduction agreement.

4. Additional Requirements for Eligible Automatic Contribution Arrangements (EACA) – If an Employer elects in Adoption Agreement Section Three, Part A, to treat the automatic enrollment feature as an EACA, the additional notice and election period requirements set forth below will apply.

   a. EACA and Notice Requirement – Employee notices shall be provided to affected Employees within a reasonable period of time before the start of the first Plan Year in which the EACA becomes effective and prior to each subsequent Plan Year thereafter. A period of 30 to 90 days is deemed to be a reasonable period. Whether a different period is reasonable would be determined based on the facts and circumstances of the situation. If affected Employees are provide the notices less than 30 days prior to being automatically enrolled, the Plan must allow permissive withdrawals as described in Plan Section 5.01(A)(4) or provide such other options permitted by law or regulation for EACAs.

   b. EACA Election Period – In addition to any other election periods provided under the Plan, each Eligible Employee may make or modify a deferral election during a reasonable period of time immediately following receipt of the notice described in Plan Section 3.01(E)(4)(a). Notwithstanding the foregoing, the Employer may change the election periods described above pursuant to rules promulgated by the IRS.

3.02 MANDATORY EMPLOYEE CONTRIBUTIONS

If the Employer elects in Adoption Agreement Section Three, Part B, each Employee who is not a member of an excluded class of Employees, as specified in the Adoption Agreement, must contribute Mandatory Employee Contributions to the Plan, as set forth in the Adoption Agreement. The Employer shall establish uniform and nondiscriminatory rules and procedures for Mandatory Employee Contributions as it deems necessary and advisable to properly administer the Plan. A separate account will be maintained by the Plan Administrator for the Mandatory Employee Contributions of each Participant.

The Employer may elect to make Matching Contributions under the Plan on behalf of Employees who make Mandatory Employee Contributions, as designated in Adoption Agreement Section Three, Part B.

3.03 MATCHING CONTRIBUTIONS

The Employer may elect to make Matching Contributions under the Plan on behalf of Qualifying Contributing Participants as provided in Adoption Agreement Section Three, Part C. To be a Qualifying Contributing Participant for a Plan Year, the Participant must make Elective Deferrals (or Nondeductible Employee Contributions, if the Employer has agreed to match such contributions) for the Plan Year, satisfy any age and Years of Eligibility Service and other requirements that are specified for Matching Contributions in the Adoption Agreement. Any additional Hours of Service or Last Day Requirements will be waived after the Contributing Participant's (1) death, (2) Severance from Employment after incurring a Disability, or (3) Severance from Employment after attaining Normal Retirement Age. The Employer may make Matching Contributions at the same time as it contributes Elective Deferrals (or Nondeductible Employee Contributions, if applicable) or at any other time as permitted by law and regulation. The proper Matching Contribution amount may be determined by the Employer at any time during a Plan Year, including, but not limited to, the period during which the Matching Contributions are funded or at the end of the Plan Year, so long as the amount of Matching Contributions is determined in a uniform and nondiscriminatory manner.

3.04 PLAN CONTRIBUTIONS AND ALLOCATIONS

A. **Obligation to Contribute** – If elected, the Employer will make Plan Contributions as set forth in Adoption Agreement Section Three, Part A.

B. Allocation Formula and the Right to Share in the Employer Contribution

1. General – The Employer Contribution for any Plan Year will be deemed allocated to each Participant's Individual Account as of the last day of that Plan Year. If elected in the Adoption Agreement, Employer Contributions shall be allocated to the Plan on behalf of each Participant who has incurred a Disability.

   If elected in the Adoption Agreement, Employer Contributions shall be allocated to the Plan on behalf of a Participant who is a former Employee. The amount, the allocation formula, and the class of former Employees eligible to receive Employer Contributions shall be determined by the Employer, in its sole discretion, from year to year. Such contributions will be based upon the former Employee's Includible Compensation for a period of up to five years.

2. Special Rules for Integrated Plans – If the Adopting Employer has selected the integrated contribution and allocation formula in the Adoption Agreement, the integration level shall be defined in the Adoption Agreement. This Plan may not allocate contributions based on an integrated formula if the Employer maintains any other 403(b) or qualified plan that provides for allocation of contributions based on an integrated formula that benefits any of the same Participants. The maximum disparity rate shall be determined in accordance with the following table.

MAXIMUM DISPARITY RATE

Integration Level	Maximum Disparity
Taxable Wage Base (TWB)	5.7%
More than $0 but not more than 20 percent of TWB	5.7%
More than 20 percent of TWB but not more than 80 percent of TWB	4.3%
More than 80 percent of TWB but not more than TWB	5.4%

   Annual overall permitted disparity limit: Notwithstanding anything in this Plan to the contrary, for any Plan Year this Plan benefits any Participant who benefits under another qualified plan or simplified employee pension, as defined in Code Section 408(k), maintained by the Employer that provides for permitted disparity (or imputes disparity), if this Plan receives Employer Contributions, these contributions and forfeitures shall be allocated to the account of each Qualifying Participant in the ratio that such Qualifying Participant's total Compensation bears to the total Compensation of all Qualifying Participants.

   Cumulative permitted disparity limit: Effective for Plan Years beginning on or after January 1, 1995, the cumulative permitted disparity limit for a Participant is 35 total cumulative permitted disparity years. Total cumulative permitted years means the number of years credited to the Participant for allocation or accrual purposes under this Plan, any qualified plan or simplified employee pension plan (whether or not terminated) ever maintained by the Employer. For purposes of determining the Participant's cumulative permitted disparity limit, all years ending in the same calendar year are treated as the same year. If the Participant has not benefited under a defined benefit or target benefit plan for any year beginning on or after January 1, 1994, the Participant has no cumulative disparity limit.

   Compensation shall mean compensation as defined in the Definitions Section of the Plan, without regard to any exclusions selected in Adoption Agreement Section Six.

3. Inclusion of Ineligible Employees – If any Employee who is not a Qualifying Participant is erroneously treated as a Qualifying Participant during a Plan Year, then the Employer must correct the inclusion of ineligible Employees using any method to the extent permitted under the Employee Plans Compliance Resolution System (EPCRS) or allowed by the IRS under regulations or other guidance. The EPCRS is currently described in IRS Revenue Procedure 2006-27.

4. Exclusion of Eligible Participant – If in any Plan Year, any Participant is erroneously excluded and discovery of such exclusion is not made until after the Plan Contribution has been made and allocated, then the Employer must correct the exclusion of eligible Employees using any method to the extent permitted under the Employee Plans Compliance Resolution System (EPCRS) or allowed by the IRS under regulations or other guidance. The EPCRS is currently described in IRS Revenue Procedure 2006-27.

C. Allocation of Forfeitures – Forfeitures may be, at the Employer's discretion, applied first to the payment of the Plan's administrative expenses in accordance with Plan Section 7.04. Unless the Adoption Agreement indicates otherwise, any remaining Forfeitures shall be used to reduce Plan Contributions.

Forfeitures must be applied as of the last day of the Plan Year in which the Forfeitures arose or, if necessary, any subsequent Plan Year. Notwithstanding the foregoing, Forfeitures must be applied in a uniform and nondiscriminatory manner if applied to the payment of the Plan's administrative expenses. Forfeitures that are reallocated to Participants' Individual Accounts need not be reallocated to the same contribution source from which they were forfeited.

D. Timing of Plan Contributions – The Plan Contributions made by an Employer for each Plan Year shall be deposited into the Plan within the time period permitted by law or regulation for such contributions. Notwithstanding the foregoing, Plan Contributions may be deposited during the Plan Year for which they are being made.

3.05 ROLLOVER

Unless otherwise indicated in the Adoption Agreement, a Participant may make Indirect Rollover and/or Direct Rollover contributions to the Plan from distributions made from other plans to the extent permitted by Code Section 402 and related law or regulations. The Plan Administrator may require the Participant or prior plan, certify, either in writing or in any other form permitted under rules promulgated by the IRS, and to produce documentation regarding the prior plan establishing that the contribution qualifies as a rollover contribution under the applicable provisions of the Code or regulations.

A separate account shall be maintained by the Plan Administrator for each Participant's rollover contributions, which will be nonforfeitable at all times. Such account will share in the income and gains and losses of the Funding Vehicles in which invested in the manner described in Plan Section 7.02(A). Only Participants in the Plan may make rollover contributions to this Plan.

3.06 PLAN-TO-PLAN TRANSFER CONTRIBUTIONS

1. If elected in the Adoption Agreement, the Plan may receive any amounts transferred to it on behalf of an Employee from another Code Section 403(b) plan, unless an Employee is either employed by a Related Employer that does not participate in this Plan or a member of any excluded class of Employees listed in Adoption Agreement Section Two. Whether any particular transfer may be accepted by the Plan, and the procedures for the receipt of such transfers by the Plan, will be determined by the requirements of Treasury Regulation 1.411(d)-4, Q&A-3, Treasury Regulation 1.403(b)-10(b)(3), and other rules promulgated by the IRS. The Plan Administrator and any Vendor accepting such transferred amounts may require that the transfer be in cash or other property acceptable to it. The Plan Administrator or any Vendor accepting such transferred amounts may require such documentation from the other plan as it deems necessary to effectuate the transfer in accordance with Treasury Regulation 1.403(b)-10(b)(3) and to confirm that the other plan is a plan that satisfies the requirements of Code Section 403(b).

2. The amount so transferred shall be credited to the Participant's Individual Account, so that the Participant whose assets are being transferred has an accumulated benefit immediately after the transfer at least equal to the accumulated benefit with respect to that Participant immediately before the transfer. A separate subaccount shall be maintained by the Plan Administrator for each Employee's transfer contributions, which will, if applicable, be nonforfeitable at all times. Such account will share in the income and gains and losses of the Funding Vehicles in which invested. Notwithstanding the foregoing, an Employee's separate account established solely on account of an event described in Code Section 414(l) shall continue to be subject to the Plan's vesting schedule except as otherwise provided therein.

3. To the extent any amount transferred is subject to any distribution restrictions required under Code Section 403(b) and Treasury Regulation 1.403(b)-6, distribution restrictions under the Plan which apply to the Participant or Beneficiary whose assets are being transferred will not be less stringent than those imposed under the transferor plan. The transferred amount shall not be considered an Elective Deferral under the Plan in determining the maximum deferral under Plan Section Three.

3.07 NONDEDUCTIBLE EMPLOYEE CONTRIBUTIONS

If the Adopting Employer so allows in the Adoption Agreement, each Employee who satisfies the eligibility requirements specified in Adoption Agreement Section Two for making Elective Deferrals, and who is not a member of an excluded class of Employees, as specified in Adoption Agreement Section Two, Part C, may contribute Nondeductible Employee Contributions to the Plan by enrolling as a Contributing Participant pursuant to the applicable provisions of Plan Section 3.01. The Employer shall establish uniform and nondiscriminatory rules and procedures for Nondeductible Employee Contributions as it deems necessary and advisable including, but not limited to, rules describing any amounts or percentages of Compensation Participants may or must contribute to the Plan. Notwithstanding the foregoing, contributions made to the Plan on an after-tax basis (e.g., to repay defaulted loans if permitted by the Individual Agreement) do not constitute Nondeductible Employee Contributions and will not, therefore, be subject to the Annual Additions limit of Code Section 415.

A separate account will be maintained by the Plan Administrator for the Nondeductible Employee Contributions of each Participant.

3.08 LIMITATION ON ALLOCATIONS

A. The Participant, not the Employer that makes a contribution, is deemed to maintain any annuity contract or custodial account approved by the Employer for use under this Plan for purposes of applying the limitation under Code Section 415(c), except as set forth in Plan Section 3.10(B) below.

The following rules apply to such a Participant:

1. The amount of Annual Additions which may be credited to the Participant's Individual Account for any Limitation Year will not exceed the Maximum Permissible Amount, reduced by the Annual Additions credited to a Participant under any other 403(b) annuity contract or custodial account which is deemed under Treasury Regulation 1.415(f)-1(f) to be maintained by the Participant. If the Annual Additions with respect to the Participant under the other annuity contracts or custodial accounts are less than the Maximum Permissible Amount and the amounts that would otherwise be contributed or allocated to the Participant's Individual Account under this Plan would cause the Annual Additions for the Limitation Year to exceed the Maximum Permissible Amount, the amount contributed or allocated will be reduced so that the Annual Additions under all such annuity contracts or custodial accounts for the Limitation Year will equal the Maximum Permissible Amount. If the Annual Additions with respect to the Participant under the other annuity contracts or custodial accounts are equal to or greater than the Maximum Permissible Amount, no amount will be contributed or allocated to the Participant's Individual Account under this Plan for the Limitation Year.

2. Before determining the Participant's actual Includible Compensation for the Limitation Year, the Employer may determine the Maximum Permissible Amount for a Participant on the basis of a reasonable estimate of the Participant's Includible Compensation for the Limitation Year, uniformly determined for all Participants similarly situated.

3. As soon as is administratively feasible after the end of the Limitation Year, the Maximum Permissible Amount for the Limitation Year will be determined on the basis of the Participant's actual Includible Compensation for the Limitation Year.

4. If, pursuant to Paragraph (3) above or as a result of the allocation of Forfeitures or a reasonable error in determining a Participant's Elective Deferrals or any other circumstance permitted under the rules promulgated by the IRS, a Participant's Annual Additions under this Plan and such other contracts or accounts would result in Excess Annual Additions for the Limitation Year, the Excess Annual Additions will be deemed to consist of the Annual Additions last allocated.

5. If Excess Annual Additions were allocated to a Participant on an allocation date of this Plan which coincides with an allocation date of another contract or account, the Excess Annual Additions attributed to this Plan will be the product of,

   i. the total Excess Annual Additions allocated as of such date, multiplied by

   ii. the ratio of (i) the Annual Additions allocated to the Participant for the Limitation Year as of such date under this Plan to (ii) the total Annual Additions allocated to the Participant for the Limitation Year as of such date under this and all other annuity contracts and custodial accounts.

6. Any Excess Annual Additions allocated to a Participant under this Plan are included in a Participant's gross income and must be separately accounted for under Plan Section 7.02, and may be distributed pursuant to Treasury Regulation 1.403(b)-4(f).

B. If a Participant is considered to be in control of an employer for a Limitation Year (regardless of whether the employer controlled by the Participant is the Employer maintaining this Plan in which the Participant participates), the plans in which the Participant participates are treated as defined contribution plans maintained by both the controlled employer and the Participant for that Limitation Year. Accordingly, those plans are aggregated with all other defined contribution plans maintained by that employer. Further, in such case, the plans are aggregated with all other defined contribution plans maintained by the Participant or any other employer that is controlled by the Participant. A Participant is considered to be in control of an employer for a Limitation Year if, pursuant to Treasury Regulations 1.415(a)-1(f)(1) and (2), a plan maintained by that employer would have to be aggregated with a plan maintained by an employer that is 100% owned by the Participant. If contributions to this Plan are aggregated with a qualified plan of a controlled employer, this Plan and the qualified plan must satisfy the limitation of Code Section 415(c) both separately and on an aggregate basis. With respect to the Participant, that means that Subsection (A) above must be satisfied. For purposes of applying the separate limitations, compensation from a controlled employer other than the Employer purchasing the Funding Vehicles may not be aggregated with compensation from the Employer purchasing the Funding Vehicle. The following rules apply to such a Participant with respect to applying the limits on an aggregate basis:

1. The amount of Annual Additions which may be credited to the Participant's Individual Account for any Limitation Year will not exceed the Maximum Permissible Amount, reduced by the Annual Additions credited to a Participant under any other 403(b) annuity contract or custodial account which is deemed under Treasury Regulation 1.415(f)-1(f) to be maintained by the Participant and any qualified defined contribution plans maintained by such a controlled employer. If the Annual Additions with respect to the Participant under those other annuity contracts or custodial accounts and defined contribution plans are less than the Maximum Permissible Amount and the amounts that would otherwise be contributed or allocated to the Participant's Individual Account under this Plan would cause the Annual Additions for the Limitation Year to exceed the Maximum Permissible Amount, the amount contributed or allocated to the annuity contracts or custodial accounts under this Plan will be reduced so that the Annual Additions under all such annuity contracts or custodial accounts and defined contribution plans for the Limitation Year will equal the Maximum Permissible Amount. If the Annual Additions with respect to the Participant under the other annuity contracts or custodial accounts and defined contribution plans are equal to or greater than the Maximum Permissible Amount, no amount will be contributed or allocated to the Participant's Individual Account under this Plan for the Limitation Year.

2. Before determining the Participant's actual Includible Compensation for the Limitation Year, the Employer may determine the Maximum Permissible Amount for a Participant on the basis of a reasonable estimate of the Participant's Includible Compensation for the Limitation Year, uniformly determined for all Participants similarly situated.

3. As soon as is administratively feasible after the end of the Limitation Year, the Maximum Permissible Amount for the Limitation Year will be determined on the basis of the Participant's actual Includible Compensation for the Limitation Year.

4. If, pursuant to Paragraph (3) above or as a result of the allocation of Forfeitures or a reasonable error in determining a Participant's Elective Deferrals or any other circumstance permitted under the rules promulgated by the IRS, a Participant's Annual Additions under this Plan and such other contracts or accounts would result in Excess Annual Additions for the Limitation Year, the Excess Annual Additions will be deemed to consist of the Annual Additions last allocated to this Plan.

5. If Excess Annual Additions were allocated to a Participant on an allocation date of this Plan which coincides with an allocation date of another contract or account, the Excess Annual Additions attributed to this Plan will be the product of,

   i. the total Excess Annual Additions allocated as of such date, multiplied by

   ii. the ratio of (i) the Annual Additions allocated to the Participant for the Limitation Year as of such date under this Plan to (ii) the total Annual Additions allocated to the Participant for the Limitation Year as of such date under this and all other contracts and accounts and defined contribution plans.

6. Any Excess Annual Additions allocated to a Participant under this Plan are included in a Participant's gross income and must be separately accounted for under Plan Section 7.02(B), and may be distributed pursuant to Treasury Regulation 1.403(b)-4(f).

C. The Employee Plans Compliance Resolution System of the Internal Revenue Service or such other correction method allowed by statute, regulations, or regulatory authorities may be used to make corrections necessary because of a failure to comply with this Section.

D. This provision shall be administered in accordance with Treasury Regulations issued under Code Section 415 and those regulations are incorporated into this Plan to the extent inconsistent with or not covered by the foregoing provisions.

SECTION FOUR: VESTING AND FORFEITURES

4.01 DETERMINING THE VESTED PORTION OF PARTICIPANT INDIVIDUAL ACCOUNTS

A. **Determining the Vested Portion** – In determining the Vested portion of a Participant's Individual Account, the following rules apply:

1. Plan Contributions – The Vested portion of a Participant's Individual Account derived from Plan Contributions is determined by applying the vesting schedule(s) selected in Adoption Agreement Section 4, Part A, except as otherwise provided in this Plan Section 4.01(A).

2. Other Contributions – A Participant is fully Vested in their rollover contributions and transfer contributions. Notwithstanding the foregoing, a Participant shall not be fully Vested in their Individual Account solely on account of a transaction described in Code Section 414(l), except as otherwise provided therein. The Participant's accrued benefit derived from Elective Deferrals, Nondeductible Employee Contributions, and Mandatory Employee Contributions is also nonforfeitable. Separate accounts for Pre-Tax Elective Deferrals, Roth Elective Deferrals, Nondeductible Employee Contributions, Mandatory Employee Contributions, Matching Contributions, and Employer Contributions will be maintained for each Participant. Each account will be credited with the applicable contributions and earnings thereon.

3. Fully Vested Under Certain Circumstances – A Participant is fully Vested in their Individual Account if any of the following occurs:

   a. the Participant reaches Normal Retirement Age;
   b. the Participant incurs a Disability;
   c. the Participant dies;
   d. the Participant satisfies the conditions for Early Retirement Age (if applicable);
   e. the Plan is terminated or partially terminated as defined by rules promulgated by the IRS; or
   f. there exists a complete discontinuance of contributions under the Plan.

   The portion of an Employee's Individual Account attributable to Plan Contributions that are made based on their imputed Compensation on account of incurring a Disability shall be fully Vested at all times. In the case of a partial termination, only those Employees who are affected by the partial termination of the Plan shall become fully Vested.

4. Participants in a Prior Plan – If a Participant was a participant in a Prior Plan on the Effective Date, the Participant's Vested percentage shall not be less than it would have been under such Prior Plan as computed on the Effective Date.

B. **Severance from Employment** – If a Participant incurs a Severance from Employment, any portion of their Individual Account that is not Vested shall be held in a suspense account. Such suspense account shall share in any increase or decrease in the fair market value of the assets of the Funding Vehicles in which invested in accordance with Plan Section 7.02(A). The disposition of such suspense account shall be as follows:

1. Cash out of Certain Terminated Participants – The value of the Vested portion of the Participant's Individual Account must remain in the Plan until the Participant is entitled to and requests a distribution. If the Employer elects in the Adoption Agreement to have the cashout distribution provisions in this Plan Section 4.01(B)(1) apply and the Vested value of a terminated Participant's Individual Account does not exceed $1,000 (or such other cashout level specified in the Adoption Agreement), the Vested value of the Participant's Individual Account shall be paid from the Plan pursuant to Plan Sections 5.01(B) and 5.04(A), subject to a uniform and non-discriminatory policy established by the Plan Administrator. The portion which is not Vested shall be treated as a Forfeiture and applied in accordance with Plan Section 3.04(C). If a Participant would have received the Vested portion of their Individual Account pursuant to the previous sentence but for the fact that the Participant's Vested Individual Account exceeded the cashout amount when the Participant severed employment, and if at a later time such Individual Account is reduced such that it is not greater than the cashout level, the Vested portion of the Participant's Individual Account will be paid from the Plan and the portion which is not Vested shall be treated as a Forfeiture and applied in accordance with Plan Section 3.04(C). For purposes of this Section, if the value of the Vested portion of a Participant's Individual Account is zero, the Participant shall be deemed to have received a distribution of such Vested Individual Account.

2. Terminated Participants Who Elect to Receive Distributions – If such terminated Participant elects to receive a distribution, of the entire Vested portion of their Individual Account in accordance with Plan Section 5.01(B)(2), the portion which is not Vested shall be treated as a Forfeiture. Such Forfeiture shall be applied in accordance with Plan Section 3.04(C). If such terminated Participant elects to receive a partial distribution of their Vested Individual Account, no Forfeiture may occur until the Participant elects to receive the remaining portion of their Vested Individual Account.

3. Special Rules for Annuities – For purposes of this Plan Section Four, if the Participant's Individual Account is invested in an annuity contract, the contract will be returned to the Issuer and amended to provide for a transfer of ownership in the Vested portion of the Individual Account, if any, to the Participant. Upon transfer of ownership, the Participant shall be deemed to have received a distribution of such Vested Individual Account.

C. **Distribution Prior to Full Vesting** – If a distribution is made to a Participant who was not then fully Vested in their Employer-derived Individual Account balance and if the Participant may increase their Vested percentage in their Individual Account, then the following rules shall apply:

1. a separate account will be established for the Participant's interest in the Plan as of the time of the distribution, and

2. at any relevant time, the Participant's Vested portion of the separate account will be equal to an amount ("X") determined in accordance with the standard formula described below unless the Employer chooses, in a uniform and nondiscriminatory manner, to apply the alternative formula.

   Standard Formula: X=P (AB + (R x D)) - (R x D)

   Alternative Formula: X=P (AB+D)-D

   For purposes of the standard and alternative formulas described above, "P" is the Vested percentage at the relevant time; "AB" is the separate account balance at the relevant time; "D" is the amount of the distribution; and "R" is the ratio of the separate account balance at the relevant time to the separate account balance after distribution.

4.02 FORFEITURES AND VESTING OF MATCHING CONTRIBUTIONS

Matching Contributions shall be Vested in accordance with the vesting schedule for Matching Contributions in the Adoption Agreement but shall be fully Vested as set forth in Plan Section 4.01(A)(3). Notwithstanding any other provisions of the Plan, Matching Contributions must be forfeited if the contributions to which they relate are Excess Elective Deferrals (unless the Excess Elective Deferrals are for non-Highly Compensated Employees, in which event the Plan Administrator shall have discretion as to whether such amounts will be forfeited), Excess Annual Additions which are distributed pursuant to Plan Section 3.08(A)(6) or Plan Section 3.08(B)(6) or permissible withdrawals which are distributed pursuant to Plan Section 5.01(A)(4). Such Forfeitures shall be allocated in accordance with Plan Section 3.04(C).

When a Participant incurs a Severance from Employment, whether a Forfeiture arises with respect to Matching Contributions shall be determined in accordance with Plan Section 4.01(B).

SECTION FIVE: DISTRIBUTIONS

5.01 DISTRIBUTIONS

A. Eligibility for Distributions

1. Entitlement to Distribution – If elected in the Adoption Agreement, the Vested portion of a Participant's Individual Account attributable to Plan Contributions (including Mandatory Employee Contributions) shall be distributable to the Participant upon 1) the Participant satisfying the distribution events specified in the Adoption Agreement, 2) the Participant's Severance from Employment after attaining Normal Retirement Age, and 3) if the Plan designates an Early Retirement Age, the Participant's Severance from Employment after satisfying any Early Retirement Age conditions. If a Participant incurs a Severance from Employment before satisfying the age requirement, but has satisfied the service requirement of the Early Retirement Age conditions (if any), the Participant will be entitled to elect an early retirement benefit upon satisfying such age requirement. If a Participant who is entitled to a distribution is not legally competent to request or consent to a distribution, the Participant's court-appointed guardian, an attorney in fact acting under a valid power of attorney, or any other individual or entity authorized under state law to act on behalf of the Participant, may request and accept a distribution of the Vested portion of a Participant's Individual Account under this Plan Section 5.01(A). All distributions are subject to the applicable Individual Agreements.

2. Special Requirements for Certain 403(b) Contributions – Notwithstanding the prior provisions of this Plan Section Five, Part A, Elective Deferrals and income allocable to them are not distributable to a Participant or their Beneficiary or Beneficiaries, in accordance with such Participant's or Beneficiaries' election, earlier than upon the Participant's Severance from Employment, death, or Disability, except as listed below.

   Such amounts may also be distributed upon any one of the following events:

   a. existence of a hardship incurred by the Participant as described in Plan Section 5.01(C)(2)(b), if elected in the Adoption Agreement; or

   b. attainment of age 59½, if elected in the Adoption Agreement.

      If both Pre-Tax Elective Deferrals and Roth Elective Deferrals were made for a year, the Plan Administrator, in a uniform and nondiscriminatory manner, may establish operational procedures, including ordering rules as permitted under the law and related regulations and the Individual Agreements which specify whether distributions, including corrective distributions of Excess Elective Deferrals or Excess Annual Additions, will consist of a Participant's Pre-Tax Elective Deferrals, Roth Elective Deferrals, or a combination of both, to the extent such type of Elective Deferral was made for the year. The operational procedures may include an option for Participants to designate whether the distribution is being made from Pre-Tax or Roth Elective Deferrals.

3. Special Requirements for Annuity Contracts and Custodial Accounts – Notwithstanding the provisions in Plan Sections 5.01(A)(1) and (2) above, the Vested portion of a Participant's Individual Account attributable to Employer Contributions and Matching Contributions (including earnings thereon) in annuity contracts issued as of the close of the taxable year beginning before January 1, 2009, and Elective Deferrals (including earnings thereon) in annuity contracts as of the close of the taxable year beginning before December 31, 1988, shall be distributable at any time, to the extent permitted in the Prior Plan, the annuity contract, and the Internal Revenue Code, if the Adoption Agreement so provides. Notwithstanding the foregoing, amounts transferred from a custodial account to an annuity contract must retain the more stringent withdrawal restrictions applicable under the custodial account and may not be distributable in accordance with this paragraph.

   Notwithstanding the prior paragraph, unless the distribution is one to which Code Section 72(t)(2)(G) applies (concerning qualified reservist distributions), distributions from a custodial account that is approved by an Employer for use under the Plan of the portion of a Participant's Individual Account that is not attributable to Elective Deferrals may not be paid to a Participant before the Participant has a Severance from Employment, dies, becomes disabled (within the meaning of Code Section 72(m)(7)), or attains age 59 ½.

4. Special Requirements for EACA Contributions – Notwithstanding the foregoing, unless otherwise elected in Adoption Agreement Section Three, Part A, and subject to the Individual Agreements, contributions made to the Plan under an EACA described in Plan Section 3.01(E) may be distributed as permissible withdrawals in accordance with following conditions.

   a. The permissible withdrawal is made pursuant to an election by the Eligible Employee;

   b. The election made by the Eligible Employee is made no later than the date which is 90 days after the date of the first Elective Deferral of such Eligible Employee made under the EACA provisions; and

   c. The permissible withdrawal consists both of the Elective Deferrals made to the Plan under the EACA provisions and any earnings attributable to those Elective Deferrals.

   Elective Deferrals withdrawn from the Plan in accordance with this Section will be subject to rules promulgated by the IRS relating to such withdrawals (for example, whether Matching Contributions related to these Elective Deferrals permissively withdrawn will be forfeited or will be excluded from nondiscrimination testing).

5. Distribution Exceptions

   a. *Excess Elective Deferrals* – None of the prior provisions of this Plan Section 5.01(A) shall prevent distribution in the case of correction of Excess Elective Deferrals as permitted by Treasury Regulation 1.403(b)-4(f).

   b. *Plan Termination* – None of the prior provisions of this Plan Section 5.01(A) shall prevent distribution in the case of plan termination as permitted by Treasury Regulation 1.403(b)-10(a).

6. Distribution Request: When Distributed – A Participant or Beneficiary entitled to a distribution who wishes to receive a distribution must submit a request (either in writing or in any other form permitted under rules promulgated by the IRS) to the Plan Administrator. If required in writing, such request shall be made upon a form provided or approved by the Plan Administrator. Upon a valid request, if applicable, the Plan Administrator shall direct the Vendors to commence distribution as soon as administratively feasible after the request is received, except as otherwise provided in the Adoption Agreement.

   Distributions will be made based on the value of the Vested portion of the Individual Account available at the time of actual distribution. To the extent the distribution request is for an amount greater than the Individual Account, the Vendors shall be entitled to distribute the entire Vested portion of the Individual Account.

B. Distributions Upon Severance from Employment

1. Value of Individual Account Does Not Exceed the Cashout Level – Unless elected in the Adoption Agreement, the rules in this paragraph will not apply. If the Adopting Employer elects in Adoption Agreement Section Five, Part A to have the cashout distribution provisions in this Plan Section 5.01(B)(1) apply and if the value of the Vested portion of a Participant's Individual Account does not exceed the cashout level, as elected in the Adoption Agreement, the following rules shall apply regarding Plan Section 4.01(B)(1). If the distribution of the value of the Vested portion of a Participant's Individual Account does not qualify as an Eligible Rollover Distribution, distribution from the Plan may be made to the Participant in a single lump sum in lieu of all other forms of distribution under the Plan following the Participant's Severance from Employment in accordance with a uniform and nondiscriminatory operational schedule established by the Plan Administrator. If elected in the Adoption Agreement, if the value of the Vested portion of a Participant's Individual Account does not exceed $1,000 and qualifies as an Eligible Rollover Distribution, and the Participant does not elect to have such distribution paid directly to an Eligible Retirement Plan specified by the Participant in a Direct Rollover or to receive the distribution in accordance with this Plan Section Five, distribution shall be made to the Participant in a single lump sum in lieu of all other forms of distribution under the Plan. If the value of the Vested portion of a Participant's Individual Account exceeds $1,000 and qualifies as an Eligible Rollover Distribution and if the Participant does not elect to have such distribution paid directly to an Eligible Retirement Plan specified by the Participant in a Direct Rollover or to receive the distribution in accordance with this Plan Section Five, distribution shall be paid by the Plan Administrator in a Direct Rollover to an individual retirement account (as described in Code Section 408(a), 408(b) or 408A) designated by the Plan Administrator. Notwithstanding the foregoing, if the Participant is reemployed by the Employer prior to the occurrence of the distribution, no distribution will be made under this paragraph.

   Notwithstanding the foregoing, where no election is available in the Adoption Agreement, the value of the Vested portion of the Participant's Individual Account must remain in the Plan until the Participant is entitled to and requests a distribution, unless otherwise provided in another provision of this Plan. The value of the Participant's Vested Individual Account for purposes of this paragraph shall be determined by including rollover contributions (and earnings allocable thereto) within the meaning of Code Sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(a)(ii), and 457(e)(16).

2. Individual Account Balances Exceeding Cashout Level – If the value of the Participant's Individual Account exceeds the cashout level (or a cashout level has not been selected in the Adoption Agreement) or there are remaining payments to be made with respect to a particular distribution option that previously commenced, and if the Individual Account is immediately distributable, the Participant must consent to any distribution of such Individual Account.

The consent of the Participant shall not be required to the extent that a distribution is required to satisfy Code Section 415 for Excess Annual Additions that are not separately accounted for. In addition, upon termination of this Plan, if the Plan does not offer an annuity option (purchased from a commercial provider), the Participant's Individual Account may, without the Participant's consent, be distributed to the Participant or transferred to another defined contribution plan (other than an employee stock ownership plan as defined in Code Section 4975(e)(7)) within the same controlled group.

An Individual Account is immediately distributable if any part of the Individual Account could be distributed to the Participant (or surviving Spouse) before the Participant attains or would have attained (if not deceased) the later of Normal Retirement Age or age 62.

C. Distributions During Employment

1. In-Service Withdrawals

a. *Pre-2009 Distributions from Annuity Contracts* – If Adoption Agreement Section Five, Part A so indicates, and subject to the Individual Agreements, a Participant who is not otherwise eligible to receive a distribution of their Individual Account may elect to receive an in-service distribution of all or part of the Vested portion of their Individual Account attributable to Matching Contributions and Employer Contributions from annuity contracts issued before January 1, 2009.

b. *Post-2008 Distributions from Annuity Contracts* – If Adoption Agreement Section Five, Part A, so indicates, and subject to the Individual Agreements, a Participant who is not otherwise eligible to receive a distribution of their Individual Account may elect to receive an in-service distribution of all or part of the Vested portion of their Individual Account attributable to Matching Contributions and Employer Contributions from annuity contracts issued after December 31, 2008 if the Participant has participated in the Plan for five or more years.

2. Hardship Withdrawals

a. *Hardship Withdrawals of Matching Contributions and Employer Contributions from Annuity Contracts* – If elected in Adoption Agreement Section Five, Part A, and to the extent permitted by the Individual Agreements, a Participant may elect to receive a hardship distribution of all or part of the Vested portion of their Individual Account attributable to Plan Contributions (other than those described in Plan Section 5.01(C)(2)(b)) from annuity contracts other than those described in Plan Section 5.01(A)(2).

For purposes of this Plan Section 5.01(C)(2)(a), hardship is defined as an immediate and heavy financial need of the Participant where such Participant lacks other available resources. Financial needs considered immediate and heavy include, but are not limited to, 1) expenses incurred or necessary for medical care, described in Code Section 213(d), of the Employee, the Employee's primary Beneficiary, the Employee's Spouse or dependents, 2) the purchase (excluding mortgage payments) of a principal residence for the Employee, 3) payment of tuition and related educational fees for the next 12 months of post-secondary education for the Employee, the Employee's primary Beneficiary, the Employee's Spouse, children or dependents, 4) payment to prevent the eviction of the Employee from, or a foreclosure on the mortgage of, the Employee's principal residence, 5) funeral or burial expenses for the Participant's deceased parent, Spouse, primary Beneficiary, child or dependent, and 6) payment to repair damage to the Employee's principal residence that would qualify for a casualty loss deduction under Code Section 165 (determined without regard to whether the loss exceeds 10 percent of adjusted gross income).

A distribution will be considered necessary to satisfy an immediate and heavy financial need of the Employee only if

1. the Employee has obtained all distributions, other than hardship distributions, and all nontaxable loans available under all plans maintained by the Employer;

2. the distribution is not in excess of the amount of an immediate and heavy financial need (including amounts necessary to pay any federal, state, or local income taxes or penalties reasonably anticipated to result from the distribution).

b. *Hardship Withdrawals of Elective Deferrals from Annuity Contracts and Custodial Accounts* – If elected in Adoption Agreement Section Five, Part A, and to the extent permitted by the Individual Agreements, distribution of Elective Deferrals (including any earnings credited to a Participant's account as of the later of December 31, 1988, and the end of the last Plan Year ending before July 1, 1989) may be made to a Participant in the event of hardship. For the purposes of this Plan Section 5.01(C)(2)(b), hardship is defined as an immediate and heavy financial need of the Employee where the distribution is needed to satisfy the immediate and heavy financial need of such Employee.

For purposes of determining whether a Participant has a hardship, rules similar to those described in Plan Section 5.01(C)(2)(a) shall apply except that only the listed financial needs shall be considered. In addition, a distribution will be considered as necessary to satisfy an immediate and heavy financial need of the Employee only if all plans maintained by the Employer provide that the Employee's Elective Deferrals (or Nondeductible Employee Contributions, if applicable) will be suspended for six months.

3. Transfers from the Plan – Nothing in this Plan shall prohibit the Plan Administrator from permitting (or prohibiting) Participants to transfer their Individual Accounts to other eligible plans, provided such transfers are permitted (or prohibited) in a uniform and nondiscriminatory manner. The Plan Administrator and any Vendor accepting such transferred amounts may require that the transfer be in cash or other property acceptable to it. Unless prohibited in the Adoption Agreement, transfers may be made as permitted by Treasury Regulation 1.403(b)-10(b)(4) in order to purchase permissive service credit.

D. Miscellaneous Distribution Issues

1. Distribution of Rollovers, Transfers, Mandatory Employee Contributions, and Nondeductible Employee Contributions – The following rules shall apply with respect to entitlement to distribution of rollover, transfer, Mandatory and Nondeductible Employee Contributions.

   a. *Entitlement to Distribution of Rollovers and Transfers* – If elected in Adoption Agreement Section Five, Part A, rollover contributions (including rollovers and transfers of Nondeductible Employee Contributions) and earnings thereon may be distributed at any time upon request to the extent permitted by the Individual Agreements. If the Adopting Employer specifies in the Adoption Agreement that rollover and transfer contributions may not be distributed at any time, such contributions will be subject to the Plan's provisions governing distribution of Employer Contributions.

      To the extent any amount transferred to the Plan is subject to any distribution restrictions required under Code Section 403(b) and Treasury Regulation 1.403(b)-6, distribution restrictions under the Plan which apply to the Participant or Beneficiary whose assets are being transferred will not be less stringent than those imposed under the transferor plan.

   b. *Distribution of Mandatory Employee Contributions* – Mandatory Employee Contributions will be subject to the Plan's provisions governing distribution of Employer Contributions.

   c. *Distribution of Nondeductible Employee Contributions* – A Participant may at any time, upon a request submitted to the Plan Administrator (either in writing or in any other form permitted under rules promulgated by the IRS), withdraw an amount from their Individual Account attributable to Nondeductible Employee Contributions (including earnings thereon) to the extent permitted by the Individual Agreements. In the event the portion of a Participant's Individual Account attributable to Nondeductible Employee Contributions experiences a loss such that the amount remaining in such subaccount is less than the amount of Nondeductible Employee Contributions made by the Participant, the maximum amount which the Participant may withdraw is an amount equal to the remaining portion of the Participant's Individual Account attributable to Nondeductible Employee Contributions.

