



University of South Alabama Children's & Women's Hospital doubled its size in 2014 with the completion of a nearly 200,000-square-foot expansion. e hospital is among a handful of freestanding hospitals in the United States dedicated speci cally to the health care needs of children and women.



University of South Alabama Board of Trustees

Pictured from the left, Kenneth O. Simon, Arlene Mitchell, Robert D. Jenkins III, Bettye R. Maye, Michael P. Windom, E. omas Corcoran, Dr. Steven P. Furr, Bryant Mixon, James A. Yance, William S. Stimpson, Chandra Brown Stewart, John M. Peek, James H. Shumock, Dr. Scott A. Charlton, Dr. Steven H. Stokes and President Tony G. Waldrop. Not pictured Dr. Robert Bentley.

# 2014 Financial Report

The University of South Alabama is a leading comprehensive public university internationally recognized for educational, research, and health care excellence as well as for its positive intellectual, cultural, and economic impact on those it serves. In order to continue to advance our vision for the university, five priorities have been designated: i. provide access to all qualified students and to promote success for all our students; ii. enhance graduate education as well as research and scholarly activity; iii. enhance students' understanding of other cultures and foster increased exposure to individuals from other countries; iv. provide excellence in health care and; v. enhance community engagement for faculty, staff and students.

As the University moves into its second fifty years, it is only through a sound financial position that these priorities can be accomplished. Despite the challenges of the past several years and as evidenced by the accompanying financial report, the financial position of the University of South Alabama remains strong. This financial strength allows us to continue to serve the citizens of the state of Alabama and beyond by providing top quality academic, research, health care and public service programs.

In the fall of 2014, the University enjoyed an enrollment growth of almost 5% to a record number of 16,055 students. This increased enrollment is a testament to the strength of our academic programs, the hard work of our faculty and staff, and the spirit of our students and alumni. Along with our record enrollment growth comes a record number of students choosing to live in on-campus housing. Over 2,200 students are living in University-owned-and-operated housing and an additional 1,000 students live in the Grove, a private apartment complex located on the USA campus.


Over the past two years, the University has completed and placed into service a 195,000-square-foot addition to the USA Children's and Women's Hospital, a new 350-bed residence hall and an extensive renovation of the University's Student Center. The Mitchell-Moulton Scholarship Initiative was launched which will provide an enhanced permanently-endowed academic scholarship program for students in all fields of study. The University is also pleased to announce the opening of the new Student Center and the spirhoosing to livdents alrpired vidu es c r



Tony G. Waldrop, Ph.D.  
President  
University of South Alabama

# Message from the **PRESIDENT**

Message from the  
**CHAIR PRO  
TEMPORE**  
of the Board of Trustees



Steven P. Furr, MD  
Chair Pro Tempore, Board of Trustees  
University of South Alabama

Your Board of Trustees is dedicated to the success of the University of South Alabama and ensuring that our core values are met and maintained. We are dedicated to the successful achievement of the mission of the University and are dedicated to the success of our students, faculty and staff.

The Board of Trustees takes its responsibility for the stewardship of our financial resources and academic programs very seriously. We are constantly striving for improvements in all aspects of the University and seek to ensure that USA is an intellectual and economic leader in the State of Alabama and the entire region for years to come. I am privileged to work alongside my colleagues on the Board as well as with President Waldrop and our University's dedicated and outstanding leadership team as we continue to move USA forward.

Steven P. Furr, MD

Introduction from the  
**VICE-PRESIDENT FOR  
FINANCIAL AFFAIRS** S

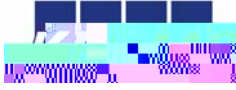


An annual reunion for graduates of the Hollis J. Wiseman Neonatal Intensive Care Unit brings children, such as the ones pictured here, together with the medical professionals who cared for them as premature or critically ill newborns.

I am pleased to present the University of South Alabama's Annual Financial Report for the year ended September 30, 2014. It is our goal to provide useful information concerning the University's financial position and activities for the year. The Management Discussion and Analysis, the financial statements, and the notes to the financial statements document the University's financial results for this fiscal year. These financial statements present the accrual basis of accounting and, accordingly, include some amounts based upon judgment. The accompanying financial statements were prepared by USA's management in conformity with accounting principles generally accepted in the United States of America.

The management of the University of South Alabama is responsible for the integrity and objectivity of the financial statements. Management believes that the University's system of internal accounting controls provides reasonable assurance that assets are protected and that transactions and events are properly recorded. The Board of Trustees of the University of South Alabama, through the Audit Committee, monitors the financial and accounting operations of the University.

Stephen H. Simmons  
Vice-President for Financial Affairs  
University of South Alabama



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

Basic Financial Statements

September 30, 2014 and 2013

(With Independent Auditor's Report Thereon)

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

Basic Financial Statements  
September 30, 2014 and 2013

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

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September 30, 2014 and 2013

## Introduction

The following discussion presents an overview of the financial position and financial activities of the University of South Alabama (the University), including the University of South Alabama Hospitals (the Hospitals), a division of the University, at September 30, 2014 and 2013 and for the years then ended. This discussion was prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

The basic financial statements of the University consist of the University and its component units. The financial position and results of operations of the component units are either blended with the University financial position and results of operations or are discretely presented. The treatment of each component unit is governed by pronouncements issued by the Governmental Accounting Standards Board. As more fully described in note to the basic financial statements, the University of South Alabama Professional Liability Trust Fund, University of South Alabama General Liability Trust Fund and USA HealthCare Management, LLC are reported as blended component units. The University of South Alabama Foundation, the University of South Alabama Health Services Foundation, and the USA Research and Technology Corporation are discretely presented.

