KPMG

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Basic Financial Statements and Single Audit Reporting
in Accordance with the Uniform Guidance

September 30, 2019 and 2018

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

September 30, 2019 and 2018

Table of Contents

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
September 30, 2019

Table of Contents

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2019 and 2018

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 Health System (USA Health), a division of the University, at September 30, 2019 and 2018, and for the years then ended. This discussion has been 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 either are blended with the University's financial position and results of operations or are discretely presented. The treatment of each component unit is governed by pronouncements issued by the Governmental Accounting Standards Board (GASB). As more fully described in note 1 to the basic financial statements, the University of South Alabama Professional Liability Trust Fund, the University of South Alabama General Liability Trust Fund and the USA HealthCare Management, LLC are reported as blended component units. The University of South Alabama Foundation, the USA Research and Technology Corporation and the University of South Alabama Health Care Authority (HCA) are discretely presented. During fiscal year 2019 several non-profit limited liability companies were formed, with the University as sole member, to manage the complex patient and insurance billings of USA Health. As of September 30, 2019, there has been no activity in these limited liability companies.

HCA was formed in May 2017 by the University as an Alabama public corporation pursuant to the University Authority Act of 2016. Operations commenced on August 1, 2017. HCA enhances the University's provision of patient care by providing it with a corporate structure which allows for greater flexibility and options to achieve goals consistent with the public health mission of the University. HCA provides group medical practices for physicians who strive to make a difference in the lives of those they serve through promoting excellent health care.

Management's discussion and analysis for 2017 does not reflect the impact of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and therefore is not comparable to 2018 and 2019.

Financial Highlights

At September 30, 2019 and 2018, the University had total assets and deferred outflows of $1,413,980,000 and $1,298,365,000, respectively; total liabilities and deferred inflows of $1,321,855,000 and $1,262,967,000, respectively; and net position of $92,125,000 and $35,398,000, respectively. '

As more fully described below, the University has experienced a significant growth in its health care operations with an increase in net patient service revenues of over $75,000,000, or 18% over 2018 results.

An overview of each statement is presented herein along with financial analysis of the transactions impacting each statement. Where appropriate, comparative financial information is presented to assist in the understanding of this analysis.

Analysis of Financial Position and Results of Operations

Statements of Net Position

The statements of net position present the assets, deferred outflows, liabilities, deferred inflows and net position of the University at September 30, 2019 and 2018. Net position is displayed in three parts: net investment in capital assets, restricted and unrestricted. Restricted net position may be either expendable or nonexpendable and is the net position that is restricted by law or external donors. Unrestricted net position is generally designated by management for specific purposes, and is available for use by the University to meet current expenses for any purpose. The statements of net position, along with all of the University's basic financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

Assets included in the statements of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments and net patient receivables. Of these amounts, cash and cash equivalents, investments and net patient receivables comprise approximately 49%, 13% and 24%, respectively, of current assets at September 30, 2019. Noncurrent assets consist primarily of restricted cash and cash equivalents, restricted investments and capital assets.

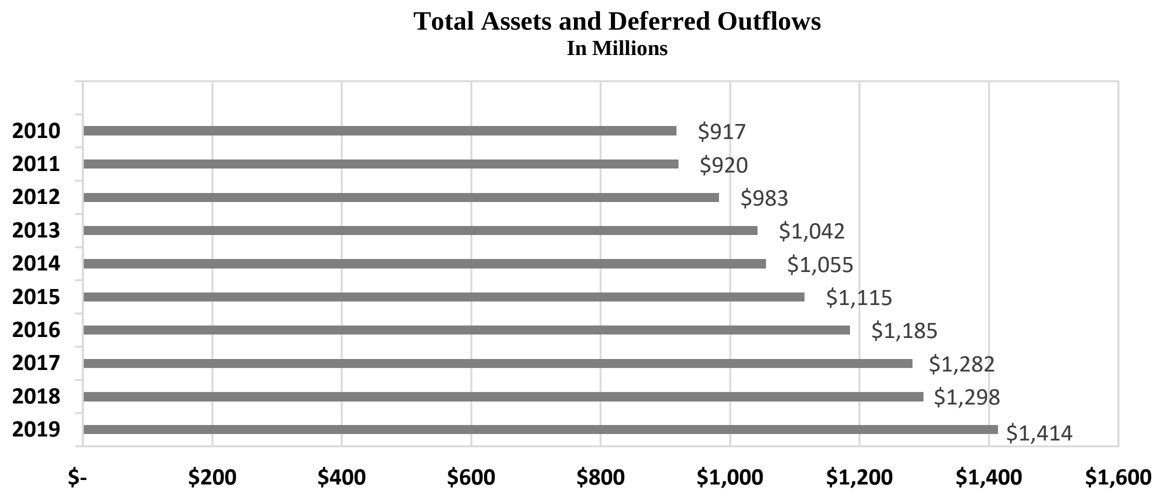
The condensed schedules of net position at September 30, 2019, 2018 and 2017 follow (in thousands):

Condensed Schedules of Net Position

		2019	2018	2017
Assets:				
Current	$	224,156	182,139	261,407
Capital assets, net		759,801	719,816	693,968
Other noncurrent		338,985	308,941	268,116
Total assets		1,322,942	1,210,896	1,223,491
Deferred outflows		91,038	87,469	59,001
Total assets and deferred outflows		1,413,980	1,298,365	1,282,492
Liabilities:				
Current		172,847	157,059	157,803
Noncurrent		1,053,095	1,006,862	818,105
Total liabilities		1,225,942	1,163,921	975,908
Deferred inflows		95,913	99,046	40,765
Total liabilities and deferred inflows		1,321,855	1,262,967	1,016,673
Net position:				
Net investment in capital assets		354,556	337,303	305,898
Restricted, nonexpendable		59,378	58,078	54,961
Restricted, expendable		69,139	68,311	62,676
Unrestricted		(390,948)	(428,294)	(157,716)
Total net position	$	92,125	35,398	265,819

(Continued)

Total assets and deferred outflows of the University as of September 30 is as follows:



Net position represents the residual interest in the University's assets and deferred outflows after liabilities and deferred inflows are deducted. Net position is classified into one of four categories:

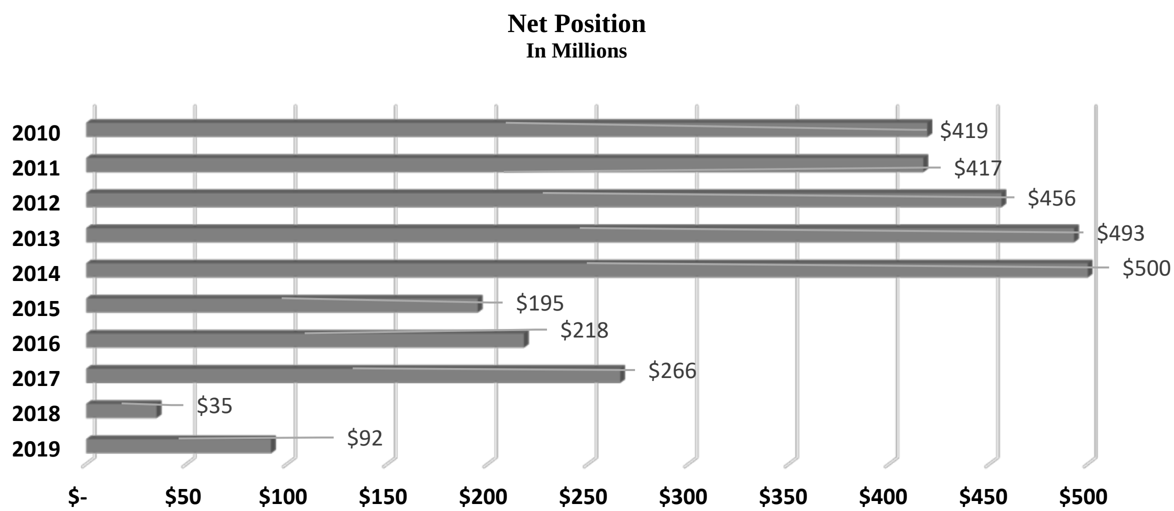
Net investment in capital assets represents the University's capital assets less accumulated depreciation and outstanding principal balances of the debt attributable to the acquisition, construction, or improvement of those assets.

Restricted nonexpendable net position consists primarily of the University's permanent endowment funds. In accordance with the policies of the University, the earnings from these funds may be expended, but the corpus may not be expended and must remain intact with the University in perpetuity.

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

Unrestricted net position represents amounts not subject to externally imposed stipulations. Even though these funds are not legally restricted, the majority of the University's unrestricted net position has been internally designated for various projects, all supporting the mission of the University. Unrestricted net position includes funds for various academic and research programs, auxiliary operations (including student housing and dining services), student programs, capital projects and general operations. Also included in unrestricted net position at September 30, 2019 and 2018 is the impact of the net pension liability recorded pursuant to the requirements of GASB Statement No. 68 and the impact of the net OPEB liability recorded pursuant to the requirements of GASB Statement No. 75.

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



All categories of restricted net position collectively increased by approximately $2,128,000 between September 30, 2019 and 2018, primarily due to the addition of restricted gifts to the University. Unrestricted net position increased from $(428,294,000) to $(390,948,000) between September 30, 2019 and 2018. A summary of unrestricted net position at September 30, 2019 and 2018 is summarized as follows (in thousands):

		2019	2018
Unrestricted net position related to net pension liability	$	(295,765)	(308,910)
Unrestricted net position related to net OPEB liability		(254,530)	(243,690)
Unrestricted net position related to other activity		159,347	124,306
Unrestricted net position	$	(390,948)	(428,294)

Statements of Revenues, Expenses, and Changes in Net Position

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

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

Nonoperating revenues have the characteristics of nonexchange transactions because generally no goods or services are provided. Such transactions include investment income, state appropriations, gifts and other contributions. State appropriations are required by GASB to be classified as nonoperating revenues. Nonoperating expenses are those expenses required in the operation and administration of the University, but not directly incurred to acquire or produce the goods and services provided in return for operating revenues. Such nonoperating expenses include interest on the University's indebtedness, losses related to the disposition of capital assets, transfers to affiliates to fund operations and transfers to intergovernmental agencies related to medical expenditures.

As noted earlier, the University has experienced significant growth throughout its health care operations. This growth has resulted in increased patient service revenues of over $75,000,000, or 18% between 2018 and 2019 operating results. This increase is due largely to significant increases in hospital days, surgeries and other procedures throughout the health system and is driven by increases in the Health System's primary care physician referral base. This is a trend that management expects to continue in the coming years.

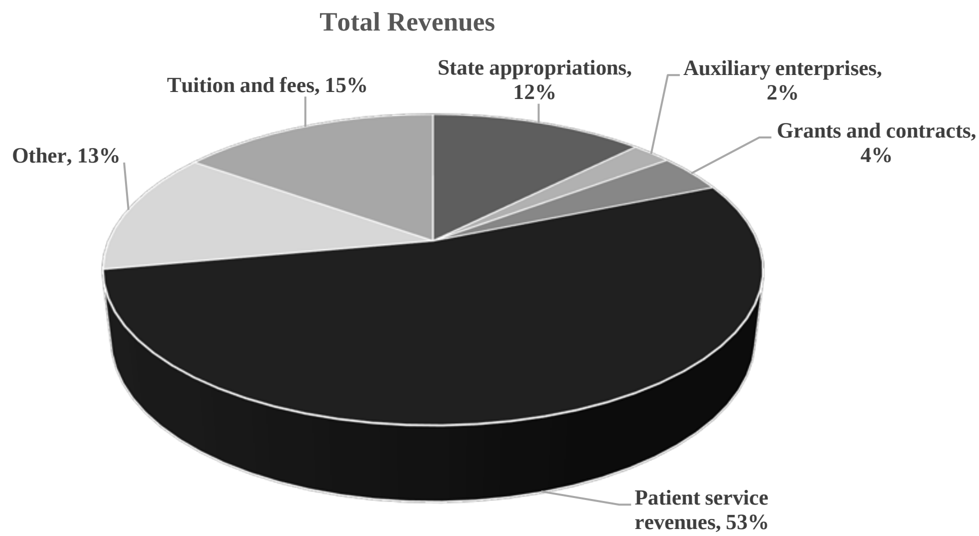
The condensed schedules of revenues, expenses, and changes in net position for the years ended September 30, 2019, 2018 and 2017 follow (in thousands):