      Notwithstanding the prior paragraph and unless the distribution is one to which Code Section 72(t)(2)(G) applies (concerning qualified reservist distributions), distributions from a custodial account approved by the Employer for use under the Plan of the portion of a Participant's Individual Account that is attributable to Nondeductible Employee Contributions (including earnings thereon) may not be paid to a Participant before the Participant has a Severance from Employment, dies, becomes disabled (within the meaning of Code Section 72(m)(7)), or attains age 59 ½.

   d. *Direct Rollovers of Eligible Rollover Distributions* – Notwithstanding any provision of the Plan to the contrary that would otherwise limit a Recipient's election under this Plan Section 5.01(D)(1)(d), a Recipient may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an Eligible Rollover Distribution that is equal to at least $500 (or such lesser amount if the Plan Administrator permits in a uniform and nondiscriminatory manner) paid directly to an Eligible Retirement Plan specified by the Recipient in a Direct Rollover. The Plan will also permit a non-Spouse Beneficiary to directly roll over his or her portion of the Individual Account to an inherited individual retirement arrangement (under Code Sections 408 or 408A). Such Direct Rollovers must otherwise qualify as an Eligible Rollover Distribution.

2. Qualified Reservist Distributions – If elected in the Adoption Agreement, and to the extent permitted by the Individual Agreements, Participants may take penalty-free qualified reservist distributions from the Plan. A qualified reservist distribution means any distribution to a Participant if 1) such distribution is made from Elective Deferrals, 2) such Participant was ordered or called to active duty for a period in excess of 179 days or for an indefinite period, and 3) such distribution is made during the period beginning on the date of such order or call and ending at the close of the active duty period. The Participant must have been ordered or called to active duty after September 11, 2001. Unless otherwise specified on Schedule C, Special Effective Dates, this Plan Section applies to distributions after September 11, 2001.

5.02 FORM OF DISTRIBUTION TO A PARTICIPANT

If the value of the Vested portion of a Participant's Individual Account exceeds $1,000, the Participant may elect (either in writing or in any other form permitted under rules promulgated by the IRS) that the Vested portion of their Individual Account be paid to them in one or more of the following forms of payment, as specified in the Adoption Agreement and to the extent permitted by the Individual Agreements: 1) in a lump sum, 2) in a partial payment, 3) in installment payments over a period not to exceed the Life Expectancy of the Participant or the joint and last survivor Life Expectancy of the Participant and their Designated Beneficiary, or 4) applied to the purchase of an annuity contract (if assets are held in a custodial account) or converted to an income option (if assets are held in an annuity contract). Any income option available to Participants under the Individual Agreements will be permitted under this Plan.

5.03 DISTRIBUTIONS UPON THE DEATH OF A PARTICIPANT

A. Designation of Beneficiary – Each Participant (or the Participant's surviving Spouse) may designate, upon a form provided by or approved by and delivered to the Plan Administrator and/or Vendor, one or more primary and contingent Beneficiaries to receive all or a specified portion of the Participant's Individual Account in the event of their death. A Participant may change or revoke such Beneficiary designation by completing and delivering the proper form to the Plan Administrator and/or Vendor. If the Participant designates a Spouse Beneficiary and the individual later ceases to be a Spouse, such designation of the individual who becomes an ex-Spouse (other than by death) will be deemed void and the ex-Spouse shall have no rights as a Beneficiary unless redesignated as a Beneficiary by the Participant subsequent to becoming an ex-Spouse.

In the event that a Participant fails to designate a Beneficiary, the rights of Beneficiaries will be determined under the Individual Agreements, to the extent applicable.

B. Payment to Beneficiary – Subject to the Individual Agreements, if a Participant dies before the Participant's entire Individual Account has been paid to them, such deceased Participant's Individual Account shall be payable to any surviving Beneficiary designated by the Participant, or, if no Beneficiary survives the Participant, 50% to the Participant's Spouse and 50% to the Participant's estate or, where no Spouse exists, to the Participant's estate, unless otherwise set forth in the Individual Agreement. If the Beneficiary is a minor, distribution will be deemed to have been made to such Beneficiary if the portion of the Participant's Individual Account to which the Beneficiary is entitled is paid to their legal guardian or, if applicable, to their custodian under the Uniform Gifts to Minors Act or the Uniform Transfers to Minors Act. If a Beneficiary is not a minor but is not legally competent to request or consent to a distribution, distributions will be deemed to have been made to such Beneficiary if the portion of the Participant's Individual Account to which the Beneficiary is entitled is paid to the Participant's court-appointed guardian, an attorney in fact acting under a valid power of attorney, or any other individual or entity authorized under state law to act on behalf of the Beneficiary.

C. Written Request: When Distributed – A Beneficiary of a deceased Participant entitled to a distribution who wishes to receive a distribution must submit a written request (either in writing or in any other form permitted under rules promulgated by the IRS) to the Plan Administrator. If required in writing, such request shall be made on a form provided by or approved by the Plan Administrator. Upon a valid request, if applicable, the Plan Administrator shall direct the Vendor to commence distribution as soon as administratively feasible after the request is received.

5.04 FORM OF DISTRIBUTION TO BENEFICIARIES

A. Value of Individual Account Does Not Exceed $5,000 – If the value of the Vested portion of a Participant's Individual Account does not exceed $5,000, the value of the Vested portion of a Participant's Individual Account may be made to the Beneficiary as permitted by the Individual Agreements.

The value of the Participant's Vested Individual Account for purposes of this paragraph shall be determined by including rollover contributions (and earnings allocable thereto) within the meaning of Code Sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii) and 457(e)(16).

B. Value of Individual Account Exceeds $5,000 – If the value of a Participant's Individual Account exceeds $5,000, the Beneficiary may, subject to the requirements of Plan Section 5.05, request (either in writing or in any other form permitted under rules promulgated by the IRS) that the Participant's Individual Account be paid in any form of distribution permitted to be taken by the Participant under this Plan and the Individual Agreements other than applying the Individual Account toward the purchase of an annuity contract. Notwithstanding the foregoing, installment payments to a Beneficiary cannot be made over a period exceeding the Life Expectancy of such Beneficiary.

5.05 REQUIRED MINIMUM DISTRIBUTION REQUIREMENTS

A. General Rules

1. The requirements of this Section 5.05 shall apply to any distribution of a Participant's interest and will take precedence over any inconsistent provisions of this Plan. Unless otherwise specified, the provisions of this Plan Section 5.05 apply to calendar years beginning after December 31, 2002.
2. All distributions required under this Plan Section 5.05 shall be determined and made in accordance with Treasury Regulation 1.401(a)(9), including the minimum distribution incidental benefit requirement of Code Section 401(a)(9)(G).
3. Limits on Distribution Periods – As of the first Distribution Calendar Year, distributions to a Participant, if not made in a single sum, may only be made over one of the following periods (or a combination thereof):
   a. the life of the Participant,
   b. the joint lives of the Participant and a designated Beneficiary,
   c. a period certain not extending beyond the Life Expectancy of the Participant, or
   d. a period certain not extending beyond the joint life and last survivor expectancy of the Participant and a Designated Beneficiary.
4. Nothing in this Plan shall prohibit or otherwise limit a Participant's option to apply the aggregation rules for purposes of satisfying their required minimum distribution as described in Treasury Regulations 1.408-8 and 1.403(b)-6(e).

B. Time and Manner of Distribution

1. Required Beginning Date – The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's Required Beginning Date. However, the undistributed portion of a Participant's Individual Account valued as of December 31, 1986, exclusive of subsequent earnings, shall not be subject to required minimum distributions under Code Section 401(a)(9) but must be distributed in accordance with the incidental benefit requirements of Treasury Regulation 1.401-1(b)(1)(i) (generally the later of age 75 or separation from service) if such amounts are accounted for separately. If, in any year, a Participant withdraws an amount greater than the required minimum, such additional amounts will be considered to be distributed from the pre-1987 balance.

   For purposes of Plan Sections 5.05(B) and 5.05(D), unless Plan Section 5.05(D)(2)(a)(iii) applies, distributions are considered to begin on the Participant's Required Beginning Date. If Plan Section 5.05(D)(2)(a)(iii) applies, distributions are considered to begin on the date distributions are required to begin to the surviving Spouse under Plan Section 5.05(D)(2)(a)(i). If distributions under an annuity contract purchased from an insurance company irrevocably commence to the Participant before the Participant's Required Beginning Date (or to the Participant's surviving Spouse before the date distributions are required to begin to the surviving Spouse in Plan Section 5.05(D)(2)(a)(i)), the date distributions are considered to begin is the date distributions actually commence.

   Participants or Beneficiaries may elect on an individual basis whether the five-year rule or the life expectancy rule in Plan Section 5.05(D) applies to distributions after the death of a Participant who has a Designated Beneficiary. The election must be made no later than the earlier of September 30 of the calendar year in which distribution would be required to begin in Plan Section 5.05(B), or by September 30 of the calendar year which contains the fifth anniversary of the Participant's (or, if applicable, surviving Spouse's) death. If neither the Participant nor the Beneficiary makes an election under this paragraph, distributions will be made in accordance with Plan Sections 5.05(B) and 5.05(D) and, if applicable, the election in a separate IRS good faith amendment.

2. Forms of Distribution – Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the Required Beginning Date, as of the first Distribution Calendar Year distributions will be made in accordance with Plan Sections 5.05(C) and 5.05(D). If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Code Section 401(a)(9) and the related Treasury Regulations.

C. Required Minimum Distributions During Participant's Lifetime

1. Amount of Required Minimum Distribution for Each Distribution Calendar Year – During the Participant's lifetime, the minimum amount that will be distributed for each Distribution Calendar Year is the lesser of

   a. the quotient obtained by dividing the Participant's Benefit by the distribution period in the Uniform Lifetime Table set forth in Treasury Regulation 1.401(a)(9)-9, Q&A-2, using the Participant's age as of the Participant's birthday in the Distribution Calendar Year; or

   b. if the Participant's sole Designated Beneficiary for the Distribution Calendar Year is the Participant's Spouse, the quotient obtained by dividing the Participant's Benefit by the number in the Joint and Last Survivor Table set forth in Treasury Regulation 1.401(a)(9)-9, Q&A-3, using the Participant's and Spouse's attained ages as of the Participant's and Spouse's birthdays in the Distribution Calendar Year.

2. Lifetime Required Minimum Distributions Continue Through Year of Participant's Death – Required minimum distributions will be determined under this Plan Section 5.05(C) beginning with the first Distribution Calendar Year and up to and including the Distribution Calendar Year that includes the Participant's date of death.

D. Required Minimum Distributions After Participant's Death

1. Death On or After Date Distributions Begin

   a. *Participant Survived by Designated Beneficiary* – If the Participant dies on or after the date distributions begin and there is a Designated Beneficiary, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Participant's death is the quotient obtained by dividing the Participant's Benefit by the longer of the remaining Life Expectancy of the Participant or the remaining Life Expectancy of the Participant's Designated Beneficiary, determined as follows:

      (i) The Participant's remaining Life Expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

      (ii) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, the remaining Life Expectancy of the surviving Spouse is calculated for each Distribution Calendar Year after the year of the Participant's death using the surviving Spouse's age as of the Spouse's birthday in that year. For Distribution Calendar Years after the year of the surviving Spouse's death, the remaining Life Expectancy of the surviving Spouse is calculated using the age of the surviving Spouse as of the Spouse's birthday in the calendar year of the Spouse's death, reduced by one for each subsequent calendar year.

      (iii) If the Participant's surviving Spouse is not the Participant's sole Designated Beneficiary, the Designated Beneficiary's remaining Life Expectancy is calculated using the age of the Designated Beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year.

b. *No Designated Beneficiary* – If the Participant dies on or after the date distributions begin and there is no Designated Beneficiary as of September 30 of the year after the year of the Participant's death, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Participant's death is the quotient obtained by dividing the Participant's Benefit by the Participant's remaining Life Expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

2. Death Before Date Distributions Begin

a. *Participant Survived by Designated Beneficiary* – If the Participant dies before the date distributions are required to begin and there is a Designated Beneficiary, the minimum amount that will be distributed for each Distribution Calendar Year after the year of the Participant's death is the quotient obtained by dividing the Participant's Benefit by the remaining Life Expectancy of the Participant's Designated Beneficiary, determined as provided in Plan Section 5.05(D)(1).

(i) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, then, except as provided in a separate IRS good faith amendment, if applicable, distributions to the surviving Spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70½, if later.

(ii) If the Participant's surviving Spouse is not the Participant's sole Designated Beneficiary, then, except as provided in a separate IRS good faith amendment, if applicable, distributions to the Designated Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.

(iii) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary and the surviving Spouse dies after the Participant but before distributions to the surviving Spouse are required to begin, this Plan Section 5.05(D)(2), other than Plan Section 5.05(D)(2)(a), will apply as if the surviving Spouse were the Participant.

b. *No Designated Beneficiary* – If the Participant dies before the date distributions begin and there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

3. Election to Allow Designated Beneficiary Receiving Distributions Under 5-Year Rule to Elect Life Expectancy Distributions – Unless specified otherwise in a separate IRS model amendment, a Designated Beneficiary who is receiving payments under the five-year rule may make a new election to receive payments under the life expectancy rule until December 31, 2003, provided that all amounts that would have been required to be distributed under the life expectancy rule for all distribution calendar years before 2004 are distributed by the earlier of December 31, 2003 or the end of the five-year period.

E. Transition Rules
For plans in existence before 2003, required minimum distributions before 2003 were made pursuant to this Plan Section 5.05(E), if applicable:

1. 2000 and Before – Required minimum distributions for calendar years after 1984 and before 2001 were made in accordance with Code Section 401(a)(9) and the Proposed Treasury Regulations thereunder published in the Federal Register on July 27, 1987 (the "1987 Proposed Regulations").

2. 2001 – Required minimum distributions for calendar year 2001 were made in accordance with Code Section 401(a)(9) and Proposed Treasury Regulation 1.401(a)(9) as published in the Federal Register on January 17, 2001 (the "2001 Proposed Regulations") unless a prior IRS model amendment was adopted that stated that the required minimum distributions for 2001 were made pursuant to the 1987 Proposed Regulations. If distributions were made in 2001 under the 1987 Proposed Regulations before the date in 2001 that the Plan began operating under the 2001 Proposed Regulations, the special transition rule in Announcement 2001-82, 2001-2 C.B. 123, applied.

3. 2002 – Required minimum distributions for calendar year 2002 were made in accordance with Code Section 401(a)(9) and the 2001 Proposed Regulations unless the prior IRS model amendment, if applicable, provided either a. or b. below applies.

a. Required minimum distributions for 2002 were made pursuant to the 1987 Proposed Regulations.

b. Required minimum distributions for 2002 were made pursuant to the Final and Temporary Treasury Regulations under Code Section 401(a)(9) published in the Federal Register on April 17, 2002 (the "2002 Final and Temporary Regulations") which are described in Plan Sections 5.05(E)(1) through 5.05(E)(3). If distributions were made in 2002 under either the 1987 Proposed Regulations or the 2001 Proposed Regulations before the date in 2002 that the Plan began operating under the 2002 Final and Temporary Regulations, the special transition rule in Section 1.2 of the model amendment in Revenue Procedure 2002-29, 2002-22 C.B. 1176, applied.

5.06 ANNUITY CONTRACTS
Any annuity contract distributed under the Plan (if permitted or required by Plan Section Five) must be nontransferable. The terms of any annuity contract purchased and distributed by the Plan to a Participant or Spouse shall comply with the requirements of the Plan. Notwithstanding any provision of the Plan to the contrary, the availability of any form of distribution is subject to the terms of the Issuer's annuity contracts.

5.07 DISTRIBUTIONS IN-KIND
Any distribution under this Plan to be made either in any form permitted by the Individual Agreements, or in cash by converting assets other than cash into cash, or in any combination of the two foregoing methods but only to the extent permitted by the Individual Agreements.

5.08 PROCEDURE FOR MISSING PARTICIPANTS OR BENEFICIARIES

The Plan Administrator must use all reasonable measures to locate Participants or Beneficiaries who are entitled to distributions from the Plan. Such measures may include using certified mail, checking records of other plans maintained by the Employer, contacting the Participant's Beneficiaries, using a governmental letter-forwarding service, or using internet search tools, commercial locator services, and credit reporting agencies. The Plan Administrator should consider the cost of the measures relative to the Individual Account balance when determining which measures are used.

In the event that the Plan Administrator cannot locate a Participant or Beneficiary who is entitled to a distribution from the Plan after using all reasonable measures, the Plan Administrator may, consistent with applicable laws, regulations, and other pronouncements under the Code as well as the Individual Agreements,, use any reasonable procedure to dispose of distributable Plan assets, including but not limited to any of the following: 1) establish an individual retirement arrangement (IRA), under Code Section 408 or 408A, that complies with the automatic rollover safe harbor regulations, without regard to the amount in the Individual Account, 2) establish a federally-insured bank account for and in the name of the Participant or Beneficiary and transfer the assets to such bank account, 3) purchase an annuity contract with the assets in the name of the Participant or Beneficiary, 4) transfer the assets to the unclaimed property fund of the state in which the Participant or Beneficiary was last known to reside, or 5) after the expiration of five years after the benefit becomes payable, treat the amount distributable as a Forfeiture and allocate it in accordance with the terms of the Plan, and if the Participant or Beneficiary is later located, restore such benefit in the amount of the Forfeiture, unadjusted for earnings and losses to the Plan to the extent permitted by the Individual Agreements.

In the event the Plan is terminated, payments must be made in a manner that protects the benefit rights of a Participant or Beneficiary. Benefit rights shall be deemed to be protected if the amount in a Participant's or Beneficiary's Individual Account is placed into an individual retirement account, used to purchase an annuity contract, or transferred to another qualified retirement plan. Benefit rights need not, however, be protected if an Individual Account becomes subject to state escheat laws or if a payment is made to satisfy Code Section 401(a)(9), or if such other process is followed that is consistent with applicable statutory or regulatory guidance.

5.09 CLAIMS PROCEDURES

A Participant or Beneficiary who has been denied a request for a distribution or loan (if loans are permitted by the Plan) and desires to make a claim for the Vested portion of their Individual Account shall file a request (either in writing or in any other form permitted under rules promulgated by the IRS and acceptable to the Plan Administrator) with the Plan Administrator. If such request is required in writing, such request must be made on a form provided by or acceptable to the Plan Administrator for such purpose. The request shall set forth the basis of the claim. The Plan Administrator is authorized to conduct such examinations as may be necessary to facilitate the payment of any benefits to which the Participant or Beneficiary may be entitled under the terms of the Plan.

5.10 DISTRIBUTION OF EXCESS ELECTIVE DEFERRALS

A. General Rule – A Participant may assign to this Plan any Excess Elective Deferrals made during a taxable year of the Participant by notifying the Plan Administrator of the amount of the Excess Elective Deferrals to be assigned to the Plan. Participants who claim Excess Elective Deferrals for the preceding calendar year must submit their claims (either in writing or in any other form permitted under rules promulgated by the IRS) to the Plan Administrator by March 1. A Participant is deemed to notify the Plan Administrator of any Excess Elective Deferrals that arise by taking into account only those Elective Deferrals made to this Plan and any other plan, contract, or arrangement of the Employer.

Notwithstanding any other provision of the Plan, Excess Elective Deferrals, plus any income and minus any loss allocable thereto, shall be distributed no later than April 15th to any Participant to whose Individual Account Excess Elective Deferrals were assigned for the preceding year and who claims Excess Elective Deferrals for such taxable year except to the extent such Excess Elective Deferrals were classified as Catch-up Contributions. The Plan Administrator, in a uniform and nondiscriminatory manner, will determine whether the distribution of Excess Elective Deferrals for a year will be made first from the Participant's Pre-Tax Elective Deferral account or the Roth Elective Deferral account, or a combination of both, to the extent both Pre-Tax Elective Deferrals and Roth Elective Deferrals were made for the year, or may allow Participants to specify otherwise.

B. Determination of Income or Loss – Excess Elective Deferrals shall be adjusted for any income or loss up to the date of distribution. The income or loss allocable to Excess Elective Deferrals is the sum of: 1) the income or loss allocable to the Participant's Elective Deferral account for the taxable year multiplied by a fraction, the numerator of which is such Participant's Excess Elective Deferrals for the taxable year and the denominator of which is the Participant's Individual Account balance attributable to Elective Deferrals without regard to any income or loss occurring during such taxable year and 2) 10 percent of the amount determined under 1) multiplied by number of whole calendar months between the end of the Participant's taxable year and the date of distribution, counting the month of the distribution if the distribution occurs after the 15th day of such month. Notwithstanding the preceding sentence, the Plan Administrator may compute the income or loss allocable to Excess Elective Deferrals in the manner described in Plan Section Seven (i.e., the usual manner used by the Plan for allocating income or loss to Participants' Individual Accounts or any reasonable method), provided such method is used consistently for all Participants and for all corrective distributions under the Plan for the Plan Year.

5.11 LOANS TO PARTICIPANTS

If the Adoption Agreement so indicates, a Participant may receive a loan from the Funding Vehicles authorized by the Employer for use under the Plan, subject to the following rules, the Individual Agreements, if applicable, and the Plan's loan policy.

A. Loans shall be made available to all Participants on a reasonably equivalent basis.

B. Loans shall not be made available to highly compensated employees (within the meaning of Code Section 414(q)) in an amount greater than the amount made available to other Employees.

C. Loans must be adequately secured and bear a reasonable interest rate.

D. No Participant loan shall exceed the Present Value of the Vested portion of a Participant's Individual Account.

E. In the event of default, foreclosure on the Participant's account balance in an annuity authorized by the Employer for use under the Plan, if applicable, or the note and attachment of security, if applicable, will not occur until a distributable event occurs in the Plan.

F. Loan repayments will be suspended under the Plan as permitted under Code Section 414(u)(4).

G. If the Participant's Individual Account contains both Pre-Tax Elective Deferrals and Roth Elective Deferrals, the specific rules governing the loan program and the Individual Agreements, if applicable, may also designate the extent to which Pre-Tax Elective Deferrals, Roth Elective Deferrals, or a combination of both will 1) be used to calculate the maximum amount available for a loan, or 2) be available as a source from which loan proceeds may be taken or which may be used as security for a loan. To the extent permitted by law and related regulations, the rules established by the Vendor and the Individual Agreements may specify the ordering rules to be applied in the event of a defaulted loan.

Notwithstanding any other provisions of this Plan, the portion of the Participant's Vested Individual Account used as a security interest held by the Plan by reason of a loan outstanding to the Participant shall be taken into account for purposes of determining the amount of the Individual Account payable at the time of death or distribution, but only if the reduction is used as repayment of the loan.

To avoid taxation to the Participant, unless otherwise permitted by law or regulatory guidance, no loan to any Participant can be made to the extent that such loan when added to the outstanding balance of all other loans to the Participant would exceed the lesser of 1) $50,000 reduced by the excess (if any) of the highest outstanding balance of loans during the one year period ending on the day before the loan is made, over the outstanding balance of loans from the Plan on the date the loan is made, or 2) 50 percent of the present value of the nonforfeitable Individual Account of the Participant. For the purpose of the above limitation, all loans from all plans of the Employer and other members of a group of employers described in Code Sections 414(b), 414(c), and 414(m) are aggregated. However, those employers that must be so aggregated shall be determined under the guidance of IRS Notice 89-23 or any subsequent successor guidance, as such guidance relates to employers who are eligible employers as described in the Plan definition of Employer. Furthermore, any loan shall by its terms require that repayment (principal and interest) be amortized in level payments, not less frequently than quarterly, over a period not extending beyond five years from the date of the loan, unless such loan is used to acquire a dwelling unit which, within a reasonable time (determined at the time the loan is made), will be used as the principal residence of the Participant. Notwithstanding the foregoing, a Participant will suspend their loan repayments under this Plan as permitted under Code Section 414(u)(4).

The loan program will be administered in accordance with specific rules that are documented either in writing, under the Individual Agreements, if applicable, the Plan's loan policy or in such other format as permitted by the IRS. Such rules shall include, at a minimum, the following 1) the identity of the person or positions authorized to administer the Participant loan program; 2) the procedure for applying for loans; 3) the basis on which loans will be approved or denied; 4) limitations (if any) on the types and amounts of loans offered; 5) the procedure under the program for determining a reasonable rate of interest; 6) the types of collateral which may secure a Participant loan, and 7) the events constituting default and the steps that will be taken to preserve Plan assets in the event of such default.

5.12 HURRICANE RELIEF

If elected in a prior hurricane relief amendment, affected Participants may take advantage of the hurricane relief under the Katrina Emergency Tax Relief Act of 2005 (KETRA), the Gulf Opportunity Zone Act of 2005 (GO Zone), and related relief.

SECTION SIX: DEFINITIONS

Unless modified in Section Six of the Adoption Agreement, words and phrases used in the Plan with initial capital letters shall, for the purpose of this Plan, have the meanings set forth in the portion of the Plan entitled "Definitions" unless the context indicates that other meanings are intended.

SECTION SEVEN: MISCELLANEOUS

7.01 VENDORS, FUNDING VEHICLES AND INDIVIDUAL AGREEMENTS

A. In General

The Plan Administrator shall select the Vendors that will provide the Funding Vehicles under the Plan. As indicated by the definition of Vendor, the Vendors are insurance companies, or banks or other entities that hold amounts in custodial accounts that invest in regulated investment companies (mutual fund companies). The Plan Administrator will identify each entity that will be treated as a Vendor for purposes of the Plan.

The Plan Administrator will also identify the investment options that each Vendor may offer under the Funding Vehicles, subject to the Individual Agreements. The Vendor may be permitted to offer one or more Funding Vehicles as authorized by the Plan Administrator.

Each Funding Vehicle offered by a Vendor may provide a range of investment options. The Plan Administrator shall determine the investment options that will be available under a Funding Vehicle. The Plan Administrator may alter the investment options available under a Funding Vehicle. Participants must be notified of any alterations to the investment options available under the Funding Vehicles.

If Participant direction is permitted under Adoption Agreement Section Seven, Part A, a Participant may elect to use the investment options of one or more Vendors to receive contributions under the Plan made on their behalf and may change the Vendor or Vendors who are to receive those contributions, but only pursuant to rules specified by the Plan Administrator and the Individual Agreements and acceptable to the affected Vendors. Each Participant shall complete an application form or use another method of application made available by the Plan Administrator and Vendor or Vendors in order for one or more Funding Vehicles to be issued or utilized on behalf of the Participant under the Plan. The Plan Administrator may, at its discretion, and for the benefit of Participants and Beneficiaries, change the Vendors available under the Plan for future allocations to the extent permitted by the Individual Agreements. The Plan Administrator must notify affected Participants regarding any such change.

Funding Vehicles shall be made available for the sole purpose of providing benefits under this Plan in accordance with Code Section 403(b) and any other laws relating thereto. Documents establishing such Funding Vehicles shall be consistent with the terms of the Plan. In the event of any conflict between the terms of this Plan and the terms of any document that is made a part of the Plan, the Plan Administrator shall resolve the conflict. In the event of any conflict between the terms of this Plan and the terms of any portion of any document that is not a part of the Plan, the Plan provisions shall control. Notwithstanding the foregoing, in no event will the terms of the Plan expand or change the benefits, rights or features available under the Individual Agreements.

If any Vendor ceases to be eligible to receive contributions under the Plan, the Employer will enter into an information sharing agreement with the former Vendor to the extent another agreement with the Vendor does not provide for the exchange of information, as required by the Code and Treasury Regulations thereunder.

B. Investment of Contributions
Contributions made on behalf of a Participant shall be forwarded in accordance with applicable regulations to the Vendors authorized to accept contributions under the terms of the Plan.

C. Allocation Among Vendors
If Participant direction is permitted under Adoption Agreement Section Seven, Part A, a Participant may elect to allocate the Plan Contributions made for the Participant among the investment options which are available under the Individual Agreements. The Plan Administrator may permit, in a uniform and nondiscriminatory manner, a Beneficiary of a deceased Participant or the Alternate Payee under a Qualified Domestic Relations Order to individually direct investments in accordance with this Plan Section Seven, Part C.

Each separate investment option shall be charged or credited (as appropriate) with the earnings, gains, losses, or expenses attributable to such separate investment option under the Individual Agreement.

D. Transfers Limited to Vendors Eligible to Accept New Plan Contributions
If Participant direction is permitted under Adoption Agreement Section Seven, Part A(1), and the Employer elects to limit Participant direction to only those Vendors eligible to receive contributions under the Plan in accordance with Option 1 under Adoption Agreement Section Seven, Part A(2), Participants or Beneficiaries may change the investment of their Individual Accounts among the Funding Vehicles issued by Vendors authorized under the Plan provided that (i) such Vendor may accept new Plan Contributions, (ii) such transfers are permissible under the restrictions of the relevant Individual Agreements, and (iii) such transfers are consistent with any procedures and rules which may be established by the Plan Administrator and that Vendor, including any rules or procedures with respect to the sharing of information necessary for plan compliance under the Code and Treasury Regulations thereunder.

If any Vendor authorized to accept contributions under the Plan ceases to be eligible to receive contributions under the Plan after December 31, 2008, the Employer will enter into an information sharing agreement with the Vendor to the extent another agreement with the Vendor does not provide for the exchange of information, as required by the Code and Treasury Regulations thereunder.

E. Transfers to Vendors Not Eligible to Accept New Plan Contributions
If Participant direction of investments is permitted under Adoption Agreement Section Seven, Part A(1), and the Employer elects to permit Participant direction among both Vendors which are eligible to accept new Plan Contributions and Vendors which are not permitted to accept new Plan Contributions, Participants or Beneficiaries may transfer any portion of their Individual Account among the investment options under the Funding Vehicles of the eligible Vendors or to another Funding Vehicle of a Vendor not approved to accept new Plan Contributions, provided that (i) such transfers are permissible under the restrictions of the relevant Individual Agreement, and (ii) such transfers are consistent with any procedures and rules which may be established by the Plan Administrator and the Vendors. In addition, the following conditions must be satisfied:

1. The Participant or Beneficiary must have a balance in their Individual Account immediately after the exchange that is at least equal to the balance in their Individual Account immediately before the exchange,

2. The Individual Agreement with the receiving Vendor has distribution restrictions with respect to the Participant that are not less stringent than those imposed on the Individual Agreements being exchanged, and

3. The Employer and any Vendor not eligible to receive contributions under the Plan enter into an agreement under which the Employer and the Vendor agree to share information as may be necessary to ensure that the Funding Vehicle issued by the Vendor will satisfy Section 403(b) of the Code ("information sharing agreement").

7.02 VALUATION AND INDIVIDUAL ACCOUNTS

A. Valuation – The Participants' Individual Accounts will be valued each Valuation Date at fair market value.

B. Establishment and Maintenance – The Plan Administrator (or Vendor, if applicable) shall establish and maintain an Individual Account in the name of each Participant to reflect the total value of their interest in the Funding Vehicle. Each Individual Account established hereunder shall consist of such subaccounts as may be needed for each Participant:

1. a subaccount to reflect Plan Contributions and Forfeitures allocated on behalf of a Participant;
2. a subaccount to reflect a Participant's rollover contributions;
3. a subaccount to reflect a Participant's transfer contributions;
4. a subaccount to reflect a Participant's Nondeductible Employee Contributions;
5. a subaccount to reflect a Participant's Pre-Tax Elective Deferrals;
6. a subaccount to reflect a Participant's Roth Elective Deferrals;
7. a subaccount to reflect a Participant's Mandatory Employee Contributions;
8. a subaccount to reflect a Participant's pre-1987 contributions exempt from the distribution rules described in Code Section 401(a)(9);
9. a subaccount to reflect a Participant's pre-1989 Elective Deferrals in an annuity contract, and
10. a subaccount to reflect a Participant's pre-2009 Employer Contributions and Matching Contributions in an annuity contract.

The Plan Administrator (or Vendor, if applicable) may establish additional accounts as it may deem necessary for the proper administration of the Plan, including, but not limited to, a suspense account for Forfeitures as required pursuant to Plan Section Four. Also, separate accounts will be established whenever specified in the Plan or required by regulations under Code Section 403(b), including for Excess Annual Additions and for portions of a Participant's Individual Account that are not Vested.

7.03 POWERS AND DUTIES OF THE PLAN ADMINISTRATOR

A. The Plan Administrator shall have the authority to control and manage the operation and administration of the Plan. The Plan Administrator shall administer the Plan for the exclusive benefit of the Participants and their Beneficiaries in accordance with the specific terms of the Plan.

B. The Plan Administrator may, by appointment, allocate the duties of the Plan Administrator among several individuals or entities, including Vendor(s), if appropriate. Such appointments shall not be effective until the party designated accepts such appointment in writing.

C. The Plan Administrator shall be charged with the duties of the general administration of the Plan, including, but not limited to, thc following:

1. To determine all questions of interpretation or policy in a manner consistent with the Plan's documents. The Plan Administrator's construction or dctermination in good faith shall be conclusive and binding on all persons except as otherwise provided herein or by law. Any interpretation or construction shall be done in a nondiscriminatory manncr and shall be consistent with thc intent that the Plan shall continue to be dccmed a plan under the terms of Code Section 403(b), as amended from time to time;
2. To determine all questions relating to the eligibility of Employees to become or remain Participants hereunder;
3. To compute the amounts nccessary or desirable to be contributed to the Plan;
4. To compute the amount and kind of benefits to which a Participant or Beneficiary shall be entitled under the Plan and to direct the Vendor with respect to all disbursements under thc Plan, and, when requested by the Vendor, to furnish the Vendor with instructions, in writing, on matters pertaining to the Plan and the Vendor may rely and act thereon;
5. To maintain all records necessary for the administration of the Plan;
6. To prepare and file such disclosures and tax forms as may be required from time to time by the Secretary of Labor or the Secretary of the Treasury;
7. To furnish each Employee, Participant, or Beneficiary such notices, information, and reports under such circumstances as may be required by law; and
8. To periodically review the performance of each scrvice provider and all other relevant parties to ensure such individuals' obligations under the Plan are performed in a manner that is acceptable under the Plan and applicable law.

D. The Plan Administrator shall have all of the powers necessary or appropriate to accomplish their duties under the Plan, including, but not limited to, the following:

1. To appoint and retain such persons as may be necessary to carry out the functions of the Plan Administrator;
2. To appoint and retain counsel, specialists, or other persons as the Plan Administrator deems necessary or advisable in the administration of the Plan;
3. To resolve all questions of administration of the Plan;
4. To establish such uniform and nondiscriminatory rules which it deems necessary to carry out the terms of the Plan;
5. To make any adjustments in a uniform and nondiscriminatory manner which it deems necessary to correct any arithmetical or accounting errors which may have been made for any Plan Year;
6. To correct any defect, supply any omission, or reconcile any inconsistency in such manner and to such extent as shall be deemed necessary or advisable to carry out the purpose of the Plan; and
7. To change the Vendors and/or Funding Vehicles (and the investment options available under the Funding Vehicles) which are authorized by the Employer for use under the Plan for future allocations to the extent permitted by the Individual Agreements.

7.04 EXPENSES AND COMPENSATION

All reasonable expenses of administration, including, but not limited to, those involved in retaining necessary professional assistance, may be paid from the assets of the Funding Vehicles, subject to the Individual Agreements. Alternatively, the Employer may, in its discretion, pay any or all such expenses. Pursuant to uniform and nondiscriminatory rules that the Plan Administrator may establish from time to time, and subject to the Individual Agreements, administrative expenses and expenses unique to a particular Participant or group of Participants may be charged to the Individual Account of such Participant or may be assessed against terminated Participants even if not assessed against active Participants (subject to rules promulgated by the IRS), or the Plan Administrator may allow Participants to pay such fees outside of the Plan. The Employer shall furnish the Plan Administrator with such clerical and other assistance as the Plan Administrator may need in the performance of its duties.

7.05 INFORMATION FROM EMPLOYER

To enable the Plan Administrator to perform its duties, the Employer shall supply complete, accurate, and timely information to the Plan Administrator (or its designated agents) on all matters relating to the Compensation of all Participants; their regular employment; retirement, death, Disability, or Severance from Employment; and such other pertinent facts as the Plan Administrator (or its agents) may require. The Plan Administrator shall advise the Vendor of the foregoing facts as may be pertinent to the Vendor's duties under the Plan. The Plan Administrator (or its agents) is entitled to rely on such information as is supplied by the Employer and shall have no duty or responsibility to verify such information. Such information, including authorizations and directions, may be exchanged among the Employer, the Plan Administrator, the Vendor, or its agents through electronic, telephonic, or other means (including, for example, through the Internet) pursuant to applicable servicing arrangements in effect for the Plan.

7.06 PLAN AMENDMENTS

A. Right of Adopting Employer to Amend the Plan – The Adopting Employer reserves the right to replace the Plan in its entirety by adopting another retirement plan which the Adopting Employer designates as a replacement plan or to amend the Plan by changing options previously selected in the Adoption Agreement.

B. Limitation On Power To Amend – No amendment to the Plan shall be effective to the extent that it has the effect of decreasing a Participant's accumulated benefit. For purposes of this paragraph, a Plan amendment which has the effect of decreasing a Participant's Individual Account with respect to benefits attributable to service before the amendment shall be treated as reducing an accumulated benefit.

C. Amendment Of Vesting Schedule – If the vesting schedule of the Plan is amended, in the case of an Employee who is a Participant as of the later of the date such amendment is adopted or the date it becomes effective, the Vested percentage (determined as of such date) of such Employee's Individual Account derived from Employer Contributions or Matching Contributions will not be less than the percentage computed under the Plan as of that date without regard to such amendment.

If the vesting schedule of a Plan is amended, in the case of an Employee who is a Participant as of the later of the date such amendment is adopted or the date it becomes effective, the Vested percentage (determined as of such date) of such Employee's Individual Account derived from Employer Contributions or Matching Contributions will not be less than the percentage computed under the Plan without regard to such amendment.

7.07 PLAN MERGER OR CONSOLIDATION

If provided for in the Adoption Agreement, and subject to the Individual Agreements, in the case of any merger or consolidation of the Plan with, or transfer of assets or liabilities of such Plan to, any other plan, each Participant shall be entitled to receive benefits immediately after the merger, consolidation, or transfer (if the Plan had then terminated) which are equal to or greater than the benefits they would have been entitled to receive immediately before the merger, consolidation, or transfer (if the Plan had then terminated).

7.08 METHOD AND PROCEDURE FOR TERMINATION

The Plan may be terminated by the Adopting Employer at any time by appropriate action of its managing body. Such termination shall be effective on the date specified by the Adopting Employer. Written notice of the termination and effective date thereof shall be given to the Vendors, Plan Administrator, and the Participants and Beneficiaries of deceased Participants. Until all of the Plan assets (including annuity contracts, if applicable) have been distributed, the Adopting Employer must keep the Plan in compliance with current laws and regulations by making appropriate amendments to the Plan and by taking such other measures as may be required. Upon termination of the Plan, the balance of the Individual Accounts of each Participant will be distributed in a lump sum or by delivery of a fully paid annuity contract, as permitted by Treasury Regulation 1.403(b)-10(a). Distribution is permitted only if the Employer and the Related Employers do not make contributions to any Funding Vehicles that are not part of the Plan during the period beginning on the date of Plan termination and ending 12 months after distribution of all assets from the Plan. An exception to that requirement may apply as described in Treasury Regulation 1.403(b)-10(a).