## Financial Highlights

At September 30, 2014, 2013, and 2012, the University had total assets of \$1,055,286,000, \$1,042,345,000, and \$983,800,000, respectively; total liabilities and deferred inflows of \$555,736,000, \$549,355,000, and \$530,289,000, respectively; and net position of \$499,550,000, \$492,990,000, and \$453,511,000, respectively. University net position increased by \$6,560,000 during the year ended September 30, 2014 compared to an

UNIVERSITY OF SOUTH ALABAMA  
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CONDENSED SCHEDULES OF NET POSITION  
September 30, 2014 and 2013

respectively, of current assets at September 30, 2014. Noncurrent assets at September 30, 2014 consist primarily of capital assets, restricted cash and cash equivalents, and restricted investments.

The Condensed Schedules of Net Position at September 30, 2014, 2013, and 2012 follow (in thousands):

Condensed Schedules of Net Position			
	2014	2013	2012
Assets:			
Current	\$ 303,272	333,828	292,047
Capital assets	578,303	565,830	533,195
Other noncurrent	173,711	142,687	158,560
Total assets	\$ 1,055,286	1,042,345	983,802
Liabilities:			
Current	\$ 120,646	115,149	115,085
Noncurrent	434,913	434,206	415,207
Total liabilities	555,559	549,355	530,292

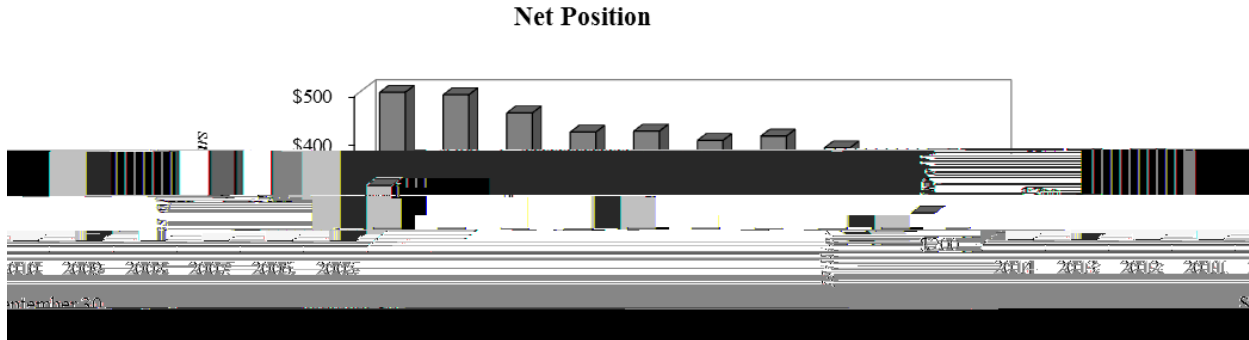
University cash, cash equivalents, and investments (current and noncurrent) increased between September 30, 2013 and 2014 by \$8,497,000 to \$403,965,000. This increase is consistent with the results of operations for the year. This follows an increase of \$47,820,000 in cash, cash equivalents, and investments between 2012 and 2013 which was due primarily to the issuance of the 2013-A, 2013-B and 2013-C bonds, net of utilization of cash from prior bond issues for various construction projects.



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 September 30, 2014 and 2013

Net position of the University as of September 30 is as follows:



All categories of restricted net position increased by approximately 11% between September 30, 2013 and 2014, primarily due to the addition of restricted gifts to the University. Unrestricted net position decreased from \$174,298,000 to \$160,635,000 between September 30, 2013 and 2014 due primarily to changes in the fair value of the 2004 and 2006 swaptions.

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

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

Generally, operating revenues have the characteristics of exchange transactions and are received or accrued for

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CONDENSED SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

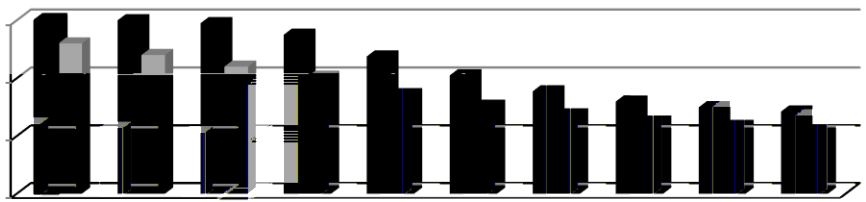
September 30, 2014 and 2013

The Condensed Schedules of Revenues, Expenses, and Changes in Net Position for the years ended September 30, 2014, 2013, and 2012 follow (in thousands):

	2014	2013	2012
Condensed Schedules of Revenues, Expenses, and Changes in Net Position			
Operating revenues:			
Tuition and fees	\$ 104,448	95,709	88,299
Net patient service revenue	268,449	258,207	247,802
Federal, state and private grants and contracts	76,719	77,302	76,448
Other	54,010	52,388	56,579
	503,626	483,606	469,128
Operating expenses:			
Salaries and benefits	419,966	401,872	396,170
Supplies and other services	158,615	148,597	134,841
Other	55,397	51,651	51,222
	633,978	602,120	582,233
Operating loss	(130,352)	(118,514)	(113,105)
Nonoperating revenues:			
State appropriations	103,695	102,585	105,639
Investment income	8,206	28,159	14,561
Other, net	14,475	11,986	12,197
Net nonoperating revenues	126,376	142,730	132,397
Income (loss) before capital appropriations, capital contributions and additions to endowment	(3,976)	24,216	19,292
Capital appropriations, capital contributions and additions to endowment	10,536	15,263	19,097
Change in net position	6,560	39,479	38,389
Beginning net position, before cumulative effect of change in accounting principle	492,990	453,511	416,896
Cumulative effect of change in accounting principle	2	2	(1,774)
Ending net position	\$ 499,550	492,990	415,122

In 2014, 2013, and 2012, approximately 40%, 39%, and 39%, respectively, of total revenues of the University were net patient service revenue. Excluding net patient service revenue, net tuition and fees charged to students represent the largest component of total university revenues, approximately 16% of total revenues in fiscal 2014.



