



UNIVERSITY OF SOUTH ALABAMA

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

September 30, 2012



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.



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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



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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



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One Jackson Place
138 East Capitol Street
Jackson, MS 39201-2127

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Fax +1 601 354 3745
Internet www.us.kpmg.com

MM
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



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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



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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



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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.



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- 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.



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- 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,



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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.



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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.



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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.



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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

ACCEPTED

University of South Alabama

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:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
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.



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 deficiencies* or *fail*. KPMG LLP has received a peer review rating of *pass*.

PricewaterhouseCoopers LLP

December 2, 2011

CPA Peer Review Program

December 8, 2011

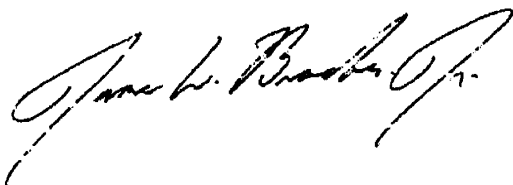
John B. Veihmeyer, CPA
KPMG LLP
345 Park Ave Bsmt LB6
New York, NY 10154

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*



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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.



Mr. M. Wayne Davis
University of South Alabama
November 9, 2012
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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



Mr. M. Wayne Davis
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Page 3 of 3

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

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.

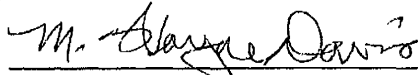
72. We believe that the amount recorded as due from the Health Service Foundation is fully collectible.

Very truly yours,

University of South Alabama



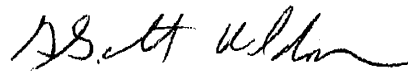
V. Gordon Moulton
President



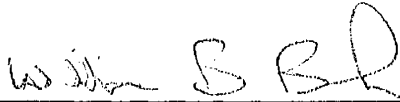
M. Wayne Davis
Vice President for Financial Affairs



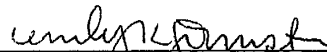
Robert K. Davis
*University Treasurer, Associate
Vice President for Financial Affairs, &
Director of Tax Accounting*



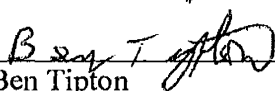
G. Scott Weldon
*Assistant Vice President for
Financial Affairs*



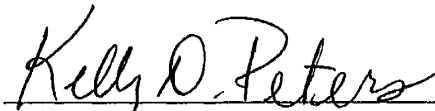
William B. Bush
*Assistant Vice President for Hospital
Affairs/CFO*



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.

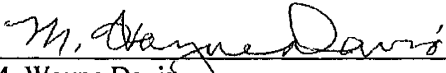
Further, we confirm, to the best of our knowledge and belief, the following representations made to you during your agreed-upon procedures engagement:

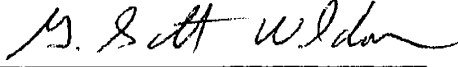
2. We are responsible for the subject matter and, when applicable, the assertion.
3. We are responsible for the fair presentation of the subject matter referred to above as of September 30, 2012 and for the year then ended.
4. We are responsible for selecting the criteria and for determining that such 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.

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.

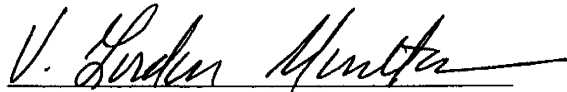
- b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.
 - c. Agreements to repurchase assets previously sold, including sales with recourse.
 - d. Changes in accounting principle 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.

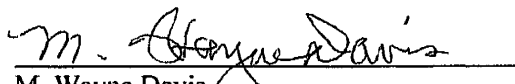
17. The Corporation has identified and properly reported all of its derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and believe the valuation of the interest rate swap approximates fair value.
18. The Corporation has been 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.

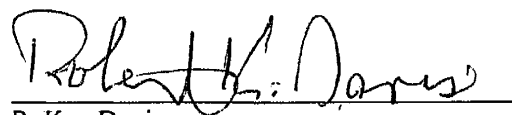
27. The Corporation does not have any unrecorded financial instruments with off-balance-sheet risk or credit risk.
28. There are no material unrecorded environmental remediation liabilities that must be recorded and/or disclosed in the Corporation's financial statements.
29. The basic financial statements 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
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 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.

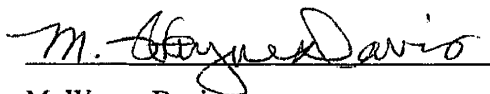
17. Deposits and investment securities are properly classified and reported.
18. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities – modified cash basis, and allocations have been made on a reasonable basis.
19. Revenues are appropriately 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 identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.
26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

27. Special and extraordinary items are appropriately classified and reported.

Further, we confirm that we are responsible for the fair presentation in the financial statements of financial position, 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.