7.09 CONTINUANCE OF PLAN BY SUCCESSOR EMPLOYER

Notwithstanding the preceding Plan Section 7.08, a successor of the Adopting Employer may continue the Plan and be substituted in the place of the present Adopting Employer. The successor and the present Adopting Employer must execute a written instrument authorizing such substitution, and the successor shall amend the Plan in accordance with Plan Section 7.06.

7.10 STATE COMMUNITY PROPERTY LAWS

The terms and conditions of this Plan shall be applicable without regard to the community property laws of any state.

7.11 HEADINGS

The headings of the Plan have been inserted for convenience of reference only and are to be ignored in any construction of the provisions hereof.

7.12 GENDER AND NUMBER

Whenever any words are used herein in the masculine gender they shall be construed as though they were also used in the feminine gender in all cases where they would so apply, and whenever any words are used herein in the singular form they shall be construed as though they were also used in the plural form in all cases where they would so apply.

7.13 GENERAL UNDERTAKING OF ALL PARTIES

All parties to this Plan and all persons claiming any interest whatsoever hereunder agree to perform any and all acts and execute any and all documents and papers which may be necessary or desirable for the carrying out of this Plan and any of its provisions.

7.14 AGREEMENT BINDS HEIRS, ETC.

This Plan shall be binding upon the heirs, executors, administrators, successors, and assigns, as those terms shall apply to any and all parties hereto, present and future.

7.15 INALIENABILITY OF BENEFITS

No benefit or interest available under the Plan will be subject to assignment or alienation, either voluntarily or involuntarily. Notwithstanding any provision of the Plan to the contrary, a distribution to an Alternate Payee under a Qualified Domestic Relations Order shall be permitted even if the Participant affected by such order is not otherwise entitled to a distribution, and even if such Participant has not attained the earliest retirement age as defined in Code Section 414(p).

Generally, a Domestic Relations Order cannot be a Qualified Domestic Relations Order until January 1, 1985. However, in the case of a Domestic Relations Order entered before January 1, 1985, the Plan Administrator:

1. shall treat such order as a Qualified Domestic Relations Order if the Plan Administrator is paying benefits pursuant to such order on January 1, 1985, and
2. may treat any other such order entered before January 1, 1985, as a Qualified Domestic Relations Order even if such order does not meet the requirements of Code Section 414(p).

SECTION EIGHT: EMPLOYER SIGNATURE

Section Eight of the Plan Adoption Agreement must contain the signature of an authorized representative of the Adopting Employer evidencing the Employer's agreement to be bound by the terms of the Basic Plan Document and Adoption Agreement.

Heroes Earnings and Assistance Relief Tax Act of 2008 (HEART)
Basic Plan Document Amendment

This amendment of the Plan (hereinafter referred to as "the Amendment") is comprised of this Heroes Earnings and Assistance Relief Tax Act of 2008 (HEART) Basic Plan Document Amendment (the "Basic Plan Document Amendment") and the corresponding Adoption Agreement Amendment. The Amendment is adopted to reflect the provisions of the Heroes Earnings and Assistance Relief Tax Act of 2008 (HEART). The Amendment is intended to provide good faith compliance with HEART and related guidance until the Plan is formally restated to incorporate such guidance. The Amendment is effective as specified in this Basic Plan Document Amendment except as otherwise provided in the Adoption Agreement Amendment. The Amendment supersedes the existing provisions of the Plan to the extent that those provisions are inconsistent with the provisions of the Amendment.

DEFINITIONS

DIFFERENTIAL WAGE PAYMENT

Differential Wage Payment is added to the Plan as a new defined term with the following definition:
Means a payment defined in Code Section 3401(h)(2) that is made by the Employer to an individual performing service in the uniformed services.

COMPENSATION

The Plan's definition of Compensation is modified by adding the following, as the next alphabetically ordered paragraph, to the end:
Differential Wage Payments
Notwithstanding anything in this Plan to the contrary, for years beginning on or after January 1, 2009, (or, if later, the Effective Date of the Plan) if the Employer chooses to provide Differential Wage Payments to individuals who are active duty members of the uniformed services, such individuals will be treated as Employees of the Employer making the Differential Wage Payment, the Differential Wage Payment will be treated as Compensation for purposes of applying the Code. Accordingly, Differential Wage Payments must be treated as Compensation under Code Section 415(c)(3) and Treasury Regulation 1.415-2(d). Differential Wage Payments will also be treated as Compensation for contribution, allocation and other general Plan purposes unless excluded from the Plan's definition of Compensation on the Adoption Agreement Amendment. In addition, the Plan will not be treated as failing to meet the requirements of any provision described in Code Section 414(u)(1)(C) by reason of any contribution or benefit that is based on Differential Wage Payments only if all Employees of the Employer (as determined under Code Sections 414(b), (c), (m), and (o)) performing service in the uniformed services described in Code Section 3401(h)(2)(A) are entitled to receive Differential Wage Payments on reasonably equivalent terms and, if eligible to participate in the Plan, to make contributions based on the payments on reasonably equivalent terms.

DEEMED SEVERANCE FROM EMPLOYMENT

Deemed Severance from Employment is added to the Plan as a new defined term with the following definition:
Means, effective for years beginning on or after January 1, 2009, (or, if later, the Effective Date of the Plan) and notwithstanding the definition of Differential Wage Payment, an individual is deemed to cease to be an Employee for purposes of Code Section 414(u)(12)(B) during any period the individual is performing service in the uniformed services as defined in Code Section 3401(h)(2)(A).

EMPLOYEE

The Plan's definition of Employee is modified by adding the following to the end:
The term Employee will also include individuals providing qualified military service who are treated as reemployed for purposes of applying the rules under Code Sections 403(b)(14) and 414(u).

DISTRIBUTIONS

The Basic Plan Document section titled **Miscellaneous Distribution Issues** ***is modified by adding as the next numbered paragraph, to the end:***

Distribution Due to a Deemed Severance from Employment – Except as otherwise elected in the Adoption Agreement Amendment, effective for years beginning on or after January 1, 2009, (or such later date as specified in the Adoption Agreement Amendment), individuals who have a Deemed Severance from Employment under Code Section 414(u)(12)(B) during a period of uniformed services as defined in Code Section 3401(h)(2)(A) may elect to receive a distribution of Elective Deferrals and income allocable. If an individual receives a distribution due to a Deemed Severance from Employment, the individual may not make an Elective Deferral or Nondeductible Employee Contribution during the six-month period beginning on the date of the distribution.

MISCELLANEOUS

The Basic Plan Document section MISCELLANEOUS is modified by adding as the next numbered section to the end:

MILITARY SERVICE

Notwithstanding any provision of this Plan to the contrary, contributions, benefits, and service credit with respect to qualified military service will be provided in accordance with Code Section 414(u), including, but not limited to the following:

Part A. Benefit Accrual in the Case of Death or Disability Resulting From Active Military Service.

1. Benefit Accrual – If elected in the Adoption Agreement Amendment, for benefit accrual purposes, an individual who dies or becomes disabled on or after January 1, 2007, (or such later date as specified in the Adoption Agreement Amendment), while performing qualified military service (as defined in Code Section 414(u)) will be treated as if the individual resumed employment in accordance with the individual's reemployment rights under the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA), on the day preceding death or Disability (as applicable) and terminated employment on the actual date of death or Disability. If the Employer elects to treat an individual as having resumed employment as described above, subject to items (2) and (3) below, any full or partial compliance by the Plan with respect to the benefit accrual requirements will be treated for purposes of Code Section 414(u)(1) as if such compliance were required under USERRA.

2. Determination of Benefits – The amount of Nondeductible Employee Contributions and the amount of Elective Deferrals of an Employee treated as reemployed under Part A, item (1) for purposes of applying Code Section 414(u)(8)(C) will be determined on the basis of the individual's average actual Nondeductible Employee Contributions or Elective Deferrals for the lesser of:

   a. the 12-month period of service with the Employer immediately prior to qualified military service (as defined in Code Section 414(u)), or

   b. if service with the Employer is less than such 12 month period, the actual length of continuous service with the Employer.

Part B. Vesting in the Case of Disability Resulting From Active Military Service

Years of Vesting Service – If elected in the Adoption Agreement Amendment, for vesting purposes, an individual who becomes disabled on or after January 1, 2007, (or such later date as specified in the Adoption Agreement Amendment), while performing qualified military service (as defined in Code Section 414(u)) will be treated as if the individual resumed employment in accordance with the individual's reemployment rights under the Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA), on the day preceding Disability and terminated employment on the actual date of Disability. If the Employer elects to treat an individual as having resumed employment as described above, subject to item (2) below, compliance by the Plan with respect to the vesting requirements will bc treated for purposes of Code Section 414(u)(1) as if such compliance were required under USERRA.

Part C. Death Benefits

In the casc of an individual Participant who dies on or after January 1, 2007, while performing qualified military service (as defined in Code Section 414(u)), the Participant's survivors are entitled to any additional benefits (other than benefit accruals relating to the period of qualified military service) provided under the Plan had the Participant resumed employment with the Employer and then terminated employment on account of death.

Worker, Retiree and Employer Recovery Act of 2008 (WRERA)
Basic Plan Document Amendment

The amendment of the Plan (hereinafter referred to as "the Amendment") is comprised of this Worker, Retiree and Employer Recovery Act of 2008 (WRERA) Basic Plan Document Amendment (the "Basic Plan Document Amendment") and the corresponding Adoption Agreement Amendment. The Amendment is intended to provide good faith compliance with WRERA and related guidance until the Plan is formally restated to incorporate such guidance. The Amendment is effective January 1, 2009, and such provisions apply to Plan operations during the period beginning on December 1, 2009, and ending on December 31, 2009. The IRS will not consider the Plan to have failed to operate in accordance with its terms merely because during the period beginning on January 1, 2009, and ending on November 30, 2009, the Plan's operation conflicted with the provisions of the Amendment pertaining to required minimum distributions (RMDs) for 2009.

DEFINITIONS

2009 RMD

2009 RMD ***is added to the Plan as a new defined term with the following definition:***
Means a required minimum distribution that would have been distributed to a Participant or Beneficiary for 2009 but for the enactment of Code Section 401(a)(9)(H).

EXTENDED 2009 RMD

Extended 2009 RMD ***is added to the Plan as a new defined term with the following definition:***
Means one or more payments in a series of substantially equal distributions (that include the 2009 RMD) made at least annually and expected to last for the life (or life expectancy) of the Participant and the Participant's designated Beneficiary, or for a period of at least 10 years.

ELIGIBLE ROLLOVER DISTRIBUTION

The Plan's definition of **Eligible Rollover Distribution** ***is modified by adding the following as a new paragraph to the end.***
Notwithstanding the foregoing, solely for purposes of applying the Direct Rollover distribution provisions of the Plan, 2009 RMDs and Extended 2009 RMDs distributed for 2009 will be treated as Eligible Rollover Distributions, unless otherwise elected in the Adoption Agreement Amendment.

CONTRIBUTIONS

The Basic Plan Document Section titled **Rollover** ***is modified by adding the following to the end:***
If the Plan allows rollover contributions, 2009 RMDs and Extended 2009 RMDs distributed for 2009 will be considered Eligible Rollover Distributions and may be rolled over to the Plan in accordance with this section and the Plan's existing rollover contribution elections.

DISTRIBUTIONS

The Basic Plan Document Section titled **Required Minimum Distribution Requirements** ***is modified by adding the following, as the next alphabetically ordered paragraph, to the end.***

Temporary Waiver of Required Minimum Distribution Requirements
Notwithstanding anything in the Plan or the definition of Distribution Calendar Year to the contrary, Participants and Beneficiaries who would have been required to receive a 2009 RMD or Extended 2009 RMD but for the enactment of Code Section 401(a)(9)(H) will be given the choice to receive such distributions for 2009 unless otherwise indicated in the Adoption Agreement Amendment.

If a Participant or Beneficiary described above is allowed to remove their 2009 RMD or Extended 2009 RMD but does not elect to receive such amount, the 2009 RMD or Extended 2009 RMD will be retained in the Plan unless otherwise indicated in the Adoption Agreement Amendment.

In addition, notwithstanding anything in the Plan to the contrary, if a Beneficiary's balance is required to be distributed under Code Section 401(a)(9)(B)(ii), the five-year period described in such section shall be determined without regard to calendar year 2009.

RESOLUTION

ONE-TIME SALARY SUPPLEMENT
(UNIVERSITY GENERAL DIVISION)

WHEREAS, the University has continued to sustain positive momentum in achieving its missions through careful management and the united efforts of its employees, and

WHEREAS, through the successful approach by the University General Division and the employees of that Division in the management of its resources, the University is in a position to give a one-time salary supplement to employees in the University General Division of the University,

THEREFORE, BE IT RESOLVED, that the Board of Trustees of the University of South Alabama hereby approves a one-time salary supplement in the University General Division for all current salaried or hourly regular faculty, staff and administrative employees of that Division, as defined by USA human resources policies, who were employed prior to June 1, 2012, in a lump sum of three percent of each employee's current annual base salary, with a minimum supplement of $1,500 (of which permanent part-time employees will receive a prorated amount based on their full-time equivalent status) to be paid on December 14, 2012, through the payroll system by direct deposit, after mandatory deductions, including taxes and retirement, are made.

REC'D
OFFICE OF THE PRESIDENT

NOV 30 2012

UNIVERSITY OF SOUTH ALABAMA

UNIVERSITY OF SOUTH ALABAMA
Vice President for Financial Affairs
AD 170

MEMORANDUM

TO: President V. Gordon Moulton

FROM: M. Wayne Davis

SUBJECT: One-Time Salary Supplement

DATE: November 30, 2012

The University General Division of the University finished the fiscal year ended September 30, 2012, better than the projected budget. This was accomplished through careful budget management, combining departments and other measures to reduce ongoing costs.

Attached to this memorandum is a proposed resolution to present to the Board of Trustees for a lump-sum, three percent, one-time salary supplement. If approved, the payment could be made to employees as early as Friday, December 14, 2012.

With your approval, this will be added to the meeting agenda for consideration by the Board of Trustees at its meeting on Thursday, December 6, 2012.

MWD/cbm

Attached

MEMORANDUM

UNIVERSITY OF SOUTH ALABAMA

DATE: November 13, 2013

TO: Faculty and Staff

FROM: V. Gordon Moulton V. Gordon Moulton

Thank you for the many expressions of support during my recent surgery and post-operative recovery. I am pleased with the outcome and grateful to the talented professionals in our USA Health System that the procedure went well. I will be involved in follow-up treatment at the Mitchell Cancer Institute for about one month.

I regret that my treatment schedule will prevent me from speaking to faculty at the fall General Faculty Meeting that had been planned for Nov. 15. We will reschedule the meeting for after the Christmas holidays. In the interim, I want to mention two items.

First, I thank everyone who has participated in our 50th Anniversary celebration thus far. This is an important year to commemorate and publicize our University's contribution to the quality of life of the Gulf Coast region and beyond. Each event has been successful, and participation has been gratifying. I invite you to take part in the remaining events throughout the academic year, culminating with our finale on the evening of Friday, May 3, 2013 – 50 years to the day since passage of the legislation founding the University. Details of the ongoing Anniversary celebration are available on USA's home page.

Second, as you may recall, the University delayed its decision during the September Board of Trustees meeting related to salary policies for the University General and the Hospitals and Clinics divisions for the current fiscal year pending better clarification of the financial situation. Here is an update.

University General Division

The economic challenges facing higher education remain significant and will continue to require our best collective solutions in the future. Given that we now know our enrollment and other budgetary factors, I plan to recommend to the board at its December meeting a salary increase for regular benefits-eligible faculty and staff in the University General Division. I will propose a 3 percent one-time supplemental payment to be made in December, with a minimum supplement of $1,500. A minimum increase of 3 percent will be added to the permanent salary effective Oct. 1, 2013, provided there is no downturn in state funding, enrollment, tuition revenue, or University operational funding. This approach is being taken to allow faculty and staff to benefit immediately from the increase, while also enhancing the permanent salary base. Employees must have been hired on or before May 31, 2012, to be eligible for the supplement.

Hospitals and Clinics Division

USA truly appreciates the contributions made each day by our Hospital and Clinics Division employees. Currently, through no fault of our own, the nation's health care industry is facing historic financial upheaval, with many questions unresolved related to federal health care policy, reimbursement, and other variables that are crucial to the financial viability of all health care providers. Health care providers across America are experiencing remarkable financial pressures that have led to budgetary cutbacks, job losses, and even closures of hospitals. At this time, USA's highest priorities in the Hospitals and Clinics Division are to protect existing jobs and meet the unique health care needs of the Gulf Coast region by preserving the scope of its health care programs. I truly regret that financial conditions and external uncertainties do not permit the University to provide a salary increase in the Hospitals and Clinics Division at this time without creating excessive financial risk for the USA Health System. We will all be eagerly awaiting greater clarity on the financial future of the nation's health care system in the coming months as the impact of federal health care policy becomes better known. Meanwhile, the University expresses its heartfelt gratitude for your service.

As the University of South Alabama celebrates its 50th year of service, I appreciate your contributions to the University's success and look forward to a more comprehensive discussion of the institution's future at the General Faculty Meeting after the holidays.

VGM:pbw

INDEX
JULY 31, 2012

Financial Report Highlights
July 31, 2012

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

Financial Highlights
Financial report highlights at, and for the ten months ended, July 31, 2012 and 2011 are as follows (in thousands):

	At and for the ten months ended 7-31-12	7-31-11
Total assets		
Current	$ 182,678	$ 216,561
Loan	5,127	5,270
Endowment	137,737	134,400
Plant	690,311	652,629
Fund Balances(deficit)		
Current	$ 4,560	$ (753)
Loan	596	820
Endowment	105,213	111,832
Plant	320,876	309,628
Other balance sheet highlights		
Cash and investments	$ 251,536	$ 236,058
Receivable, primarily patient care	132,391	129,247
Bonds payable	352,174	325,976

	For the ten months ended 7-31-12	7-31-11
Selected operating highlights (current funds)		
Tuition and fees	$ 97,234	$ 90,423
State appropriations	88,827	80,791
Hospital revenues	276,814	245,416
Gifts, grants and contracts	91,058	105,183
Instruction and academic support	112,338	112,580
Research and public service	65,780	69,269
Hospital expenses	289,461	256,642
Net current fund decrease	(1,143)	(11,623)

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 has experienced a significant decline in state appropriations. Additionally, the University is subject to the uncertainties of the general economic conditions in the United States and the State of Alabama. Administration is not aware of any other conditions that are expected to have a significant impact on the University's financial position in 2012 or beyond.

UNIVERSITY OF SOUTH ALABAMA
BALANCE SHEET
JULY 2012 AND 2011

ASSETS	2012	2011
CURRENT FUNDS:		
UNRESTRICTED:		
CASH AND CASH EQUIVALENTS	$ 135,993.59	$ 134,803.84
INVESTMENTS	20,557,655.31	54,750,515.88
ACCOUNTS RECEIVABLE - PATIENTS (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF $54,689,445.69 FOR 2012 AND $49,640,967.64 FOR 2011)	132,391,183.76	129,247,230.91
DEPOSITS	35,000.00	35,000.00
INVENTORIES AT COST	5,169,562.31	5,159,824.83
PREPAID EXPENSES	20,250,217.51	21,442,964.85
TOTAL UNRESTRICTED	178,539,612.48	210,770,340.31
RESTRICTED FUNDS:		
CASH AND CASH EQUIVALENTS	0.00	0.00
INVESTMENTS	3,999.33	8,731.27
UNBILLED COSTS AND ACCOUNTS RECEIVABLE	4,134,839.96	5,782,397.32
TOTAL RESTRICTED	4,138,839.29	5,791,128.59
TOTAL CURRENT FUNDS	182,678,451.77	216,561,468.90
LOAN FUNDS:		
CASH AND CASH EQUIVALENTS	1,147,434.10	1,961,273.85
NOTES RECEIVABLE (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF $446,174.34 FOR 2012 AND $476,477.39 FOR 2011)	3,979,168.70	3,308,395.86
TOTAL LOAN FUNDS	5,126,602.80	5,269,669.71
ENDOWMENT FUNDS:		
CASH AND CASH EQUIVALENTS	42,340,331.49	40,994,463.74
INVESTMENTS	84,933,021.09	81,941,730.51
ACCOUNTS RECEIVABLE	3,713,457.45	5,269,477.44
REAL ESTATE HELD FOR RESALE	3,162,768.00	2,649,768.00
PREPAID-LIFE ESTATE	3,587,008.00	3,544,394.00
TOTAL ENDOWMENT FUNDS	137,736,586.03	134,399,833.69
PLANT FUNDS:		
CASH AND CASH EQUIVALENTS	66,726,347.43	-
INVESTMENTS	32,528,571.57	53,616,277.45
ACCOUNTS RECEIVABLE	2,687,392.58	3,107,242.65
NOTES RECEIVABLE	0.00	14,519,581.00
DUE FROM OTHER FUNDS	67,852,750.81	103,154,129.45
PREPAID EXPENSES	5,550,535.25	4,595,596.84
CAPITAL LEASE RECEIVABLE	380,986.91	895,683.59
INVESTMENT IN PLANT:		
LAND	22,056,047.66	21,996,268.29
LAND IMPROVEMENTS	10,437,242.96	12,051,223.35
BUILDINGS , ACCUM DEPREC AND IMPROVEMENTS	296,644,776.59	248,135,795.46
OTHER EQUIPMENT, BOOKS AND FILMS	51,938,112.46	61,296,921.52
CONSTRUCTION IN PROGRESS	133,508,529.38	129,260,504.64
TOTAL PLANT FUNDS	690,311,293.60	652,629,224.24
TOTAL ASSETS	$ 1,015,852,934.20	$ 1,008,860,196.54

LIABILITIES AND FUND BALANCES	2012	2011
CURRENT FUNDS:		
UNRESTRICTED:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 47,664,507.40	$ 59,911,889.54
DEFERRED REVENUES	61,217,726.59	52,172,234.15
DUE TO OTHER FUNDS	67,820,490.48	101,300,139.62
DEPOSITS HELD IN CUSTODY	525,575.33	568,451.77
OTHER DEPOSITS	460,518.49	819,107.32
FUND BALANCES:		
ALLOCATED FOR:		
HOSPITALS	(53,933,374.65)	(39,573,114.50)
AUXILIARY ENTERPRISES	2,439,471.69	1,047,489.08
ENCUMBRANCES	4,973,850.65	4,885,152.74
SELF-SUPPORTING ACTIVITIES	55,127,281.94	45,930,797.06
UNALLOCATED	(7,756,435.44)	(16,291,806.47)
TOTAL FUND BALANCES	850,794.19	(4,001,482.09)
TOTAL UNRESTRICTED	178,539,612.48	210,770,340.31
RESTRICTED FUNDS:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	50,691.09	22,287.49
DEFERRED REVENUES	346,684.38	666,639.27
DUE TO OTHER FUNDS	32,260.33	1,853,989.83
FUND BALANCES	3,709,203.49	3,248,212.00
TOTAL RESTRICTED	4,138,839.29	5,791,128.59
TOTAL CURRENT FUNDS	182,678,451.77	216,561,468.90
LOAN FUNDS:		
REFUNDABLE GOVERNMENT ADVANCES	4,530,636.86	4,449,746.67
FUND BALANCES:		
UNIVERSITY FUNDS, UNRESTRICTED	595,965.94	819,923.04
TOTAL FUND BALANCES	595,965.94	819,923.04
TOTAL LOAN FUNDS	5,126,602.80	5,269,669.71
ENDOWMENT FUNDS:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	25,460,600.00	15,877,400.00
BONDS PAYABLE	7,063,414.00	6,689,989.00
FUND BALANCES:		
RESTRICTED NONEXPENDABLE	31,254,927.31	29,788,244.93
UNRESTRICTED EXPENDABLE	73,957,644.72	82,044,199.76
TOTAL FUND BALANCES	105,212,572.03	111,832,444.69
TOTAL ENDOWMENT FUNDS	137,736,586.03	134,399,833.69
PLANT FUNDS:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	8,875,877.79	831,379.47
DEFERRED REVENUES	7,290,720.98	16,167,931.38
OTHER DEPOSITS	25,791.63	25,791.63
NOTES PAYABLE	1,069,483.06	0.00
BONDS PAYABLE	352,173,772.29	325,975,875.75
FUND BALANCES:		
RENEWALS AND REPLACEMENTS	40,803,906.20	77,318,392.06
RETIREMENT OF INDEBTEDNESS	5,566,548.91	5,269,567.30
INVESTMENT IN PLANT	274,505,192.74	227,040,286.65
TOTAL FUND BALANCES	320,875,647.85	309,628,246.01
TOTAL PLANT FUNDS	690,311,293.60	652,629,224.24
TOTAL LIABILITIES AND FUND BALANCES	$ 1,015,852,934.20	$ 1,008,860,196.54

UNIVERSITY OF SOUTH ALABAMA
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE TEN MONTHS ENDED JULY 31, 2012

	CURRENT FUNDS				PLANT FUNDS		
	UNRESTRICTED	RESTRICTED	LOAN FUNDS	ENDOWMENT FUNDS	RENEWALS AND REPLACEMENTS	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
REVENUES AND OTHER ADDITIONS:							
EDUCATIONAL AND GENERAL REVENUES	249,857,715.74						
HOSPITALS REVENUES	284,158,530.39						
AUXILIARY ENTERPRISES REVENUES	12,471,342.34						
GRANTS AND CONTRACTS:							
FEDERAL		39,169,927.07					
STATE AND LOCAL		5,011,130.00					
PRIVATE		4,371,947.29					
GOVERNMENT APPROPRIATIONS:							
FEDERAL							
STATE					238,700.00		
INVESTMENT INCOME,GAINS/LOSS			4,104.31	2,754,165.58	281,699.83	74,598.39	
INSURANCE PROCEEDS							
INTEREST ON LOANS RECEIVABLE			118,790.13			14,302.37	
GIFTS AND BEQUESTS				3,092,376.08	196,460.04		
EXPENDED FOR PLANT FACILITIES (INCLUDING $13,754,069.87 CURRENT FUNDS EXPENDITURES)							52,336,291.82
RETIREMENT OF INDEBTEDNESS							8,033,000.00
PROCEEDS FROM SALE OF CAPITAL ASSETS							
OTHER SOURCES		3,132,094.95		3,700.00	6,449,760.56		(395,369.90)
TOTAL REVENUES AND OTHER ADDITIONS	546,487,588.47	51,685,099.31	122,894.44	5,850,241.66	7,166,620.43	88,900.76	59,973,921.92
EXPENDITURES AND OTHER DEDUCTIONS:							
EDUCATIONAL AND GENERAL EXPENDITURES	225,360,928.99	47,384,652.82					
HOSPITALS EXPENDITURES	284,489,124.31						
AUXILIARY ENTERPRISES EXPENDITURES	9,266,804.31						
INDIRECT COSTS RECOVERED		3,914,437.59					
REFUNDED TO GRANTORS		244,279.99					
RETIREMENT OF INDEBTEDNESS						8,033,000.00	
ADMINISTRATIVE AND COLLECTION COSTS			11,355.66				
EXPENDED FOR PLANT FACILITIES (INCLUDING $2,983,213.94 FOR NON-CAPITALIZED EXPENDITURES)					41,565,435.89		
INTEREST ON INDEBTEDNESS						9,611,754.31	
DEPRECIATION EXPENSES OF PLANT FACILITIES							26,752,070.51
DISPOSAL OF PLANT							
OTHER DEDUCTIONS			(128,750.00)	290,353.66		187,619.00	44,216.78
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	519,116,857.61	51,543,370.40	(117,394.34)	290,353.66	41,565,435.89	17,832,373.31	26,796,287.29
TRANSFERS AMONG FUNDS-ADDITIONS(DEDUCTIONS):							
MANDATORY:							
PRINCIPAL AND INTEREST	(18,823,504.03)				66,328.00	18,922,134.91	(164,958.88)
FINANCIAL AID MATCHING	(147,725.00)	137,159.00	10,566.00				
NON-MANDATORY:							
FUNDED DEPRECIATION	(9,587,934.40)				9,587,934.40		
MOBILE RACING COMMMISSION	(374,196.63)				374,196.63		
PLANT ADDITIONS AND REPLACEMENTS	(4,117,000.00)				4,039,900.00	77,100.00	
ENDOWMENT FUND	(2,015,126.90)	1,503,486.67		885,836.86	(374,196.63)		
OTHER TRANSFERS	4,931,625.82	(162,039.73)	0.00	(451,737.23)	(2,737,706.86)	(323,889.93)	(1,256,252.07)
TOTAL TRANSFERS	(30,133,861.14)	1,478,605.94	10,566.00	434,099.63	10,956,455.54	18,675,344.98	(1,421,210.95)
NET INCREASE (DECREASE) FOR THE PERIOD	(2,763,130.28)	1,620,334.85	250,854.78	5,993,987.63	(23,442,359.92)	931,872.43	31,756,423.68
FUND BALANCES AT OCTOBER 1, 2011	3,613,924.47	2,088,868.64	345,111.16	99,218,584.40	64,246,266.12	4,634,676.48	242,748,769.06
FUND BALANCES AT JULY 31, 2012	$ 850,794.19	$ 3,709,203.49	$ 595,965.94	$ 105,212,572.03	$ 40,803,906.20	$ 5,566,548.91	$ 274,505,192.74

*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE $9,587,934.40 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

UNIVERSITY OF SOUTH ALABAMA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	MONTH ENDED JULY 31, 2012			JULY 31,
	UNRESTRICTED	RESTRICTED	TOTAL	2011
REVENUES:				
TUITION AND FEES	$ 97,233,945.57	$	$ 97,233,945.57	$ 90,423,252.98
STATE APPROPRIATIONS	80,681,848.40		80,681,848.40	73,844,003.38
MOBILE RACING COMMISSION	374,196.63		374,196.63	77,503.12
FEDERAL GRANTS AND CONTRACTS	3,263,267.84	36,039,298.05	39,302,565.89	53,170,709.08
STATE GRANTS AND CONTRACTS (INCLUDING INDIRECT COST RECOVERED OF $242,110.07)	382,616.96	4,419,323.38	4,801,940.34	5,341,471.12
PRIVATE GIFTS, GRANTS, AND CONTRACTS (INCLUDING INDIRECT COSTS RECOVERED OF $409,059.68)	43,246,088.55	3,707,669.80	46,953,758.35	46,670,323.64
INVESTMENT INCOME	109,294.36		109,294.36	49,817.79
SALES AND SERVICES OF EDUCATIONAL ACTIVITIES	2,937,669.62		2,937,669.62	2,983,069.47
HOSPITALS - SALES AND SERVICES	276,813,710.39		276,813,710.39 *	245,415,732.88
- STATE APPROPRIATIONS	7,344,820.00		7,344,820.00	6,946,677.50
AUXILIARY ENTERPRISES - SALES AND SERVICES	12,471,342.34		12,471,342.34	10,436,993.53
OTHER SOURCES	21,628,787.81	3,218,361.59	24,847,149.40	30,292,487.27
TOTAL CURRENT REVENUES	546,487,588.47	47,384,652.82	593,872,241.29	565,652,041.76
EXPENDITURES AND TRANSFERS:				
EDUCATIONAL AND GENERAL:				
INSTRUCTION	88,113,662.06	8,187,370.61	96,301,032.67	97,076,975.87
RESEARCH	7,924,476.12	9,885,586.98	17,810,063.10	18,920,186.44
PUBLIC SERVICE	44,257,124.47	3,713,117.81	47,970,242.28	50,349,018.32
ACADEMIC SUPPORT	16,032,297.88	4,639.29	16,036,937.17	15,503,197.41
STUDENT SERVICES	23,082,625.92	667,558.85	23,750,184.77	21,618,432.04
INSTITUTIONAL SUPPORT	21,950,943.71	1,079,350.50	23,030,294.21	22,613,757.82
OPERATION AND MAINTENANCE OF PLANT	19,688,926.59	12,124,504.60	31,813,431.19	33,655,835.82
SCHOLARSHIPS	4,310,872.24	10,972,062.18	15,282,934.42	20,680,659.78
EDUCATIONAL AND GENERAL	225,360,928.99	46,634,190.82	271,995,119.81	280,418,063.50
MANDATORY TRANSFERS FOR:				
PRINCIPAL AND INTEREST	11,623,008.72		11,623,008.72	11,956,784.18
FINANCIAL AID MATCHING	147,725.00		147,725.00	108,954.89
TOTAL EDUCATIONAL AND GENERAL	237,131,662.71	46,634,190.82	283,765,853.53	292,483,802.57
HOSPITALS (INCLUDING DEBT SERVICE OF $4,221,780.27)	288,710,904.58	750,462.00	289,461,366.58	256,642,421.55
AUXILIARY ENTERPRISES:				
EXPENDITURES	9,266,804.31		9,266,804.31	9,809,798.14
MANDATORY TRANSFERS FOR:				
PRINCIPAL AND INTEREST	2,978,715.04		2,978,715.04	1,559,315.16
NON-MANDATORY TRANSFERS FOR:				
RENEWALS AND REPLACEMENTS	120,000.00		120,000.00	0.00
TOTAL AUXILIARIES	12,365,519.35	0.00	12,365,519.35	11,369,113.30
TOTAL EXPENDITURES AND TRANSFERS	538,208,086.64	47,384,652.82	585,592,739.46	560,495,337.42
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS):				
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUES		386,008.90	386,008.90	1,323,150.57
REFUNDED TO GRANTORS		(244,279.99)	(244,279.99)	(12,229.83)
FUNDED DEPRECIATION	(9,587,934.40)		(9,587,934.40) *	(3,916,666.94)
MOBILE RACING COMMISSION	(374,196.63)		(374,196.63)	(77,503.12)
PLANT ADDITIONS AND REPLACEMENTS	(3,997,000.00)		(3,997,000.00)	(13,869,093.00)
ENDOWMENT FUND	(2,015,126.90)	1,503,486.67	(511,640.23)	(1,016,468.95)
OTHER TRANSFERS	4,931,625.82	(24,880.73)	4,906,745.09	789,405.20
TOTAL TRANSFERS	(11,042,632.11)	1,620,334.85	(9,422,297.26)	(16,779,406.07)
NET INCREASE/(DECREASE) IN FUND BALANCES	$ (2,763,130.28)	$ 1,620,334.85	$ (1,142,795.43)	$ (11,622,701.73)

*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE $9,587,934.40 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 accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising a system of internal control that will, among other things, help assure the production of proper financial statements. The transactions which should be reflected in the accounts and in the financial reports are matters within the direct knowledge and control of management.

BASIS OF PRESENTATION

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

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

FUND ACCOUNTING

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

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

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

CURRENT FUNDS

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

PLANT FUNDS

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

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

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

INVESTMENT IN POOLED FUNDS

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

UNRESTRICTED GIFTS

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

GRANTS AND CONTRACTS

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

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.
- University Facilities Revenue Capital Improvement Bond, Series 2010, 3.81% payable through August 2030.
- University Facilities Revenue Capital Improvement Bond, Series 2012A, 2.92% payable through August 2032.
- University Facilities Revenue Capital Improvement Bond, Series 2012B, 2.14% payable through February 2018.