Condensed Schedules of Revenues, Expenses, and Changes in Net Position

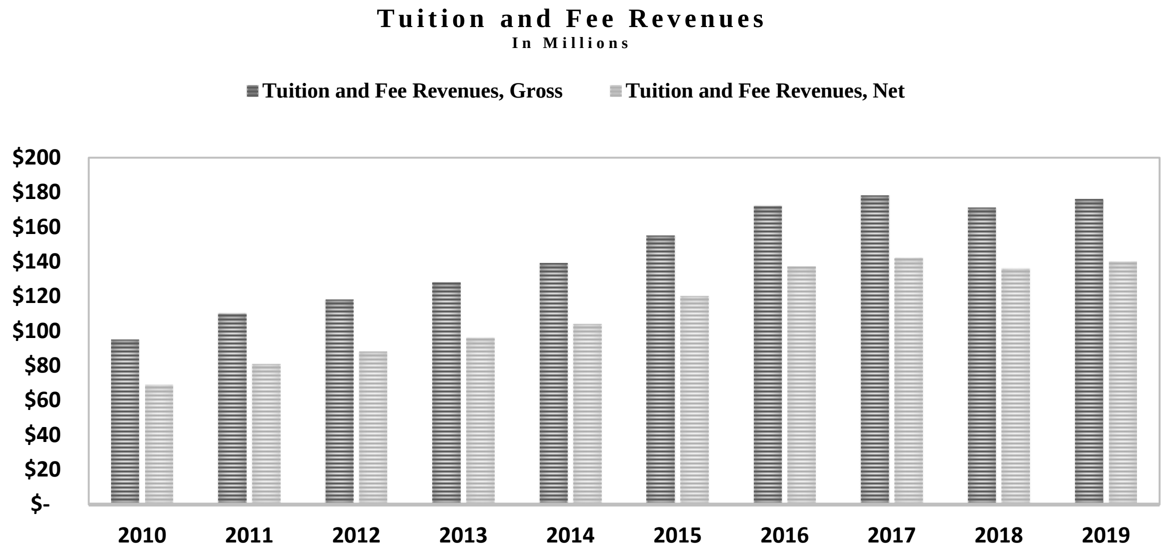
		2019	2018	2017
Operating revenues:				
Tuition and fees, net	$	139,871	136,222	142,024
Patient service revenues, net		491,796	416,034	390,931
Federal, state and private grants and contracts		36,647	34,093	36,853
Other		62,527	66,730	92,674
		730,841	653,079	662,482
Operating expenses:				
Salaries and benefits		495,123	486,156	483,113
Supplies and other services		268,416	255,145	219,362
Other		79,492	78,081	64,942
		843,031	819,382	767,417
Operating loss		(112,190)	(166,303)	(104,935)
Nonoperating revenues and expenses:				
State appropriations		115,209	108,268	107,332
Net investment income		8,203	17,857	18,398
Other, net		25,189	22,674	20,613
Net nonoperating revenues		148,601	148,799	146,343
Income (loss) before capital contributions and grants and additions to endowment		36,411	(17,504)	41,408
Capital contributions and grants and additions to endowment		20,316	16,770	6,417
Increase (decrease) in net position	$	56,727	(734)	47,825
Beginning net position, before cumulative effect of change in accounting principle		35,398	265,819	217,994
Cumulative effect of change in accounting principle		—	(229,687)	—
Beginning net position – as adjusted		35,398	36,132	217,994
Ending net position	$	92,125	35,398	265,819

Approximately 53%, and 49% of total revenues of the University were net patient service revenues in 2019 and 2018, respectively. Excluding patient service revenues, tuition and fees charged to students represent the largest component of total University revenues, approximately 15%, and 16% of total revenues in 2019 and 2018, respectively. Also in 2019 and 2018, state appropriations and grants and contracts (federal, state and private) represented approximately 16% and 17% of total revenues, respectively.

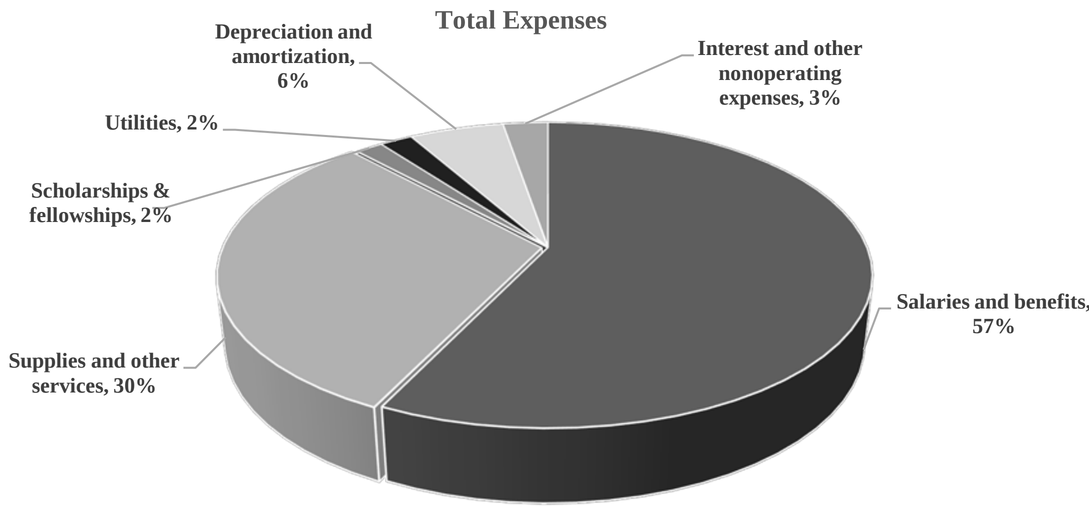
A summary of University revenues for the year ended September 30, 2019 is presented as follows:



Tuition revenues have generally increased until recent years. A decline in enrollment coupled with increases in tuition have caused tuition revenues to remain relatively flat. Additionally, tuition and fees as a percentage of total operating revenues continue to increase, from 15% of operating revenues in 2010 to 19% in 2019. Tuition and fees, gross and net of scholarship allowances, for the past ten fiscal years are as follows:

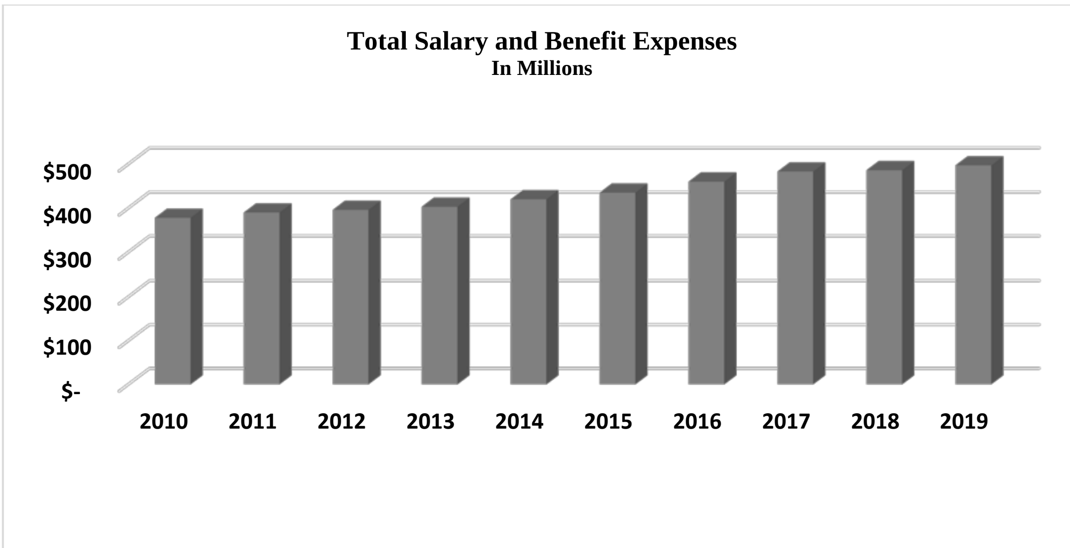


University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2019 is presented as follows:



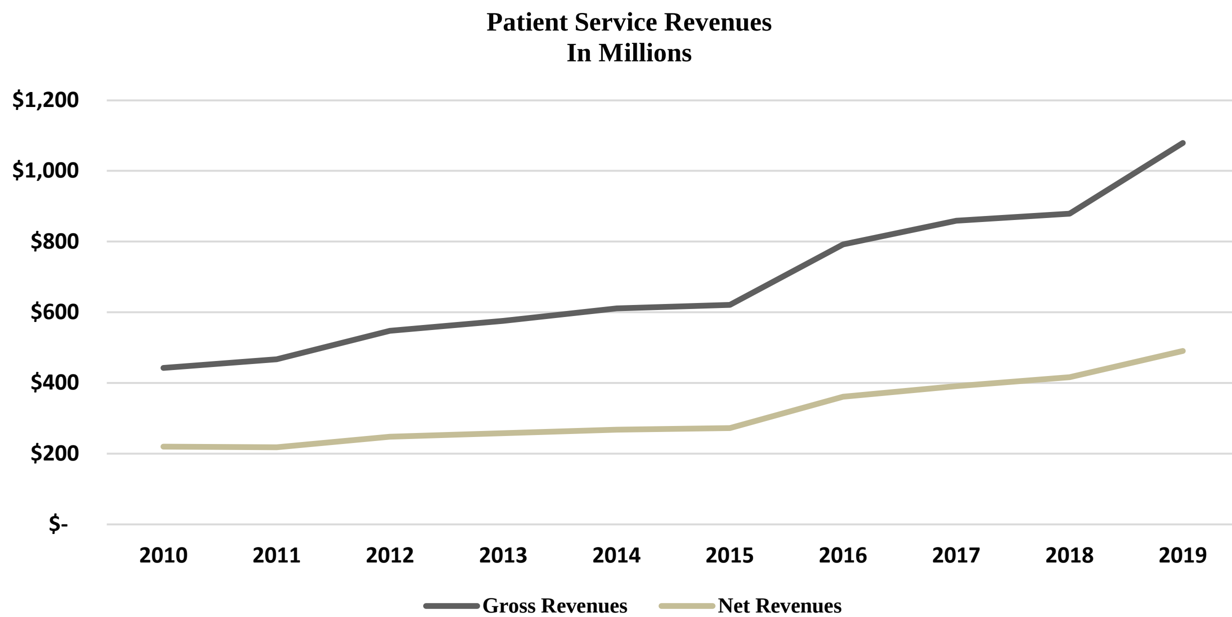
Functional classifications represent expenses categorized based on the function within the University. Such University functions include instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant and scholarships. Expenses related to auxiliary enterprise activities, USA Health and depreciation and amortization are presented separately. Functional expense information is presented in note 17 to the basic financial statements.

In both 2019 and 2018 approximately 59% of the University's total operating expenses were salaries and benefits.



For the years ended September 30, 2019 and 2018, the University reported operating losses of approximately $112,190,000 and $166,303,000, respectively. Operating losses are offset partially by state appropriations, which, as mentioned earlier, are reported as nonoperating revenues. After adding state appropriations and other nonoperating revenues and expenses, the total change in net position was approximately $56,727,000 and ($734,000) for the years ended September 30, 2019 and 2018, respectively.

USA Health represents a significant portion of total University revenues. Operating patient service revenues, gross and net, for the last ten fiscal years are presented as follows:



Statements of Cash Flows

The statements of cash flows present information related to cash flows of the University. The statements present 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