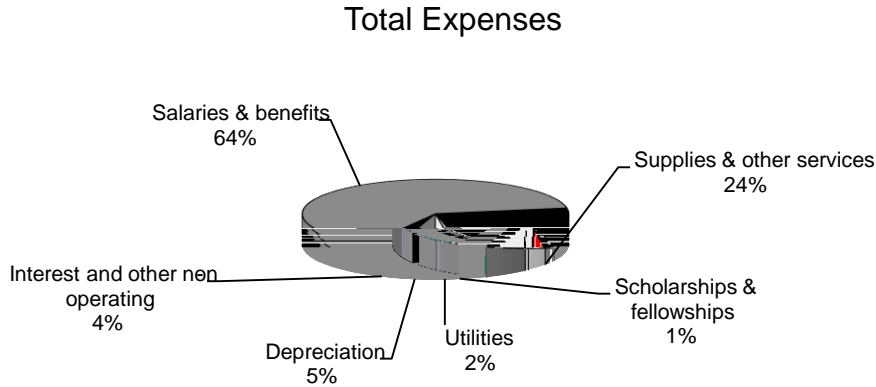


UNIVERSITY OF SOUTH ALABAMA  
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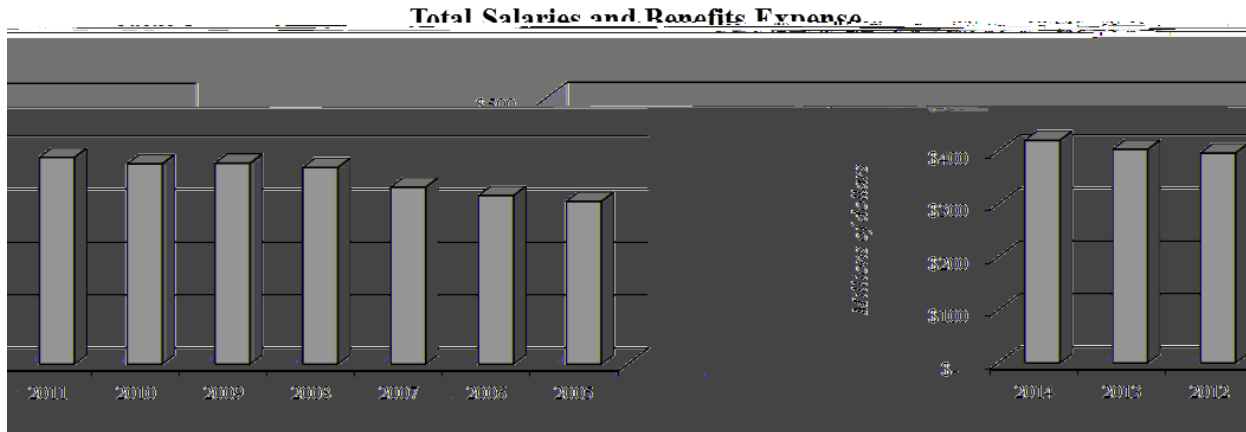
September 30, 2014 and 2013

University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2014 is presented below:



While the University reports its expenses on a natural expense classification basis, functional classifications represent expenses categorized based on the function within the University. Such University functions include instruction, research, public service, academic support, student services, institutional support, scholarships, and operation and maintenance of plant. Expenses related to auxiliary enterprise activities and the hospitals are presented separately. Functional expense information is presented in the basic financial statements.

In 2014, 2013, and 2012, approximately 66%, 67% and 68%, respectively, of the University's total operating expenses were salaries and benefits. After steady increases from 2005 to 2008, salaries and benefits have been relatively constant since 2008, as follows:



For the years ended September 30, 2014, 2013, and 2012, the University reported operating loss of approximately \$130,352,000, \$118,514,000, and \$113,105,000, respectively. Operating losses are offset partially by state appropriations, which are reported as nonoperating revenue. After adding state appropriations and other nonoperating revenues and expenses, (primarily capital appropriations, capital contributions, and additions to

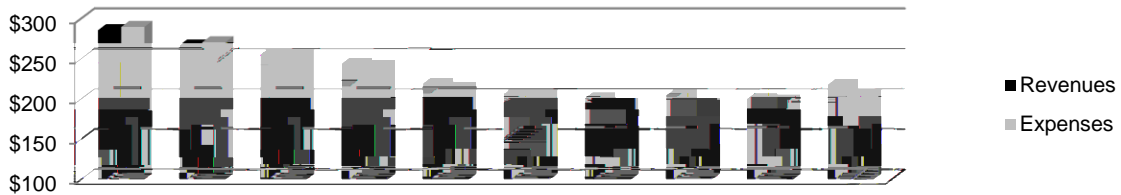
UNIVERSITY OF SOUTH ALABAMA  
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 September 30, 2014 and 2013

endowment) the total change in net position was approximately \$6,560,000, \$39,479,000, and \$38,389,000, for the years ended September 30, 2014, 2013, and 2012, respectively.