LITIGATION

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

MEDICAID DISPROPORTIONATE SHARE PAYMENTS

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

SUPPLEMENTAL SCHEDULES

SUMMARY SCHEDULE OF AUXILIARY ENTERPRISES
REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

				EXCESS REVENUES OVER EXPENDITURES AND OTHER CHANGES (DEFICIT)	
	REVENUES	EXPENDITURES	TRANSFERS	07/31/12	07/31/11
BOOKSTORE	$ 4,954,947.62	$ 5,054,635.73	$ (197,110.00)	$ (296,798.11)	$ (120,451.27)
BROOKLEY CENTER	0.00	0.00	0.00	0.00	(887,030.98)
FOOD SERVICES-CAMPUS	742,846.71	224,593.16	(570,685.04)	(52,431.49)	(49,952.66)
HOUSING	6,773,548.01	3,987,575.42	(2,330,920.00)	455,052.59	125,315.14
TOTAL	$ 12,471,342.34	$ 9,266,804.31	$ (3,098,715.04)	$ 105,822.99	$ (932,119.77)

BOOKSTORE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	07/31/12	07/31/11
REVENUES:		
SALES	$ 4,844,448.31	$ 4,644,488.13
LESS: DEPARTMENTAL DISCOUNTS	6,482.33	4,744.09
COST OF GOODS SOLD	3,544,499.94	3,320,282.21
GROSS PROFIT	1,293,466.04	1,319,461.83
CASH OVER/(SHORT)	(1,452.33)	(196.06)
GRADUATION (NET)	68,158.15	53,108.50
TEXTBOOK RENTAL INCOME	4,391.30	0.00
OTHER	39,402.19	35,740.24
NET REVENUES:	1,403,965.35	1,408,114.51
EXPENDITURES:		
SALARIES	655,473.25	653,518.05
EMPLOYEE BENEFITS	211,323.26	218,328.57
SUPPLIES	19,339.35	19,478.97
TRAVEL	8,547.39	2,258.42
EQUIPMENT	11,726.43	19,553.20
EQUIPMENT MAINTENANCE AND REPAIR	40,909.86	47,342.75
BUILDING & EQUIPMENT RENTAL	23,006.41	17,173.40
ADVERTISING	18,929.46	27,048.61
UTILITIES	62,500.00	62,500.00
TELEPHONE	15,577.48	9,604.99
INSURANCE AND BONDS	3,997.00	3,800.00
CONTRACT SERVICES	139,585.49	101,275.48
BAD DEBT EXPENSE	0.00	0.00
RENT	3,885.00	0.00
OBSOLETE INVENTORY	1,201.83	0.00
GENERAL EXPENSES	35,909.33	46,077.23
CHARGE CARD AND FACULTY STAFF DISCOUNTS	56,531.12	56,017.81
INSTITUTIONAL COST ALLOCATION	195,210.80	244,588.30
TOTAL EXPENDITURES	1,503,653.46	1,528,565.78
TRANSFERS AMONG FUNDS-ADDITIONS/(DEDUCTIONS):		
MANDATORY:		
PRINCIPAL AND INTEREST	(197,110.00)	0.00
NON-MANDATORY:		
OTHER TRANSFERS	0.00	0.00
RENEWAL AND REPLACEMENT	0.00	0.00
RETIREMENT REIMBURSEMENT	0.00	0.00
TOTAL TRANSFERS	(197,110.00)	0.00
EXCESS REVENUES OVER EXPENDITURES AND MANDATORY TRANSFERS	$ (296,798.11)	$ (120,451.27)

BROOKLEY CENTER
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	ADMINISTRATION	INVESTMENT HOUSING	GOLF SHOP	FOOD SERVICE	TOTAL AUXILIARY SERVICES
REVENUES:					
SALES-FOOD & MERCHANDISE	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
LESS: COST OF GOODS SOLD	0.00	0.00	0.00	0.00	0.00
DISCOUNTS	0.00	0.00	0.00	0.00	0.00
GROSS PROFIT	0.00	0.00	0.00	0.00	0.00
FEES	0.00	0.00	0.00	0.00	0.00
RENTALS	0.00	0.00	0.00	0.00	0.00
OTHER	0.00	0.00	0.00	0.00	0.00
FACILITY ASSESSMENT FEE	0.00	0.00	0.00	0.00	0.00
NET REVENUES	0.00	0.00	0.00	0.00	0.00
EXPENDITURES:					
OPERATING EXPENDITURES:					
SALARIES	0.00	0.00	0.00	0.00	0.00
EMPLOYEE BENEFITS	0.00	0.00	0.00	0.00	0.00
SUPPLIES	0.00	0.00	0.00	0.00	0.00
TRAVEL	0.00	0.00	0.00	0.00	0.00
CONTRACT SERVICE	0.00	0.00	0.00	0.00	0.00
BUILDING MAINTENANCE & REPAIR	0.00	0.00	0.00	0.00	0.00
GROUNDS MAINTENANCE	0.00	0.00	0.00	0.00	0.00
UTILITIES	0.00	0.00	0.00	0.00	0.00
EQUIPMENT MAINTENANCE & REPAIR	0.00	0.00	0.00	0.00	0.00
BUILDING & EQUIPMENT RENTAL	0.00	0.00	0.00	0.00	0.00
TELEPHONE	0.00	0.00	0.00	0.00	0.00
INSURANCE AND BONDS	0.00	0.00	0.00	0.00	0.00
RECEPTIONS	0.00	0.00	0.00	0.00	0.00
ADVERTISING	0.00	0.00	0.00	0.00	0.00
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	0.00	0.00	0.00	0.00	0.00
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	0.00	0.00	0.00	0.00	0.00
TOTAL OPERATING EXPENDITURES	0.00	0.00	0.00	0.00	0.00
EXCESS REVENUES OVER EXPENDITURES	0.00	0.00	0.00	0.00	0.00
OTHER EXPENDITURES:					
EQUIPMENT	0.00	0.00	0.00	0.00	0.00
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	0.00	0.00	0.00	0.00	0.00
TRANSFERS AMONG FUNDS -					
ADDITIONS/(DEDUCTIONS):					
MANDATORY:					
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:					
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	0.00
EXCESS REVENUES OVER				0.00	
EXPENDITURES (DEFICIT)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

BROOKLEY CENTER
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	CONTINUING EDUCATION	EDUCATIONAL LEASING	UNIVERSITY SERVICE	TOTAL EDUCATIONAL SERVICES	BROOKLEY CENTER TOTAL 07/31/12	BROOKLEY CENTER TOTAL 07/31/11
REVENUES:						
SALES-FOOD & MERCHANDISE	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 5,005.63
LESS: COST OF GOODS SOLD	0.00	0.00	0.00	0.00	0.00	0.00
DISCOUNTS	0.00	0.00	0.00	0.00	0.00	2,100.43
GROSS PROFIT	0.00	0.00	0.00	0.00	0.00	2,905.20
FEES	0.00	0.00	0.00	0.00	0.00	192,672.58
RENTALS	0.00	0.00	0.00	0.00	0.00	16,753.16
OTHER	0.00	0.00	0.00	0.00	0.00	16,879.31
FACILITY ASSESSMENT FEE	0.00	0.00	0.00	0.00	0.00	0.00
NET REVENUES	0.00	0.00	0.00	0.00	0.00	229,210.25
EXPENDITURES:						
OPERATING EXPENDITURES:						
SALARIES	0.00	0.00	0.00	0.00	0.00	212,603.45
EMPLOYEE BENEFITS	0.00	0.00	0.00	0.00	0.00	66,021.87
SUPPLIES	0.00	0.00	0.00	0.00	0.00	2,662.72
TRAVEL	0.00	0.00	0.00	0.00	0.00	1,043.51
CONTRACT SERVICE	0.00	0.00	0.00	0.00	0.00	87,475.58
BUILDING MAINTENANCE & REPAIR	0.00	0.00	0.00	0.00	0.00	13,115.44
GROUNDS MAINTENANCE	0.00	0.00	0.00	0.00	0.00	11,422.52
UTILITIES	0.00	0.00	0.00	0.00	0.00	338,154.94
EQUIPMENT MAINTENANCE & REPAIR	0.00	0.00	0.00	0.00	0.00	6,706.85
BUILDING & EQUIPMENT RENTAL	0.00	0.00	0.00	0.00	0.00	97,829.20
TELEPHONE	0.00	0.00	0.00	0.00	0.00	12,665.99
INSURANCE AND BONDS	0.00	0.00	0.00	0.00	0.00	46,034.00
RECEPTIONS	0.00	0.00	0.00	0.00	0.00	0.00
ADVERTISING	0.00	0.00	0.00	0.00	0.00	1,670.27
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	0.00	0.00	0.00	0.00	0.00	218,263.64
EXPENSE OFFSET	0.00	0.00	0.00	0.00	0.00	0.00
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
OPERATING COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OPERATING EXPENDITURES	0.00	0.00	0.00	0.00	0.00	1,115,689.98
EXCESS REVENUES OVER EXPENDITURES	0.00	0.00	0.00	0.00	0.00	(886,479.73)
OTHER EXPENDITURES:						
EQUIPMENT	0.00	0.00	0.00	0.00	0.00	551.25
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	0.00	0.00	0.00	0.00	0.00	551.25
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:						
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
EXCESS REVENUES OVER						
EXPENDITURES (DEFICIT)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ (887,030.98)

FOOD SERVICE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	07/31/12	07/31/11
REVENUES:		
COMMISSION INCOME	$ 742,846.71	$ 559,946.06
TOTAL REVENUES	742,846.71	559,946.06
EXPENDITURES:		
SALARIES	0.00	0.00
EMPLOYEE BENEFITS	0.00	0.00
SUPPLIES	158.69	0.00
EQUIPMENT MAINTENANCE AND REPAIR	40,028.64	19,429.80
UTILITIES	104,166.70	83,333.30
TELEPHONE	330.40	(21.36)
MEMBERSHIPS AND DUES	0.00	0.00
CONTRACT SERVICES	30,281.00	14,628.88
INSURANCE AND BONDS	9,537.00	8,505.00
EQUIPMENT	2,519.97	2,795.87
BUILDING MAINTENANCE AND REPAIR	2,905.00	3,231.50
INDIRECT COST	20,833.30	20,833.30
GENERAL EXPENSE	13,832.46	6,475.91
TOTAL EXPENDITURES	224,593.16	159,212.20
TRANSFERS AMONG FUNDS- ADDITIONS/(DEDUCTIONS):	(450,685.04)	(450,686.52)
NON-MANDATORY:		
OTHER TRANSFERS	(120,000.00)	0.00
TOTAL TRANSFERS	(570,685.04)	(450,686.52)
EXCESS REVENUES OVER EXPENDITURES AND MANDATORY TRANSFERS (DEFICIT)	$ (52,431.49)	$ (49,952.66)

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	CENTRAL HOUSING	HOUSING PROGRAMMING	WASHERS AND DRYERS	CAMPS AND CONFERENCES	STOKES HALL	HILLSDALE MARRIED STUDENT	SMALL GROUP HOUSING
REVENUES:							
RENTAL INCOME	$ 0.00	$ 0.00	$ 133,235.00	$ 99,777.00	$ 1,237,553.22	$ 39,737.10	$ 330,275.23
BAD DEBT RECOVERY	2,670.00	0.00	0.00	0.00	0.00	1,197.58	0.00
OTHER	79,608.00	0.00	0.00	0.00	9,638.74	1,375.00	58,604.50
TOTAL REVENUES	82,278.00	0.00	133,235.00	99,777.00	1,247,191.96	42,309.68	388,879.73
EXPENDITURES:							
SALARIES	291,650.89	2,247.50	0.00	12,267.00	99,865.28	0.00	66,329.27
EMPLOYEE BENEFITS	86,728.73	36.61	0.00	465.87	5,814.29	0.00	0.00
CONTRACT LABOR	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CONTRACT SERVICES	695.57	0.00	68,178.00	0.00	3,908.84	0.00	0.00
TRAVEL	4,981.49	2,841.00	0.00	0.00	0.00	0.00	0.00
RECEPTIONS	1,067.82	12,168.78	0.00	8.46	283.50	0.00	0.00
SUPPLIES	22,950.53	5,998.62	0.00	564.58	17,516.76	(157.92)	247.43
CABLE	120,643.20	0.00	0.00	0.00	0.00	0.00	0.00
TELEPHONE	592.57	0.00	0.00	0.00	102.63	0.00	246.61
UTILITIES	0.00	0.00	0.00	0.00	0.00	(118.50)	1,244.05
INSURANCE AND BONDS	732.00	0.00	0.00	0.00	9,059.00	786.00	6,310.00
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BUILDING MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EQUIPMENT	142.29	1,119.04	0.00	0.00	28,094.83	0.00	0.00
EQUIPMENT RENTAL	1,171.46	0.00	0.00	0.00	0.00	0.00	0.00
EQUIPMENT MAINTENANCE AND REPAIR	814.45	0.00	0.00	0.00	1,895.70	0.00	0.00
GROUNDS MAINTENANCE	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	87,493.85	8,974.37	0.00	0.00	79,517.65	2,238.20	75,368.50
ADMINISTRATIVE OVERHEAD	288,282.00	0.00	0.00	0.00	162,076.00	0.00	54,466.00
ADMINISTRATIVE EXPENSES	(825,668.85)	(33,385.92)	27,489.74	0.00	131,435.39	0.00	69,583.44
TOTAL EXPENDITURES	82,278.00	0.00	95,667.74	13,305.91	539,569.87	2,747.78	273,795.30
TRANSFERS AMONG FUNDS -							
ADDITIONS/(DEDUCTIONS):							
MANDATORY:							
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	(1,232,032.00)	0.00	(307,040.00)
TOTAL MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	(1,232,032.00)	0.00	(307,040.00)
NON-MANDATORY:							
RENEWALS AND REPLACEMENTS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	(1,232,032.00)	0.00	(307,040.00)
EXCESS REVENUES OVER EXPENDITURES AND TRANSFERS (DEFICIT)	$ 0.00	$ 0.00	$ 37,567.26	$ 86,471.09	$ (524,409.91)	$ 39,561.90	$ (191,955.57)

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE TEN MONTHS ENDED JULY 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	GAMMA DORMS	BETA DORMS	DELTA DORMS	EPSILON DORMS	TOTAL HOUSING 07/31/12	TOTAL HOUSING 07/31/11
REVENUES:						
RENTAL INCOME	$ 1,270,508.53	$ 561,935.52	$ 2,156,107.01	$ 759,624.70	$ 6,588,753.31	$ 4,782,151.45
BAD DEBT RECOVERY	0.00	0.00	0.00	0.00	3,867.58	2,210.19
OTHER	5,052.50	5,814.25	13,675.13	7,159.00	180,927.12	128,234.34
TOTAL REVENUES	1,275,561.03	567,749.77	2,169,782.14	766,783.70	6,773,548.01	4,912,595.98
EXPENDITURES:						
SALARIES	154,589.87	55,698.24	219,031.67	99,092.72	1,000,772.44	737,277.67
EMPLOYEE BENEFITS	19,959.58	3,815.18	30,898.09	4,400.90	152,119.25	139,615.75
CONTRACT LABOR	804.01	0.00	11,498.60	4,534.00	16,836.61	3,492.96
CONTRACT SERVICES	0.00	0.00	35,207.25	988.00	108,977.66	140,552.96
TRAVEL	0.00	0.00	0.00	0.00	7,822.49	4,292.23
RECEPTIONS	0.00	0.00	0.00	0.00	13,528.56	9,963.36
SUPPLIES	0.00	0.00	1,439.01	714.10	49,273.11	121,634.78
CABLE	0.00	0.00	0.00	0.00	120,643.20	105,157.69
TELEPHONE	60.40	233.81	571.04	349.88	2,156.94	147,058.02
UTILITIES	0.00	0.00	0.00	0.00	1,125.55	6,615.90
INSURANCE AND BONDS	9,409.00	4,530.00	16,017.00	5,726.00	52,569.00	38,850.00
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	(500.00)
BUILDING MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	0.00	358.00
EQUIPMENT	6,961.70	0.00	11,000.00	0.00	47,317.86	0.00
EQUIPMENT RENTAL	0.00	0.00	222.26	0.00	1,393.72	1,048.84
EQUIPMENT MAINTENANCE AND REPAIR	0.00	0.00	2,120.00	0.00	4,830.15	270.00
GROUNDS MAINTENANCE	0.00	0.00	0.00	0.00	0.00	0.00
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	124,444.05	68,097.17	286,432.19	121,175.78	853,741.76	812,816.92
ADMINISTRATIVE OVERHEAD	309,541.04	146,132.00	445,351.04	148,619.04	1,554,467.12	1,410,147.12
ADMINISTRATIVE EXPENSES	141,744.04	79,892.09	306,682.54	102,227.53	0.00	0.00
TOTAL EXPENDITURES	767,513.69	358,398.49	1,366,470.69	487,827.95	3,987,575.42	3,678,652.20
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	(153,152.00)	(45,760.00)	(344,344.00)	(248,592.00)	(2,330,920.00)	(1,108,628.64)
TOTAL MANDATORY TRANSFERS	(153,152.00)	(45,760.00)	(344,344.00)	(248,592.00)	(2,330,920.00)	(1,108,628.64)
NON-MANDATORY:						
RENEWALS AND REPLACEMENTS	0.00	0.00	0.00	0.00	0.00	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	(153,152.00)	(45,760.00)	(344,344.00)	(248,592.00)	(2,330,920.00)	(1,108,628.64)
EXCESS REVENUES OVER EXPENDITURES AND TRANSFERS (DEFICIT)	$ 354,895.34	$ 163,591.28	$ 458,967.45	$ 30,363.75	$ 455,052.59	$ 125,315.14

I N D E X
AUGUST 31, 2012

Financial Report Highlights
August 31, 2012

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

Financial Highlights
Financial report highlights at, and for the eleven months ended, August 31, 2012 and 2011 are as follows (in thousands):

	At and for the eleven months ended 8-31-12	8-31-11
Total assets		
Current	$ 132,653	$ 176,563
Loan	5,184	4,867
Endowment	139,385	134,408
Plant	701,000	649,724
Fund Balances (deficit)		
Current	$ (11,990)	$ (1,738)
Loan	653	417
Endowment	106,766	111,751
Plant	327,817	303,453
Other balance sheet highlights		
Cash and investments	$ 287,535	$ 259,176
Receivables, primary patient care	88,173	88,844
Bonds payable	352,541	326,365

	For the eleven months ended 8-31-12	8-31-11
Selected operating highlights (current funds)		
Tuition and fees	$ 103,656	$ 95,400
State appropriations	96,874	88,870
Hospital revenues	305,631	271,719
Gifts, grants and contracts	107,395	122,822
Instruction and academic support	122,503	122,814
Research and public service	71,934	75,897
Hospital expenses	317,593	283,362
Net current fund decrease	(17,693)	(12,608)

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 has experienced a significant decline in state appropriations. Additionally, the University is subject to the uncertainties of the general economic conditions in the United States and the State of Alabama. Administration is not aware of any other conditions that are expected to have a significant impact on the University's financial position in 2012 or beyond.

UNIVERSITY OF SOUTH ALABAMA
BALANCE SHEET
AUGUST 2012 AND 2011

ASSETS	2012	2011
CURRENT FUNDS:		
UNRESTRICTED:		
CASH AND CASH EQUIVALENTS	$ 135,683.84	$ 134,403.84
INVESTMENTS	15,453,669.39	54,642,639.32
ACCOUNTS RECEIVABLE - PATIENTS (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF $55,122,483.70 FOR 2012 AND $48,903,662.72 FOR 2011)	88,173,398.18	88,844,016.96
DEPOSITS	35,000.00	35,000.00
INVENTORIES AT COST	3,555,893.48	4,358,215.64
PREPAID EXPENSES	20,165,056.58	21,710,884.43
TOTAL UNRESTRICTED	127,518,701.47	169,725,160.19
RESTRICTED FUNDS:		
CASH AND CASH EQUIVALENTS	345,878.91	0.00
INVESTMENTS	3,999.33	8,731.27
UNBILLED COSTS AND ACCOUNTS RECEIVABLE	4,784,380.32	6,829,551.01
TOTAL RESTRICTED	5,134,258.56	6,838,282.28
TOTAL CURRENT FUNDS	132,652,960.03	176,563,442.47
LOAN FUNDS:		
CASH AND CASH EQUIVALENTS	1,003,168.74	1,240,293.06
NOTES RECEIVABLE (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF $446,174.34 FOR 2012 AND $476,477.39 FOR 2011)	4,180,655.32	3,627,178.36
TOTAL LOAN FUNDS	5,183,824.06	4,867,471.42
ENDOWMENT FUNDS:		
CASH AND CASH EQUIVALENTS	42,782,388.87	35,680,144.57
INVESTMENTS	85,657,650.85	87,047,690.60
ACCOUNTS RECEIVABLE	4,184,699.32	5,475,519.44
REAL ESTATE HELD FOR RESALE	3,162,768.00	2,649,768.00
PREPAID-LIFE ESTATE	3,597,553.00	3,555,370.00
TOTAL ENDOWMENT FUNDS	139,385,060.04	134,408,492.61
PLANT FUNDS:		
CASH AND CASH EQUIVALENTS	103,446,869.59	21,108,326.90
INVESTMENTS	35,543,144.86	56,664,351.81
ACCOUNTS RECEIVABLE	2,675,759.20	3,107,242.65
NOTES RECEIVABLE	0.00	14,519,581.00
DUE FROM OTHER FUNDS	37,282,368.79	74,651,003.69
PREPAID EXPENSES	5,473,768.54	4,542,959.38
CAPITAL LEASE RECEIVABLE	338,095.52	852,792.20
INVESTMENT IN PLANT:		
LAND	22,056,047.66	21,996,268.29
LAND IMPROVEMENTS	10,309,705.03	12,027,377.01
BUILDINGS , ACCUM DEPREC AND IMPROVEMENTS	295,555,893.15	241,340,451.25
OTHER EQUIPMENT, BOOKS AND FILMS	51,203,739.05	66,877,848.31
CONSTRUCTION IN PROGRESS	137,114,750.59	132,036,096.97
TOTAL PLANT FUNDS	701,000,141.98	649,724,299.46
TOTAL ASSETS	$ 978,221,986.11	$ 965,563,705.96

LIABILITIES AND FUND BALANCES	2012	2011
CURRENT FUNDS:		
UNRESTRICTED:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 41,537,588.10	$ 49,832,080.04
DEFERRED REVENUES	62,661,950.37	51,949,233.78
DUE TO OTHER FUNDS	37,282,368.79	71,182,225.72
DEPOSITS HELD IN CUSTODY	48,898.14	177,064.54
OTHER DEPOSITS	662,662.96	825,495.69
FUND BALANCES:		
ALLOCATED FOR:		
HOSPITALS	(53,779,078.02)	(39,922,173.02)
AUXILIARY ENTERPRISES	3,475,067.89	2,090,286.05
ENCUMBRANCES	5,234,884.10	4,171,988.95
SELF-SUPPORTING ACTIVITIES	46,247,791.85	49,254,676.86
UNALLOCATED	(15,853,432.71)	(19,835,718.42)
TOTAL FUND BALANCES	(14,674,766.89)	(4,240,939.58)
TOTAL UNRESTRICTED	127,518,701.47	169,725,160.19
RESTRICTED FUNDS:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	77,999.96	59,027.12
DEFERRED REVENUES	2,371,604.36	807,733.90
DUE TO OTHER FUNDS	0.00	3,468,777.97
FUND BALANCES	2,684,654.24	2,502,743.29
TOTAL RESTRICTED	5,134,258.56	6,838,282.28
TOTAL CURRENT FUNDS	132,652,960.03	176,563,442.47
LOAN FUNDS:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES		300.00
REFUNDABLE GOVERNMENT ADVANCES	4,530,636.86	4,449,746.67
FUND BALANCES:		
UNIVERSITY FUNDS, UNRESTRICTED	653,187.20	417,424.75
TOTAL FUND BALANCES	653,187.20	417,424.75
TOTAL LOAN FUNDS	5,183,824.06	4,867,471.42
ENDOWMENT FUNDS:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	25,460,600.00	15,877,400.00
BONDS PAYABLE	7,158,022.00	6,779,590.00
FUND BALANCES:		
RESTRICTED NONEXPENDABLE	31,254,927.31	29,788,244.93
UNRESTRICTED EXPENDABLE	75,511,510.73	81,963,257.68
TOTAL FUND BALANCES	106,766,438.04	111,751,502.61
TOTAL ENDOWMENT FUNDS	139,385,060.04	134,408,492.61
PLANT FUNDS:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	12,333,346.34	3,716,079.12
DEFERRED REVENUES	7,235,307.03	16,164,597.43
OTHER DEPOSITS	25,791.63	25,791.63
NOTES PAYABLE	1,047,375.25	0.00
BONDS PAYABLE	352,541,195.24	326,364,503.50
FUND BALANCES:		
RENEWALS AND REPLACEMENTS	48,053,607.07	72,367,443.26
RETIREMENT OF INDEBTEDNESS	4,103,310.36	3,049,765.67
INVESTMENT IN PLANT	275,660,209.06	228,036,118.85
TOTAL FUND BALANCES	327,817,126.49	303,453,327.78
TOTAL PLANT FUNDS	701,000,141.98	649,724,299.46
TOTAL LIABILITIES AND FUND BALANCES	$ 978,221,986.11	$ 965,563,705.96

UNIVERSITY OF SOUTH ALABAMA
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2012

	CURRENT FUNDS				PLANT FUNDS		
	UNRESTRICTED	RESTRICTED	LOAN FUNDS	ENDOWMENT FUNDS	RENEWALS AND REPLACEMENTS	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
REVENUES AND OTHER ADDITIONS:							
EDUCATIONAL AND GENERAL REVENUES	271,629,271.35						
HOSPITALS REVENUES	313,709,853.17						
AUXILIARY ENTERPRISES REVENUES	16,579,548.69						
GRANTS AND CONTRACTS:							
FEDERAL		50,456,755.33					
STATE AND LOCAL		5,613,742.49					
PRIVATE		4,854,103.85					
GOVERNMENT APPROPRIATIONS:							
FEDERAL							
STATE					238,700.00		
INVESTMENT INCOME,GAINS/LOSS			4,443.47	3,520,985.91	295,569.56	81,344.89	
INSURANCE PROCEEDS							
INTEREST ON LOANS RECEIVABLE			128,215.88			16,497.95	
GIFTS AND BEQUESTS				3,709,834.01	204,441.72		
EXPENDED FOR PLANT FACILITIES (INCLUDING $14,608,659.09 CURRENT FUNDS EXPENDITURES)							56,662,199.10
RETIREMENT OF INDEBTEDNESS							8,033,000.00
PROCEEDS FROM SALE OF CAPITAL ASSETS							
OTHER SOURCES		3,210,789.95		3,700.00	6,665,845.15		(435,811.84)
TOTAL REVENUES AND OTHER ADDITIONS	601,918,673.21	64,135,391.62	132,659.35	7,234,519.92	7,404,556.43	97,842.84	64,259,387.26
EXPENDITURES AND OTHER DEDUCTIONS:							
EDUCATIONAL AND GENERAL EXPENDITURES	253,116,954.88	60,377,291.36					
HOSPITALS EXPENDITURES	312,172,877.10						
AUXILIARY ENTERPRISES EXPENDITURES	12,319,703.46						
INDIRECT COSTS RECOVERED		4,315,449.21					
REFUNDED TO GRANTORS		244,279.99	772.20				
RETIREMENT OF INDEBTEDNESS						8,033,000.00	
ADMINISTRATIVE AND COLLECTION COSTS			14,190.44				
EXPENDED FOR PLANT FACILITIES (INCLUDING $3,119,579.14 FOR NON-CAPITALIZED EXPENDITURES)					45,173,119.15		
INTEREST ON INDEBTEDNESS						13,147,657.53	
DEPRECIATION EXPENSES OF PLANT FACILITIES							29,422,551.36
DISPOSAL OF PLANT							
OTHER DEDUCTIONS			(179,899.13)	386,961.66		241,182.71	46,499.96
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	577,609,535.44	64,937,020.56	(164,936.49)	386,961.66	45,173,119.15	21,421,840.24	29,469,051.32
TRANSFERS AMONG FUNDS-ADDITIONS(DEDUCTIONS):							
MANDATORY:							
PRINCIPAL AND INTEREST	(20,489,946.34)				73,169.00	20,636,931.18	(220,153.84)
FINANCIAL AID MATCHING	(147,725.00)	137,159.00	10,566.00				
NON-MANDATORY:							
FUNDED DEPRECIATION	(10,546,727.84)				10,546,727.84		
MOBILE RACING COMMMISSION	(384,487.77)				384,487.77		
PLANT ADDITIONS AND REPLACEMENTS	(4,127,000.00)				4,049,900.00	77,100.00	
ENDOWMENT FUND	(2,275,008.49)	1,509,651.63		1,149,844.63	(384,487.77)		
OTHER TRANSFERS	(4,626,933.69)	(249,396.09)	(85.80)	(449,549.25)	6,906,106.83	78,600.10	(1,658,742.10)
TOTAL TRANSFERS	(42,597,829.13)	1,397,414.54	10,480.20	700,295.38	21,575,903.67	20,792,631.28	(1,878,895.94)
NET INCREASE (DECREASE) FOR THE PERIOD	(18,288,691.36)	595,785.60	308,076.04	7,547,853.64	(16,192,659.05)	(531,366.12)	32,911,440.00
FUND BALANCES AT OCTOBER 1, 2011	3,613,924.47	2,088,868.64	345,111.16	99,218,584.40	64,246,266.12	4,634,676.48	242,748,769.06
FUND BALANCES AT AUGUST 31, 2012	$ (14,674,766.89)	$ 2,684,654.24	$ 653,187.20	$ 106,766,438.04	$ 48,053,607.07	$ 4,103,310.36	$ 275,660,209.06

*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE $10,546,727.84 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

UNIVERSITY OF SOUTH ALABAMA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	MONTH ENDED AUGUST 31, 2012			AUGUST 31,
	UNRESTRICTED	RESTRICTED	TOTAL	2011
REVENUES:				
TUITION AND FEES	$ 103,656,401.77	$	$ 103,656,401.77	$ 95,400,151.22
STATE APPROPRIATIONS	88,796,957.74		88,796,957.74	81,228,403.72
MOBILE RACING COMMISSION	384,487.77		384,487.77	85,447.15
FEDERAL GRANTS AND CONTRACTS	3,590,043.94	46,998,233.11	50,588,277.05	65,873,891.98
STATE GRANTS AND CONTRACTS (INCLUDING INDIRECT COST RECOVERED OF $257,765.24)	429,494.43	5,004,810.70	5,434,305.13	5,721,583.66
PRIVATE GIFTS, GRANTS, AND CONTRACTS (INCLUDING INDIRECT COSTS RECOVERED OF $467,640.03)	47,250,261.57	4,121,790.06	51,372,051.63	51,226,617.44
INVESTMENT INCOME	89,651.44		89,651.44	81,049.00
SALES AND SERVICES OF EDUCATIONAL ACTIVITIES	3,399,846.06		3,399,846.06	4,255,867.72
HOSPITALS - SALES AND SERVICES	305,630,551.17		305,630,551.17 *	271,719,365.03
- STATE APPROPRIATIONS	8,079,302.00		8,079,302.00	7,641,345.25
AUXILIARY ENTERPRISES - SALES AND SERVICES	16,579,390.69		16,579,390.69	14,596,646.40
OTHER SOURCES	24,032,284.63	4,252,457.49	28,284,742.12	33,072,381.54
TOTAL CURRENT REVENUES	601,918,673.21	60,377,291.36	662,295,964.57	630,902,750.11
EXPENDITURES AND TRANSFERS:				
EDUCATIONAL AND GENERAL:				
INSTRUCTION	95,753,972.30	9,156,521.09	104,910,493.39	105,643,092.48
RESEARCH	8,768,110.16	10,886,949.84	19,655,060.00	20,985,900.27
PUBLIC SERVICE	48,122,614.18	4,146,101.02	52,268,715.20	54,910,751.47
ACADEMIC SUPPORT	17,587,395.32	5,264.74	17,592,660.06	17,170,470.53
STUDENT SERVICES	27,276,598.77	722,012.91	27,998,611.68	25,828,491.91
INSTITUTIONAL SUPPORT	24,133,293.44	1,126,401.75	25,259,695.19	25,037,825.09
OPERATION AND MAINTENANCE OF PLANT	22,055,543.20	12,918,545.01	34,974,088.21	36,668,104.90
SCHOLARSHIPS	9,419,427.51	20,665,033.00	30,084,460.51	29,947,271.26
EDUCATIONAL AND GENERAL	253,116,954.88	59,626,829.36	312,743,784.24	316,191,907.91
MANDATORY TRANSFERS FOR:				
PRINCIPAL AND INTEREST	12,822,166.06		12,822,166.06	13,179,674.93
FINANCIAL AID MATCHING	147,725.00		147,725.00	108,954.89
TOTAL EDUCATIONAL AND GENERAL	266,086,845.94	59,626,829.36	325,713,675.30	329,480,537.73
HOSPITALS (INCLUDING DEBT SERVICE OF $4,669,354.24)	316,842,231.34	750,462.00	317,592,693.34	283,362,115.69
AUXILIARY ENTERPRISES:				
EXPENDITURES	12,319,703.46		12,319,703.46	12,926,654.04
MANDATORY TRANSFERS FOR:				
PRINCIPAL AND INTEREST	2,998,426.04		2,998,426.04	1,559,315.16
NON-MANDATORY TRANSFERS FOR:				
RENEWALS AND REPLACEMENTS	120,000.00		120,000.00	0.00
TOTAL AUXILIARIES	15,438,129.50	0.00	15,438,129.50	14,485,969.20
TOTAL EXPENDITURES AND TRANSFERS	598,367,206.78	60,377,291.36	658,744,498.14	627,328,622.62
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS):				
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUES		(557,348.95)	(557,348.95)	344,061.53
REFUNDED TO GRANTORS		(244,279.99)	(244,279.99)	(12,229.83)
FUNDED DEPRECIATION	(10,546,727.84)		(10,546,727.84) *	(4,308,333.61)
MOBILE RACING COMMISSION	(384,487.77)		(384,487.77)	(85,447.15)
PLANT ADDITIONS AND REPLACEMENTS	(4,007,000.00)		(4,007,000.00)	(13,876,093.00)
ENDOWMENT FUND	(2,275,008.49)	1,509,651.63	(765,356.86)	(939,770.17)
OTHER TRANSFERS	(4,626,933.69)	(112,237.09)	(4,739,170.78)	2,696,056.81
TOTAL TRANSFERS	(21,840,157.79)	595,785.60	(21,244,372.19)	(16,181,755.42)
NET INCREASE/(DECREASE) IN FUND BALANCES	$ (18,288,691.36)	$ 595,785.60	$ (17,692,905.76)	$ (12,607,627.93)

*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE $10,546,727.84 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 accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising a system of internal control that will, among other things, help assure the production of proper financial statements. The transactions which should be reflected in the accounts and in the financial reports are matters within the direct knowledge and control of management.

BASIS OF PRESENTATION

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

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

FUND ACCOUNTING

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

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

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

CURRENT FUNDS

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

PLANT FUNDS

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

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

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

INVESTMENT IN POOLED FUNDS

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

UNRESTRICTED GIFTS

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

GRANTS AND CONTRACTS

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

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.
- University Facilities Revenue Capital Improvement Bond, Series 2010, 3.81% payable through August 2030.
- University Facilities Revenue Capital Improvement Bond, Series 2012A, 2.92% payable through August 2032.
- University Facilities Revenue Capital Improvement Bond, Series 2012B, 2.14% payable through February 2018.

LITIGATION

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

MEDICAID DISPROPORTIONATE SHARE PAYMENTS

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

SUPPLEMENTAL SCHEDULES

SUMMARY SCHEDULE OF AUXILIARY ENTERPRISES
REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	REVENUES	EXPENDITURES	TRANSFERS	EXCESS REVENUES OVER EXPENDITURES AND OTHER CHANGES (DEFICIT) 08/31/12	08/31/11
BOOKSTORE	$ 8,538,302.45	$ 7,838,298.84	$ (216,821.00)	$ 483,182.61	$ 623,347.13
BROOKLEY CENTER	0.00	0.00	0.00	0.00	(967,895.71)
FOOD SERVICES-CAMPUS	784,436.35	243,308.84	(570,685.04)	(29,557.53)	(25,575.78)
HOUSING	7,256,809.89	4,238,095.78	(2,330,920.00)	687,794.11	480,801.56
TOTAL	$ 16,579,548.69	$ 12,319,703.46	$ (3,118,426.04)	$ 1,141,419.19	$ 110,677.20

BOOKSTORE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	08/31/12	08/31/11
REVENUES:		
SALES	$ 8,395,197.02	$ 8,132,624.33
LESS: DEPARTMENTAL DISCOUNTS	7,382.91	5,241.30
COST OF GOODS SOLD	6,169,197.76	5,902,124.67
GROSS PROFIT	2,218,616.35	2,225,258.36
CASH OVER/(SHORT)	(1,558.36)	(4,664.93)
GRADUATION (NET)	63,002.65	49,339.50
TEXTBOOK RENTAL INCOME	29,701.03	0.00
OTHER	51,960.11	50,542.45
NET REVENUES:	2,361,721.78	2,320,475.38
EXPENDITURES:		
SALARIES	729,577.95	706,087.62
EMPLOYEE BENEFITS	229,247.01	240,885.96
SUPPLIES	23,265.96	23,088.67
TRAVEL	8,547.39	2,258.42
EQUIPMENT	13,643.89	26,485.37
EQUIPMENT MAINTENANCE AND REPAIR	42,407.37	48,522.12
BUILDING & EQUIPMENT RENTAL	23,774.92	18,327.93
ADVERTISING	19,313.42	35,063.35
UTILITIES	68,750.00	68,750.00
TELEPHONE	18,620.46	13,568.04
INSURANCE AND BONDS	3,997.00	3,800.00
CONTRACT SERVICES	151,181.56	125,453.89
BAD DEBT EXPENSE	0.00	0.00
RENT	3,885.00	0.00
OBSOLETE INVENTORY	1,201.83	0.00
GENERAL EXPENSES	40,045.32	46,943.13
CHARGE CARD AND FACULTY STAFF DISCOUNTS	69,527.21	68,846.62
INSTITUTIONAL COST ALLOCATION	214,731.88	269,047.13
TOTAL EXPENDITURES	1,661,718.17	1,697,128.25
TRANSFERS AMONG FUNDS-ADDITIONS/(DEDUCTIONS):		
MANDATORY:		
PRINCIPAL AND INTEREST	(216,821.00)	0.00
NON-MANDATORY:		
OTHER TRANSFERS	0.00	0.00
RENEWAL AND REPLACEMENT	0.00	0.00
RETIREMENT REIMBURSEMENT	0.00	0.00
TOTAL TRANSFERS	(216,821.00)	0.00
EXCESS REVENUES OVER EXPENDITURES AND MANDATORY TRANSFERS	$ 483,182.61	$ 623,347.13

BROOKLEY CENTER
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	CONTINUING EDUCATION	EDUCATIONAL LEASING	UNIVERSITY SERVICE	TOTAL EDUCATIONAL SERVICES	BROOKLEY CENTER TOTAL 08/31/12	BROOKLEY CENTER TOTAL 08/31/11
REVENUES:						
SALES-FOOD & MERCHANDISE	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 5,005.63
LESS: COST OF GOODS SOLD	0.00	0.00	0.00	0.00	0.00	0.00
DISCOUNTS	0.00	0.00	0.00	0.00	0.00	2,100.43
GROSS PROFIT	0.00	0.00	0.00	0.00	0.00	2,905.20
FEES	0.00	0.00	0.00	0.00	0.00	192,672.58
RENTALS	0.00	0.00	0.00	0.00	0.00	16,753.16
OTHER	0.00	0.00	0.00	0.00	0.00	16,879.31
FACILITY ASSESSMENT FEE	0.00	0.00	0.00	0.00	0.00	0.00
NET REVENUES	0.00	0.00	0.00	0.00	0.00	229,210.25
EXPENDITURES:						
OPERATING EXPENDITURES:						
SALARIES	0.00	0.00	0.00	0.00	0.00	146,525.19
EMPLOYEE BENEFITS	0.00	0.00	0.00	0.00	0.00	72,281.87
SUPPLIES	0.00	0.00	0.00	0.00	0.00	4,324.79
TRAVEL	0.00	0.00	0.00	0.00	0.00	1,191.10
CONTRACT SERVICE	0.00	0.00	0.00	0.00	0.00	87,475.58
BUILDING MAINTENANCE & REPAIR	0.00	0.00	0.00	0.00	0.00	13,115.44
GROUNDS MAINTENANCE	0.00	0.00	0.00	0.00	0.00	11,422.52
UTILITIES	0.00	0.00	0.00	0.00	0.00	338,154.94
EQUIPMENT MAINTENANCE & REPAIR	0.00	0.00	0.00	0.00	0.00	6,568.17
BUILDING & EQUIPMENT RENTAL	0.00	0.00	0.00	0.00	0.00	97,829.20
TELEPHONE	0.00	0.00	0.00	0.00	0.00	12,685.99
INSURANCE AND BONDS	0.00	0.00	0.00	0.00	0.00	46,034.00
RECEPTIONS	0.00	0.00	0.00	0.00	0.00	0.00
ADVERTISING	0.00	0.00	0.00	0.00	0.00	1,670.27
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	0.00	0.00	0.00	0.00	0.00	357,275.65
EXPENSE OFFSET	0.00	0.00	0.00	0.00	0.00	0.00
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
OPERATING COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OPERATING EXPENDITURES	0.00	0.00	0.00	0.00	0.00	1,196,554.71
EXCESS REVENUES OVER EXPENDITURES	0.00	0.00	0.00	0.00	0.00	(967,344.46)
OTHER EXPENDITURES:						
EQUIPMENT	0.00	0.00	0.00	0.00	0.00	551.25
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	0.00	0.00	0.00	0.00	0.00	551.25
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:						
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
EXCESS REVENUES OVER						
EXPENDITURES (DEFICIT)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ (967,895.71)