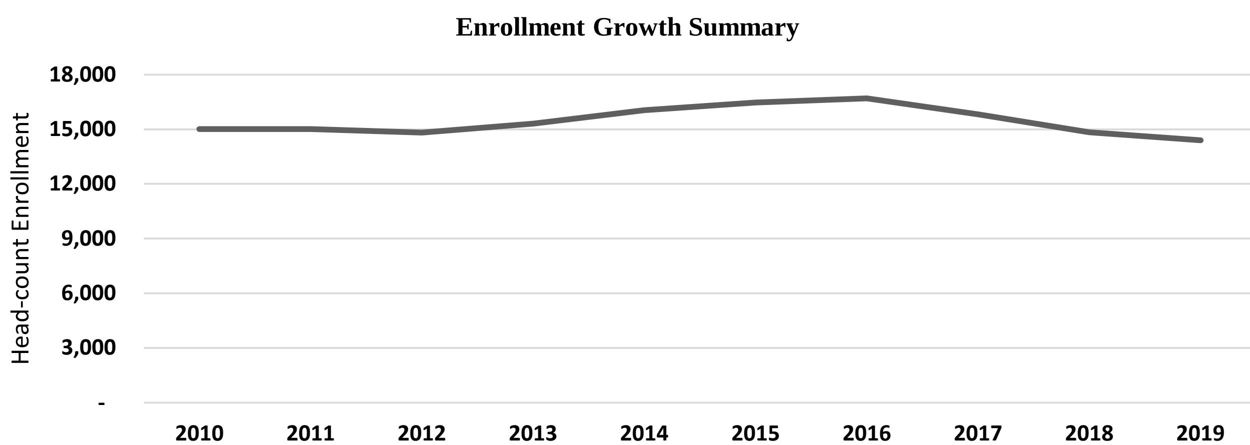
Total capital asset additions for the University were approximately $88,796,000 and $76,087,000 in 2019 and 2018, respectively. Significant construction projects that remain in progress at September 30, 2019 include the Hancock Whitney Stadium, Simulation Lab Building, MacQueen Alumni Center, Jon Leiber Baseball Clubhouse, University Commons Clinic and major upgrades of infrastructure on the University's main campus. Major projects completed and placed into service in fiscal 2019 include a golf practice facility, new intramural fields and an indoor athletic practice facility. At September 30, 2019, the University had outstanding commitments of approximately $42,456,000 for various capital projects. Additional information regarding the University's capital assets is included in note 5.

In February 2019, the University issued its University Facilities Revenue Bonds, Series 2019-A & B, with a face value of $66,190,000. The proceeds from the Series 2019-A & B bonds are being used to construct a football stadium on the campus of the University.

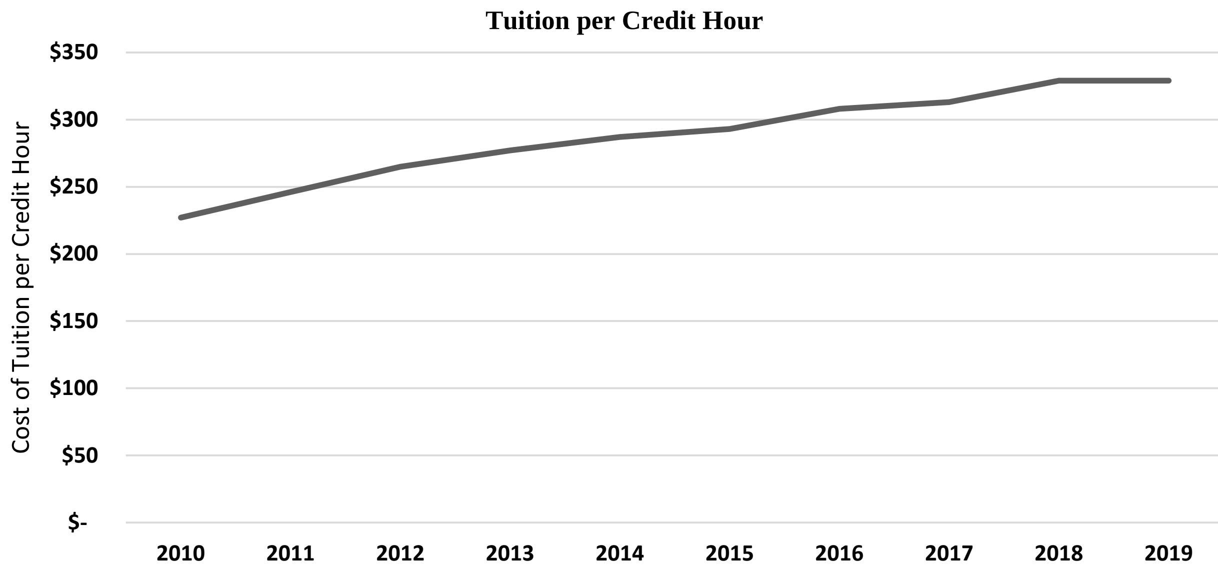
The University's bond credit rating is A1 (Stable) as rated by Moody's Investors Services and A+ (Stable) as rated by Standard and Poor's Rating Services. Neither rating changed during 2019 or 2018. Additional information regarding the University's debt is included in note 7.

Economic Outlook

Tuition and fee rates per credit hour have increased over the past ten years and, until the previous three years, student enrollment has generally increased. The University did experience a decline in enrollment of approximately 6% from Fall 2017 to Fall 2018 and an additional decline of 3% between Fall 2018 and Fall 2019, with declines primarily resulting from a decrease in international student enrollment and a decrease in the number of incoming freshman. The enrollment trend for the University between 2010 and 2019 is as follows:

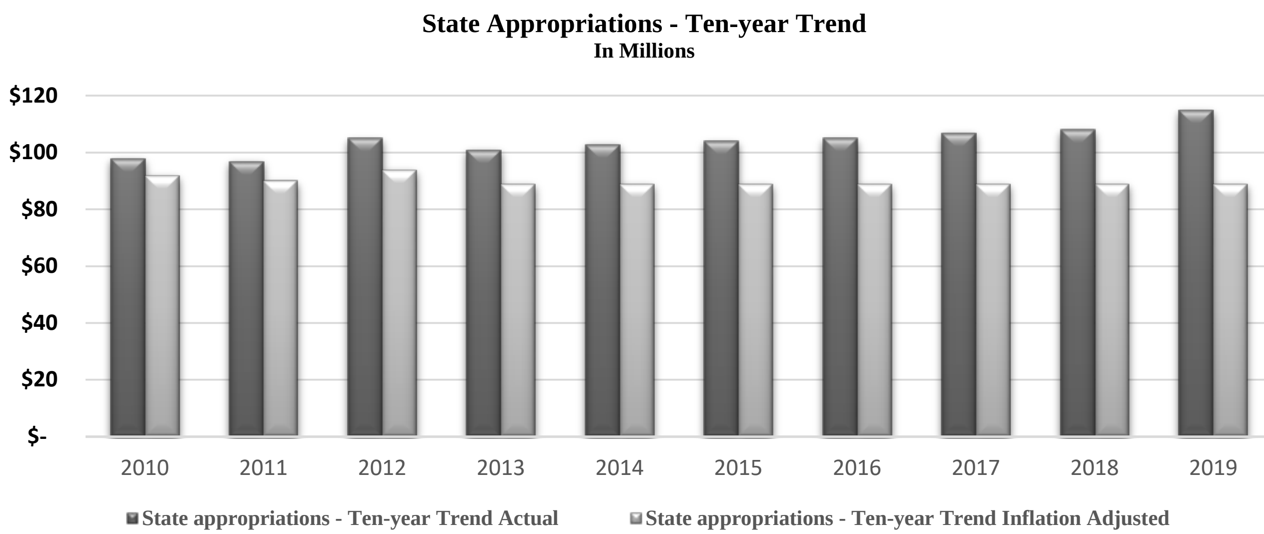


During the same period, in-state tuition per credit hour has increased by approximately 45%. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. The trend of in-state tuition per credit hour between 2010 and 2019 is as follows:



A state appropriation in the amount of approximately $115,209,000 and $108,268,000 was authorized and received for the years ended September 30, 2019 and 2018, respectively. A state appropriation in the amount of $118,299,000, representing an increase of approximately 3%, has been authorized for the year ending September 30, 2020. While no announcement has been made, the University is aware that reductions in the 2020 appropriation are possible.

The ten-year trend of state appropriations for the University is as follows:



In addition to state appropriations, the University is subject to declines in general economic and political conditions in the United States and, specifically, the State of Alabama. Weakening of the economy, as well as changes in federal and state funding policies, could potentially have a negative impact on the University's enrollment, extramural funding, endowment performance and health care operations.

Other than the issues presented above, University administration is not aware of any other currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during fiscal year 2020 beyond those unknown variables having a global effect on virtually all types of business operations.

Requests for Information

These basic financial statements are designed to provide a general overview of the University of South Alabama and its component units' financial activities and to demonstrate the University's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to G. Scott Weldon; Vice President for Finance and Administration; University of South Alabama Administration Building Room 170; Mobile, Alabama 36688. These basic financial statements can be obtained from our website at http:www.southalabama.edu/departments/financialaffairs/businessoffice/statements.html.

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, 2019 and 2018, 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, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the 2019 consolidated financial statements of the University of South Alabama Foundation, which represent 93% and 99%, respectively, of the total assets and net assets or net position as of June 30, 2019 and 49% of revenues, gains and other support for the year then ended of the aggregate discretely presented component units. Nor did we audit the 2018 consolidated financial statements of the University of South Alabama Foundation, which represent 94% and 99%, respectively, of the total assets and net assets or net position as of June 30, 2018 and 56% of revenues, gains and other support for the year then ended of the aggregate discretely presented component units. Those statements were audited by other auditors whose report, which included an emphasis of matter paragraph related to the retroactive adoption of the provisions of Accounting Statements Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* effective July 1, 2018, has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University of South Alabama Foundation and the USA Research and Technology Corporation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its aggregate discretely presented component units as of September 30, 2019 and 2018, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1-15, the schedule of the University's proportionate share of the net pension liability, schedule of the University's pension contributions, schedule of the University's proportionate share of the net OPEB liability, and schedule of the University's OPEB contributions on pages 82 - 85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2019, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Jackson, Mississippi
November 19, 2019

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

Statements of Net Position

September 30, 2019 and 2018

(In thousands)

		2019	2018
Current assets:			
Cash and cash equivalents	$	110,282	79,955
Investments		28,572	24,889
Patient receivables (net of allowance for doubtful accounts of $92,114 and $87,653)		53,104	43,841
Accounts receivable, other		14,479	16,604
Notes receivable, net		8,063	7,800
Prepaid expenses, inventories, and other		9,656	9,050
Total current assets		224,156	182,139
Noncurrent assets:			
Restricted cash and cash equivalents		60,181	16,381
Restricted investments		255,412	245,068
Investments		10,200	43,207
Accounts receivable		6,483	3,299
Other noncurrent assets		6,709	986
Capital assets, net		759,801	719,816
Total noncurrent assets		1,098,786	1,028,757
Total assets		1,322,942	1,210,896
Deferred outflows		91,038	87,469
Total assets and deferred outflows		1,413,980	1,298,365
Current liabilities:			
Accounts payable and accrued liabilities		84,748	65,012
Unrecognized revenues		56,141	58,355
Deposits		3,019	2,926
Current portion of other long-term liabilities		6,374	6,669
Current portion of long-term debt		22,565	24,097
Total current liabilities		172,847	157,059
Noncurrent liabilities:			
Long-term debt, less current portion		420,861	369,534
Net pension liability		282,739	296,654
Net other postemployment benefits liability		259,418	256,178
Other long-term liabilities, less current portion		90,077	84,496
Total noncurrent liabilities		1,053,095	1,006,862
Total liabilities		1,225,942	1,163,921
Deferred inflows		95,913	99,046
Total liabilities and deferred inflows		1,321,855	1,262,967
Net position:			
Net investment in capital assets		354,556	337,303
Restricted, nonexpendable:			
Scholarships		29,028	28,470
Other		30,350	29,608
Restricted, expendable:			
Scholarships		18,490	17,127
Other		50,649	51,184
Unrestricted (deficit)		(390,948)	(428,294)
Total net position	$	92,125	35,398

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION

(Discretely Presented Component Unit of the University of South Alabama)

Consolidated Statements of Financial Position

June 30, 2019 and 2018

(In thousands)

Assets		**2019**	**2018**
Cash and cash equivalents	$	1,520	1,099
Investments:			
Equity securities		150,796	137,722
Timber and mineral properties		164,307	160,949
Real estate		61,508	69,163
Other		5,809	5,805
Other assets		444	450
Total assets	$	384,384	375,188
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	135	184
Other liabilities		737	794
Total liabilities		872	978
Net assets:			
Without donor restrictions		89,245	97,487
With donor restrictions		294,267	276,723
Total net assets		383,512	374,210
Total liabilities and net assets	$	384,384	375,188

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION

(Discretely Presented Component Unit of the University of South Alabama)

Statements of Net Position

September 30, 2019 and 2018

(In thousands)

		2019	2018
Assets:			
Current assets:			
Unrestricted cash and cash equivalents	$	649	435
Rent receivable		211	235
Prepaid expenses and other current assets		2	5
Total current assets		862	675
Noncurrent assets:			
Intangible assets, net		217	94
Capital assets, net		20,840	21,430
Total noncurrent assets		21,057	21,524
Deferred outflows		1,262	1,442
Total assets and deferred outflows		23,181	23,641
Liabilities:			
Current liabilities:			
Deposits, other current liabilities, and accrued expenses		455	207
Unrecognized rent revenue		393	384
Current portion of notes payable		1,043	727
Total current liabilities		1,891	1,318
Noncurrent liabilities:			
Notes payable, excluding current portion		20,201	20,058
Payable to University of South Alabama		368	1,461
Total noncurrent liabilities		20,569	21,519
Total liabilities		22,460	22,837
Net position:			
Net investment in capital assets		393	627
Unrestricted		328	177
Total net position	$	721	804