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

Hospital Operating Revenues and Expenses



Statement of Cash Flows

The statement of cash flows presents information related to cash flows of the University. This statement presents cash flows by category: operating activities, noncapital financing activities, capital and related financing activities and investing activities. The net cash provided to, or used by, the University is presented by category.

Capital Assets and Debt Administration

Total capital asset additions for the University were approximately \$44,237,000 in 2014. During 2014, New Hall  
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UNIVERSITY OF SOUTH ALABAMA  
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September 30, 2014 and 2013

In order to realize debt service savings currently from future debt refunding, in January 2008, the University entered into a synthetic advance refunding of the outstanding Series 2004 and 2006 bonds. This transaction was effected through the sale of two swaptions by the University to the counterparty and resulted in an up-front payment to the University totaling \$9,328,000 in exchange for selling the counterparty the option to enter into an interest rate swap with respect to the Series 2004 and 2006 bonds. A portion of this payment was considered a borrowing and was included in the long-term debt of the University. The fair value component of the refunding associated with the swaps was considered an investment derivative and, as such, the change in the fair value component was reflected as a component of investment income in 2014, 2013 and 2012.

In December 2013, the counterparty exercised its option with respect to the 2004 swaption and forced the University into an underlying swap. The University refunded its Series 2004 bonds, issued the 2014-A variable rate bond and terminated the Series 2004 swaption. As a result of this termination, the borrowing arising from the Series 2004 swaption of \$1,696,000 and the investment derivative of \$5,213,000 were written off and an investment loss of \$2,229,000 was recognized. A borrowing arising from the 2014 swap of \$9,138,000 was recognized and is reported in the statement of net position at September 30, 2014.

The University's bond credit rating is A1 as rated by Moody Investors Services and A+ as rated by Standard and Poor's Rating Services. Neither rate changed during 2014.

#### Economic Outlook

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

## Independent Auditors' Report

The Board of Trustees  
University of South Alabama:

### Report on the Financial Statements

We have audited the accompanying 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, 2014 and 2013, and the related notes to the financial statements which collectively comprise the University's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation,





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

Statements of Net Position

September 30, 2014 and 2013

(In thousands)

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UNIVERSITY OF SOUTH ALABAMA FOUNDATION  
(Discretely Presented Component Unit)

Consolidated Statements of Financial Position

June 30, 2014 and 2013

(In thousands)

Assets	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 670	900
Investments:		
Equity securities	133,236	114,193
Timber and mineral properties	156,320	154,332
Real estate	31,007	31,010
Other	6,054	6,040
Other assets	<u>702</u>	<u>647</u>
Total assets	<u>\$ 327,989</u>	<u>307,122</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 163	126
Note payable – University of South Alabama	3,954	7,783
Other liabilities	<u>736</u>	<u>677</u>
Total liabilities	<u>4,853</u>	<u>8,586</u>
Net assets:		
Unrestricted	62,701	64,280
Temporarily restricted	90,909	64,862
Permanently restricted	<u>169,526</u>	<u>169,394</u>
Total net assets	<u>323,136</u>	<u>298,536</u>
Total liabilities and net assets	<u>\$ 327,989</u>	<u>307,122</u>

See accompanying notes to basic financial statements.

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

Statements of Financial Position

September 30, 2014 and 2013

(In thousands)

Assets	2014	2013
Current assets:		
Cash and cash equivalents	\$ 13	592
Patient accounts receivable (net of allowance for uncollectible accounts of approximately \$3,838 and \$4,651)	10,351	12,005
Other current assets	1,242	1,263
Total current assets	11,606	13,860
Interest in assets of University of South Alabama Professional Liability Trust Fund	15,710	14,726
Property and equipment, net	3,419	3,658
Total assets	\$ 30,735	32,244
Liabilities and Net Assets (Deficit)		
Current liabilities:		
Accounts payable	\$ 1,862	1,656
Due to affiliates	10,295	17,133
Total current liabilities	12,157	18,789
		Total liabilities

USA RESEARCH AND TECHNOLOGY CORPORATION  
(Discretely Presented Component Unit)

Statements of Net Position

September 30, 2014 and 2013

(In thousands)

	2014	2013
<b>Assets:</b>		
<b>Current assets:</b>		
Unrestricted cash and cash equivalents	\$ 761	1,447
Rent receivable	263	167
Prepaid expenses and other current assets	6	10
Total current assets	1,030	1,624
<b>Noncurrent assets:</b>		
Intangible assets, net	77	99
Capital assets, net	23,794	24,701
Total noncurrent assets	23,871	
Deferred outflows		3b.n7T1 1 Tf -11(192
Total assets and deferred outflows		
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Deposits, other current liabilities, and accrued expenses		
Payable to University of South Alabama		
Unrecognized rent revenue		
Current portion of notes payable		24,701 2 /TT1 1 Tf
Total current liabilities		
<b>Noncurrent liabilities:</b>		
Notes payable, excluding current portion		
Interest rate swap		
Total noncurrent liabilities		
Total liabilities		
<b>Net position:</b>		
Net investment in capital assets		
Unrestricted		
Total net position		

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA

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UNIVERSITY OF SOUTH ALABAMA FOUNDATION  
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2014