BROOKLEY CENTER
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	CONTINUING EDUCATION	EDUCATIONAL LEASING	UNIVERSITY SERVICE	TOTAL EDUCATIONAL SERVICES	BROOKLEY CENTER TOTAL 08/31/12	BROOKLEY CENTER TOTAL 08/31/11
REVENUES:						
SALES-FOOD & MERCHANDISE	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 5,005.63
LESS: COST OF GOODS SOLD	0.00	0.00	0.00	0.00	0.00	0.00
DISCOUNTS	0.00	0.00	0.00	0.00	0.00	2,100.43
GROSS PROFIT	0.00	0.00	0.00	0.00	0.00	2,905.20
FEES	0.00	0.00	0.00	0.00	0.00	192,672.58
RENTALS	0.00	0.00	0.00	0.00	0.00	16,753.16
OTHER	0.00	0.00	0.00	0.00	0.00	16,879.31
FACILITY ASSESSMENT FEE	0.00	0.00	0.00	0.00	0.00	0.00
NET REVENUES	0.00	0.00	0.00	0.00	0.00	229,210.25
EXPENDITURES:						
OPERATING EXPENDITURES:						
SALARIES	0.00	0.00	0.00	0.00	0.00	146,525.19
EMPLOYEE BENEFITS	0.00	0.00	0.00	0.00	0.00	72,281.87
SUPPLIES	0.00	0.00	0.00	0.00	0.00	4,324.79
TRAVEL	0.00	0.00	0.00	0.00	0.00	1,191.10
CONTRACT SERVICE	0.00	0.00	0.00	0.00	0.00	87,475.58
BUILDING MAINTENANCE & REPAIR	0.00	0.00	0.00	0.00	0.00	13,115.44
GROUNDS MAINTENANCE	0.00	0.00	0.00	0.00	0.00	11,422.52
UTILITIES	0.00	0.00	0.00	0.00	0.00	338,154.94
EQUIPMENT MAINTENANCE & REPAIR	0.00	0.00	0.00	0.00	0.00	6,568.17
BUILDING & EQUIPMENT RENTAL	0.00	0.00	0.00	0.00	0.00	97,829.20
TELEPHONE	0.00	0.00	0.00	0.00	0.00	12,685.99
INSURANCE AND BONDS	0.00	0.00	0.00	0.00	0.00	46,034.00
RECEPTIONS	0.00	0.00	0.00	0.00	0.00	0.00
ADVERTISING	0.00	0.00	0.00	0.00	0.00	1,670.27
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	0.00	0.00	0.00	0.00	0.00	357,275.65
EXPENSE OFFSET	0.00	0.00	0.00	0.00	0.00	0.00
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
OPERATING COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OPERATING EXPENDITURES	0.00	0.00	0.00	0.00	0.00	1,196,554.71
EXCESS REVENUES OVER EXPENDITURES	0.00	0.00	0.00	0.00	0.00	(967,344.46)
OTHER EXPENDITURES:						
EQUIPMENT	0.00	0.00	0.00	0.00	0.00	551.25
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	0.00	0.00	0.00	0.00	0.00	551.25
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:						
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
EXCESS REVENUES OVER EXPENDITURES (DEFICIT)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ (967,895.71)

FOOD SERVICE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	08/31/12	08/31/11
REVENUES:		
COMMISSION INCOME	$ 784,436.35	$ 598,735.01
TOTAL REVENUES	784,436.35	598,735.01
EXPENDITURES:		
SALARIES	0.00	0.00
EMPLOYEE BENEFITS	0.00	0.00
SUPPLIES	188.24	0.00
EQUIPMENT MAINTENANCE AND REPAIR	42,310.58	21,034.46
UTILITIES	114,583.37	91,666.63
TELEPHONE	696.39	(7.93)
MEMBERSHIPS AND DUES	0.00	0.00
CONTRACT SERVICES	32,028.20	16,691.70
INSURANCE AND BONDS	9,537.00	8,505.00
EQUIPMENT	2,519.97	2,795.87
BUILDING MAINTENANCE AND REPAIR	2,905.00	3,546.00
INDIRECT COST	22,916.63	22,916.63
GENERAL EXPENSE	15,623.46	6,475.91
TOTAL EXPENDITURES	243,308.84	173,624.27
TRANSFERS AMONG FUNDS- ADDITIONS/(DEDUCTIONS):	(450,685.04)	(450,686.52)
NON-MANDATORY:		
OTHER TRANSFERS	(120,000.00)	
TOTAL TRANSFERS	(570,685.04)	(450,686.52)
EXCESS REVENUES OVER EXPENDITURES AND MANDATORY TRANSFERS (DEFICIT)	$ (29,557.53)	$ (25,575.78)

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	CENTRAL HOUSING	HOUSING PROGRAMMING	WASHERS AND DRYERS	CAMPS AND CONFERENCES	STOKES HALL	HILLSDALE MARRIED STUDENT	SMALL GROUP HOUSING
REVENUES:							
RENTAL INCOME	$ 0.00	$ 0.00	$ 133,235.00	$ 127,707.00	$ 1,312,708.83	$ 43,642.10	$ 352,298.99
BAD DEBT RECOVERY	3,553.50	0.00	0.00	0.00	0.00	1,320.23	0.00
OTHER	107,033.00	0.00	0.00	0.00	12,806.49	1,475.00	58,609.50
TOTAL REVENUES	110,586.50	0.00	133,235.00	127,707.00	1,325,515.32	46,437.33	410,908.49
EXPENDITURES:							
SALARIES	327,891.88	2,490.38	0.00	15,415.76	106,171.27	0.00	66,837.52
EMPLOYEE BENEFITS	96,770.62	42.16	0.00	554.63	6,265.87	(39.29)	0.00
CONTRACT LABOR	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CONTRACT SERVICES	776.32	0.00	68,178.00	0.00	13,745.84	0.00	0.00
TRAVEL	6,267.07	2,841.00	0.00	0.00	0.00	0.00	0.00
RECEPTIONS	1,099.08	12,859.68	0.00	8.46	283.50	0.00	0.00
SUPPLIES	23,326.08	7,054.41	0.00	564.58	18,387.88	(157.92)	1,139.68
CABLE	137,768.31	0.00	0.00	0.00	0.00	0.00	0.00
TELEPHONE	764.71	0.00	0.00	0.00	128.76	0.00	273.02
UTILITIES	0.00	0.00	0.00	0.00	0.00	(118.50)	1,640.95
INSURANCE AND BONDS	732.00	0.00	0.00	0.00	9,059.00	786.00	6,310.00
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BUILDING MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EQUIPMENT	1,032.23	1,119.04	0.00	0.00	32,847.61	0.00	0.00
EQUIPMENT RENTAL	1,246.46	0.00	0.00	0.00	0.00	0.00	0.00
EQUIPMENT MAINTENANCE AND REPAIR	814.45	0.00	0.00	0.00	1,895.70	0.00	0.00
GROUNDS MAINTENANCE	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	95,878.56	12,168.55	0.00	(15,231.84)	77,117.65	2,433.03	75,368.50
ADMINISTRATIVE OVERHEAD	288,282.00	0.00	0.00	0.00	162,076.00	0.00	54,466.00
ADMINISTRATIVE EXPENSES	(872,063.27)	(38,575.22)	29,140.42	0.00	139,327.70	0.00	73,761.72
TOTAL EXPENDITURES	110,586.50	0.00	97,318.42	1,311.59	567,306.78	2,903.32	279,797.39
TRANSFERS AMONG FUNDS -							
ADDITIONS/(DEDUCTIONS):							
MANDATORY:							
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	(1,232,032.00)	0.00	(307,040.00)
TOTAL MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	(1,232,032.00)	0.00	(307,040.00)
NON-MANDATORY:							
RENEWALS AND REPLACEMENTS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	(1,232,032.00)	0.00	(307,040.00)
EXCESS REVENUES OVER EXPENDITURES AND TRANSFERS (DEFICIT)	$ 0.00	$ 0.00	$ 35,916.58	$ 126,395.41	$ (473,823.46)	$ 43,534.01	$ (175,928.90)

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE ELEVEN MONTHS ENDED AUGUST 31, 2012
WITH COMPARATIVE FIGURES FOR 2011

	GAMMA DORMS	BETA DORMS	DELTA DORMS	EPSILON DORMS	TOTAL HOUSING 08/31/12	TOTAL HOUSING 08/31/11
REVENUES:						
RENTAL INCOME	$ 1,344,562.81	$ 608,949.14	$ 2,294,898.63	$ 814,505.54	$ 7,032,508.04	$ 5,374,313.83
BAD DEBT RECOVERY	0.00	0.00	0.00	0.00	4,873.73	2,220.19
OTHER	6,414.25	7,395.50	15,992.38	9,702.00	219,428.12	162,225.34
TOTAL REVENUES	1,350,977.06	616,344.64	2,310,891.01	824,207.54	7,256,809.89	5,538,759.36
EXPENDITURES:						
SALARIES	168,814.27	60,328.13	232,467.09	105,406.99	1,085,823.29	870,860.64
EMPLOYEE BENEFITS	22,363.50	4,859.86	33,357.97	5,249.22	169,424.54	154,888.43
CONTRACT LABOR	804.01	0.00	25,180.00	4,534.00	30,518.01	6,593.93
CONTRACT SERVICES	0.00	0.00	100,055.25	1,303.20	184,058.61	211,631.72
TRAVEL	0.00	0.00	0.00	0.00	9,108.07	4,292.23
RECEPTIONS	0.00	0.00	0.00	0.00	14,250.72	10,915.74
SUPPLIES	2,416.60	362.90	6,396.35	1,462.25	60,952.81	129,528.11
CABLE	0.00	0.00	0.00	0.00	137,768.31	117,861.61
TELEPHONE	83.02	258.46	630.98	389.49	2,528.44	148,203.65
UTILITIES	0.00	0.00	0.00	0.00	1,522.45	6,791.42
INSURANCE AND BONDS	9,409.00	4,530.00	16,017.00	5,726.00	52,569.00	38,850.00
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	(500.00)
BUILDING MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	0.00	10,137.00
EQUIPMENT	6,961.70	0.00	32,292.00	0.00	74,252.58	5,786.41
EQUIPMENT RENTAL	0.00	0.00	1,234.59	0.00	2,481.05	1,123.84
EQUIPMENT MAINTENANCE AND REPAIR	0.00	0.00	2,120.00	0.00	4,830.15	270.00
GROUNDS MAINTENANCE	0.00	0.00	0.00	0.00	0.00	0.00
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	124,444.05	68,097.17	287,147.19	126,117.77	853,540.63	821,947.31
ADMINISTRATIVE OVERHEAD	309,541.04	146,132.00	445,351.04	148,619.04	1,554,467.12	1,410,147.12
ADMINISTRATIVE EXPENSES	150,255.35	84,689.38	325,097.93	108,365.99	0.00	0.00
TOTAL EXPENDITURES	795,092.54	369,257.90	1,507,347.39	507,173.95	4,238,095.78	3,949,329.16
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	(153,152.00)	(45,760.00)	(344,344.00)	(248,592.00)	(2,330,920.00)	(1,108,628.64)
TOTAL MANDATORY TRANSFERS	(153,152.00)	(45,760.00)	(344,344.00)	(248,592.00)	(2,330,920.00)	(1,108,628.64)
NON-MANDATORY:						
RENEWALS AND REPLACEMENTS	0.00	0.00	0.00	0.00	0.00	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	(153,152.00)	(45,760.00)	(344,344.00)	(248,592.00)	(2,330,920.00)	(1,108,628.64)
EXCESS REVENUES OVER EXPENDITURES AND TRANSFERS (DEFICIT)	$ 402,732.52	$ 201,326.74	$ 459,199.62	$ 68,441.59	$ 687,794.11	$ 480,801.56

I N D E X
SEPTEMBER 30, 2012

Financial Report Highlights
September 30, 2012

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

Financial Highlights
Financial report highlights at, and for the year ended, September 30, 2012 and 2011 are as follows (in thousands):

	At and for the year ended 9-30-12	9-30-11
Total assets		
Current	$ 121,271	$ 148,950
Loan	5,511	4,876
Endowment	141,264	126,659
Plant	715,009	654,666
Fund Balances		
Current	$ 6,170	$ 5,703
Loan	876	345
Endowment	110,497	99,219
Plant	337,741	654,666
Other balance sheet highlights		
Cash and investments	$ 295,433	$ 265,099
Receivables, primary patient care	66,195	77,083
Bonds payable	352,541	326,365

	For the year ended 9-30-12	9-30-11
Selected operating highlights (current funds)		
Tuition and fees	$ 118,673	$ 110,589
State appropriations	105,371	96,949
Hospital revenues	333,929	296,534
Gifts, grants and contracts	113,684	131,733
Instruction and academic support	135,912	135,795
Research and public service	77,038	79,269
Hospital expenses	329,868	306,159
Net current fund increase (decrease)	467	(5,167)

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 has experienced a significant decline in state appropriations over the past 5 years. Additionally, the University is subject to the uncertainties of the general economic conditions in the United States and the State of Alabama. Administration is not aware of any other conditions that are expected to have a significant impact on the University's financial position in 2013 or beyond.

UNIVERSITY OF SOUTH ALABAMA
BALANCE SHEETS
SEPTEMBER 2012 AND 2011

ASSETS	2012	2011
CURRENT FUNDS:		
UNRESTRICTED:		
CASH AND CASH EQUIVALENTS	$ 135,598.84	$ 134,803.84
INVESTMENTS	5,333,753.18	40,520,853.48
ACCOUNTS RECEIVABLE - PATIENTS (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF $53,946,769.71 FOR 2012 AND $48,952,348.12 FOR 2011)	66,194,529.74	77,082,519.97
DEPOSITS	35,000.00	35,000.00
INVENTORIES AT COST	5,486,178.34	4,843,723.68
PREPAID EXPENSES	34,071,637.68	20,289,794.84
TOTAL UNRESTRICTED	111,256,697.78	142,906,695.81
RESTRICTED FUNDS:		
INVESTMENTS	8,647.20	3,999.33
UNBILLED COSTS AND ACCOUNTS RECEIVABLE	10,005,453.92	6,039,694.21
TOTAL RESTRICTED	10,014,101.12	6,043,693.54
TOTAL CURRENT FUNDS	121,270,798.90	148,950,389.35
LOAN FUNDS:		
CASH AND CASH EQUIVALENTS	1,165,850.16	1,260,057.30
NOTES RECEIVABLE (LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS OF $722,025.21 FOR 2012 AND $446,174.34 FOR 2011)	4,344,937.07	3,615,690.72
TOTAL LOAN FUNDS	5,510,787.23	4,875,748.02
ENDOWMENT FUNDS:		
CASH AND CASH EQUIVALENTS	43,345,325.44	35,857,842.44
INVESTMENTS	86,973,612.82	79,120,274.52
ACCOUNTS RECEIVABLE	4,184,699.32	5,475,519.44
REAL ESTATE HELD FOR RESALE	3,162,768.00	2,649,768.00
PREPAID-LIFE ESTATE	3,597,553.00	3,555,370.00
TOTAL ENDOWMENT FUNDS	141,263,958.58	126,658,774.40
PLANT FUNDS:		
CASH AND CASH EQUIVALENTS	131,419,567.33	48,860,226.98
INVESTMENTS	23,887,416.66	56,691,453.45
ACCOUNTS RECEIVABLE	2,444,316.67	3,112,261.65
DUE FROM OTHER FUNDS	18,335,988.99	51,618,468.37
PREPAID EXPENSES	5,427,362.54	4,542,959.38
CAPITAL LEASE RECEIVABLE	295,204.13	809,900.81
INVESTMENT IN PLANT:		
LAND	22,242,549.92	22,056,047.66
LAND IMPROVEMENTS	14,641,224.10	11,712,622.26
BUILDINGS , ACCUM DEPREC AND IMPROVEMENTS	319,089,577.63	305,592,163.22
OTHER EQUIPMENT, BOOKS AND FILMS	57,462,244.40	61,542,190.80
CONSTRUCTION IN PROGRESS	119,763,169.69	88,128,110.04
TOTAL PLANT FUNDS	715,008,622.06	654,666,404.62
TOTAL ASSETS	$ 983,054,166.77	$ 935,151,316.39

LIABILITIES AND FUND BALANCES	2012	2011
CURRENT FUNDS:		
UNRESTRICTED:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 43,129,724.37	$ 44,503,118.82
DEFERRED REVENUES	44,519,540.81	44,080,478.87
DUE TO OTHER FUNDS	16,990,947.73	49,859,237.11
DEPOSITS HELD IN CUSTODY	963,791.08	0.00
OTHER DEPOSITS	817,681.03	849,936.54
FUND BALANCES:		
ALLOCATED FOR:		
HOSPITALS	(38,441,401.73)	(37,775,594.27)
AUXILIARY ENTERPRISES	2,978,800.50	2,333,648.70
ENCUMBRANCES	3,854,949.58	3,626,924.79
SELF-SUPPORTING ACTIVITIES	45,873,432.31	45,699,415.04
UNALLOCATED	(9,430,767.90)	(10,270,469.79)
TOTAL FUND BALANCES	4,835,012.76	3,613,924.47
TOTAL UNRESTRICTED	111,256,697.78	142,906,695.81
RESTRICTED FUNDS:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	3,796,612.42	1,265,456.33
DEFERRED REVENUES	3,537,363.76	930,137.31
DUE TO OTHER FUNDS	1,345,041.26	1,759,231.26
FUND BALANCES	1,335,083.68	2,088,868.64
TOTAL RESTRICTED	10,014,101.12	6,043,693.54
TOTAL CURRENT FUNDS	121,270,798.90	148,950,389.35
LOAN FUNDS:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	6,000.00	0.00
REFUNDABLE GOVERNMENT ADVANCES	4,628,943.38	4,530,636.86
FUND BALANCES:		
UNIVERSITY FUNDS, UNRESTRICTED	875,843.85	345,111.16
TOTAL FUND BALANCES	875,843.85	345,111.16
TOTAL LOAN FUNDS	5,510,787.23	4,875,748.02
ENDOWMENT FUNDS:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	23,609,000.00	20,660,600.00
BONDS PAYABLE	7,158,022.00	6,779,590.00
FUND BALANCES:		
RESTRICTED NONEXPENDABLE	33,825,008.46	31,254,927.31
UNRESTRICTED EXPENDABLE	76,671,928.12	67,963,657.09
TOTAL FUND BALANCES	110,496,936.58	99,218,584.40
TOTAL ENDOWMENT FUNDS	141,263,958.58	126,658,774.40
PLANT FUNDS:		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	16,442,653.52	9,175,267.35
DEFERRED REVENUES	7,232,463.08	7,471,130.48
CAPITALIZED LEASE OBLIGATIONS	1,025,040.46	0.00
OTHER DEPOSITS	25,791.63	25,791.63
BONDS PAYABLE	352,541,195.24	326,364,503.50
FUND BALANCES:		
RENEWALS AND REPLACEMENTS	40,187,188.07	64,246,266.12
RETIREMENT OF INDEBTEDNESS	4,927,666.90	4,634,676.48
INVESTMENT IN PLANT	292,626,623.16	242,748,769.06
TOTAL FUND BALANCES	337,741,478.13	311,629,711.66
TOTAL PLANT FUNDS	715,008,622.06	654,666,404.62
TOTAL LIABILITIES AND FUND BALANCES	$ 983,054,166.77	$ 935,151,316.39

UNIVERSITY OF SOUTH ALABAMA
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	CURRENT FUNDS				PLANT FUNDS		
	UNRESTRICTED	RESTRICTED	LOAN FUNDS	ENDOWMENT FUNDS	RENEWALS AND REPLACEMENTS	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
REVENUES AND OTHER ADDITIONS:							
EDUCATIONAL AND GENERAL REVENUES	302,085,321.43						
HOSPITALS REVENUES	342,742,785.30						
AUXILIARY ENTERPRISES REVENUES	18,233,147.05						
GRANTS AND CONTRACTS:							
FEDERAL		53,206,286.99					
STATE AND LOCAL		6,370,999.06					
PRIVATE		5,087,672.33					
GOVERNMENT APPROPRIATIONS:							
FEDERAL			95,098.00				
STATE					238,700.00		
INVESTMENT INCOME,GAINS/LOSS			4,737.23	8,783,937.36	308,704.81	84,209.94	
INSURANCE PROCEEDS							
INTEREST ON LOANS RECEIVABLE			139,462.29			18,834.43	
GIFTS AND BEQUESTS				3,754,809.44			
EXPENDED FOR PLANT FACILITIES (INCLUDING $20,856,150.87 CURRENT FUNDS EXPENDITURES)							74,701,741.55
RETIREMENT OF INDEBTEDNESS							8,033,000.00
PROCEEDS FROM SALE OF CAPITAL ASSETS							
OTHER SOURCES		3,268,188.38		3,700.00	6,779,823.37		
TOTAL REVENUES AND OTHER ADDITIONS	663,061,253.78	67,933,146.76	239,297.52	12,542,446.80	7,327,228.18	103,044.37	82,734,741.55
EXPENDITURES AND OTHER DEDUCTIONS:							
EDUCATIONAL AND GENERAL EXPENDITURES	277,589,205.89	64,255,215.64					
HOSPITALS EXPENDITURES	323,976,988.11	750,462.00					
AUXILIARY ENTERPRISES EXPENDITURES	13,249,858.21						
INDIRECT COSTS RECOVERED		4,710,884.03					
REFUNDED TO GRANTORS		245,721.39	772.20				
RETIREMENT OF INDEBTEDNESS						8,033,000.00	
ADMINISTRATIVE AND COLLECTION COSTS			939.18				
EXPENDED FOR PLANT FACILITIES (INCLUDING $4,134,024.68 FOR NON-CAPITALIZED EXPENDITURES)					57,979,615.36		
INTEREST ON INDEBTEDNESS						13,388,090.77	8,860.42
DEPRECIATION EXPENSES OF PLANT FACILITIES							30,182,684.08
DISPOSAL OF PLANT							
OTHER DEDUCTIONS			(282,666.35)	386,961.66		241,182.71	835,228.99
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	614,816,052.21	69,962,283.06	(280,954.97)	386,961.66	57,979,615.36	21,662,273.48	31,026,773.49
TRANSFERS AMONG FUNDS-ADDITIONS(DEDUCTIONS):							
MANDATORY:							
PRINCIPAL AND INTEREST	(22,173,938.57)				73,169.00	22,320,923.41	(220,153.84)
FINANCIAL AID MATCHING	(147,875.00)	137,309.00	10,566.00				
NON-MANDATORY:							
FUNDED DEPRECIATION	(11,505,521.30)				11,505,521.30		
MOBILE RACING COMMMISSION	(403,396.32)				403,396.32		
PLANT ADDITIONS AND REPLACEMENTS	(5,337,000.00)				5,259,900.00	77,100.00	
ENDOWMENT FUND	(2,548,372.08)	1,514,712.11		1,437,056.29	(403,396.32)		
OTHER TRANSFERS	(4,908,010.01)	(376,669.77)	(85.80)	(2,314,189.25)	9,754,718.83	(545,803.88)	(1,609,960.12)
TOTAL TRANSFERS	(47,024,113.28)	1,275,351.34	10,480.20	(877,132.96)	26,593,309.13	21,852,219.53	(1,830,113.96)
NET INCREASE (DECREASE) FOR THE PERIOD	1,221,088.29	(753,784.96)	530,732.69	11,278,352.18	(24,059,078.05)	292,990.42	49,877,854.10
FUND BALANCES AT OCTOBER 1, 2011	3,613,924.47	2,088,868.64	345,111.16	99,218,584.40	64,246,266.12	4,634,676.48	242,748,769.06
FUND BALANCES AT SEPTEMBER 30, 2012	$ 4,835,012.76	$ 1,335,083.68	$ 875,843.85	$ 110,496,936.58	$ 40,187,188.07	$ 4,927,666.90	$ 292,626,623.16

*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE $11,505,521.30 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

UNIVERSITY OF SOUTH ALABAMA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE FIGURES FOR 2011

	YEAR ENDED SEPTEMBER 30, 2012 UNRESTRICTED	RESTRICTED	TOTAL	SEPTEMBER 30, 2011
REVENUES:				
TUITION AND FEES	$ 118,672,519.39	$	$ 118,672,519.39	$ 110,588,703.21
STATE APPROPRIATIONS	96,556,892.00		96,556,892.00	88,612,804.00
MOBILE RACING COMMISSION	403,396.32		403,396.32	100,805.09
FEDERAL GRANTS AND CONTRACTS	3,921,909.00	48,372,681.62	52,294,590.62	70,313,358.15
STATE GRANTS AND CONTRACTS (INCLUDING INDIRECT COST RECOVERED OF $275,723.70)	731,204.89	5,745,578.81	6,476,783.70	6,097,544.41
PRIVATE GIFTS, GRANTS, AND CONTRACTS (INCLUDING INDIRECT COSTS RECOVERED OF $513,251.33)	50,356,487.63	4,555,687.12	54,912,174.75	55,321,658.35
INVESTMENT INCOME	77,966.50		77,966.50	145,161.91
SALES AND SERVICES OF EDUCATIONAL ACTIVITIES	4,307,480.30		4,307,480.30	5,238,003.19
HOSPITALS - SALES AND SERVICES	333,929,006.30		333,929,006.30 *	296,533,917.36
- STATE APPROPRIATIONS	8,813,779.00		8,813,779.00	8,336,013.00
AUXILIARY ENTERPRISES - SALES AND SERVICES	18,233,147.05		18,233,147.05	16,330,025.63
OTHER SOURCES	27,057,465.40	6,331,730.09	33,389,195.49	32,076,886.16
TOTAL CURRENT REVENUES	663,061,253.78	65,005,677.64	728,066,931.42	689,694,880.46
EXPENDITURES AND TRANSFERS:				
EDUCATIONAL AND GENERAL:				
INSTRUCTION	106,477,908.55	10,160,788.97	116,638,697.52	116,791,240.18
RESEARCH	9,711,347.92	12,038,854.58	21,750,202.50	23,444,347.07
PUBLIC SERVICE	49,933,532.16	5,354,325.28	55,287,857.44	55,824,404.69
ACADEMIC SUPPORT	19,267,689.21	5,905.57	19,273,594.78	19,004,197.71
STUDENT SERVICES	30,362,599.28	877,585.16	31,240,184.44	28,737,885.08
INSTITUTIONAL SUPPORT	26,144,255.82	1,179,591.35	27,323,847.17	27,400,271.83
OPERATION AND MAINTENANCE OF PLANT	26,342,677.86	13,671,622.18	40,014,300.04	42,899,612.38
SCHOLARSHIPS	9,349,195.09	20,967,004.55	30,316,199.64	30,224,122.97
EDUCATIONAL AND GENERAL	277,589,205.89	64,255,677.64	341,844,883.53	344,326,081.91
MANDATORY TRANSFERS FOR:				
PRINCIPAL AND INTEREST	14,014,482.40		14,014,482.40	14,402,565.68
FINANCIAL AID MATCHING	147,875.00		147,875.00	66,533.56
TOTAL EDUCATIONAL AND GENERAL	291,751,563.29	64,255,677.64	356,007,240.93	358,795,181.15
HOSPITALS (INCLUDING DEBT SERVICE OF $5,141,319.13)	329,118,307.24	750,000.00	329,868,307.24	306,159,379.22
AUXILIARY ENTERPRISES:				
EXPENDITURES	13,249,858.21		13,249,858.21	13,997,898.10
MANDATORY TRANSFERS FOR:				
PRINCIPAL AND INTEREST	3,018,137.04		3,018,137.04	1,559,315.16
NON-MANDATORY TRANSFERS FOR:				
RENEWALS AND REPLACEMENTS	1,320,000.00		1,320,000.00	418,772.52
TOTAL AUXILIARIES	17,587,995.25	0.00	17,587,995.25	15,975,985.78
TOTAL EXPENDITURES AND TRANSFERS	638,457,865.78	65,005,677.64	703,463,543.42	680,930,546.15
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS):				
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUES		(1,783,414.91)	(1,783,414.91)	244,111.80
REFUNDED TO GRANTORS		(245,721.39)	(245,721.39)	(228,151.24)
FUNDED DEPRECIATION	(11,505,521.30)		(11,505,521.30) *	(4,700,000.28)
MOBILE RACING COMMISSION	(403,396.32)		(403,396.32)	(100,805.09)
PLANT ADDITIONS AND REPLACEMENTS	(4,017,000.00)		(4,017,000.00)	(13,913,512.18)
ENDOWMENT FUND	(2,548,372.08)	1,514,712.11	(1,033,659.97)	(995,685.35)
OTHER TRANSFERS	(4,908,010.01)	(239,360.77)	(5,147,370.78)	5,763,069.50
TOTAL TRANSFERS	(23,382,299.71)	(753,784.96)	(24,136,084.67)	(13,930,972.84)
NET INCREASE/(DECREASE) IN FUND BALANCES	$ 1,221,088.29	$ (753,784.96)	$ 467,303.33	$ (5,166,638.53)

*HOSPITALS REVENUES AND HOSPITAL FUNDED DEPRECIATION TRANSFERS INCLUDE $11,505,521.30 IN MEDICAID DISPROPORTIONATE SHARE PAYMENTS.

UNIVERSITY OF SOUTH ALABAMA
Notes to Financial Report

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTS

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

BASIS OF PRESENTATION

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

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

FUND ACCOUNTING

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

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

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

CURRENT FUNDS

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

PLANT FUNDS

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

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

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

INVESTMENT IN POOLED FUNDS

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

UNRESTRICTED GIFTS

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

GRANTS AND CONTRACTS

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

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.
- University Facilities Revenue Capital Improvement Bond, Series 2010, 3.81% payable through August 2030.
- University Facilities Revenue Capital Improvement Bond, Series 2012A, 2.92% payable through August 2032.
- University Facilities Revenue Capital Improvement Bond, Series 2012B, 2.14% payable through February 2018.

LITIGATION

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

MEDICAID DISPROPORTIONATE SHARE PAYMENTS

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

SUPPLEMENTAL SCHEDULES

**SUMMARY SCHEDULE OF AUXILIARY ENTERPRISES
REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE FIGURES FOR 2011**

	REVENUES	EXPENDITURES	TRANSFERS	EXCESS REVENUES OVER EXPENDITURES AND OTHER CHANGES (DEFICIT) 09/30/12	09/30/11
BOOKSTORE	$ 9,046,388.85	$ 8,355,965.86	$ (236,532.00)	$ 453,890.99	$ 0.00
BROOKLEY CENTER	0.00	0.00	0.00	0.00	(969,137.59)
FOOD SERVICES-CAMPUS	914,590.31	271,580.77	(570,685.04)	72,324.50	64,169.02
HOUSING	8,272,167.89	4,622,311.58	(3,530,920.00)	118,936.31	1,259,008.42
TOTAL	$ 18,233,147.05	$ 13,249,858.21	$ (4,338,137.04)	$ 645,151.80	$ 354,039.85

BOOKSTORE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE FIGURES FOR 2011

	09/30/12	09/30/11
REVENUES:		
SALES	$ 8,886,272.60	$ 8,743,215.45
LESS: DEPARTMENTAL DISCOUNTS	7,733.47	5,998.73
COST OF GOODS SOLD	6,486,284.32	6,483,309.97
GROSS PROFIT	2,392,254.81	2,253,906.75
CASH OVER/(SHORT)	(1,522.72)	(5,180.81)
GRADUATION (NET)	63,125.65	51,609.50
TEXTBOOK RENTAL INCOME	32,276.87	0.00
OTHER	66,236.45	53,960.72
NET REVENUES:	2,552,371.06	2,354,296.16
EXPENDITURES:		
SALARIES	795,300.08	772,546.04
EMPLOYEE BENEFITS	253,373.34	257,538.45
SUPPLIES	29,120.99	30,633.45
TRAVEL	8,547.39	2,258.42
EQUIPMENT	14,606.39	32,092.53
EQUIPMENT MAINTENANCE AND REPAIR	42,542.56	48,782.62
BUILDING & EQUIPMENT RENTAL	27,172.24	23,779.73
ADVERTISING	24,629.26	43,028.22
UTILITIES	75,000.00	75,000.00
TELEPHONE	24,741.42	13,771.91
INSURANCE AND BONDS	3,997.00	3,800.00
CONTRACT SERVICES	193,302.98	176,554.99
BAD DEBT EXPENSE	0.00	0.00
RENT	3,885.00	0.00
OBSOLETE INVENTORY	1,263.12	0.00
GENERAL EXPENSES	40,757.96	58,209.99
CHARGE CARD AND FACULTY STAFF DISCOUNTS	89,455.38	104,021.33
INSTITUTIONAL COST ALLOCATION	234,252.96	293,505.96
TOTAL EXPENDITURES	1,861,948.07	1,935,523.64
TRANSFERS AMONG FUNDS-ADDITIONS/(DEDUCTIONS):		
MANDATORY:		
PRINCIPAL AND INTEREST	(236,532.00)	0.00
NON-MANDATORY:		
OTHER TRANSFERS	0.00	0.00
RENEWAL AND REPLACEMENT	0.00	(418,772.52)
RETIREMENT REIMBURSEMENT	0.00	0.00
TOTAL TRANSFERS	(236,532.00)	(418,772.52)
EXCESS REVENUES OVER EXPENDITURES AND MANDATORY TRANSFERS	$ 453,890.99	$ (0.00)

BROOKLEY CENTER
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE FIGURES FOR 2011

	ADMINISTRATION	INVESTMENT HOUSING	GOLF SHOP	FOOD SERVICE	TOTAL AUXILIARY SERVICES
REVENUES:					
SALES-FOOD & MERCHANDISE	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
LESS: COST OF GOODS SOLD	0.00	0.00	0.00	0.00	0.00
DISCOUNTS	0.00	0.00	0.00	0.00	0.00
GROSS PROFIT	0.00	0.00	0.00	0.00	0.00
FEES	0.00	0.00	0.00	0.00	0.00
RENTALS	0.00	0.00	0.00	0.00	0.00
OTHER	0.00	0.00	0.00	0.00	0.00
FACILITY ASSESSMENT FEE	0.00	0.00	0.00	0.00	0.00
NET REVENUES	0.00	0.00	0.00	0.00	0.00
EXPENDITURES:					
OPERATING EXPENDITURES:					
SALARIES	0.00	0.00	0.00	0.00	0.00
EMPLOYEE BENEFITS	0.00	0.00	0.00	0.00	0.00
SUPPLIES	0.00	0.00	0.00	0.00	0.00
TRAVEL	0.00	0.00	0.00	0.00	0.00
CONTRACT SERVICE	0.00	0.00	0.00	0.00	0.00
BUILDING MAINTENANCE & REPAIR	0.00	0.00	0.00	0.00	0.00
GROUNDS MAINTENANCE	0.00	0.00	0.00	0.00	0.00
UTILITIES	0.00	0.00	0.00	0.00	0.00
EQUIPMENT MAINTENANCE & REPAIR	0.00	0.00	0.00	0.00	0.00
BUILDING & EQUIPMENT RENTAL	0.00	0.00	0.00	0.00	0.00
TELEPHONE	0.00	0.00	0.00	0.00	0.00
INSURANCE AND BONDS	0.00	0.00	0.00	0.00	0.00
RECEPTIONS	0.00	0.00	0.00	0.00	0.00
ADVERTISING	0.00	0.00	0.00	0.00	0.00
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	0.00	0.00	0.00	0.00	0.00
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	0.00	0.00	0.00	0.00	0.00
TOTAL OPERATING EXPENDITURES	0.00	0.00	0.00	0.00	0.00
EXCESS REVENUES OVER EXPENDITURES	0.00	0.00	0.00	0.00	0.00
OTHER EXPENDITURES:					
EQUIPMENT	0.00	0.00	0.00	0.00	0.00
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	0.00	0.00	0.00	0.00	0.00
TRANSFERS AMONG FUNDS -					
ADDITIONS/(DEDUCTIONS):					
MANDATORY:					
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:					
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	0.00
EXCESS REVENUES OVER				0.00	
EXPENDITURES (DEFICIT)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

BROOKLEY CENTER
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE FIGURES FOR 2011

	CONTINUING EDUCATION	EDUCATIONAL LEASING	UNIVERSITY SERVICE	TOTAL EDUCATIONAL SERVICES	BROOKLEY CENTER TOTAL 09/30/12	BROOKLEY CENTER TOTAL 09/30/11
REVENUES:						
SALES-FOOD & MERCHANDISE	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 5,005.63
LESS: COST OF GOODS SOLD	0.00	0.00	0.00	0.00	0.00	0.00
DISCOUNTS	0.00	0.00	0.00	0.00	0.00	2,100.43
GROSS PROFIT	0.00	0.00	0.00	0.00	0.00	2,905.20
FEES	0.00	0.00	0.00	0.00	0.00	192,672.58
RENTALS	0.00	0.00	0.00	0.00	0.00	16,753.16
OTHER	0.00	0.00	0.00	0.00	0.00	16,879.31
FACILITY ASSESSMENT FEE	0.00	0.00	0.00	0.00	0.00	0.00
NET REVENUES	0.00	0.00	0.00	0.00	0.00	229,210.25
EXPENDITURES:						
OPERATING EXPENDITURES:						
SALARIES	0.00	0.00	0.00	0.00	0.00	146,525.19
EMPLOYEE BENEFITS	0.00	0.00	0.00	0.00	0.00	72,281.87
SUPPLIES	0.00	0.00	0.00	0.00	0.00	4,827.17
TRAVEL	0.00	0.00	0.00	0.00	0.00	1,191.10
CONTRACT SERVICE	0.00	0.00	0.00	0.00	0.00	87,475.58
BUILDING MAINTENANCE & REPAIR	0.00	0.00	0.00	0.00	0.00	13,115.44
GROUNDS MAINTENANCE	0.00	0.00	0.00	0.00	0.00	11,872.52
UTILITIES	0.00	0.00	0.00	0.00	0.00	338,154.94
EQUIPMENT MAINTENANCE & REPAIR	0.00	0.00	0.00	0.00	0.00	6,848.17
BUILDING & EQUIPMENT RENTAL	0.00	0.00	0.00	0.00	0.00	97,829.20
TELEPHONE	0.00	0.00	0.00	0.00	0.00	12,685.99
INSURANCE AND BONDS	0.00	0.00	0.00	0.00	0.00	46,034.00
RECEPTIONS	0.00	0.00	0.00	0.00	0.00	0.00
ADVERTISING	0.00	0.00	0.00	0.00	0.00	1,670.27
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	139,012.01
GENERAL EXPENSES	0.00	0.00	0.00	0.00	0.00	218,273.14
EXPENSE OFFSET	0.00	0.00	0.00	0.00	0.00	0.00
EDUCATIONAL SUPPORT ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
OPERATING COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OPERATING EXPENDITURES	0.00	0.00	0.00	0.00	0.00	1,197,796.59
EXCESS REVENUES OVER EXPENDITURES	0.00	0.00	0.00	0.00	0.00	(968,586.34)
OTHER EXPENDITURES:						
EQUIPMENT	0.00	0.00	0.00	0.00	0.00	551.25
OTHER COST ALLOCATIONS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL OTHER EXPENDITURES	0.00	0.00	0.00	0.00	0.00	551.25
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	0.00	0.00
NON-MANDATORY:						
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
EXCESS REVENUES OVER						
EXPENDITURES (DEFICIT)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ (969,137.59)

FOOD SERVICE
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE FIGURES FOR 2011