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY

(Discretely Presented Component Unit of the University of South Alabama)

Statements of Net Position

September 30, 2019 and 2018

(In thousands)

	2019	2018
Assets:		
Current assets:		
Cash and cash equivalents	$ 1,188	393
Patient receivables (net of allowance for doubtful accounts of $381 and $36)	2,195	1,827
Inventories	155	228
Other current assets	678	349
Total current assets	4,216	2,797
Noncurrent assets:		
Capital assets	1,602	731
Total assets	5,818	3,528
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	1,141	620
Accrued salaries and wages	1,439	890
Other current liabilities	307	798
Total current liabilities	2,887	2,308
Total liabilities	2,887	2,308
Net position:		
Net investment in capital assets	1,602	731
Unrestricted	1,329	489
Total net position	$ 2,931	1,220

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2019 and 2018

(In thousands)

		2019	2018
Operating revenues:			
Tuition and fees (net of scholarship allowances of $35,767 in 2019 and $35,207 in 2018)	$	139,871	136,222
Patient service revenues (net of provision for bad debts of $99,713 in 2019 and $99,436 in 2018)		491,796	416,034
Federal grants and contracts		20,276	16,411
State grants and contracts		9,513	7,790
Private grants and contracts		6,858	9,892
Auxiliary enterprises (net of scholarship allowances of $1,106 in 2019 and $1,089 in 2018)		21,481	25,907
Other operating revenues		41,046	40,823
Total operating revenues		730,841	653,079
Operating expenses:			
Salaries and benefits		495,123	486,156
Supplies and other services		268,416	255,145
Scholarships and fellowships		13,990	13,394
Utilities		16,877	16,076
Depreciation and amortization		48,625	48,611
Total operating expenses		843,031	819,382
Operating loss		(112,190)	(166,303)
Nonoperating revenues (expenses):			
State appropriations		115,209	108,268
Net investment income		8,203	17,857
Interest expense		(12,106)	(12,119)
Other nonoperating revenues		48,307	48,044
Other nonoperating expenses		(11,012)	(13,251)
Net nonoperating revenues		148,601	148,799
Income (loss) before capital contributions and grants and additions to endowment		36,411	(17,504)
Capital contributions and grants		13,617	8,612
Additions to endowment		6,699	8,158
Increase (decrease) in net position		56,727	(734)
Net position:			
Beginning of year, before cumulative effect of change in accounting principle		35,398	265,819
Cumulative effect of change in accounting principle (note 1 (cc))		—	(229,687)
Beginning balance, as adjusted		35,398	36,132
End of year	$	92,125	35,398

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION

(Discretely Presented Component Unit of the University of South Alabama)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2019

(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, losses and other support:			
Net realized and unrealized gains (losses) on investments	$ (2,731)	19,146	16,415
Rents, royalties and timber sales	3,080	152	3,232
Interest and dividends	925	1,289	2,214
Gifts	1	4,136	4,137
Required match of donor contributions	(4)	4	—
Interfund interest	(500)	500	—
Other income	335	—	335
Net assets released from program restrictions	7,683	(7,683)	—
Total revenues, gains, losses and other support	8,789	17,544	26,333
Expenditures:			
Program services:			
Faculty support	2,473	—	2,473
Scholarships	1,172	—	1,172
Other academic programs	6,390	—	6,390
Total program service expenditures	10,035	—	10,035
Management and general	2,195	—	2,195
Other investment expense	1,591	—	1,591
Depletion expense	3,170	—	3,170
Depreciation expense	40	—	40
Total expenditures	17,031	—	17,031
Change in net assets	(8,242)	17,544	9,302
Net assets – beginning of year	97,487	276,723	374,210
Net assets – end of year	$ 89,245	294,267	383,512

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA FOUNDATION

(Discretely Presented Component Unit of the University of South Alabama)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2018

(In thousands)

		Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, losses and other support:				
Net realized and unrealized gains on investments	$	4,059	15,887	19,946
Rents, royalties and timber sales		3,499	157	3,656
Interest and dividends		743	1,381	2,124
Gifts		75	1,042	1,117
Required match of donor contributions		(6)	6	—
Interfund interest		(367)	367	—
Other income		31	—	31
Net assets released from program restrictions		7,682	(7,682)	—
Total revenues, gains, losses and other support		15,716	11,158	26,874
Expenditures:				
Program services:				
Faculty support		2,242	—	2,242
Scholarships		1,139	—	1,139
Other academic programs		6,507	—	6,507
Total program service expenditures		9,888	—	9,888
Management and general		2,118	—	2,118
Other investment expense		1,752	—	1,752
Depletion expense		4,072	—	4,072
Depreciation expense		77	—	77
Total expenditures		17,907	—	17,907
Change in net assets		(2,191)	11,158	8,967
Net assets – beginning of year		99,678	265,565	365,243
Net assets – end of year	$	97,487	276,723	374,210

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION

(Discretely Presented Component Unit of the University of South Alabama)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended September 30, 2019 and 2018

(In thousands)

		2019	2018
Operating revenues	$	3,607	3,510
Operating expenses:			
Building management and operating expenses		1,189	1,096
Depreciation and amortization		1,125	1,074
Legal and administrative fees		192	185
Insurance		29	35
Total operating expenses		2,535	2,390
Operating income		1,072	1,120
Nonoperating revenues (expenses):			
Donations		—	107
Interest expense		(1,123)	(1,069)
Debt issuance expense		(25)	(82)
Other		(7)	(3)
Net nonoperating expenses		(1,155)	(1,047)
Change in net position		(83)	73
Net position:			
Beginning of year		804	731
End of year	$	721	804

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY

(Discretely Presented Component Unit of the University of South Alabama)

Statements of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2019 and period August 1, 2017 (inception) through September 30, 2018

(In thousands)