(In thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Net realized and unrealized gains on investments	\$ 5,620	25,356	—	30,976
Rents, royalties and timber sales	3,727	193	17	3,937
Interest and dividends	194	1,879	6	2,079
Gifts	—	2	55	57
Other income	9	—	—	9
Required match of donor contributions	(54)	—	54	—
Interfund interest	(165)	165	—	—
Net assets released from program restrictions	1,548	(1,548)	—	—
Total revenues, gains, and other support	<u>10,879</u>	<u>26,047</u>	<u>132</u>	<u>37,058</u>
Expenditures:				
Program services:				
Faculty support	2,332	—	—	2,332
Scholarships	1,066	—	—	1,066
Other	1,117	—	—	1,117
Total program service expenditures	4,515	—	—	4,515
Management and general	1,771	—	—	1,771
Other investment expense	2,011	—	—	2,011
Depletion expense	3,882	—	—	3,882
Depreciation expense	108	—	—	108
Interest expense	171	—	—	171
Total expenditures	<u>12,458</u>	<u>—</u>	<u>—</u>	<u>12,458</u>
Increase (decrease) in net assets	(1,579)	26,047	132	24,600
Net assets – beginning of year	64,280	64,862	169,394	298,536
Net assets – end of year	<u>\$ 62,701</u>	<u>90,909</u>	<u>169,526</u>	<u>323,136</u>

See accompanying notes to basic financial statements.



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

Statements of Operations and Changes in Net Assets (Deficit)

Years ended September 30, 2014 and 2013

(In thousands)

	2014	2013
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 75,680	63,298
Provision for uncollectible accounts	(13,871)	(12,057)
Net patient service revenue less provision for uncollectible accounts	61,809	51,241
Other revenue	10,563	8,701
Total unrestricted revenues, gains, and other support	72,372	59,942
Expenses:		
Salaries and benefits	43,431	48,433
General and administrative	16,535	5,864
Depreciation and amortization	1,602	1,465
Total expenses	61,568	55,762
Operating income	10,804	4,180
Nonoperating gains	1,835	3,491
Revenues over expenses	12,639	7,671
Transfer of capital to University of South Alabama, College of Medicine	(8,500)	(5,100)
Change in net assets (deficit)	4,139	2,571
Net deficit at beginning of year	(1,271)	(3,842)
Net assets (deficit) at end of year	\$ 2,868	(1,271)

See accompanying notes to basic financial statements.



USA RESEARCH AND TECHNOLOGY CORPORATIO





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

Statements of Cash Flows

Years ended September 30, 2014 and 2013

(In thousands)

	2014	2013
Cash flows from operating activities:		
Receipts related to tuition and fees	\$ 107,558	99,546
Receipts from and on behalf of patients and third-party payers	267,277	255,918
Receipts from grants and contracts	84,283	86,927
Receipts related to auxiliary enterprises	20,061	18,507
Payments to suppliers and vendors	(172,409)	(149,010)
Payments to employees and related benefits	(420,000)	(396,311)
Payments for scholarships and fellowships	(7,839)	(7,099)
Other operating receipts	30,172	33,007
Net cash used in operating activities	(90,897)	(58,515)
Cash flows from noncapital financing activities:		
State appropriations	103,695	102,585
Endowment gifts	6,264	3,156
Agency funds received	1,424	1,040
Agency funds disbursed	(1,302)	(904)
Student loan program receipts	135,038	126,410
Student loan program disbursements	(135,041)	(126,936)
Other nonoperating revenues	36,883	34,729
Other nonoperating expenses	(11,476)	(9,206)
Net cash provided by noncapital financing activities	135,485	130,874
Cash flows from capital and related financing activities:		
Capital contributions and grants	917	13,464
Purchases of capital assets	(35,090)	(72,680)
Proceeds from sale of capital assets	3,698	6,030
Proceeds from issuance of capital debt	41,245	50,000
Principal payments on capital debt	(54,119)	(10,552)
Interest payments on capital debt	(15,674)	(14,324)
Net cash used in capital and related financing activities	(59,023)	(28,062)
Cash flows from investing activities:		
Interest and dividends on investments	5,959	5,030
Purchases of investments	(108,663)	(90,855)
Proceeds from sales of investments	25,403	49,672
Net cash used in investing activities	(77,301)	(36,153)
Net increase (decrease) in cash and cash equivalents	(91,736)	8,144
Cash and cash equivalents (unrestricted and restricted):		
Beginning of year	223,745	215,601
End of year	\$ 132,009	223,745

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

Notes to Basic Financial Statements

September 30, 2014 and 2013

and the USA HealthCare Management, LLC as blended component units. All significant transactions among the University and its blended component units have been eliminated.

(b) USA HealthCare Management, LLC

In June 2010, the University's Board of Trustees approved the formation of the USA HealthCare Management, LLC (the LLC). The LLC was organized for the purpose of managing and operating on behalf of, and as agent for, substantially all of the health care clinical enterprise of the University. The University is the sole member of the LLC. The LLC commenced operations in October 2010 and is reported as a blended component unit (see Note 7 for further discussion of, and disclosure for, this entity).

(c) Professional Liability and General Liability Trust Funds

The medical malpractice liability of the University is maintained and managed in its separate Professional Liability Trust Fund (the PLTF) in which the University, USAHSF, LLC on C H ALAF-8(h

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(e) University of South Alabama Health Services Foundation

The USAHSF is a not-for-profit corporation that exists to provide a group medical practice for physicians who are faculty members of the University and to further medical education and research at the University. Because of the significance of the relationship between the University and USAHSF, USAHSF is considered a component unit of the University. The USAHSF reimburses the University for salaries, certain administrative expenses, medical assessment and other support services. Total amounts received and accrued for such expenses were approximately \$42,352,000 and \$44,786,000 for the years ended September 30, 2014 and 2013, respectively, and are reflected as



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The fair values of the outstanding swaptions were \$(14,191,000) and \$(13,333,000) at September 30, 2014 and 2013, respectively. At September 30, 2014 and 2013, the fair values of the swaptions were included in other long-term liabilities in the accompanying statements of net position. The change in fair value for the years ended September 30, 2014 and 2013 was \$(6,071,000) and \$10,276,000 respectively, and was included in investment income in the accompanying statements of revenues, expenses, and changes in net position for the years ended September 30, 2014 and 2013. See note for further discussion.