	09/30/12	09/30/11
REVENUES:		
COMMISSION INCOME	$ 914,590.31	$ 715,666.46
TOTAL REVENUES	914,590.31	715,666.46
EXPENDITURES:		
SALARIES	0.00	0.00
EMPLOYEE BENEFITS	0.00	0.00
SUPPLIES	214.24	556.11
EQUIPMENT MAINTENANCE AND REPAIR	46,250.50	27,456.21
UTILITIES	125,000.04	99,999.96
TELEPHONE	639.92	374.56
MEMBERSHIPS AND DUES	0.00	0.00
CONTRACT SERVICES	37,088.45	22,131.89
INSURANCE AND BONDS	9,537.00	8,505.00
EQUIPMENT	2,519.97	2,795.87
BUILDING MAINTENANCE AND REPAIR	2,905.00	3,546.00
INDIRECT COST	24,999.96	24,999.96
GENERAL EXPENSE	22,425.69	10,445.36
TOTAL EXPENDITURES	271,580.77	200,810.92
TRANSFERS AMONG FUNDS-		
ADDITIONS/(DEDUCTIONS):	(450,685.04)	(450,686.52)
NON-MANDATORY:		
OTHER TRANSFERS	(120,000.00)	
TOTAL TRANSFERS	(570,685.04)	(450,686.52)
EXCESS REVENUES OVER EXPENDITURES AND MANDATORY TRANSFERS (DEFICIT)	$ 72,324.50	$ 64,169.02

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE FIGURES FOR 2011

	CENTRAL HOUSING	HOUSING PROGRAMMING	WASHERS AND DRYERS	CAMPS AND CONFERENCES	STOKES HALL	HILLSDALE MARRIED STUDENT	SMALL GROUP HOUSING
REVENUES:							
RENTAL INCOME	$ 0.00	$ 0.00	$ 162,650.00	$ 127,572.00	$ 1,517,365.95	$ 47,547.10	$ 399,238.20
BAD DEBT RECOVERY	3,553.50	0.00	0.00	0.00	0.00	1,330.87	0.00
OTHER	108,383.00	0.00	0.00	0.00	13,351.49	1,575.00	114,090.50
TOTAL REVENUES	111,936.50	0.00	162,650.00	127,572.00	1,530,717.44	50,452.97	513,328.70
EXPENDITURES:							
SALARIES	368,174.18	2,544.75	0.00	14,893.31	109,576.61	0.00	70,610.46
EMPLOYEE BENEFITS	107,794.70	42.16	0.00	554.63	7,063.82	(39.29)	0.00
CONTRACT LABOR	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CONTRACT SERVICES	776.32	0.00	68,178.00	20,649.96	39,137.17	0.00	3,880.00
TRAVEL	6,758.77	2,841.00	0.00	0.00	0.00	0.00	0.00
RECEPTIONS	1,099.08	26,743.61	0.00	8.46	283.50	0.00	0.00
SUPPLIES	24,477.72	11,946.82	0.00	564.58	18,611.28	(157.92)	1,139.68
CABLE	154,893.04	0.00	0.00	0.00	0.00	0.00	0.00
TELEPHONE	837.64	0.00	0.00	0.00	207.09	0.00	293.54
UTILITIES	0.00	0.00	0.00	0.00	0.00	(118.50)	2,044.48
INSURANCE AND BONDS	732.00	0.00	0.00	0.00	9,059.00	786.00	6,310.00
BAD DEBT EXPENSE	0.00	0.00	0.00	0.00	0.00	0.00	2,015.59
BUILDING MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EQUIPMENT	1,274.21	1,119.04	0.00	0.00	33,771.45	0.00	0.00
EQUIPMENT RENTAL	1,321.46	0.00	0.00	0.00	0.00	0.00	0.00
EQUIPMENT MAINTENANCE AND REPAIR	814.45	0.00	0.00	0.00	1,895.70	0.00	0.00
GROUNDS MAINTENANCE	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	111,533.05	18,612.15	0.00	(15,231.84)	78,963.36	3,397.38	103,405.40
ADMINISTRATIVE OVERHEAD	288,282.00	0.00	0.00	0.00	162,076.00	0.00	54,466.00
ADMINISTRATIVE EXPENSES	(956,832.12)	(63,849.53)	32,661.80	0.00	156,164.31	0.00	82,675.21
TOTAL EXPENDITURES	111,936.50	0.00	100,839.80	21,439.10	616,809.29	3,867.67	326,840.36
TRANSFERS AMONG FUNDS -							
ADDITIONS/(DEDUCTIONS):							
MANDATORY:							
PRINCIPAL AND INTEREST	0.00	0.00	0.00	0.00	(1,232,032.00)	0.00	(307,040.00)
TOTAL MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	(1,232,032.00)	0.00	(307,040.00)
NON-MANDATORY:							
RENEWALS AND REPLACEMENTS	0.00	0.00	(61,810.20)	(106,132.90)	318,123.85	(46,585.30)	120,551.66
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL NON-MANDATORY TRANSFERS	0.00	0.00	(61,810.20)	(106,132.90)	318,123.85	(46,585.30)	120,551.66
TOTAL TRANSFERS	0.00	0.00	(61,810.20)	(106,132.90)	(913,908.15)	(46,585.30)	(186,488.34)
EXCESS REVENUES OVER EXPENDITURES AND TRANSFERS (DEFICIT)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

HOUSING
STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE FIGURES FOR 2011

	GAMMA DORMS	BETA DORMS	DELTA DORMS	EPSILON DORMS	TOTAL HOUSING 09/30/12	TOTAL HOUSING 09/30/11
REVENUES:						
RENTAL INCOME	$ 1,494,448.58	$ 701,385.10	$ 2,595,635.33	$ 933,862.32	$ 7,979,704.58	$ 6,322,454.22
BAD DEBT RECOVERY	0.00	0.00	0.00	0.00	4,884.37	2,443.19
OTHER	6,644.25	10,549.50	21,383.98	11,601.22	287,578.94	214,546.22
TOTAL REVENUES	1,501,092.83	711,934.60	2,617,019.31	945,463.54	8,272,167.89	6,539,443.63
EXPENDITURES:						
SALARIES	177,551.18	63,535.97	244,533.30	110,835.41	1,162,255.17	893,135.24
EMPLOYEE BENEFITS	24,985.38	6,431.76	37,960.38	6,121.60	190,915.14	168,087.42
CONTRACT LABOR	804.01	0.00	28,325.43	4,534.00	33,663.44	12,792.46
CONTRACT SERVICES	7,208.62	7,616.14	140,728.77	12,300.94	300,475.92	231,745.77
TRAVEL	0.00	0.00	0.00	0.00	9,599.77	4,529.82
RECEPTIONS	0.00	0.00	125.00	0.00	28,259.65	19,697.39
SUPPLIES	2,416.60	362.90	6,813.89	1,462.25	67,637.80	164,766.23
CABLE	0.00	0.00	0.00	0.00	154,893.04	140,850.34
TELEPHONE	108.46	277.48	684.79	429.42	2,838.42	148,389.52
UTILITIES	0.00	0.00	0.00	0.00	1,925.98	7,256.18
INSURANCE AND BONDS	9,409.00	4,530.00	16,017.00	5,726.00	52,569.00	38,850.00
BAD DEBT EXPENSE	10,909.09	9,334.35	41,306.85	8,936.19	72,502.07	59,728.00
BUILDING MAINTENANCE AND REPAIR	0.00	0.00	0.00	0.00	0.00	10,137.00
EQUIPMENT	6,961.70	0.00	32,292.00	0.00	75,418.40	6,431.41
EQUIPMENT RENTAL	0.00	0.00	1,497.64	0.00	2,819.10	5,248.84
EQUIPMENT MAINTENANCE AND REPAIR	0.00	0.00	2,120.00	0.00	4,830.15	270.00
GROUNDS MAINTENANCE	0.00	0.00	0.00	0.00	0.00	0.00
MAJOR RENOVATIONS	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL EXPENSES	125,903.70	69,290.42	283,154.42	128,213.37	907,241.41	849,743.83
ADMINISTRATIVE OVERHEAD	309,541.04	146,132.00	445,351.04	148,619.04	1,554,467.12	1,410,147.12
ADMINISTRATIVE EXPENSES	168,412.47	94,923.39	364,383.34	121,461.13	0.00	0.00
TOTAL EXPENDITURES	844,211.25	402,434.41	1,645,293.85	548,639.35	4,622,311.58	4,171,806.57
TRANSFERS AMONG FUNDS -						
ADDITIONS/(DEDUCTIONS):						
MANDATORY:						
PRINCIPAL AND INTEREST	(153,152.00)	(45,760.00)	(344,344.00)	(248,592.00)	(2,330,920.00)	(1,108,628.64)
TOTAL MANDATORY TRANSFERS	(153,152.00)	(45,760.00)	(344,344.00)	(248,592.00)	(2,330,920.00)	(1,108,628.64)
NON-MANDATORY:						
RENEWALS AND REPLACEMENTS	(503,729.58)	(263,740.19)	(508,445.15)	(148,232.19)	(1,200,000.00)	0.00
OTHER NON-MANDATORY TRANSFERS	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL NON-MANDATORY TRANSFERS	(503,729.58)	(263,740.19)	(508,445.15)	(148,232.19)	(1,200,000.00)	0.00
TOTAL TRANSFERS	(656,881.58)	(309,500.19)	(852,789.15)	(396,824.19)	(3,530,920.00)	(1,108,628.64)
EXCESS REVENUES OVER EXPENDITURES AND TRANSFERS (DEFICIT)	$ 0.00	$ 0.00	$ 118,936.31	$ (0.00)	$ 118,936.31	$ 1,259,008.42

KPMG

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

Basic Financial Statements and Supplementary Information
on Federal Awards Programs

September 30, 2012

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
September 30, 2012 and 2011

Table of Contents

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

Management's Discussion and Analysis (Unaudited)

September 30, 2012 and 2011

Introduction

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

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

Financial Highlights

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

An overview of each statement is presented herein along with a financial analysis of the transactions impacting each statement. Where appropriate, comparative financial information is presented to assist in the understanding of this analysis.

Analysis of Financial Position and Results of Operations

Statement of Net Assets

The statement of net assets presents the assets, liabilities, and net assets of the University at September 30, 2012 and 2011. The net assets are displayed in three parts: invested in capital assets, net of related debt, restricted and unrestricted. Restricted net assets may either be expendable or nonexpendable and are those assets that are restricted by law or external donor. Unrestricted net assets are generally designated for specific purposes, and are available for use by the University to meet current expenses for any purpose. The statement of net assets, along with all of the University's basic financial statements, is prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

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

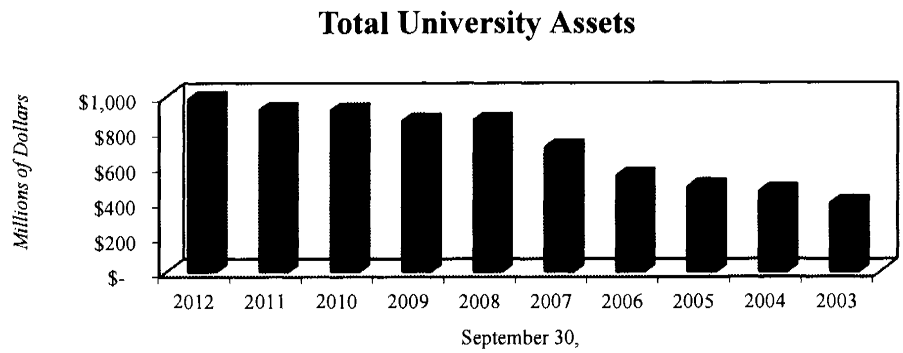
The Condensed Schedule of Net Assets at September 30, 2012, 2011, and 2010 follows (in thousands):

Condensed Schedule of Net Assets

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

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

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



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

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

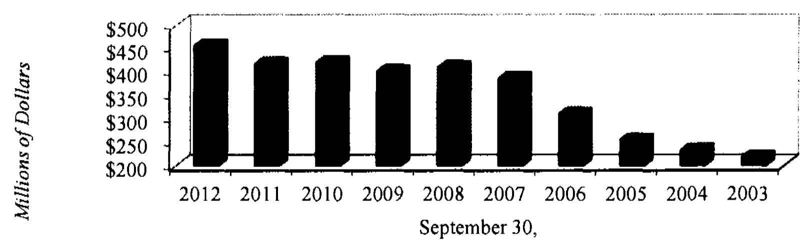
Restricted nonexpendable net assets consist primarily of the University's permanent endowment funds. While earnings from these funds may be expended, the corpus may not be expended for any reason and must remain intact with the University in perpetuity.

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

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

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

University Net Assets



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

Statement of Revenues, Expenses, and Changes in Net Assets

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

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

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

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

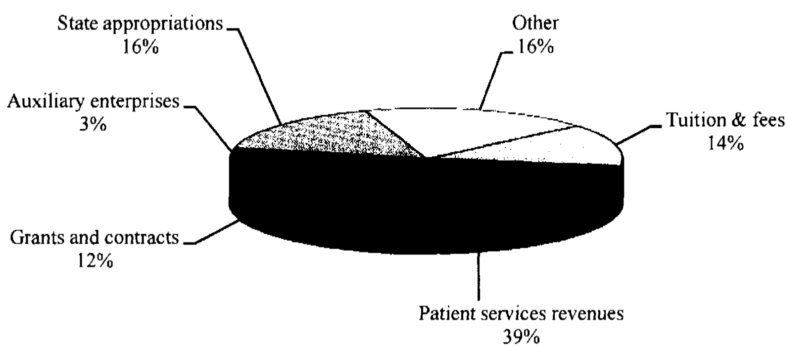
Condensed Schedule of Revenues, Expenses, and Changes in Net Assets

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

In 2012, 2011, and 2010, approximately 39%, 38%, and 39%, respectively, of total revenues of the University were net patient service revenue. Excluding net patient service revenue, state appropriations represent the largest component of total university revenues, approximately 16% of total revenues in fiscal 2012. Also in 2012, net tuition and fees charged to students and grants and contracts (federal, state and private) represented approximately 14% and 12% of total revenues, respectively.

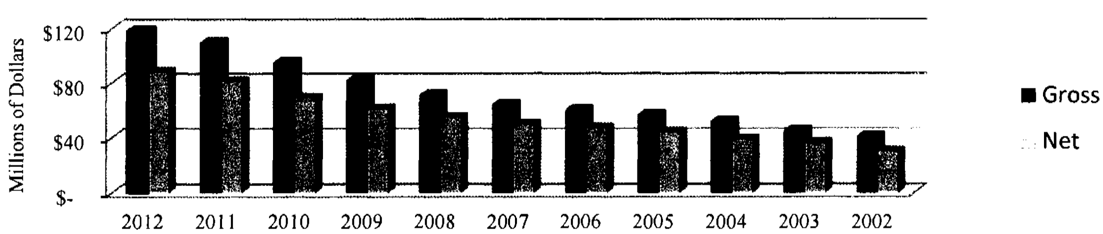
A summary of University revenues for the year ended September 30, 2012 is presented below:

Total Revenues



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

Tuition and Fee Revenue

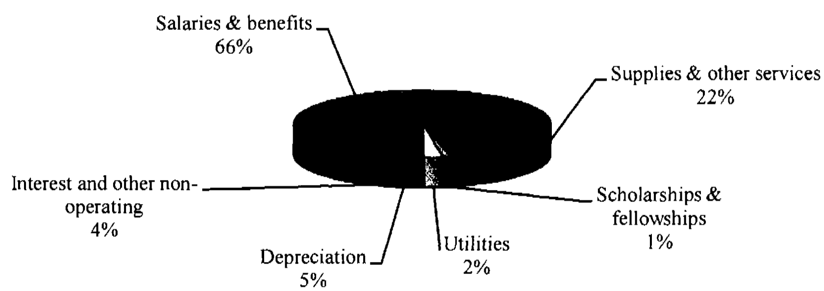


Other operating revenues increased by $6,778,0000 to $38,701,000 for the year ended September 30, 2012 primarily due to an increase in revenues from the Electronic Health Records Incentive Program.

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

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

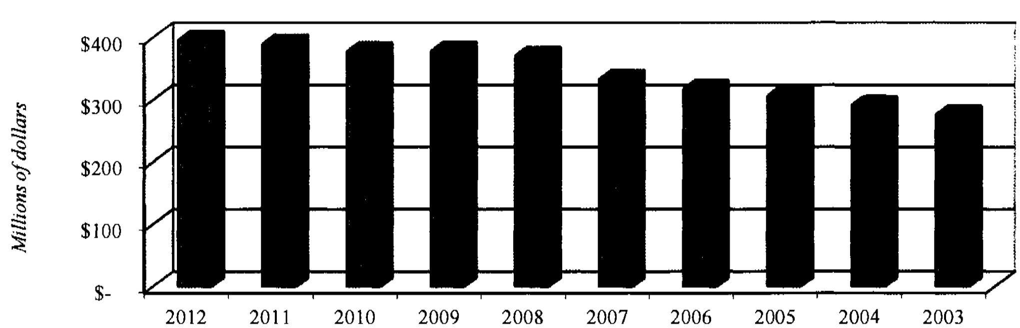
Total Expenses



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

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

Total Salaries and Benefits Expense



For the years ended September 30, 2012, 2011, and 2010, the University reported an operating loss of approximately $113,105,000, $143,809,000, and $134,518,000, respectively. Operating losses are offset partially by state appropriations, which are reported as nonoperating revenue. After adding state appropriations and other nonoperating revenues and expenses, (primarily capital appropriations, capital contributions, and additions to endowment) the total change in net assets was approximately $38,389,000, $(2,375,000), and $18,959,000, for the years ended September 30, 2012, 2011, and 2010, respectively.

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

Hospital Operating Revenues and Expenses

Statement of Cash Flows

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

Capital Assets and Debt Administration

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

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

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

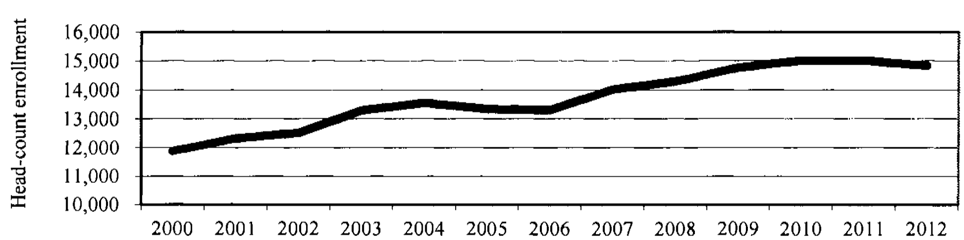
In order to realize debt service savings currently from future debt refunding, in January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to a counterparty and resulted in an up-front payment to the University totaling $9,328,000 in exchange for selling the counterparty the option to enter into an interest rate swap with respect to the Series 2004 and 2006 bonds. A portion of this payment is considered a borrowing and is included in the long-term debt of the University. The fair value component of the refunding associated with the swaps is considered an investment derivative and, as such, the change in the fair value component is reflected as a component of investment income in 2012, 2011 and 2010.

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

Economic Outlook

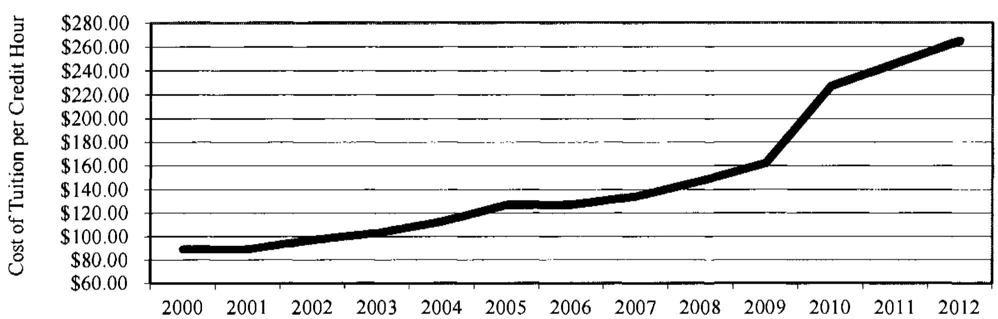
Student enrollment and tuition and fee rates have both increased over the past twelve years. The University has experienced an increase in enrollment between 2000 and 2012, from 11,870 in 2000 to 14,883 for the 2012 fall semester. The enrollment trend for the University between 2000 and 2012 is as follows:

Enrollment Growth Summary



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

Tuition per Credit Hour



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

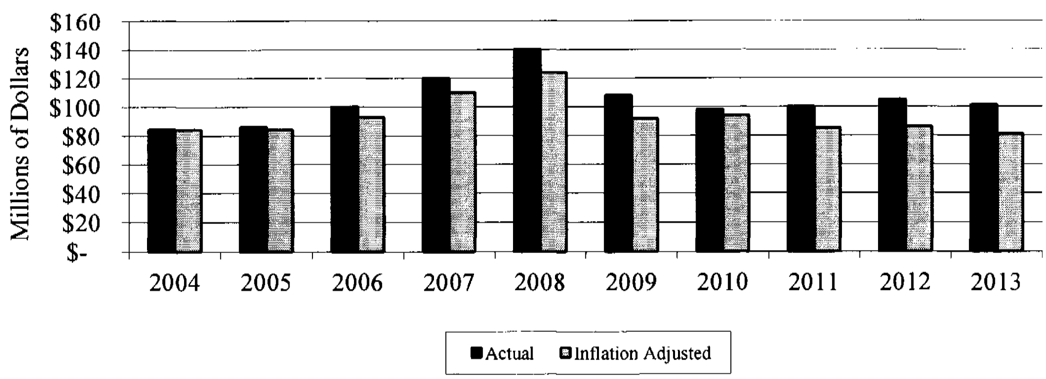
A state appropriation in the amount of approximately $108,286,000 was authorized for the year ended September 30, 2010. In September 2009, the Governor announced proration of 7.5%, or approximately $8,264,000; and in September 2010, the Governor announced additional proration of 2%, or approximately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

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

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

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

State Appropriations - Ten-year Trend



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

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

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

Requests for Information

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

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

Independent Auditors' Report

The Board of Trustees
University of South Alabama:

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

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

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

KPMG

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

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

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

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2012 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

November 15, 2012

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

Statements of Net Assets

September 30, 2012 and 2011

(In thousands)

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

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statements of Financial Position

June 30, 2012 and 2011

(In thousands)

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

See accompanying notes to basic financial statements.

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

Statements of Financial Position

September 30, 2012 and 2011

(In thousands)

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

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statements of Net Assets

September 30, 2012 and 2011

(In thousands)

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

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended September 30, 2012 and 2011

(In thousands)

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

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION

(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2012

(In thousands)

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

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2011

(In thousands)

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

See accompanying notes to basic financial statements.

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

Statements of Operations and Changes in Net Deficit

Years ended September 30, 2012 and 2011

(In thousands)

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

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended September 30, 2012 and 2011

(In thousands)

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

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended September 30, 2012 and 2011

(In thousands)

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

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Statements of Cash Flows
Years ended September 30, 2012 and 2011
(In thousands)

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

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

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

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

The University has adopted GASB Statement No. 39, which provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. The statement also clarifies reporting requirements for those organizations. Based on these criteria as of September 30, 2012 and 2011, the University reports the University of South Alabama Foundation (USA Foundation), the University of South Alabama Health Services Foundation (USAHSF), and the USA Research and Technology Corporation (the Corporation) as discretely presented component units.

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

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

(b) USA HealthCare Management, LLC

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

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The University is the sole member of the LLC. The LLC commenced operations in October 2010 and is reported as a blended component unit.

(c) ***Professional Liability and General Liability Trust Funds***

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

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

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

(e) ***University of South Alabama Health Services Foundation***

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

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

(f) USA Research and Technology Corporation

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

(g) Measurement Focus and Basis of Accounting

For financial reporting purposes, the University is considered a special purpose governmental agency engaged only in business type activities, as defined by GASB Statement No. 34. Accordingly, the University's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

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

(h) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs could change by a material amount in the near term.

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(i) *Cash and Cash Equivalents*

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

(j) *Investments and Investment Income*

Investments are recorded at fair value. The fair value of alternative investments (low-volatility multi-strategy funds, private placement fund-of-funds, relative value arbitrage funds, and other) do not have readily ascertainable market values and the University values these investments in accordance with valuations provided by the general partners or fund managers of the underlying partnerships or companies. Because these investments are not marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. Investments received by gift are recorded at fair value at the date of receipt. Changes in the fair value of investments are reported in investment income (loss).

(k) *Derivatives*

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

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

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

(l) *Accounts Receivable*

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

(Continued)

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

(m) Inventories

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

(n) Capital Assets

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

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

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

Certain buildings are componentized for depreciation purposes.

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

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

(o) Deferred Revenue

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

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

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(p) Classification of Net Assets

The University's net assets are classified as follows:

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

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

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

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

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

(q) Scholarship Allowances and Student Financial Aid

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

(r) Donor Restricted Endowments

The University is subject to the "Uniform Prudent Management of Institutional Funds Act (UPMIFA)" of the Code of Alabama. This law allows the University, unless otherwise restricted by the donor, to spend net appreciation, realized and unrealized, on the endowment. The law also allows the University to appropriate for expenditure or accumulate to an endowment fund such amounts as

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

(s) Classification of Revenues

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

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

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

(t) Gifts and Pledges

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

(u) Grants and Contracts

The University has been awarded grants and contracts for which funds have not been received or expenditures made for the purpose specified in the award. These awards have not been reflected in the basic financial statements, but represent commitments of sponsors to provide funds for specific research or training projects. For grants that have allowable cost provisions, the revenue will be recognized as the related expenditures are made. For grants with work completion requirements, the revenue is recognized as the work is completed. For grants without either of the above requirements, the revenue is recognized as it is received.

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

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

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

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

(w) State Appropriated – ARRA Funds

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

(x) Costs of Borrowing

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

(y) Compensated Absences

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

(z) Reclassifications

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

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(2) Income Taxes

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

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

(3) Cash

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

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

(4) Investments

(a) University of South Alabama

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

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

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

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

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

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

Credit Risk and Concentration of Credit Risk

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

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

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

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

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

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

Interest Rate Risk

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

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

(Continued)

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

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

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

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

Mortgage-Backed Securities

The University, from time to time, invests in mortgage-backed securities issued by the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA), agencies of the United States government. The University invests in these securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

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

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

(b) University of South Alabama Foundation

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

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

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

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

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

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

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

Investments at June 30, 2012 and 2011, include an equity interest in a timberland management company. The company's primary assets consist of timberland. The Foundation's proportionate share of the fair value of the company is based upon the valuation of the trustee responsible for the management of the company and the timber valuation.

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

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

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

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

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

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

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

(Continued)

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

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

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

(5) Derivative Transactions

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

Objective of the Derivative Transaction

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

Terms

A summary of the transactions is as follows:

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

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

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

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

Financial Statement Presentation

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

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

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

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

Fair Value

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

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

Risks Associated with this Transaction

Certain risks are inherent to derivative transactions.

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

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

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

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

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

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(6) Capital Assets

(a) University of South Alabama

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

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

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

(Continued)

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

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

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

(Continued)

(b) USA Research and Technology Corporation

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

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

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

(Continued)

(7) Noncurrent Liabilities

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

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

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

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

(Continued)

(8) Bonds Payable

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

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

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

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

(Continued)

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

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

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

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

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

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

(Continued)

Debt Service on Long-Term Obligations

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

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

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

(Continued)

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

Notes Payable

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

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

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

The promissory note payable to PNC Bank has a 10-year term and amortization is based on a 20-year term. PNC Bank acquired the promissory note as part of its acquisition of RBC Bank (USA) on March 20, 2012. The Corporation agreed to not transfer or encumber the buildings or its leasehold interest in the real estate on which the buildings stand. The promissory note payable is secured by an interest in tenant leases for Building I and the dialysis services building, and an interest in income received from rental of Building I and the dialysis services building. The University also entered into an agreement with PNC Bank providing that, for a year in which the Corporations' debt service coverage ratio is less than one to one, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to one to one.

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

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

(Continued)

Debt Service on Long-Term Obligations

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

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

Derivative Transaction

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

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

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

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

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

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

(Continued)

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

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

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

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

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

(9) Net Patient Service Revenue

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

(Continued)

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

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

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

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

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

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

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

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

(Continued)

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

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

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

(10) Hospital Lease

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

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

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

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

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

(Continued)

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

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

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

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

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

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

(Continued)

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

(11) Employee Benefits

(a) Retirement and Pension Plans

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

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

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

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

(Continued)

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

(b) Compensated Absences

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

(c) Other Postretirement Employee Benefits

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

(12) Risk Management

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

(Continued)

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

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

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

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

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

(13) Other Related Party

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

(14) Commitments and Contingencies

(a) Grants and Contracts

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

(Continued)

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

(b) Letter of Credit

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

(c) Litigation

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

(d) Rent Supplement Agreements

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

(e) State Bond Issues

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

(f) FICA Refund

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

(g) Sale of Brookley Campus

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

(Continued)

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

(h) USA Research and Technology Corporations Leases

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

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

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

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

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

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

(15) Functional Information

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

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

(16) Significant New Accounting Pronouncements

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

(Continued)

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

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

(17) Subsequent Event

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

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2012

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
Student Financial Aid Cluster*:						
U.S. Department of Education:						
Federal Pell Grant Program	84.063			$ 17,827,588	—	17,827,588
Federal Supplemental Educational Opportunity Grant Program	84.007			254,112	—	254,112
Federal Direct Student Loan Program	84.268			95,775,236	—	95,775,236
Federal Work Study Program	84.033			432,556	—	432,556
Teacher Education Assistance for College and Higher Education	84.379			48,500	—	48,500
Nurse Faculty Loan Program	93.264			108,116	—	108,116
Scholarships for Health Professions Students	93.925			37,987	—	37,987
Total Student Financial Aid Cluster				114,484,095	—	114,484,095
Research and Development Cluster*:						
U.S. Department of Commerce:						
Economic Impact Analysis of Major	11.307	EDPASG02	Economic Development Partnership of Alabama	—	95,210	95,210
Sea Grant Support	11.417	GR2375MC	Dauphin Island Sea Lab	—	107,093	107,093
Sea Grant Support	11.417	USM-GRO3925/CCD-23-PP	University of Southern Mississippi	—	46,168	46,168
Total CFDA				—	153,261	153,261
Coastal Zone Management Esturaine Research Reserves	11.420			148	—	148
Marine Fisheries Initiative	11.433			105,200	—	105,200
Economics Survey of the Alabama Sea	11.434	EDP-ESF-RB-2010-USA	Gulf States Marine Fisheries commission	—	2,813	2,813
Economics Survey of the Alabama Sea	11.454	Task Order D8	Dauphin Island Sea Lab (MESC)	—	16,127	16,127
Unallied Management Projects	11.454			865	—	865
Artificial Habitat Enhancement	11.454	80182	Alabama Department of Conservation and Natural Resources	—	(4,352)	(4,352)
Total CFDA				865	11,775	12,640
Habitat Conservation	11.463			208,401	—	208,401
Coastal Alabama Economic Recovery	11.463	GMT-USA-111711	The Nature Conservancy	—	10,227	10,227
ARRA - Coastal Alabama Economic Recovery	11.463	ALFO SA 3807-02	The Nature Conservancy	—	(967)	(967)
Total CFDA				208,401	9,260	217,661
Applied Meteorological Research	11.468			37,730	—	37,730
Congressionally Identified Award and Projects	11.469	TASK ORDER D-1	Dauphin Island Sea Lab (MESC)	—	(107)	(107)
Congressionally Identified Award and Projects	11.469	10-62-08-A1	Exxon Valdez Oil Spill Trustee	—	60,408	60,408
Total CFDA				—	60,301	60,301
Alabama Coastal Pelagic Fisheries	11.472	TASK ORDER D-4	Dauphin Island Sea Lab (MESC)	—	102,480	102,480
Center for Sponsored Coastal Ocean Research - Coastal Ocean	11.478			18,312	—	18,312
Total U.S. Department of Commerce				370,656	435,100	805,756
U.S. Department of Defense:						
Military Medical Research and Development	12.420			168,612	—	168,612
Air Force Defense Research Sciences Program	12.800			68,769	—	68,769
Total U.S. Department of Defense				237,381	—	237,381
U.S. Department of Housing and Urban Development:						
Community Development Block Grants	14.228	10-100112	Mississippi Department of Archives and History	—	(643)	(643)
U.S. Department of Interior:						
Red Snaper and Amberjack Habitat	15.605	110266/120071	Alabama Department of Conservation and Natural Resources	—	330,232	330,232
Cooperative Endangered Species Conservation Fund	15.615	110236/110235	Alabama Division of Wildlife and Fisheries	—	10,898	10,898
Endangered Species Conservation - Recovery Implementation Funds	15.657			19,152	—	19,152
National Cooperative Geologic Mapping Program	15.810			1,543	—	1,543
American Battlefield Protection	15.926			29,424	—	29,424
Total U.S. Department of Interior				50,119	341,130	391,249
U.S. Department of Transportation:						
Highway Planning and Construction	20.205			(765,334)	—	(765,334)

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2012

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
National Aeronautics and Space Administration:						
Aerospace Education Services Program	43.001	SUB2010-2006	University of Alabama in Huntsville	$ —	207,309	207,309
Technology Transfer	43.002			(519)	—	(519)
Technology Transfer	43.002	SUB2010-176-A2-02	National Aeronautics and Space Administration	—	(83)	(83)
Technology Transfer	43.002	SUB2010.176	University of Alabama in Huntsville	—	40	40
Total CFDA				(519)	(43)	(562)
Total National Aeronautics and Space Administration				(519)	207,266	206,747
National Science Foundation:						
Engineering Grants	47.041			442,707	—	442,707
Mathematical and Physical Sciences	47.049			156,574	—	156,574
Geosciences	47.050			98,998	—	98,998
Geosciences	47.050	1021RR100513	University of Georgia	—	6,178	6,178
Total CFDA				98,998	6,178	105,176
Biological Sciences	47.074			9,008	—	9,008
Social Behavioral and Economic Sciences	47.075			46,611	—	46,611
Education and Human Resources	47.076			130,110	—	130,110
Education and Human Resources	47.076	11-110327/100390	Mobile Area Education Foundation Inc.	—	59,852	59,852
Total CFDA				130,110	59,852	189,962
Polar Programs	47.078			143,170	—	143,170
Office of Experimental Programs	47.081	34-21530-200-76190	Tuskegee University	—	44,178	44,178
Office of Experimental Programs	47.081	SUB2011-026	University of Alabama in Huntsville	—	59,113	59,113
Total CFDA				—	103,291	103,291
ARRA - NSF Recovery Act Research Support	47.082			256,423	—	256,423
ARRA - NSF Recovery Act Research Support	47.082	AA-5-31980	Oklahoma State University	—	51,125	51,125
ARRA - NSF Recovery Act Research Support	47.082	1328-206-2087448	Clemson University	—	28,521	28,521
Total CFDA				256,423	79,646	336,069
Total National Science Foundation				1,283,601	248,967	1,532,568
U.S. Environmental Protection Agency:						
Dendritic Polymers as Biocompatible	66.509	1614-218-2008962	Clemson University	—	6,573	6,573
U.S. Department of Energy:						
Basic Energy Sciences University and Science	81.049			75,841	—	75,841
Basic Energy Sciences University and Science	81.049	10-ENG-246590-USA	Auburn University	—	45,365	45,365
Total CFDA				75,841	45,365	121,206
Total U. S. Department of Energy				75,841	45,365	121,206
U.S. Department of Education:						
Research in Special Education	84.324			331,806	—	331,806
Project C. A. R. E	84.377	110347	Information Transport Solutions, Inc.	—	43,449	43,449
Total U. S. Department of Education				331,806	43,449	375,255
U.S. Department of Health and Human Services:						
Public Health and Social Services	93.003	110019	Alabama Department of Mental Health	—	85,130	85,130
Birth Defects and Development Disabilities	93.073	NO1-A1-30025-01	University of Alabama in Birmingham	—	9,012	9,012
Molecular and Biochemical Character	93.103	TASK ORDER D5/D6	Dauphin Island Sea Lab	—	12,954	12,954
Environmental Health	93.113			480,566	—	480,566
Oral Diseases and Disorders Research	93.121	R 548086-03	State University of New York – Buffalo	—	54,378	54,378
Minority Health and Health Disparities Research	93.307			1,425,478	—	1,425,478
Minority Health and Health Disparities Research	93.307	30021805313	University of Michigan	—	15,233	15,233
Total CFDA				1,425,478	15,233	1,440,711

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2012

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
Trans-NIH Research Support	93.310			$ 34,917	—	34,917
National Center for Research Resources	93.389			385,386	—	385,386
Cancer Cause and Prevention Research	93.393			261,156	—	261,156
Cancer Cause and Prevention Research	93.393	S12001	Southern Research Institute	—	50,984	50,984
Total CFDA				261,156	50,984	312,140
Cancer Detection and Diagnosis Research	93.394			8,443	—	8,443
Cancer Treatment Research	93.395			8,721	—	8,721
Cancer Treatment Research	93.395	7U10CA76001-4	Duke University Medical Center	—	14,319	14,319
Cancer Treatment Research	93.395	98543-1234	National Childhood Cancer Foundation	—	70,267	70,267
Cancer Treatment Research	93.395	27469-02	University of Alabama	—	2,793	2,793
Total CFDA				8,721	87,379	96,100
Cancer Biology Research	93.396			522,972	—	522,972
ARRA - NIH Recovery Act Research Support	93.701			117,144	—	117,144
NIH Recovery Act Research Support	93.701	12-7921-2009-8.A	Children's Hospital of Oakland	—	2,065	2,065
Total CFDA				117,144	2,065	119,209
ARRA-National Center for Research Resources, Recovery Act Construction Support	93.702			5,233,174	—	5,233,174
Cardiovascular Diseases Research	93.837			2,310,127	—	2,310,127
Cardiovascular Diseases Research	93.837	SR00001589	University of Maryland	—	20,697	20,697
Total CFDA				2,310,127	20,697	2,330,824
Lung Diseases Research	93.838			2,618,342	—	2,618,342
Blood Diseases and Resources Research	93.839	101524623	Baylor College of Medicine	—	28,449	28,449
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			101,807	—	101,807
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	VUMC37157	Vanderbilt University	—	8,688	8,688
Total CFDA				101,807	8,688	110,495
Allergy Immunology and Transplantation Research	93.853	A08580	Yale University	—	14,676	14,676
Allergy Immunology and Transplantation Research	93.853	126155-03	University of British Columbia		10,151	10,151
Allergy Immunology and Transplantation Research	93.853	A08082 (M01A10568)	Yale University	—	(686)	(686)
Allergy Immunology and Transplantation Research	93.853			157,963	—	157,963
Total CFDA				157,963	24,141	182,104
Allergy Immunology and Transplantation Research	93.855	2012-2764	University of California	—	9,602	9,602
Allergy Immunology and Transplantation Research	93.855			615,897	—	615,897
Total CFDA				615,897	9,602	625,499
Pharmacology Physiology and Biological Chemistry	93.859			302,523	—	302,523
Vision Research	93.867			507,208	—	507,208
Total U.S. Department of Health and Human Services				15,091,824	408,712	15,500,536
Total Research and Development Cluster				16,675,375	1,735,919	18,411,294
Other federal assistance:						
U. S. Department of Agriculture:						
Plant and Animal Disease Pest Control and Animal Care	10.025			9,191	—	9,191
U.S. Department of Commerce:						
Special Economic Development	11.307	EDPASG02	Economic Development Partnership of Alabama Foundation	—	(24,765)	(24,765)
Coastal Zone Management Estuarine Research	11.420			31,245	—	31,245
Cooperative Fishery Statistics	11.434	EDP-ESF-RB-2010-USA	Gulf States Marine Fisheries Commission	—	(974)	(974)
NIST Summer Undergrad Research Fellowship	11.609			8,704	—	8,704
Congressionally Identified Projects*	11.617			8,692,186	—	8,692,186
Total U.S. Department of Commerce				8,732,135	(25,739)	8,706,396