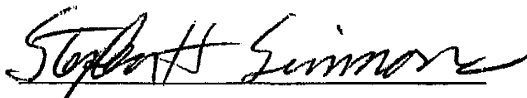
Very truly yours,

University of South Alabama Professional Liability Trust Fund



M. Wayne Davis

Risk Management Committee Member



Stephen H. Simmons

Risk Management Committee Member



Connie G. Cook

Trust Fund Administrator

UNIVERSITY OF SOUTH ALABAMA



RISK MANAGEMENT AND INSURANCE

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

November 15, 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.

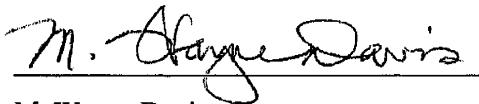
17. Deposits and investment securities are properly classified and reported.
18. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities – modified cash basis, and allocations have been made on a reasonable basis.
19. Revenues are appropriately 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 identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.
26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

27. Special and extraordinary items are appropriately classified and reported.

Further, we confirm that we are responsible for the fair presentation in the financial statements of financial position, 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

Risk Management Committee Member



Stephen H. Simmons

Risk Management Committee Member



Connie G. Cook

Trust Fund Administrator

UNIVERSITY OF SOUTH ALABAMA

HEALTH SERVICES FOUNDATION
ADMINISTRATIVE OFFICES



TELEPHONE: (251) 470-1671
MASTIN BLDG., ROOM 614 • 2451 FILLINGIM STREET
MOBILE, ALABAMA 36617-2293
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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 recovered at some future date in accordance with the terms of related agreements.
17. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:
 - a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;
 - b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and
 - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
18. The Foundation has appropriately grouped long-lived assets together for purposes of assessing impairment in accordance with FASB ASC 360, *Property, Plant and Equipment*. We have reviewed long-lived assets, including amortizable intangible assets, to be held and used, for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable. Provision has been made for any material adjustments to long-lived assets including amortizable intangible assets.
19. We are responsible for making the fair value measurements and disclosures included in the financial statements, in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, including determining the fair value of 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 820 and the disclosures adequately describe the level of the inputs used in the fair value measurement, in accordance with the fair value hierarchy in FASB ASC 820.

20. We believe that all material expenditures that have been deferred to future periods will be recoverable.
21. The Foundation is in compliance with bond indentures or other debt agreements.
22. Provision, when material, has been made for:
 - a. Losses to be sustained from inability to fulfill any sales commitments.
 - b. Losses to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.
 - c. Losses to be sustained as a result of the reduction of excess or obsolete inventories to their estimated net realizable value.
 - d. Estimated loss to be sustained as a result of retroactive adjustments by third-party payors under reimbursement agreements that are subject to examination, including denied claims, Recovery Audit Contractors (RAC) audits, changes to Diagnosis-related Group (DRG) assignments or other classification criteria affecting reimbursement.
 - e. Loss to be sustained as a result of adjustments resulting from review of Medicare or other payor claim data by the payors' reviewers with which the Foundation has agreements.
 - f. Losses to be sustained as a result of other-than-temporary declines in the fair value of investments.
 - g. Liabilities for physician and medical services provided to members covered under capitation arrangements. The recorded liability includes both claims received and unpaid as well as an estimate of the claims incurred but not reported and loss to be sustained for commitments to provide medical services to enrollees under capitation agreements.
 - h. Audit adjustments by fiscal intermediaries, third party payors, and other regulatory agencies.

23. The 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

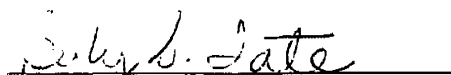
requirements for all endowment funds (including both donor-restricted and board-designated endowment funds).

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.

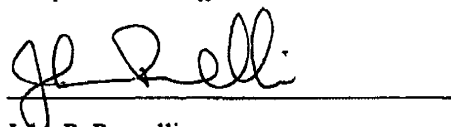
Very truly yours,

University of South Alabama Health Services Foundation

A handwritten signature in cursive script, reading "Becky S. Tate", written over a horizontal line.

Becky S. Tate

Chief Executive Officer

A handwritten signature in cursive script, reading "John P. Pannelli", written over a horizontal line.

John P. Pannelli

Assistant V.P., Medical Financial Affairs