In March 2014, the University entered into an interest rate swap arrangement with a counterparty. The resulting derivative is a receive-variable, pay-fixed interest rate swap. The University pays the counterparty a fixed semi-annual payment based on an annual rate of 4.9753% and receives on a monthly basis a variable payment of 68% of the one-month London Interbank Offered Rate plus 0.25%. wtstate1(p)11(aym)15-expeplst665(n)11(et)-2



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

Buildings, infrastructure and certain building components	40 to 100 years
Fixed equipment	10 to 20 years

Certain buildings are componentized for depreciation purposes.

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

The University evaluates impairment in accordance with GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. For the years ended September 30, 2014 and 2013, no impairments were recorded.

(o) Unrecognized Revenue

Student tuition, fees, and dormitory rentals are initially recorded as unrecognized revenue and then recognized when the applicable portion is received. For the years ended September 30, 2014 and 2013, the amount of unrecognized revenue was \$1,100,000 and \$1,200,000, respectively.

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governing board to meet current expenses for any purpose. Substantially all unrestricted net position is designated for academic and research programs and initiatives, and capital programs.

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

(q) Scholarship Allowances and Student Financial Aid

Student tuition and fees, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants, such as P(855c-2(r)r)-216(t)6(h

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(t) Gifts and Pledges

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

(u) Grants and Contracts

The University has been awarded grants and contracts for which funds have not been received or expenditures made for the purpose specified in the award. These awards have not been reflected in the basic financial statements, but represent commitments of sponsors to provide funds for specific research or training projects. For grants that have allowable cost provisions, the revenue will be recognized as the related expenditures are made. For grants with work completion requirements, the revenue is recognized as the work is completed. For grants without either of the above requirements, the revenue is recognized as it is received.

(v) Net Patient Service Revenue and Electronic Health Records Incentive Program













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prepayment rates and various liquidity factors related to their specific markets. There were no CMOs in the University's investment portfolio at September 30, 2014 or 2013.

At September 30, 2014, restricted investments consist of \$45,946,000 related to investments included in the PLTF and GLTF to pay insurance liability claims and \$41,700,000 in required collateral related to the 2006 swaption and the 2014 interest rate swap. At September 30, 2013, restricted investments consist of \$40,553,000 related to investments included in the PLTF and GLTF to pay insurance liability claims.

- (b) University of South Alabama Foundation

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For the year ended June 30, 2014, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description	Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	\$ 154,332	31,010	6,040	191,382
Total gains (losses) (realized/unrealized)	5,503	28	14	5,545
Acquisitions	<sup>2</sup>	2	2	2
Reforestation	367	2	2	367
Depreciation/depletion	(3,882)	(33)	2	(3,915)
Ending balance	<u>\$ 156,320</u>	<u>31,007</u>	<u>6,054</u>	<u>193,381</u>

For the year ended June 30, 2013, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description	Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	\$ 153,574	31,040	5,522	190,136
Total gains (losses) (realized/unrealized)	3,876	2	518	4,394
Acquisitions	<sup>2</sup>	3	2	3
Reforestation	273	2	2	

As of June 30, 2014, the Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of the Foundation's equity securities at June 30, 2014 and 2013 are considered readily liquid. Timber and mineral properties, real estate, and other investments are generally considered illiquid.

(5) Derivative Transactions ±Swaption

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



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fair value of the embedded derivative and represents the time value to the counterparty for holding the option, or the probability-weighted, discounted values of a range of future possible outcomes. The values of the derivatives and borrowings at the date of execution of this transaction were as follows:

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

The values of any remaining borrowings are included in long-term debt on the University's 2014 and 2013 statements of net position. Interest is being accreted on, and added to, the borrowings through the expiration date of the option. For the years ended September 30, 2014 and 2013, the amounts were \$379,000 and \$400,000, respectively.

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rates fall subsequent to the execution of this transaction, the value of the swaption will change, with negative consequences for the University.

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

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

**Credit risk** Although the underlying swap exposes the University to credit risk should the swap be

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	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending balance</u>
Less accumulated depreciation for:					
Land improvements	\$ (17,216)	(1,203)	<sup>2</sup>	<sup>2</sup>	(18,419)
Buildings, fixed equipment, and infrastructure	(205,155)	(15,913)	<sup>2</sup>	8	(221,060)
Other equipment	(103,546)	(7,395)	<sup>2</sup>	70	(110,871)
Library materials	<u>(43,629)</u>	<u>(2,679)</u>	<u><sup>2</sup></u>	<u><sup>2</sup></u>	<u>(46,308)</u>
	<u>(369,546)</u>	<u>(27,190)</u>	<u><sup>2</sup></u>	<u>78</u>	<u>(396,658)</u>
Capital assets being depreciated, net	<u>405,636</u>	<u>(15,120)</u>	<u>61,534</u>	<u>(4,574)</u>	<u>447,476</u>
Capital assets, net	<u>\$ 565,830</u>	<u>17,047</u>	<u><sup>2</sup></u>	<u>(4,574)</u>	<u>578,303</u>

At September 30, 2014, the University had commitments of approximately \$3,468,000 related to various construction projects.