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2012

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
U.S. Department of Defense:						
Procurement Technical Assistance for Business Firms	12.002	PTAC-USA-10-067/UA 11-062	University of Alabama	$ —	11,304	11,304
Psychometric Evaluation	12.910			18	—	18
Total U. S. Department of Defense				18	11,304	11,322
U. S. Department of Justice						
Bulletproof Vest Partnership	16.607	11BPBPV005	Alabama Department of Economic and Community Affairs	—	3,103	3,103
U.S. Department of Transportation:						
Highway Planning and Construction	20.205	DPI-0030 (005)	Volkert and Associates	—	2,673	2,673
National Aeronautics and Space Administration:						
Aerospace Education Services Program	43.001			3,174	—	3,174
Aerospace Education Services Program	43.001	SUB2010-176-A3	University of Alabama in Huntsville	—	57,910	57,910
Total CFDA				3,174	57,910	61,084
Technology Transfer	43.002	SUB2010-176	University of Alabama in Huntsville	—	3,689	3,689
Total National Aeronautics and Space Administration				3,174	61,599	64,773
National Endowment for the Humanities:						
Promotion of the Humanities Division and Preservation	45.129	0910-2005-TS	Alabama Humanities Foundation	—	(300)	(300)
National Science Foundation:						
Therophysical and Solvent Properties	47.041			2,286	—	2,286
Mathematical and Physical Sciences	47.049			416	—	416
Geosciences	47.050			46	—	46
Biological Sciences	47.074			84,380	—	84,380
Education and Human Resources	47.076			116,750	—	116,750
Education and Human Resources	47.076			78,271	—	78,271
Education and Human Resources	47.076	000398033-006	University of Alabama at Birmingham	—	10,142	10,142
Education and Human Resources	47.076	062900-362475	Mississippi State University	—	73,043	73,043
Education and Human Resources	47.076	100390	Mobile Area Education Foundation Inc.	—	19,925	19,925
Total CFDA				195,021	103,110	298,131
ARRA-Pathway to Science	47.082			215,045	—	215,045
Total National Science Foundation				497,194	103,110	600,304
U.S. Small Business Administration:						
Small Business Development Centers	59.037	SBA-USA-11-041	University of Alabama at Birmingham	—	(205)	(205)
Small Business Development Centers	59.037	SBAUA12-023	University of Alabama	—	126,071	126,071
Total CFDA				—	125,866	125,866
Total U.S. Small Business Administration				—	125,866	125,866
U. S. Environmental Protection Agency						
Science to Achieve Results	66.514			2,236	—	2,236
U.S. Department of Energy:						
Basic Energy Sciences University and Science Education	81.049	DE-SC0002470	University of Alabama	—	21,215	21,215
ARRA - USAMC Energy Retrofit Project	81.128	90402	City of Saraland	—	750,000	750,000
Total U. S. Department of Energy				—	771,215	771,215
U.S. Department of Education:						
Special Education Grants to States	84.027	100383/110373	Alabama State Department of Education	—	25,000	25,000
TRIO Cluster:						
TRIO Talent Search	84.044			270,424	—	270,424
TRIO Upward Bound	84.047			268,852	—	268,852
Total TRIO Cluster				539,276	—	539,276
Research in Sepcial Education	84.324			1,112	—	1,112
Teacher Quality Enhancement Grants	84.336	U00717-01	Alabama State Department of Education	—	31,431	31,431
Transition to Teaching	84.350			82,711	—	82,711
Mathematics and Science Partnerships	84.366	U100606	Alabama Department of Education	—	219,377	219,377
Improving Teacher Quality State Grants	84.367	100406/110312	Alabama Commission of Higher Education	—	133,940	133,940
Improving Teacher Quality State Grants	84.367	110328	Jacksonville State University	—	40,347	40,347
Total CFDA				—	174,287	174,287
Total U.S. Department of Education				623,099	450,095	1,073,194

(Continued)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Expenditures of Federal Awards
Year ended September 30, 2012

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
U.S. Department of Health and Human Services:				$		
Environmental Public Health	93.007	C20119164	State of Alabama Department of Public Health	—	17,225	17,225
Alzheimer's Disease Demonstration Grants to States	93.051	12-120267	South Alabama Regional Planning Commission	—	9,515	9,515
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153			348,728	—	348,728
Advanced Education Nursing Grant Programs*	93.247			3,432,927	—	3,432,927
Universal Newborn Hearing Study	93.251	C20119022	State of Alabama Department of Public Health	—	20,250	20,250
Centers for Disease Control	93.283	C10114277	State of Alabama Department of Public Health	—	85,812	85,812
Minority Health and Health Disparities Research	93.307			29,709	—	29,709
Professional Nurse Traineeships	93.358			222,008	—	222,008
Basic Nurse Education and Practice Grants	93.359			257,282	—	257,282
Patient Protection and Affordable Act	93.541	000305851-021	University of Alabama at Birmingham	—	34,258	34,258
ARRA-Health Information Technology Regional Extension Centers Program*	93.718			1,845,653	—	1,845,653
Lung Diseases Research	93.838			72,136	—	72,136
Grants for Residency Training for General Pediatrics	93.884			266,589	—	266,589
Health Care and Other Facilities*	93.887			1,647,751	—	1,647,751
Specially Selected Health Projects	93.888			31,162	—	31,162
National Bioterrorism Hospital Preparedness Program	93.889	C10114292(EEP-13-QW2-12)	Alabama Department of Public Health	—	1,182,324	1,182,324
HIV Care Formula Grants	93.917	RW-USAF-1112	United Way of Central Alabama	—	100,682	100,682
Human Immunodeficiency	93.944	C20119019	State of Alabama Department of Public Health	—	12,314	12,314
Cooperative Agreements to Support State-Based Infant	93.946	120025	Mobile County Health Department	—	131,947	131,947
Total U.S. Department of Health and Human Services				8,153,945	1,594,327	9,748,272
Corporation for National and Community Service:						
AmeriCorps	94.006			24,173	—	24,173
Total other federal assistance				18,045,165	3,097,253	21,142,418
Total federal expenditures				$ 149,204,635	4,833,172	154,037,807

* Denotes a major program.

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

See accompanying independent auditors' report.

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

Notes to Schedule of Expenditures of Federal Awards

September 30, 2012

(1) Basis of Presentation

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

There were no loans advanced related to Loans for Disadvantaged Students and Health Professions Student Loans for the year ended September 30, 2012. Outstanding loans made by the University are included in notes receivable in the University's 2012 statement of net assets and consist of the following loan programs:

	CFDA #		Amount
Federal Perkins Loan Program	84.038	$	3,866,450
Loans for Disadvantaged Students	93.342		623
Health Professions Student Loans	93.342		3,162
Nurse Faculty Loan Program	93.264		149,228
Nurse Faculty Loan Program ARRA	93.408		42,115
			4,061,578
Less outstanding balance of loans granted in previous years			(3,261,957)
Loans advanced to eligible students of the University during 2012		$	799,621

The University's Federal Direct Student Loan Program (Direct Loan) included in the Schedule represents loans received by students of the University during fiscal year 2012 which were not made by the University. Accordingly, Direct Loan amounts are not reflected in the University's basic financial statements. It is not practicable to determine the balance of loans outstanding to students and former students of the University under these programs as of September 30, 2012.

(2) Contingencies

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

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

Notes to Schedule of Expenditures of Federal Awards

September 30, 2012

(3) Federal Direct Student Loans

During fiscal year ended September 30, 2012, the University advanced to students the following amount of new loans under Direct Loan:

	CFDA #		Amount expended
Stafford loans	84.268	$	28,831,814
Unsubsidized Stafford loans	84.268		58,358,045
Parent Loans for Undergraduate Students	84.268		8,585,377
Total		$	95,775,236

(4) Subrecipients

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

	Federal CFDA #		Amounts expended
Habitat Conservation	11.463	$	44,904
Aeorspace Education Services Program	43.001		86,907
Biological Sciences	47.074		7,797
Geosciences	47.050		4,305
Education and Human Resources	47.076		7,594
Office of Science Financial Assistance Program Recovery	81.049		15
Transition to Teaching	84.350		49,173
Mathematics and Science Partnerships	84.366		156,185
Improving Teacher Quality State Grants on Higher Education	84.367		44,125
Environmental Health	93.113		34,604
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		11,844
Minority Health and Health Disparities Research	93.307		193,170
National Center for Research Resources	93.389		82,954
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		(1,092)
Cardiovascular Diseases Research	93.837		25,845
The Patient Protection and Affordable Care Act	93.541		15,770
Health Information Technology Regional Extension Centers Program	93.718		1,345,475
Vision Research	93.867		59,500

	Federal CFDA #	Amounts expended
Allergy, Immunology and Transplantation Research	93.855	10,529
Grants for Residency Training for General Pediatrics	93.884	10,000
Healthcare and Other Facilities	93.887	460,000
		$ 2,649,604

(5) Matching

Under the Federal Work Study Program and Federal Supplemental Education Opportunity Grant Program, the University matched $22,577 and $137,309, respectively, in funds awarded to students for the year ended September 30, 2012 in addition to the Federal share of expenditures included in the Schedule.

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

The Board of Trustees
University of South Alabama:

We have audited the basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of and for the year ended September 30, 2012, and have issued our report thereon dated November 15, 2012. We did not audit the 2012 consolidated financial statements of the University of South Alabama Foundation, which represents 80%, 101%, and 14%, respectively, of the assets, net assets and revenues, gains and other support of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. The financial statements of the University of South Alabama Foundation, the University of South Alabama Health Services Foundation, the USA Research and Technology Corporation, and the Professional and General Liability Trust Funds were not audited in accordance with *Government Auditing Standards.*

Internal Control over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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Compliance and Other Matters

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

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

KPMG LLP

November 15, 2012

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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
University of South Alabama:

Compliance

We have audited the University of South Alabama's (the University's) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* (Compliance Supplement) that could have a direct and material effect on each of the University's major federal programs for the year ended September 30, 2012, except the requirements discussed in the second paragraph of this report. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We did not audit the University's compliance with requirements governing maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments for the Federal Perkins Loan program in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement. Those requirements govern functions performed by XEROX Education Services dba ACS Education Services, Inc. (ACS). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. ACS's compliance with the requirements governing the functions that it performs for the University for the year ended June 30, 2012 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers.* Our report does not include the results of the other accountants' examination of ACS's compliance with such requirements.

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

As described in item 2012-02 in the accompanying schedule of findings and questioned costs, the University did not comply with requirements regarding allowable costs applicable to the Congressionally

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Identified Projects Program. Compliance with such requirements is necessary, in our opinion, for the University to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2012-01.

Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Requirements governing maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments for the Federal Perkins Loan program in the Student Financial Aid Cluster: Federal Perkins Loan program as described in the Compliance Supplement are performed by ACS. Internal control over compliance related to such functions for the year ended June 30, 2012 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers.* Our report does not include the results of the other accountants' testing of the University's internal control over compliance related to such functions.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-02 to be a material weakness.

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

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

KPMG LLP

November 15, 2012

I – Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	___ yes _x_ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ yes _x_ none reported
Noncompliance material to financial statements noted?	___ yes _x_ no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	_x_ yes ___ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ yes _x_ none reported
Type of auditors' report issued on compliance for major programs:	**Unqualified** Student Financial Aid Cluster (CFDA #s 84.063, 84.007, 84.268, 84.033, 84.379, 84.038, 93.342, 93.264, 93.408 and 93.925); Research and Development Cluster (various CFDA #'s); U.S. Department of Health and Human Services/ Advanced Education Nursing Grant Programs (CFDA # 93.247); U.S. Department of Health and Human Services/ARRA - Health Information Technology Regional Extension Centers Program (CFDA # 93.718); and U.S. Department of Health and Human Services/Healthcare and Other Facilities (CFDA # 93.887); **Qualified** U.S. Department of Commerce/Congressionally Identified Projects (CFDA # 11.617)
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_x_ yes ___ no

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Findings and Questioned Costs
Year ended September 30, 2012

Identification of major programs:

CFDA Numbers	Name of Federal Program/Cluster
84.063, 84.007, 84.268, 84.033, 84.379, 84.038, 93.342, 93.264, 93.408, 93.925	Student Financial Aid Cluster
Various	Research and Development Cluster
11.617	U.S. Department of Commerce/ Congressionally Identified Projects
93.247	U.S. Department of Health and Human Services/Advanced Education Nursing Grant Programs
93.718	U.S. Department of Health and Human Services/ARRA - Health Information Technology Regional Extension Centers Program
93.887	U.S. Department of Health and Human Services/Healthcare and Other Facilities

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

There were no findings related to the financial statements reported in accordance with *Government Auditing Standards* for the year ended September 30, 2012.

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

Finding No. 2012-01 Special Tests and Provisions – Verification

Federal Agency:

U.S. Department of Education

CFDA Numbers:

84.063, 84.007, 84.268, 84.033, 84.379, 84.038, 93.342, 93.264, 93.408, 93.925

Program:

Student Financial Aid Cluster

Award Year:

July 1, 2011 through June 30, 2012
July 1, 2012 through June 30, 2013

Criteria

Under the Student Financial Aid Cluster, schools must perform verification of information submitted by applicants in connection with the calculation of their expected family contribution in accordance with 34 CFR Section 668.51. Schools shall require applicants selected for verification to submit acceptable documentation that will be verified or updated to determine the applicant's expected family contribution in accordance with 34 CFR Section 668.56.

Condition

During our test work over the Student Financial Aid Cluster, we selected a sample of 60 students selected for verification. Within our sample, we noted 3 instances in which income was not properly verified by University personnel and subsequently updated on the students' ISIR.

Cause

Additional information was received by the student financial aid office subsequent to the initial verification. At that time, each student's ISIR was not properly updated to reflect the change.

Questioned Cost

Total overawards to students totaled $1,150.

Effect

Noncompliance could result in failure to properly perform verification procedures in accordance with federal guidelines.

Recommendation

We recommend that the University strengthen its processes and controls in place to help ensure that information subject to verification is properly supported and updated on each applicant's ISIR if necessary.

Management Response

Management concurs with the finding. These errors were caused by increasing workloads within the Office of Student Financial Aid resulting from recent enrollment increases and additional regulatory requirements of administering financial aid funds. Financial Aid Office staff are fully and appropriately trained in the verification process. Management will initiate a thorough review of its internal controls over the verification process to determine if certain controls should be revised or additional controls should be added. As part of that review, staffing levels will be analyzed to ensure that they are adequate to ensure compliance with verification requirements.

Finding No. 2012-02 Allowable Costs / Activities Allowed

Federal Agency:

U.S. Department of Health and Human Services

CFDA Number:

11.617

Program:

Congressionally Identified Projects

Project Title:

University of South Alabama Engineering and Science Center

Award Number:

60NANB8D8120

Award Years:

May 1, 2008 through April 30, 2013

Criteria

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

Condition

During our testwork related to the Congressionally Identified Projects Program, we noted that certain costs charged to these grants were unallowable. The amount of costs determined to be unallowable was $1,581,461, which related to moveable equipment that was not an allowable cost under the grant. The University reversed the charges to this grant before the fiscal year end and therefore, these amounts are not included on the Schedule of Federal Awards for the year ended September 30, 2012. Total program costs after the unallowable costs were reversed totaled $8,692,186 for the year ended September 30, 2012.

Questioned Costs

$1,581,461

Context

The grant documents did not allow moveable equipment to be charged to the Federal grant.

Cause and Effect

Management of the University was unaware that moveable equipment was being charged to the grant. The construction management company that manages the University's major construction projects processed these as allowable costs. Appropriate internal controls were not in place at the University that would identify such an oversight by the construction management company. As a result, Federal funds were originally charged to the grant for unallowable purposes.

Recommendation

We recommend that the University strengthen its processes and internal controls to ensure that costs charged to the grant are allowable under the related grant agreement.

Management Response

Management concurs with the finding. As noted earlier, the University contracts with a construction management company to manage its construction projects and process all related accounting documentation. University accounting management was of the understanding that all employees of this company that were involved in this process were adequately trained not only in University accounting procedures but also in federal regulations with respect to allowable and unallowable costs. As such, too much reliance was placed on the ability of the company to determine the ultimate treatment of certain construction charges.

Effective immediately upon learning of this situation, additional procedures were put into place whereby all charges to construction grants for projects managed by the contractor are also being reviewed by the office of grants and contracts accounting personnel. Additionally, periodic meetings are held between University compliance and company personnel to discuss potential unallowable charges on an ongoing basis. Management is of the opinion that these additional layers of control will ensure that unallowable charges will no longer be made to federally funded construction projects.

University of South Alabama
Summary Comparison of Fund Financial Reports to
GASB Statement 34 Financial Statements
September 30, 2002 Through 2012

	Year Ended September 30,										
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Net increase (decrease) in current unrestricted operating funds (fund accounting)	$ 1,221,088	$ (7,689,241)	$ (8,518,637)	$ (29,056,974)	$ 1,302,243	$ 3,721,883	$ 10,190,822	$ 639,470	$ 4,805,701	$ (5,420,432)	$ 4,167,774
Transfer from University reserves to fund 11% proration in 2009, 9.5% proration in 2010 and 3% proration proration in 2011	-	2,998,417	6,558,280	6,499,033							
Net Increase (Decrease)	$ 1,221,088	$ (4,690,824)	$ (1,960,357)	$ (22,557,941)							
Add:											
Debt service	7,280,153	6,418,725	7,758,256	6,575,231	4,590,345	3,030,444	5,944,273	6,892,511	3,868,513	6,332,932	5,502,009
Equipment	20,856,151	23,493,814	18,669,897	7,259,482	22,674,581	21,018,457	11,456,341	10,556,620	8,088,299	5,324,265	10,486,087
Depreciation	(22,811,188)	(31,566,358)	(17,839,484)	(21,615,731)	(15,885,756)	6,407,336	(4,338,964)	(8,240,308)	(8,499,925)	(7,750,630)	1,174,658
Other funds, net	31,842,796	3,969,643	12,330,688	24,532,959	11,129,587	38,979,880	32,149,528	11,997,707	7,655,412	10,384,865	8,750,472
Net increase (decrease) in net assets - GASB Statement 34 format	$ 38,389,000	$ (2,375,000)	$ 18,959,000	$ (5,806,000)	$ 23,811,000	$ 73,158,000	$ 55,402,000	$ 21,846,000	$ 15,918,000	$ 8,871,000	$ 30,081,000

Detailed Reconciliation of Fund Financial Reports
to GASB 34 Financial Statements

Year Ended September 30, 2012

Net increase from operating (current unrestricted) funds - fund format		$ 1,221,088
Add back:		
Debt service:		
Principal payment on long term debt	$ 8,033,000	
Actual payment of principal and interest in excess of amounts transferred (timing issue)	(752,847)	7,280,153
Equipment purchases		20,856,151
Depreciation of buildings and equipment:		
Computed depreciation	(30,182,684)	
Non-capitalized plant fund expenditures	(4,134,025)	
Transfers of funded depreciation	11,505,521	(22,811,188)
		6,546,204
Add:		
Plant fund income/transfers (net) not previously combined with operating:		20,787,496
Other fund income not previously combined with operating:		
Endowment fund gifts, investment gain and other, net	11,278,352	
Loan fund	530,733	
Restricted fund	(753,785)	11,055,300
Net decrease in net assets - GASB Statement No. 34 Format		$ 38,389,000

Detailed Reconciliation of Fund Financial Reports to GASB 34 Financial Statements

Net decrease from operating (current unrestricted) funds - fund format		$ (7,689,241)
Transfer from University reserves to fund 3% proration		2,998,417
Net Increase (Decrease)		(4,690,824)
Add back:		
Debt service:		
Principal payment on long term debt	$ 6,404,000	
Actual payment of principal and interest in excess of amounts transferred (timing issue)	14,725	6,418,725
Equipment purchases		23,493,814
Depreciation of buildings and equipment:		
Computed depreciation	(31,843,313)	
Non-capitalized plant fund expenditures	(4,423,045)	
Transfers of funded depreciation	4,700,000	(31,566,358)
		(6,344,643)
Add:		
Plant fund income/transfers (net) not previously combined with operating:		8,650,697
Other fund income not previously combined with operating:		
Endowment fund gifts, investment gain and other, net	(4,146,289)	
Loan fund	(58,951)	
Restricted fund	(475,814)	(4,681,054)
Net decrease in net assets - GASB Statement No. 34 Format		$ (2,375,000)

Detailed Reconciliation of Fund Financial Reports to GASB 34 Financial Statements

Year Ended September 30, 2010

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

Detailed Reconciliation of Fund Financial Reports
to GASB 34 Financial Statements

Year Ended September 30, 2009

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

Net decrease from operating (current unrestricted) funds - fund format		$ (29,056,974)
Transfer from University reserves to fund 11% proration		6,499,033
Net decrease		(22,557,941)
Add back:		
Debt service:		
Principal payment on long term debt	$ 4,868,073	
Actual payment of principal and interest in excess of amounts transferred (timing issue)	1,707,158	6,575,231
Equipment purchases		7,259,482
Depreciation of buildings and equipment:		
Computed depreciation	(25,183,157)	
Non-capitalized plant fund expenditures	(3,415,010)	
Transfers of funded depreciation	6,982,436	(21,615,731)
		(30,338,959)
Add:		
Plant fund income/transfers (net) not previously combined with operating:		14,712,823
Other fund income not previously combined with operating:		
Endowment fund gifts, investment gain and other, net	8,561,833	
Loan fund	(752)	
Restricted fund	1,259,055	9,820,136
Net decrease in net assets - GASB Statement No. 34 Format		$ (5,806,000)

Net increase from operating (current unrestricted) funds - fund format		$ 1,302,243
Add back:		
Debt service:		
Principal payment on long term debt	$ 5,287,134	
Actual payment of principal and interest in excess of amounts transferred (timing issue)	(696,789)	4,590,345
Equipment purchases		22,674,581
Depreciation of buildings and equipment:		
Computed depreciation	(20,167,588)	
Non-capitalized plant fund expenditures	(4,418,392)	
Transfers of funded depreciation	8,700,224	(15,885,756)
		12,681,413
Add:		
Plant fund income/transfers (net) not previously combined with operating:		8,085,346
Other fund income not previously combined with operating:		
Endowment fund gifts, investment gain and other, net	4,058,697	
Loan fund	25,883	
Restricted fund	(1,040,339)	3,044,241
Net increase in net assets - GASB Statement No. 34 Format		$ 23,811,000

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

Year Ended September 30, 2007

Net increase from operating (current unrestricted) funds - fund format		$ 3,721,883
Add back:		
Debt service:		
Principal payment on long term debt	$ 6,899,969	
Actual payment of principal and interest in excess of amounts transferred (timing issue)	(3,869,525)	3,030,444
Equipment purchases		21,018,457
Depreciation of buildings and equipment:		
Computed depreciation	(19,058,759)	
Non-capitalized plant fund expenditures	(4,213,969)	
Transfers of funded depreciation	29,680,064	6,407,336
		34,178,120
Add:		
Plant fund income/transfers (net) not previously combined with operating:		24,425,341
Other fund income not previously combined with operating:		
Endowment fund gifts, investment gain and other, net	13,444,313	
Loan fund	42,935	
Restricted fund	1,067,291	14,554,539
Net increase in net assets - GASB Statement No. 34 Format		$ 73,158,000

Revised

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

Year Ended September 30, 2006

Net increase from operating (current unrestricted) funds - fund format		$ 10,190,822
Add back:		
Debt service:		
Principal payment on long term debt	$ 6,263,751	
Actual payment of principal and interest in excess of amounts transferred (timing issue)	(319,478)	5,944,273
Equipment purchases		11,456,341
Depreciation of buildings and equipment:		
Computed depreciation	(18,459,716)	
Non-capitalized plant fund expenditures	(4,969,131)	
Transfers of funded depreciation	19,089,883	(4,338,964)
		23,252,472
Add:		
Plant fund income/transfers (net) not previously combined with operating:		15,171,089
Other fund income not previously combined with operating:		
Endowment fund gifts, investment gain and other, net	5,746,046	
Loan fund	(22,285)	
Restricted fund	11,254,678	16,978,439
Net increase in net assets - GASB Statement No. 34 Format		$ 55,402,000

Revised

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

Year Ended September 30, 2005

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

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

Net increase from operating (current unrestricted) funds - fund format		$ 4,805,701
Add back:		
Debt service:		
Principal payment on long term debt - (except 1993 bond payoff)	$ 6,273,812	
Actual payment of principal and interest in excess of amounts transferred (timing issue)	(2,405,299)	3,868,513
Equipment purchases		8,088,299
Depreciation of buildings and equipment:		
Computed depreciation	(17,934,421)	
Non-capitalized plant fund expenditures	(5,768,359)	
Transfers of funded depreciation	15,202,855	(8,499,925)
		8,262,588
Add:		
Plant fund income/transfers (net) not previously combined with operating:		8,191,189
Other fund income not previously combined with operating:		
Endowment fund gifts, investment gain and other, net	3,840,675	
Loan fund balance reclassification	(4,779,278)	
Loan fund	(46,217)	
Restricted fund	41,357	
Other transfers, net	407,686	(535,777)
Net increase in net assets - GASB Statement No. 34 Format		$ 15,918,000

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

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

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

Year Ended September 30, 2002

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

KPMG

UNIVERSITY OF SOUTH ALABAMA

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

September 30, 2012

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

November 15, 2012

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

Members of the Committee:

We have audited the basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of September 30, 2012 and issued our report thereon dated November 15, 2012. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

Our Responsibility Under Professional Standards

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

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

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

Other Information in Documents Containing Audited Financial Statements

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

Significant Accounting Policies

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

Unusual Transactions

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

Qualitative Aspects of Accounting Practices

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

Management Judgments and Accounting Estimates

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

Management's estimates of the allowances for uncollectible accounts and contractual adjustments are based on, among other things, analyses of historical trends, the aging and mix of accounts receivable at year-end and expected third-party payor payment rates. Estimated professional and general liability costs and self-insurance reserves for employee health insurance are based on, among other things, reviews of occurrences accumulated by incident reporting systems, discussions with risk management professionals, actuarial valuations and consideration of recent developments. Additionally, the fair value of the University's derivatives is based on calculating future net settlement payments utilizing forward rates implied by the yield curve based on future spot interest rates. The payments are discounted using spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of future settlement.

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

Uncorrected Misstatements

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

Disagreements with Management

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

Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended September 30, 2012.

Material Written Communications

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

1. Engagement letters and

2. Management representation letters

* * * * * * *

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

Very truly yours,

KPMG LLP

KPMG

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One Jackson Place
138 East Capitol Street
Jackson, MS 39201-2127

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Fax +1 601 354 3745
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ACF 2/26/12

January 25, 2012

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

Dear Wayne:

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

Objectives and Limitations of Services

Financial Statement Audit Services

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

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

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

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

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

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

Internal Control over Financial Reporting and Compliance and Other Matters

In planning and performing our audit of the financial statements, we will consider the University's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the effectiveness of the University's internal control over financial reporting. In accordance with *Government Auditing Standards*, we are required to communicate that the limited purpose of our consideration of internal control may not meet the needs of some users who require additional information about internal control.

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

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the University's internal control over financial reporting and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements, this report will include any material weaknesses and significant deficiencies to the extent they come to our attention. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. This report will also include illegal acts and fraud, unless clearly inconsequential, and material violations of provisions of contracts and grant agreements and abuse. It will indicate that it is intended solely for the information and use of the Budget and Finance Committee and management of the University and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards*, we will also issue a management letter to communicate violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential that come to our attention.

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

OMB Circular A-133 Audit Services

We will also perform audit procedures with respect to the University's major federal programs in accordance with the provisions of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133). OMB Circular A-133 includes specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts, and grant agreements that exceed those required by *Government Auditing Standards*.

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

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

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

Offering Document

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

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

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

Our Responsibility to Communicate with the Budget and Finance Committee

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

- Corrected misstatements arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the University's financial reporting process. In this context, corrected misstatements are proposed corrections of the financial statements that were recorded by management and, in our judgment, may not have been detected except through the auditing procedures performed.

- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.

- Any disagreements with management or other significant difficulties encountered in performance of our audit.

- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

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

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

Management Responsibilities

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

In relation to compliance, management is responsible for:

- Identifying the University's government programs and understanding and complying with the compliance requirements.

- Establishing and maintaining effective controls that provide reasonable assurance that the University administers government programs in compliance with the compliance requirements.

- Evaluating and monitoring the University's compliance with the compliance requirements.

- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit.

- Informing us of any known material violations of compliance requirements.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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

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

- Schedule of expenditures of federal awards;

- Summary schedule of prior audit findings;

- Corrective action plan; and

- Data collection form (Part I).

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

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

In accordance with *Government Auditing Standards*, as part of our planning of the audit we will evaluate whether the University has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements. To assist us, management agrees to identify previous audits, attestation engagements, or other studies that relate to the objectives of the audit, including whether related recommendations have been implemented, prior to September 30, 2012.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon. Because of the importance of management's assertion and its representations to the effective performance of our services, the University will release KPMG and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the assertion or representation letter referred to above. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss asserted, whether in contract, statute, tort (including but not limited to negligence) or otherwise.

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAGAS or A-133 report within 30 days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the report(s), the report(s) will indicate the status of management's responses.

Government Auditing Standards require external and internal auditors to meet minimum Continuing Professional Education (CPE) hours. Therefore, management is responsible for monitoring and documenting the compliance with the Government Auditing Standards CPE hours of those internal auditors assigned to the audit in direct assistance roles.

Management is responsible for the distribution of the reports issued by KPMG.

Dispute Resolution

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

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

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

Other Matters

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

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

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

In connection with the performance of services under the Engagement Letter, KPMG may utilize the services of KPMG controlled entities, KPMG member firms and/or third party service providers within and without the United States to complete the services under the Engagement Letter. Moreover, KPMG may utilize third party service providers within and without the United States to provide, at KPMG's direction, administrative and clerical support services to KPMG.

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

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

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

Collaboration Site

KPMG has developed a collaborative, virtual workspace ('Collaboration Site') in a protected, online environment. This Collaboration Site allows for the placement of certain documents into the Collaboration Site to be used by those providing the Services to you. The Collaboration Site will be decommissioned at the end of the Engagement, unless otherwise required by applicable law or professional standards, or other requirements of the engagement team.

In order to maintain the confidentiality of the information contained in the Collaboration Site, KPMG has taken certain steps to provide protection against unauthorized access. Access to the Collaboration Site is limited to KPMG authenticated and authorized users and the Collaboration Site is protected by encryption and a secure network.

Other Government Auditing Standards Matters

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

Additional Reports and Fees for Services

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

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

* * * * * * *

Our engagement herein is for the provision of annual audit services for the financial statements and OMB Circular A-133 and for the periods described in Appendix I, and it is understood that such services are provided as a single annual engagement. Pursuant to our arrangement as reflected in this letter we will provide the services set forth in Appendix I as a single engagement for each of the University's subsequent fiscal years until either Management or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by the Management.

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

Very truly yours,

KPMG LLP

Mark P. Peach
Partner

MPP:jm

Enclosures

<u>ACCEPTED</u>

University of South Alabama

M. Wayne Davis

Mr. M. Wayne Davis
Vice President for Financial Affairs

2|13|12
Date

Appendix I

Fees for Services

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

	2012	2013	2014
Audits of financial statements of University of South Alabama as of and for the years ended September 30, 2012, 2013 and 2014 and other reports detailed below	$445,000	$455,000	$465,000

Other Reports:

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

Report

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

The above estimate is based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred. The fees assume that you will provide routine client assistance activities such as preparation of financial statements, certain account analyses, document retrieval and confirmation preparation. The fees also assume a commitment of 1,400 hours of internal audit assistance related to the audit. The fees also assume no significant changes in operations, no significant increase in the purchase of additional alternative investments, and that we will only have to audit two major programs associated with OMB Circular A-133. Progress billings will be sent every two weeks and are due within thirty days upon receipt.

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

pwc

System Review Report

To the Partners of KPMG LLP
and the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to non-SEC issuers, in effect for the year ended March 31, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, an audit performed under FDICIA, and an audit of a carrying broker-dealer.

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to non-SEC issuers, in effect for the year ended March 31, 2011, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

PricewaterhouseCoopers LLP

December 2, 2011

PricewaterhouseCoopers LLP, 400 Campus Drive, P. O. Box 988, Florham Park, NJ 07932
T: (973) 236 4000, F: (973) 236 5000, www.pwc.com/us

December 8, 2011

John B. Veihmeyer, CPA
KPMG LLP
345 Park Ave Bsmt LB6
New York, NY 10154

Dear Mr. Veihmeyer:

It is my pleasure to notify you that on December 8, 2011 the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is September 30, 2014. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,

James W. Brackens, Jr.
Vice President—Ethics and Quality Practice
+1.919.402.4502
nprc@aicpa.org

cc: Betty Jo Charles, CPA

Firm Number: 10054128 Review Number: 320334

Administered by the
National Peer Review Committee

KPMG

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

Telephone +1 601 354 3701
Fax +1 601 354 3745
Internet www.us.kpmg.com

November 9, 2012

PRIVATE

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

Dear Wayne:

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

We will apply the following agreed-upon procedures related to assist The Board of Trustees and Management of the University of South Alabama (the University) in evaluating the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the Statement of Investments Held by Trustee Pursuant to the Bond Resolutions relating to the University Tuition Revenue Bonds, Series 1999, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, University Facilities Revenue Capital Improvement Bonds, Series 2008, University Facilities Revenue Capital Improvement Bond, Series, 2010, and University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B, as of September 30, 2012 and for the year then ended.

a. We will compare the amounts shown on the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions in Exhibit A to the annual trustee statements of cash and investment transactions provided to us by the bond trustee and ensure that they agree.

b. We will compare the amounts shown on the Statement of Investments Held by Trustee Pursuant to the Bond Resolutions in Exhibit B to the annual trustee statements of cash and investment transactions provided to us by the bond trustee and ensure that they agree.

c. We will obtain a schedule of general student fees (tuition) collected during the year ended September 30, 2012, and compare that amount to the general student fees recorded in the University's general ledger and ensure that they agree.

At the conclusion of the engagement, management agrees to supply us with a representation letter that, among other things, will confirm management's responsibility for the sufficiency of the agreed-upon procedures for its purposes and the fair presentation of the specified elements, accounts, or items of the financial statements in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

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

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

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

Very truly yours,

KPMG LLP

Mark P. Peach
Partner

MPP:jm

Enclosures

ACCEPTED

University of South Alabama

M. Wayne Davis

Mr. M. Wayne Davis
Vice President for Financial Affairs

11/14/12
Date

UNIVERSITY OF SOUTH ALABAMA

BUSINESS OFFICE

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

November 15, 2012

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

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University), and its aggregate discretely presented component units as of and for the years ended September 30, 2012 and 2011, for the purpose of expressing an opinion as to whether the basic financial statements and its aggregate discretely presented component units present fairly, in all material respects, the financial position, and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the basic financial statements of financial position, changes in financial position, and cash flows in conformity with U. S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting. Further, we understand the purpose of your testing of transactions and records from the University's federal programs was to obtain reasonable assurance that the University had complied, in all material respects, with the requirements of laws, regulations, contracts, and grants that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits:

1. The basic financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.

2. We have made available to you:

   a. All financial records and related data.

   b. All minutes of meetings of the (board of trustees and other appropriate committees), or summaries of actions of recent meetings for which minutes have not yet been prepared.

   c. All peer review organization (PRO), fiscal intermediary, and third-party payor reports and information.

3. Except as disclosed to you in writing, there have been no communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with, laws and regulations in any jurisdiction (including those related to the Medicare and Medicaid antifraud and abuse statutes), deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the basic financial statements.

4. There are no:

   a. Violations or possible violations of laws or regulations, such as those related to the Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Anti-Kickback Statute, Limitations on Certain Physician Referrals (commonly referred to as the "Stark law"), and the False Claims

Act, in any jurisdiction, whose effects should be considered for disclosure in the basic financial statements or as a basis for recording a loss contingency.

b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies.*

c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies.*

d. Material transactions that have not been properly recorded in the accounting records underlying the basic financial statements.

e. Events that have occurred subsequent to the date of the statement of financial position and through the date of this letter that would require adjustment to or disclosure in the basic financial statements except as disclosed in the basic financial statements.

5. We believe that the effects of the uncorrected financial statement misstatements summarized, if any, in the accompanying schedule are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

   Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

a. Management

b. Employees who have significant roles in internal control over financial reporting, or

c. Others where the fraud could have a material effect on the basic financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

9. We have no knowledge of any officer or trustee of the University, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate or mislead you during your audits.

10. The following have been properly recorded or disclosed in the basic financial statements:

    a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties. We understand the term "related party" refers to affiliates of the enterprise; entities for which investments in their equity securities would be required to be accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

b. Guarantees, whether written or oral, under which the University is contingently liable.

c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.

d. Agreements to repurchase assets previously sold, including sales with recourse.

e. Changes in accounting principle affecting consistency.

f. Significant affiliation relationships requiring disclosure.

g. All assets and liabilities under the University's control.

h. Significant relationships with affiliated organizations, and the financial statements of those organizations, where required.

11. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated. There are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed in the footnotes to the basic financial statements.

12. The University has identified and properly accounted for all non-exchange transactions.

13. The University has complied with all aspects of laws, regulations, contracts, grants, and donor restrictions that would have a material effect on the basic financial statements in the event of noncompliance.

14. The University's reporting entity includes all entities that are component units of the University. Such component units have been properly presented as either blended or discrete. The basic financial statements disclose all other joint ventures and other related organizations.

15. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the basic financial statements:

    a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;

    b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and

    c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

16. The University is responsible for compliance with the laws, regulations, donor restrictions, and provisions of contracts and grant agreements applicable to the University. Management has identified and disclosed to you all laws, regulations, donor restrictions, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

17. Deposits and investment securities are properly classified and reported.

18. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the University's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit.*

19. There have been no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

20. There have been no:

a. Instances of fraud involving others that could have a material effect on the adjustments.

b. Allegations, either written or oral, of misstatements or other misapplication of accounting principles in the University's adjustments that have not been disclosed to you in writing.

c. Allegations, either written or oral, of deficiencies in internal control that could have a material effect on the University's adjustments that have not been disclosed to you in writing.

d. False statements affecting the University's adjustments made to you, our internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audits.

21. There are no material transactions that have not been properly recorded in the accounting records underlying the adjustments.

22. We believe that all material expenditures that have been deferred to future periods will be recoverable.

23. In accordance with Government Auditing Standards, we have identified to you all previous audits, attestation engagements, or other studies related to the objectives of this audit including whether related recommendations have been implemented.