A summary of the University's capital asset activity for the year ended September 30, 2013 follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets not being depreciated:					
Land and other	\$ 25,528	445	<sup>2</sup>	(3,457)	22,516
Construction-in-progress	119,763	59,104	(41,189)	<sup>2</sup>	137,678
	<u>145,291</u>	<u>59,549</u>	<u>(41,189)</u>	<u>(3,457)</u>	<u>160,194</u>
Capital assets being depreciated:					
Land improvements	31,256	244	<sup>2</sup>	(566)	30,934
Buildings, fixed equipment, and infrastructure	539,118	3,442	40,922	(27,821)	555,661
Other equipment	133,090	8,291	267	(10,669)	130,979
Library materials	<u>54,656</u>	<u>2,952</u>	<u><sup>2</sup></u>	<u><sup>2</sup></u>	<u>57,608</u>
	<u>758,120</u>	<u>14,929</u>	<u>41,189</u>	<u>(39,056)</u>	<u>775,1</u>





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	2013				Ending balance
	Beginning balance	Additions	Transfers	Reductions	
Land improvements	\$ 2,201	2	(2)	2	2,199
Buildings	27,669	235	(6)	2	27,898
Tenant improvements	742	164	8	(46)	868
Construction in progress	2	2	2	2	2
Other equipmer	256	2	2	2	256
	<u>30,868</u>	<u>399</u>	<u>2</u>	<u>(46)</u>	<u>31,221</u>
Less accumulated depreciation for:					
Land improvements	(748)	(94)	2	2	(842)
Buildings	(4,261)	(702)	(183)	2	(5,146)
Tenant improvements	(528)	(118)	183	46	(417)
Other equipment	(89)	(26)	2	2	(115)
	<u>(5,626)</u>	<u>(940)</u>	<u>2</u>	<u>46</u>	<u>(6,520)</u>
Capital assets, net	<u>\$ 25,242</u>	<u>(541)</u>	<u>2</u>	<u>2</u>	<u>24,701</u>

(7) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the years ended September 30, 2014 and 2013 follows (in thousands):

Beginning	2014		Less amounts due within
	Ending		

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		2013					
		Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:							
Bonds payable and other	\$	359,699	51,981	(10,790)	400,890	13,153	387,737
Total long-term debt		359,699	51,981	(10,790)	400,890	13,153	387,737
Other long-term liabilities		80,065	32,392	(53,355)	59,102	12,633	46,469
Total noncurrent liabilities	\$	439,764	84,373	(64,145)	459,992	25,786	434,206

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

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(8) Bonds Payable

Bonds payable consisted of the following at September 30, 2014 and 2013 (in thousands):

	2014	2013
University Tuition Revenue Bonds, Series 1999 Capital Appreciation, 4.70% to 5.25%, payable November 2011 through November 2018	\$ 28,312	31,530
University Tuition Revenue Refunding and Capital		

Substantially all student tuition and fee revenues secure University bonds. Additionally, security for Series 2008 bonds includes Children's and Women's Hospital revenues in an amount not exceeding



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Debt Service on Long-Term Obligations

Total debt service by fiscal year is as follows as of September 30, 2014 (in thousands):

	Debt service on bonds			
	Principal	Interest	Additional maturity	Total
2015	\$ 14,099	14,364	(1,627)	26,836
2016	14,643	13,825	(1,286)	27,182
2017	18,178	13,375	(782)	30,771
2018	18,525	12,959	(427)	31,057
2019	17,456	12,650	(49)	30,057
±	88,565	54,283	<sup>2</sup>	142,848
±	84,853	40,914	<sup>2</sup>	125,767
±	82,734	23,051	<sup>2</sup>	105,785
±	55,584	5,514	<sup>2</sup>	61,098
Subtotal	394,637	<u>190,935</u>	<u>(4,171)</u>	<u>581,401</u>
Plus (less)				
Additional maturity	(4,171)			
Unamortized bond premium	5,134			
Unaccrued bond discount	(29)			
Unamortized debt extinguishment costs	<u>(265)</u>			
Total	\$ <u>395,306</u>			

The principal amount of debt service due on bonds at September 30, 2014 includes \$3,629,000 representing additional maturity value on Series 1999 Capital Appreciation Bonds. These bonds mature through 2019. Also included in the principal amount of debt service due on bonds at September 30, 2014, is \$542,000 representing additional maturity value of the borrowing resulting from the Series 2006 swaption. As described in note 5, additional maturity will continue to accrue until the swaption option period in 2016. Although this additional maturity is presented as principal on the debt service schedule above, it is also recognized as interest expense on an annual basis in the University financial statements as it accretes.

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**Credit risk** As of September 30, 2014 and 2013, the Corporation was not exposed to credit risk on the interest rate swap because it had a negative fair value. However, if interest rates change and the fair value of the derivative becomes positive, the Corporation would have a gross exposure to credit risk in the amount of the derivative fair value. The counterparty was rated Aa3 by Moody Investors Services and A+ by Standard & Poor Ratings Services as of September 30, 2014 and 2013.

**Termination risk** The interest rate swap contracts use the International Swaps and Derivatives Association, Inc. Master Agreement, which includes standard default and termination events, such as

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Objective of the transactionAs noted the interest rate swap was the result of the original January 2008 synthetic advance refunding of the Series 2004 bonds. The objective of that transaction was to realize debt service savings currently from future debt refunding and create an economic benefit to the University.