24. The basic financial statements properly classify all funds and activities.

25. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

26. The University has complied with all tax and debt limits and with all debt related covenants.

27. We acknowledge our responsibility for the presentation of all required supplementary information in accordance with the applicable criteria and/or prescribed guidelines and:

    a. Believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and/or prescribed guidelines.

    b. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period.

    c. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.

28. The University has complied with all applicable laws and regulations in adopting, approving, and amending budgets.

29. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.

30. Receivables reported in the basic financial statements represent valid claims against debtors arising on or before the date of the statement of net assets and have been appropriately reduced to their estimated net realizable value.

31. All funds that meet the quantitative criteria in GASB Statement No. 34 for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.

32. Expenses have been appropriately classified in or allocated to functions and programs in the statements of revenues, expenses and changes in net assets and allocations have been made on a reasonable basis.

33. Revenues are appropriately classified in the statements of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

34. Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.

35. Special and extraordinary items are appropriately classified and reported.

36. The University has identified and properly reported all of its derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative instruments*.

37. The estimate of fair value of derivative instruments is in compliance with GASB Statement No. 53. For derivative instruments with fair values that are based on other than quoted market prices, the University has disclosed the methods and significant assumptions used to estimate those fair values.

38. The University has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, including those related to the recognition of outlays associated with the development of internally generated computer software.

39. Billings to third-party payors comply in all material respects with applicable coding guidelines (e.g., ICD-9-CM and CPT-4) and laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse) and only reflect charges for goods and services that were medically necessary, ordered in writing by a treating physician, properly approved by regulatory bodies (for example, the Food and Drug Administration), if required, and properly rendered.

40. Amounts advanced to related organizations represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.

41. Management is responsible for the accuracy and propriety of all cost reports filed and all required Medicare, Medicaid, and similar cost reports have been properly filed. All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient related and properly allocated to applicable payors. The reimbursement methodologies and principles employed in accordance with applicable rules and regulations. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report. Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based on historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the entity is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.

42. For investments in alternative investments (including hedge funds, real estate ventures, private equity funds, etc.), management has performed an evaluation to determine whether the investment should be consolidated or accounted for under the equity, fair value, or cost method. Such evaluation included the consideration of various factors, including the legal form of the investment (limited partnership, limited liability corporation, limited liability partnership, trust arrangements, etc.), the level of ownership in the investment, and the frequency with which the unit value is published and purchase and sale transactions are permitted.

43. We agree with the findings of specialists in evaluating the reserves related to the Professional Liability and General Liability Trust Funds and the fair value calculation of the University's derivative instruments. We have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the basic financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

44. Provision, when material, has been made for:

a. Losses to be sustained from inability to fulfill any sales commitments.

b. Estimated loss to be sustained as a result of retroactive adjustments by third-party payors under reimbursement agreements that are subject to examination, including denied claims, changes to Diagnosis-related group (DRG) assignments, or other classification criteria affecting reimbursement.

c. Losses to be sustained as a result of adjustments resulting from review of Medicare or other payor claim data by the Professional Review Organization (PRO) or other payors' reviewers with which the University has agreements.

d. Losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.

e. Losses to be sustained as a result of other-than-temporary declines in the fair value of investments.

f. Liabilities for physician and medical services provided to members covered under capitation arrangements. The recorded liability includes both claims received and unpaid as well as an estimate of the claims incurred but not reported and loss to be sustained for commitments to provide medical services to enrollees under capitation agreements.

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

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

47. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the basic financial statements:

a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;

b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and

c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

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

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

49. The University has prepared the Schedule of Expenditures of Federal Awards (SEFA) in accordance with the requirements of OMB Circular A-133 and has included all expenditures made during the year ended September 30, 2012 for all awards provided by federal agencies in the form of grants, awards under the American Recovery and Reinvestment Act (ARRA) federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance. The University has appropriately identified and separated all ARRA awards within the SEFA.

50. The University is responsible for complying, and has complied, with requirements of laws and regulations, and the provisions of contracts and grant agreements related to each of its federal programs.

51. The University has disclosed to you any interpretations of any compliance requirements that have varying interpretations.

52. The University established and maintained effective internal control over compliance for federal programs that provides reasonable assurance that federal

awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on a federal program.

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

54. We are responsible for the design and implementation of programs and controls to prevent and detect fraud in the administration of federal programs. We have no knowledge of any fraud or suspected fraud affecting the entity's federal programs involving:

    a. Management, including management involved in the administration of federal programs,

    b. Employees who have significant roles in internal control over the administration of federal programs, and

    c. Others where the fraud could have a material effect on compliance with laws and regulations, and provisions of contract and grant agreements related to its federal programs.

55. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.

56. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities related to major federal programs.

57. We have identified and disclosed to you all questioned costs and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.

58. We have made available all documentation related to the compliance requirements, including information related to federal financial reports and claims for advances and reimbursements for major federal programs.

59. The University is in compliance with documentation requirements contained in the requirements promulgated by the sponsoring Federal agencies (e.g. the Department of Health and Human Services' 45 CFR part 74, appendix E) for all costs charged to federal awards, including both direct costs and indirect costs charged through indirect cost proposals. Costs charged to Federal awards, are considered allowable under these same requirements.

60. Federal financial reports and claims for advances and reimbursements are supported by the accounting records from which the financial statements have been prepared.

61. The copies of federal financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

62. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133. If applicable, we have issued management decisions on a timely basis after receipt of subrecipient audit reports that identified non-compliance with laws, regulations, or the provisions of

contracts or grant agreements and have ensured that subrecipients have taken appropriate and timely corrective action on such findings.

63. If applicable, we have considered the results of subrecipient audits and has made any necessary adjustments to its own accounting records.

64. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133.

65. If applicable, the University has provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

66. The University has accurately completed Part I of the data collection form.

67. The University has advised you of all contracts or other agreements with service organizations.

68. If applicable, the University has disclosed to you all communications from its service organizations relating to noncompliance at the service organizations.

69. The University has disclosed any known noncompliance occurring subsequent to September 30, 2012.

70. The University has disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent to September 30, 2012.

71. There are no material unrecorded environmental remediation liabilities that must be recorded and/or disclosed in the University's financial statements.

72. We believe that the amount recorded as due from the Health Service Foundation is fully collectible.

Very truly yours,

University of South Alabama

V. Gordon Moulton
President

M. Wayne Davis
Vice President for Financial Affairs

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

G. Scott Weldon
Assistant Vice President for Financial Affairs

William B. Bush
Assistant Vice President for Hospital Affairs/CFO

Emily K. Johnston
Director, Financial Aid

Ben Tipton
Associate Controller, Grants & Contracts Accounting

Kelly D. Peters
Controller

UNIVERSITY OF SOUTH ALABAMA

BUSINESS OFFICE

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

November 15, 2012

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

Ladies and Gentlemen:

In connection with your engagement to apply agreed-upon procedures, which were agreed to by management of the University of South Alabama, a component unit of the State of Alabama, (the University), solely to assist the University in evaluating the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions relating to the University Tuition Revenue Bonds, Series 1999, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, University Facilities Revenue Capital Improvement Bonds, Series 2008, University Facilities Revenue Capital Improvement Bond, Series 2010, and University Facilities Revenue Capital Improvement Bonds, Series 2012-A and Series 2012-B as of September 30, 2012 and for the year then ended, we confirm:

1. Our understanding that you were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the subject matter referred to above. Accordingly, you did not express such an opinion. Had additional procedures been performed, other matters might have come to your attention that would have been reported to us.

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

2. We are responsible for the subject matter and, when applicable, the assertion.

3. We are responsible for the fair presentation of the subject matter referred to above as of September 30, 2012 and for the year then ended.

4. We are responsible for selecting the criteria and for determining that such criteria are appropriate for our purposes.

5. We have made available to you all related financial records and data.

6. We have advised you of all actions taken at meetings of the board of trustees, and committees of the board of trustees (or other similar bodies as applicable) that may affect the subject matter.

7. We have reviewed a draft of your report of findings dated November 15, 2012, and we are not aware of any significant errors or misstatements contained in that report, and the procedures referred to in the draft report are those we requested and were agreed to by the other specified parties.

8. We take responsibility for the sufficiency (nature, timing, and extent) of the agreed-upon procedures for our purposes.

9. Your procedures were limited to those which we determined would best meet our informational needs and may not necessarily disclose all significant errors, irregularities, including fraud or defalcation, or illegal acts, that may exist.

8. Your report is intended solely for use by us and the other specified parties, and is not intended for use by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes.

9. We have responded fully to all inquiries made to us by you during your engagement.

10. We have communicated to you all known matters contradicting the subject matter.

11. No procedures have been performed since the date of your report and you have no responsibility to update your procedures.

12. There have been no communications from regulatory agencies that would affect the subject matter.

13. The University has complied with all aspects of contractual agreements that would have a material effect on the subject matter in the event of noncompliance.

14. There are no material transactions that have not been properly recorded as part of the subject matter or the assertion.

Very truly yours,

University of South Alabama

M. Wayne Davis
Vice President for Financial Affairs

G. Scott Weldon
Assistant Vice President for Financial Affairs

USA RESEARCH AND TECHNOLOGY CORPORATION

November 15, 2012

KPMG LLP
188 E Capitol Street
Suite 1100
Jackson, MS 39201

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the basic financial statements of the USA Research and Technology Corporation (the Corporation) as of and for the years ended September 30, 2012 and 2011, for the purpose of expressing opinions as to whether the basic financial statements present fairly, in all material respects, the financial position, and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the basic financial statements of financial position, changes in financial position, and cash flows in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits:

1. The basic financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.

2. We have made available to you:

    a. All financial records and related data.

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

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Telephone: (251) 460-6384 • Fax: (251) 461-1774

3. Except as disclosed to you in writing, there have been no communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the basic financial statements.

4. There are no reportable conditions in the design or operation of internal control over financial reporting which could adversely affect the Corporation's ability to record, process, summarize and report financial data, and we have identified no material weaknesses in internal control over financial reporting.

5. There are no:

   a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the basic financial statements or as a basis for recording a loss contingency.

   b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with FASB Accounting Standards Codification (ASC) 450, *Contingencies*.

   c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC 450.

   d. Material transactions that have not been properly recorded in the accounting records underlying the basic financial statements.

   e. Events that have occurred subsequent to the date of the statement of net assets and through the date of this letter that would require adjustment to or disclosure in the basic financial statements.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

   a. Management

   b. Employees who have significant roles in internal control over financial reporting, or

   c. Others where the fraud could have a material effect on the basic financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.

9. The Corporation has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

10. We have no knowledge of any officer or director of the Corporation, or any other person acting under the direction thereof, taking any action to fraudulently influence, coerce, manipulate or mislead you during your audits.

11. The following have been properly recorded or disclosed in the basic financial statements:

    a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties. The term "related party" refers to affiliates of the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.

c. Agreements to repurchase assets previously sold, including sales with recourse.

d. Changes in accounting principle affecting consistency.

e. Significant affiliation relationships requiring disclosure.

f. All assets and liabilities under the Corporation's control.

12. The Corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as disclosed in the footnotes to the basic financial statements.

13. The Corporation has complied with all aspects of laws, regulations, contracts, grants, and donor restrictions that would have a material effect on the basic financial statements in the event of noncompliance.

14. Management is responsible for compliance with the laws, regulations, donor restrictions, and provisions of contracts and grant agreements applicable to the Corporation. Management has identified and disclosed to you all laws, regulations, donor restrictions, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

15. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the Corporation's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit.*

16. The Corporation has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* including those related to the recognition of outlays associated with the development of internally generated computer software.

17. The Corporation has identified and properly reported all of its derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and believe the valuation of the interest rate swap approximates fair value.

18. The Corporation has been recognized as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986 as an organization described in Section 501(c)(3) of the Code, as evidenced by our determination letter dated May 21, 2004, a copy of which has been furnished to you. Since the date of our determination letter, no changes have occurred in the Corporation or operation of the Corporation that would affect our tax exempt status.

19. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the Corporation's current period basic financial statements and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the basic financial statements is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the basic financial statements in future periods.

20. The Corporation has a reasonable basis for allocation of functional expenses.

21. In accordance with Government Auditing Standards, we have identified to you the significant findings and recommendations from previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of this audit and have accurately communicated to you the related corrective actions taken to address the findings.

22. The Organization is not subject to the requirements of OMB Circular A-133 as it did not expend more than $500,000 in federal awards during the year ended September 30, 2012.

23. Management has reviewed, approved, and taken responsibility for accrual adjustments.

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

25. Management has a process to track the status of audit findings and recommendations.

26. The Corporation has identified and properly accounted for all nonexchange transactions.

27. The Corporation does not have any unrecorded financial instruments with off-balance-sheet risk or credit risk.

28. There are no material unrecorded environmental remediation liabilities that must be recorded and/or disclosed in the Corporation's financial statements.

29. The basic financial statements properly classify all funds and activities.

30. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and approved, if applicable.

31. The Corporation has complied with all tax and debt limits and with all debt related covenants.

32. The Corporation has complied with all applicable laws and regulations in adopting, approving and amending budgets.

33. Receivables reported in the basic financial statements represent valid claims against debtors arising on or before the date of the statement of net assets and recorded valuation allowances are necessary, appropriate, and properly supported.

34. All funds that meet the quantitative criteria in GASB Statement No. 34 for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.

35. Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.

36. Special and extraordinary items are appropriately classified and reported.

37. The revenue and related receivable for the cost reimbursement agreement with the University of South Alabama was recognized in the proper period.

Very truly yours,

USA Research and Technology Corporation

V. Gordon Moulton
President

M. Wayne Davis
Vice President for Financial Affairs

R. Ken Davis
University Treasurer, Associate Vice President for Financial Affairs, & Director of Tax Accounting

UNIVERSITY OF SOUTH ALABAMA

RISK MANAGEMENT AND INSURANCE

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

November 15, 2012

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

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the statement of financial position – modified cash basis of University of South Alabama Professional Liability Trust Fund (the Trust Fund) as of September 30, 2012 and 2011, and the related statements of activities – modified cash basis for the years then ended, for the purpose of expressing an opinion as to whether these financial statements present fairly, in all material respects, the financial position of the Trust Fund, and the respective changes in financial conformity with the modified cash basis of accounting principles which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with the modified cash basis of accounting which is a comprehensive accounting other than U.S. generally accepted accounting principles.

2. We have made available to you:

   a. All financial records and related data.

b. All minutes of meetings of the Board of Directors and committees of the Board of Directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. Except as disclosed to you in writing, there have been no communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.

4. Except as disclosed in the notes to the financial statements, there are no:

   a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

   b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies.*

   c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies.*

   d. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.

   e. Events that have occurred subsequent to the date of the statement of financial position – modified cash basis and through the date of this letter that would require adjustment to or disclosure in the financial statements.

5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

   Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

   a. Management

   b. Employees who have significant roles in internal control over financial reporting, or

   c. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

8. The Trust Fund has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

9. We have no knowledge of any officer or Policy Committee member of the Trust Fund, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.

10. The following have been properly recorded or disclosed in the financial statements:

    a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.

       The term "related party" refers to affiliates of the enterprise; entities for which investments in their equity securities would, absent the election of the fair value option under FASB ASC 825, Financial Instruments, be required to be accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

b. Guarantees, whether written or oral, under which the Trust Fund is contingently liable, including guarantee contracts and indemnification agreements pursuant to FASB ASC 460, *Guarantees.*

c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB ASC 275, *Risks and Uncertainties*.

Significant estimates are estimates at the balance sheet date, which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which it is reasonably possible that events could occur which would significantly disrupt normal finances within the next year.

d. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.

e. Agreements to repurchase assets previously sold, including sales with recourse.

f. Changes in accounting principle affecting consistency.

g. Significant affiliation relationships requiring disclosure.

h. All assets and liabilities under the Trust Fund's control.

11. The Trust Fund has complied with all aspects of laws, regulations, contracts, grants, and donor restrictions that would have a material effect on the financial statements in the event of noncompliance.

12. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Trust Fund. Management has identified

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

13. There are no deficiencies, significant deficiencies, or material weaknesses in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the Trust Fund's ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a "significant deficiency" and a "material weakness" in accordance with the definitions in Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit.*

14. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net assets and have been appropriately reduced to their estimated net realizable value.

15. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:

    a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;

    b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and

    c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

16. We are responsible for making the fair value measurements and disclosures included in the financial statements, including determining the fair value of assets and liabilities for which there has been a significant decrease in the volume and level of activity in relation to the normal market activity for those assets or liabilities (or similar assets or liabilities) or for which transactions are deemed not orderly. As part of fulfilling this responsibility, we have established an accounting and financial reporting process for determining the fair value measurements and disclosures, considered the appropriateness of valuation techniques, adequately supported any significant assumptions used, and ensured that the presentation and disclosure of the fair value measurements are in accordance with U.S. generally accepted accounting principles. We believe the assumptions and techniques used by us, including those used by specialists engaged by us, are in accordance with U.S. generally accepted accounting principles.

17. Deposits and investment securities are properly classified and reported.

18. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities – modified cash basis, and allocations have been made on a reasonable basis.

19. Revenues are appropriately classified in the statement of activities – modified cash basis with program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

20. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.

21. We agree with the findings of specialists in evaluating the funding requirement and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

22. Data used in actuarially projecting ultimate unpaid claims and claims adjustments expenses is complete and accurate, and is reconciled to the underlying accounting records.

23. The financial statements properly classify all funds and activities.

24. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and applicable, approved.

25. All funds that meet the quantitative criteria in GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* for presentation as major are indentified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.

26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

27. Special and extraordinary items are appropriately classified and reported.

Further, we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with the modified cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Very truly yours,

University of South Alabama Professional Liability Trust Fund

M. Wayne Davis

M. Wayne Davis
Risk Management Committee Member

Stephen H. Simmons

Stephen H. Simmons
Risk Management Committee Member

Connie G. Cook

Connie G. Cook
Trust Fund Administrator

UNIVERSITY OF SOUTH ALABAMA

RISK MANAGEMENT AND INSURANCE

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

November 15, 2012

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

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the statement of financial position – modified cash basis of University of South Alabama General Liability Program (the Program) as of September 30, 2012 and 2011, and the related statements of activities – modified cash basis for the years then ended, for the purpose of expressing an opinion as to whether these financial statements present fairly, in all material respects, the financial position of the Program, and the respective changes in financial conformity with the modified cash basis of accounting principles which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with the modified cash basis of accounting which is a comprehensive accounting other than U.S. generally accepted accounting principles.

2. We have made available to you:

   a. All financial records and related data.

b. All minutes of meetings of the Board of Directors and committees of the Board of Directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. Except as disclosed to you in writing, there have been no communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.

4. Except as disclosed in the notes to the financial statements, there are no:

   a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

   b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies.*

   c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.

   d. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.

   e. Events that have occurred subsequent to the date of the statement of financial position – modified cash basis and through the date of this letter that would require adjustment to or disclosure in the financial statements.

5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

   Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

    a. Management

    b. Employees who have significant roles in internal control over financial reporting, or

    c. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

8. The Program has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

9. We have no knowledge of any officer or Policy Committee member of the Program, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.

10. The following have been properly recorded or disclosed in the financial statements:

    a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.

       The term "related party" refers to affiliates of the enterprise; entities for which investments in their equity securities would, absent the election of the fair value option under FASB ASC 825, Financial Instruments, be required to be accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

b. Guarantees, whether written or oral, under which the Program is contingently liable, including guarantee contracts and indemnification agreements pursuant to FASB ASC 460, *Guarantees.*

c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB ASC 275, *Risks and Uncertainties*.

Significant estimates are estimates at the balance sheet date, which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which it is reasonably possible that events could occur which would significantly disrupt normal finances within the next year.

d. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.

e. Agreements to repurchase assets previously sold, including sales with recourse.

f. Changes in accounting principle affecting consistency.

g. Significant affiliation relationships requiring disclosure.

h. All assets and liabilities under the Program's control.

11. The Program has complied with all aspects of laws, regulations, contracts, grants, and donor restrictions that would have a material effect on the financial statements in the event of noncompliance.

12. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Program. Management has identified and

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

13. There are no deficiencies, significant deficiencies, or material weaknesses in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the Program's ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a "significant deficiency" and a "material weakness" in accordance with the definitions in Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit.*

14. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net assets and have been appropriately reduced to their estimated net realizable value.

15. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:

    a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;

    b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and

    c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

16. We are responsible for making the fair value measurements and disclosures included in the financial statements, including determining the fair value of assets and liabilities for which there has been a significant decrease in the volume and level of activity in relation to the normal market activity for those assets or liabilities (or similar assets or liabilities) or for which transactions are deemed not orderly. As part of fulfilling this responsibility, we have established an accounting and financial reporting process for determining the fair value measurements and disclosures, considered the appropriateness of valuation techniques, adequately supported any significant assumptions used, and ensured that the presentation and disclosure of the fair value measurements are in accordance with U.S. generally accepted accounting principles. We believe the assumptions and techniques used by us, including those used by specialists engaged by us, are in accordance with U.S. generally accepted accounting principles.

17. Deposits and investment securities are properly classified and reported.

18. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities – modified cash basis, and allocations have been made on a reasonable basis.

19. Revenues are appropriately classified in the statement of activities – modified cash basis with program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

20. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.

21. We agree with the findings of specialists in evaluating the funding requirement and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

22. Data used in actuarially projecting ultimate unpaid claims and claims adjustments expenses is complete and accurate, and is reconciled to the underlying accounting records.

23. The financial statements properly classify all funds and activities.

24. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and applicable, approved.

25. All funds that meet the quantitative criteria in GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* for presentation as major are indentified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.

26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

27. Special and extraordinary items are appropriately classified and reported.

Further, we confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with the modified cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Very truly yours,

University of South Alabama General Liability Program

M. Wayne Davis

M. Wayne Davis

Risk Management Committee Member

Stephen Simmons

Stephen H. Simmons

Risk Management Committee Member

Connie G. Cook

Connie G. Cook

Trust Fund Administrator

UNIVERSITY OF SOUTH ALABAMA

HEALTH SERVICES FOUNDATION
ADMINISTRATIVE OFFICES

TELEPHONE: (251) 470-1671
MASTIN BLDG., ROOM 614 • 2451 FILLINGIM STREET
MOBILE, ALABAMA 36617-2293
FAX: (251) 471-7843

November 15, 2012

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

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the statements of financial position of University of South Alabama Health Services Foundation (the Foundation) as of September 30, 2012 and 2011, the related statements of operations and changes in deficit and cash flows for each of the years then ended, for the purpose of expressing an opinion as to whether these financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Foundation in conformity with U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.

2. We have made available to you:

   a. All financial records and related data.

b. All minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

c. All fiscal intermediary and third-party payor reports and information.

3. Except as disclosed to you in writing, there have been no:

a. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction (including those related to the Medicare and Medicaid antifraud and abuse statutes), deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.

b. False statements affecting the Foundation's financial statements made to the Foundation's internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audits.

4. There are no:

a. Violations or possible violations of laws or regulations, such as those related to the Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Anti-Kickback Statute, Limitations on Certain Physician Referrals (commonly referred to as the "Stark law"), and the False Claims Act, in any jurisdiction, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

b. Unasserted claims or assessments that our lawyers has have advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*.

c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.

d. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.

e. Events that have occurred subsequent to the date of the statement of financial position and through the date of this letter that would require adjustment to or disclosure in the financial statements.

5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

   Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

   a. Management,

   b. Employees who have significant roles in internal control over financial reporting, or

   c. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.

8. The Foundation has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

9. We have no knowledge of any officer or director of the Foundation, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate or mislead you during your audit.

10. The following have been properly recorded or disclosed in the financial statements:

a. Related party transactions including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments and amounts receivable from or payable to related parties.

The term "related party" refers to affiliates of the enterprise; entities for which investments in their equity securities would, absent the election of the fair value option under FASB ASC 825, Financial Instruments, be required to be accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests

b. Guarantees, whether written or oral, under which the Foundation is contingently liable, including guarantee contracts and indemnification agreements pursuant to FASB ASC 460, *Guarantees*.

c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB ASC 275, *Risks and Uncertainties*.

Significant estimates are estimates at the balance sheet date, which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, labor, or markets or geographic areas for which it is reasonably possible that events could occur which would significantly disrupt normal finances within the next year.

d. Significant common ownership or management control relationships requiring disclosure.

e. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.

f. Agreements to repurchase assets previously sold, including sales with recourse.

g. Changes in accounting principle affecting consistency.

h. Significant relationships with affiliated organizations, and the financial statements of those organizations, where required.

i. All assets and liabilities under the Foundation's control.

j. Rights to the assets held by a recipient organization (unless the recipient organization was explicitly granted variance power) as either an interest in the net assets of the recipient organization, a beneficial interest or a receivable.

11. The Foundation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.

12. The Foundation has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

13. Billings to third-party payors comply in all material respects with applicable coding guidelines (e.g., ICD-9-CM and CPT-4) and laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse) and only reflect charges for goods and services that were medically necessary, ordered in writing by a treating physician, properly approved by regulatory bodies (for example, the Food and Drug Administration), if required, and properly rendered.

14. There are no deficiencies, significant deficiencies, or material weaknesses in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect The Foundation's ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a "significant deficiency" and a "material weakness" in accordance with the definitions in Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*.

15. Receivables reported in the financial statements represent valid claims against debtors for sales, services, or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

16. Amounts advanced to related organizations represent valid receivables and are expected to be rccovered at some future date in accordance with the terms of related agreements.

17. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:

   a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;

   b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and

   c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

18. The Foundation has appropriately grouped long-lived assets together for purposes of assessing impairment in accordance with FASB ASC 360, *Property, Plant and Equipment*. We have reviewed long-lived assets, including amortizable intangible assets, to be held and used, for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable. Provision has been made for any material adjustments to long-lived assets including amortizable intangible assets.

19. We are responsible for making the fair value measurements and disclosures included in the financial statements, in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, including determining the fair value of assets and liabilities for which there has been a significant decrease in the volume and level of activity in relation to the normal market activity for those assets or liabilities (or similar assets or liabilities) or for which transactions are deemed not orderly. As part of fulfilling this responsibility, we have established an accounting and financial reporting process for determining the fair value measurements and disclosures, in accordance with the fair value techniques included in FASB ASC 820, considered the appropriateness of valuation techniques, including circumstances in which a practical expedient may be used to estimate fair value, adequately supported any significant assumptions used, and ensured that the presentation and disclosure of the fair value measurements are in accordance with U.S. generally accepted accounting principles including the disclosure requirements of FASB ASC 820. We believe the assumptions and techniques used by us, including those used by specialists engaged by us, are in accordance with the definition of fair value in FASB ASC 820and the disclosures adequately describe the level of the inputs used in the fair value measurement, in accordance with the fair value hierarchy in FASB ASC 820.

20. We believe that all material expenditures that have been deferred to future periods will be recoverable.

21. The Foundation is in compliance with bond indentures or other debt agreements.

22. Provision, when material, has been made for:

    a. Losses to be sustained from inability to fulfill any sales commitments.

    b. Losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.

    c. Losses to be sustained as a result of the reduction of excess or obsolete inventories to their estimated net realizable value.

    d. Estimated loss to be sustained as a result of retroactive adjustments by third-party payors under reimbursement agreements that are subject to examination, including denied claims, Recovery Audit Contractors (RAC) audits, changes to Diagnosis-related Group (DRG) assignments or other classification criteria affecting reimbursement.

    e. Loss to be sustained as a result of adjustments resulting from review of Medicare or other payor claim data by the payors' reviewers with which the Foundation has agreements.

    f. Losses to be sustained as a result of other-than-temporary declines in the fair value of investments.

    g. Liabilities for physician and medical services provided to members covered under capitation arrangements. The recorded liability includes both claims received and unpaid as well as an estimate of the claims incurred but not reported and loss to be sustained for commitments to provide medical services to enrollees under capitation agreements.

    h. Audit adjustments by fiscal intermediaries, third party payors, and other regulatory agencies.

23. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.

24. Uncertain tax positions have been accounted for in accordance with the provisions of FASB ASC 740, *Income Taxes*.

25. The Foundation has been recognized as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986 as an organization described in Section 501(c)(3) of the Code, as evidenced by our determination letter, a copy of which has been furnished to you. Since the date of our determination letter, no changes have occurred in The Foundation or operation of The Foundation that would affect our tax exempt status. Based on our determination letter, we have been classified as under Section 509(a)(1) and 170(b)(1)(A)(iii) of the Internal Revenue Code, and since the date of our determination letter, no changes have occurred in the Foundation or its operations that would change this classification.

26. We agree with the findings of specialists in evaluating the estimated professional and general liability costs and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

27. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the Foundation's current period financial statements, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.

28. The Foundation has adopted the provisions of FASB ASC 958-205, *Not-for-Profit Entities -- Presentation of Financial Statements*, including any changes required to net asset classification of donor-restricted endowment funds and the incremental disclosure

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

29. The Foundation has classified net assets as unrestricted, temporarily restricted or permanently restricted based on our assessment of the donor's intention, as specified in original donor correspondence where available. Where not available, we used other corroborating evidential matter including minutes of the Board, accounting records and financial statements. To the extent that we were unable to review original donor correspondence to determine the amount of the original gift and donor additions, our determination of such amount was based on our best estimate considering the relevant facts and circumstances. Amounts classified as temporarily restricted are subject to donor-imposed purpose or time restrictions which precluded us from expending such amounts or recognizing such amounts as unrestricted as of September 30, 2012. Amounts classified as permanently restricted are subject to donor-imposed or statutory restrictions which require these amounts to be held in perpetuity. In addition, we have classified appreciation and income related to such donations in accordance with relevant donor or statutory restrictions. Losses on investments of a donor-restricted endowment fund have been classified in accordance with FASB ASC 958-320, *Not-for-Profit Entities -- Investments-Debt and Equity Securities*.

30. The Foundation has a reasonable basis for allocation of functional expenses.

31. The Foundation is not subject to the requirements of OMB Circular A-133 or 45 CFR Section 74.26, *Uniform Administrative Requirements for Awards and Subawards to Institutions of Higher Education, Hospitals, Other Nonprofit Organizations, and Commercial Organizations; and Certain Grants and Agreements with States, Local Governments and Indian Tribal Governments*, as it did not expend more than $500,000 in federal awards during the year ended September 30, 2012.

Further, we confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles.

Very truly yours,

University of South Alabama Health Services Foundation

Becky S. Tate
Chief Executive Officer

John P. Pannelli
Assistant V.P., Medical Financial Affairs

KPMG

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

Independent Auditors' Report

The Board of Trustees
University of South Alabama:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the University of South Alabama, a component unit of the State of Alabama (the University), and its aggregate discretely presented component units as of and for the year ended September 30, 2012, and have issued our report thereon dated November 15, 2012. We did not audit the 2012 consolidated financial statements of the University of South Alabama Foundation, which represents 80%, 101%, and 14%, respectively, of the 2012 assets, net assets, and revenues, gains, and other support of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based on the report of the other auditors.

In connection with our audit, nothing came to our attention that caused us to believe that the University failed to comply with the terms, covenants, provisions, or conditions of Article X of the Trust Indenture, dated February 15, 1996, with The Bank of New York Trust Company, N.A. (the Bank), authorizing the issuance of $40,130,000 of University Tuition Revenue Bonds, Series 1999, on March 15, 2004, authorizing the issuance of $51,080,000 of University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, on December 1, 2006, authorizing the issuance of $100,000,000 of University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, on September 25, 2008, authorizing the issuance of $112,885,000 University Facilities Revenue Capital Improvement Bonds, Series 2008, on June 16, 2010, authorizing the issuance of $29,750,000 University Facilities Revenue Capital Improvement Bond, Series 2010, and on January 4, 2012, authorizing the issuance of $32,740,000 University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of trustees and management of the University of South Alabama and management of The Bank of New York Trust Company, N.A. and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 15, 2012

KPMG

UNIVERSITY OF SOUTH ALABAMA

Independent Accountants' Report on Applying Agreed-Upon Procedures in Connection with, University Tuition Revenue Bonds, Series 1999, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, University Facilities Revenue Capital Improvement Bonds, Series 2008, University Facilities Revenue Capital Improvement Bond, Series 2010, and University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B

September 30, 2012

KPMG

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

Independent Accountants' Report on Applying Agreed-Upon Procedures

The Board of Trustees and Management
University of South Alabama:

We have performed the procedures enumerated below, which were agreed to by members of management of the University of South Alabama (the University), solely to assist you in evaluating the accompanying Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions relating to the University Tuition Revenue Bonds, Series 1999, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004, University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006, University Facilities Revenue Capital Improvement Bonds, Series 2008, University Facilities Revenue Capital Improvement Bond, Series 2010, and University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B as of September 30, 2012 and for the year then ended. The University's management is responsible for the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

a. We compared the amounts shown on the Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions in Exhibit A to the annual trustee statements of cash and investment transactions provided to us by the bond trustee and found them to be in agreement.

b. We compared the amounts shown on the Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions in Exhibit B to the annual trustee statements of cash and investment transactions provided to us by the bond trustee and found them to be in agreement.

c. We obtained a schedule of general student fees (tuition) earned during the year ended September 30, 2012 (not included herein), which approximated $103,007,000 and compared that amount to the general student fees recorded in the University's general ledger and found them to be in agreement.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accompanying Statement of Changes in Cash and Investments Held by Trustee Pursuant to the Bond Resolutions and the Statement of Cash and Investments Held by Trustee Pursuant to the Bond Resolutions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the board of trustees and management of the University of South Alabama, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 15, 2012

Exhibit A

UNIVERSITY OF SOUTH ALABAMA

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

University Tuition Revenue Bonds, Series 1999,
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004,
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006,
University Facilities Revenue Capital Improvement Bonds, Series 2008,
University Facilities Revenue Capital Improvement Bond, Series 2010, and
University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B

Year ended September 30, 2012
(In thousands)

Cash and investment transactions:		
Cash receipts:		
Deposits from University of South Alabama for interest and retirement of bonds	$	21,975
Proceeds from sale of investments		14,498
		36,473
Cash disbursements:		
Principal payments		8,033
Interest payments		13,942
Purchases of investments		14,498
		36,473
Net change in cash and investments during the year		—
Total cash and investments held by trustee:		
Beginning of year		3
End of year	$	3

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

Exhibit B

UNIVERSITY OF SOUTH ALABAMA

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

University Tuition Revenue Bonds, Series 1999,
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2004,
University Tuition Revenue Refunding and Capital Improvement Bonds, Series 2006,
University Facilities Revenue Capital Improvement Bonds, Series 2008,
University Facilities Revenue Capital Improvement Bond, Series 2010, and
University Facilities Revenue Capital Improvement Bonds, Series 2012-A and 2012-B

September 30, 2012
(In thousands)

Cash and investments, at cost:	
Total cash and investments	$ 3

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

RESOLUTION

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

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

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

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

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, time frames 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:

Asset Class	Long-Term 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%	12-20%
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.

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 $250,000.00 coverage limit, or participation by the Bank in the State of Alabama's Security for Alabama Funds Enforcement Program.

2. Certificates of Deposit issued by banks and fully collateralized for the amounts above the FDIC $250,000.00 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 $250,000.00 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.

RESOLUTION

ADJUSTMENT OF ENDOWMENT MANAGEMENT FEE

WHEREAS, the University of South Alabama has an ongoing responsibility to build endowment assets to the financial benefit of the University, thereby strengthening its ability to enhance the quality of university programs, and

WHEREAS, the activities necessary to build and maintain the University's endowment require expenditures for costs associated with engaging financial management services; support for fundraising activities; management of the endowed gift process; liquidating of real property accepted as gifts where appropriate; and other such business-related expenditures, and

WHEREAS, the University has used the mechanism of a management fee on endowment assets to provide a stable source of funding for all such business activities related to acquisition of new assets and management for the growth of assets through prudent and strategic investment, and

WHEREAS, increasing the management fee assessed against the endowment assets from its current rate of 7/10 of one percent to one percent would provide a means of maintaining the momentum of development and alumni relations programming in the face of continuing declines in state appropriations, and be consistent with best practices among universities nationally,

THEREFORE, BE IT RESOLVED, the Board of Trustees, on the recommendation of its Development, Endowment and Investment Committee, authorizes the University to assess an annual management fee of up to one percent of total assets held in the endowment as of September 30 of each year and retroactive to September 30, 2012, and

BE IT FURTHER RESOLVED, the President is authorized to set the fee on various funds and designate the expenditure of resources generated by this management fee as appropriate through the University budgeting process for the purpose of supporting the university's development function.

UNIVERSITY OF SOUTH ALABAMA

REC'D
OFFICE OF THE PRESIDENT
NOV 2? 2012
UNIVERSITY OF SOUTH ALABAMA

OFFICE OF DEVELOPMENT
AND ALUMNI RELATIONS

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November 26, 2012

Mr. V. Gordon Moulton
President
University of South Alabama
307 University Boulevard
AD 122
Mobile, AL 36688

Dear President Moulton:

Vice President Davis and I have reviewed the management costs and fund raising expenses relative to managing and growing significantly the University's endowment, especially in anticipation of our new endowed scholarship challenge. Further, we have reviewed the best practices of universities relative to funding mechanisms to address these costs detailed in the most recent April 2011 *Council for Advancement and Support of Education* (CASE) CASE 2010 Institutionally Related Foundation Funding Survey, and therefore recommend the attached resolution to you and the Board of Trustees for consideration. The resolution is grounded on the best practices cited in the survey results relative to "Endowment Management Fees".

Sincerely,

Joseph F. Busta, Jr.
Vice President
Development & Alumni Relations

JFBjr/sd

Attachments

C: Mr. Wayne Davis

UNIVERSITY OF SOUTH ALABAMA 50 YEARS 1963-2013

Rationale for Endowment Management Fee

In recognition of the benefits that building a substantial endowment will bring to all parts of the university, the administration seeks an adjustment to the endowment management fee which is currently charged against net assets held in endowment for the purpose of providing a stronger and steady source of funding to support financial management of the endowment and costs associated with raising and administering new gifts.

In an environment of ongoing reductions in state appropriations, management fees against endowment assets offer an important opportunity for maintaining momentum of development and alumni programming and the consequent ongoing growth of endowment assets while reducing the demand on state resources, thereby helping the university address budget challenges.

According to the 2011 Council for Advancement and Support of Education (CASE), most recent 2010 institutionally related foundation survey among American universities, management fees on endowment have become ***the most commonly used mechanism*** for funding development programs. Endowment management fees employed nationwide range from less than 1 percent to more than 2 percent. The most common fee employed is 1 percent. Currently, 87.4 percent of institutions with a management fee used a 1 percent or higher fee. Fewer than 12 percent of institutions employing management fees use a fee lower than 1%.

Increasing the management fee on USA's endowment from 7/10 of one percent to one percent of asset value, will reduce demand on the university's state budget, promote the continued vigor of development programs, and are well within the established best practices of universities nationally.

The 2011-12 management fee of 0.7% generated \$886,952.70, on an asset balance of \$126,707,528.40. Given the September 30, 2012 preliminary figures, the total asset balance for the University endowment is approximately \$140,000,000, a one percent assessment would yield approximately \$1,400,000.