The swap will terminate in March 2024, when the 2014-A bond matures. The notional amount of the swap will at all times match the outstanding principal amount of the bond. Under the swap, the University pays the counterparty a fixed semi-annual payment based on an annual rate of 4.9753% and receives on a monthly basis a variable payment of 68% of the one-month London Interbank Offered Rate (LIBOR) plus 0.25%. Conversely, the Series 2014-A bond bears interest on a monthly basis at 68% of the one-month LIBOR rate plus 0.73%.

Fair value. The interest rate swap had a negative fair value of approximately \$(9,138,000) at its inception. This amount, net of any amortization, is reported as a borrowing arising from the 2014 interest rate swap as long-term-debt in the 2014 statement of net position.

The change in fair value during the current year is reported as

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Derivative payments and hedged debt

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

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

Revenue from the Medicaid program accounted for approximately 24% of the Hospitals' net patient service revenue for the years ended September 30, 2014 and 2013, respectively.

The Hospitals have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The bases for payments to the Hospitals under these agreements include discounts from established charges and prospectively determined daily and case rates.

The composition of net patient service revenue for the years ended September 30, 2014 and 2013 follows (in thousands):

	2014	2013
Gross patient service revenue	\$ 610,092	575,718
Less provision for contractual and other adjustments	(271,468)	(250,047)
Less provision for bad debts	(70,175)	(67,464)
	\$ 268,449	258,207

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately \$802,000 and \$1,279,000 in net patient service revenue for the years ended September 30, 2014 and 2013 respectively.

(11) Hospital Lease

In 2006, the University and Infirmary Health System, Inc. (the Infirmary) entered into a Lease Agreement (the Lease) in which the University agreed to lease certain land, buildings and equipment used in connection with the operating of its USA Knollwood Hospital campus to the Infirmary. The original lease was effective through March 2056. The lease provided for its termination, at the option of the Infirmary, in the event that a change in any law, statute, rule, or a regulation of any governmental or other regulatory body was deemed by the Infirmary as significant, as defined by the lease. The hospital was operated as Mobile Infirmary West.

The total amount of the lease payments due the University was based on the fair value of the appraised assets, \$32,418,000. The allocation of the appraised fair value was \$29,370,000 for land and buildings and \$3,048,000 for medical equipment, office furnishings and other equipment. In addition to an up-front payment, the lease agreement required monthly lease payments by the Infirmary to the University. In order

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retirees may elect the maximum benefit, or may choose among four other monthly benefit options. Under the maximum benefit, participants are allowed 2.0125% of their average final salary (average of three highest years of annual compensation during the last ten years of service) for each year of service. The TRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Retirement Systems of Alabama, P.O. Box 302150, Montgomery, Alabama 36130-2150, or by calling (334) 832 4140.

Prior to October 1, 2011, essentially all employees covered by this retirement plan were required to contribute 5% of their eligible earnings to TRS. Effective October 1, 2011 and 2012, the required employee contribution was increased to 7.25% and 7.5%, respectively, of their eligible earnings. An actuary employed by the TRS Board of Control establishes the employer-matching amount annually. During 2014, 2013 and 2012, the University made total contributions of \$24,573,000, \$21,879,000 and \$23,381,000 (100% of the required contributions), respectively, to TRS on behalf of participants. For employees that were hired before January 1, 2013, the University contribution rate was 11.7%, 10.1%, and 10.0% in 2014, 2013 and 2012, respectively, of each participant's earnings. For employees hired after January 1, 2013, the University contribution rate was 16.1% and 19.4% in 2014 and 2013, respectively, of each participant's gross earnings. The University payroll for all employees was approximately \$246,896,000 and \$254,249,000 in 2014 and 2013, respectively. The LLC payroll for all employees was approximately \$78,975,000 and \$61,645,000 in 2014 and 2013 respectively. Total payroll for University employees participating in the Teachers Retirement System of Alabama was approximately \$210,359,000 and \$217,164,000 in 2014 and 2013, respectively.

The defined contribution pension plan covers certain academic and administrative employees, and participation by eligible employees is optional. Under this plan, administered by Teachers Insurance and Annuity Association±College Retirement Equities Fund (TIAA-CREF), contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University and the employees each contributed \$840,000 and \$928,000 in 2014 and 2013, respectively, representing 344 and 436, respectively, employees participating in this Plan.





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(c) Litigation

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

(d) Rent Supplement Agreements

The University has entered into two irrevocable rent supplement agreements with the Corporation and a financial institution. The agreements require that, in the event the Corporation fails to maintain a debt service coverage ratio of one to one with respect to all of its outstanding indebtedness, the University will pay to the Corporation any and all rent amounts necessary to cause the Corporation net operating income to be equal to the Corporation's annual debt service obligations (see note 75.1(on. T)-

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10-year initial term expiring in March 2021, an option to cancel at the end of 6 years, and two 5-year renewal options. The third lease has a 67-month initial term expiring in December 2018 with no renewal options.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. These leases have terms varying from ~~ninety~~ month to ten years.

The Corporation leases from the University the third floor of a campus building. Located on that floor is the Coastal Innovation Hub (the Hub), a technology incubator, which currently houses three tenants with ~~ninety~~ month leases.

Under leases for Buildings I, II, and III, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, property taxes, and insurance. Tenants will

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While the impact of the implementation of GASB Statement No. 68 has not yet been determined, it is expected that such implementation will have a material effect on the net position of the University. The effect of the implementation of GASB Statements Nos. 69 and 71 on the University has not been determined.