		2019	2018
Operating revenues:			
Patient service revenues (net of provision for bad debts of $283 in 2019 and $77 in 2018)	$	22,470	16,863
Other operating revenues		1,098	651
Total operating revenues		23,568	17,514
Operating expenses:			
Salaries and benefits		18,132	13,592
Building and equipment expenses		1,751	1,537
Medical and surgical supplies		6,870	6,791
Other expenses		4,231	3,205
Depreciation and amortization		276	134
Total operating expenses		31,260	25,259
Operating loss		(7,692)	(7,745)
Nonoperating revenues:			
Support from University of South Alabama		9,394	8,953
Other nonoperating revenues		9	12
Total nonoperating revenues		9,403	8,965
Increase in net position		1,711	1,220
Net position at beginning of year		1,220	—
Net position at end of year	$	2,931	1,220

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended September 30, 2019 and 2018

(In thousands)

	2019	2018
Cash flows from operating activities:		
Receipts related to tuition and fees	$ 138,226	139,852
Receipts from and on behalf of patients and third-party payers	478,756	429,955
Receipts from grants and contracts	34,553	32,812
Receipts related to auxiliary enterprises	20,439	25,615
Payments to suppliers and vendors	(267,340)	(262,895)
Payments to employees and related benefits	(506,781)	(464,167)
Payments for scholarships and fellowships	(12,886)	(13,006)
Other operating receipts	51,947	32,069
Net cash used in operating activities	(63,086)	(79,765)
Cash flows from noncapital financing activities:		
State appropriations	115,209	108,268
Endowment gifts	6,699	8,158
Agency funds received	2,443	1,645
Agency funds disbursed	(2,085)	(747)
Student loan program receipts	149,937	151,313
Student loan program disbursements	(148,193)	(152,448)
Other nonoperating revenues	38,518	19,730
Other nonoperating expenses	(10,820)	(13,251)
Net cash provided by noncapital financing activities	151,708	122,668
Cash flows from capital and related financing activities:		
Capital contributions and grants	13,617	8,612
Purchases of capital assets	(89,056)	(68,345)
Proceeds from sales of capital assets	60	153
Proceeds from issuance of capital debt	71,067	—
Principal payments on capital debt	(23,137)	(23,088)
Interest payments on capital debt	(14,203)	(11,931)
Net cash used in capital and related financing activities	(41,652)	(94,599)
Cash flows from investing activities:		
Interest and dividends on investments	2,977	14,950
Purchases of investments	(66,090)	(29,599)
Proceeds from sales of investments	90,270	26,817
Net cash provided by investing activities	27,157	12,168
Net increase (decrease) in cash and cash equivalents	74,127	(39,528)
Cash and cash equivalents (unrestricted and restricted):		
Beginning of year	96,336	135,864
End of year	$ 170,463	96,336

(Continued)

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Statements of Cash Flows

Years ended September 30, 2019 and 2018

(In thousands)

		2019	2018
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(112,190)	(166,303)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization expense		48,625	48,611
Changes in assets and liabilities, net:			
Student receivables		634	2,198
Net patient receivables		(9,263)	5,897
Grants and contracts receivables		(2,562)	661
Other receivables		10,824	(8,794)
Prepaid expenses, inventories, and other		(9,665)	9,647
Accounts payable and accrued liabilities		12,725	29,793
Unrecognized revenues		(2,214)	(1,475)
Net cash used in operating activities	$	(63,086)	(79,765)
Noncash investing, noncapital financing, and capital and related financing transactions:			
Net increase in fair value of investments recognized as a component of investment income	$	9,716	10,424
Addition of capital leases		2,240	4,940
Additional maturity on capital appreciation on bonds payable and other borrowings recorded as interest expense		49	427
Gifts of capital and other assets		204	1,697
Capitalization of construction period interest		2,030	1,105
Increase (decrease) in accounts payable related to capital assets		6,412	(4,666)

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

On May 3, 1963, the Governor of Alabama signed enabling legislation creating the University of South Alabama (the University). The accompanying basic financial statements present the financial position and activities of the University, which is a component unit of the State of Alabama. The financial statements of the University present the financial position, changes in financial position and, where applicable, cash flows of only that portion of the basic financial statements and the aggregate discretely presented component units of the State of Alabama that is attributable to the transactions of the University.

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus,* and GASB Statement No. 80*, Blending Requirements for Certain Component Units,* consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization is included as a component unit. Accordingly, the basic financial statements include the accounts of the University, as the primary government, and the accounts of the entities discussed below as component units.

GASB Statement No. 61 amended GASB Statements No. 14 and No. 39, and provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. Such criteria include the appointment of a voting majority of the board of the organization, the ability to impose the will of the primary government on the organization and the financial benefits/burden between the primary government and the potential component unit. The statement also clarifies reporting and disclosure requirements for those organizations. Based on these criteria as of September 30, 2019 and 2018, the University reports the University of South Alabama Foundation (USA Foundation), the USA Research and Technology Corporation (the Corporation) and the University of South Alabama Health Care Authority (HCA) as discretely presented component units.

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF), Gulf Coast TotalCare (Gulf Coast) and the University of South Alabama Foundation for Research and Commercialization (FRAC). These entities are considered component units of the University under the provisions of GASB Statements No. 14, 39, 61 and 80. However, these entities are not discretely presented in the accompanying financial statements as the University does not consider them significant enough to warrant inclusion in the University's reporting entity.

GASB requires the University, as the primary government, to include in its basic financial statements, as a blended component unit, organizations that, even though they are legally separate entities, meet certain requirements. Based on these requirements, the University reports the Professional Liability Trust Fund (PLTF), General Liability Trust Fund (GLTF), USA HealthCare Management, LLC (HCM), USA Health Physician Billing Services, LLC, USA Health Hospital Billing Services, LLC, USA Health Anesthesia Billing Services, LLC and USA Health Reference Lab Billing Services, LLC as blended component units. All significant transactions among the University and its blended component units have been eliminated.

(b) 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 in which the University, HCM, SAMSF and HCA are the only participants. In accordance with the bylaws of the PLTF, the president of the University is responsible for appointing members of the PLTF policy committee. Additionally, the general liability of the University, HCM, SAMSF, the Corporation and HCA is maintained and managed in its General Liability Trust Fund for which the University is responsible. The PLTF and GLTF are separate legal entities, which are governed by the University Board of Trustees through the University president. As such, PLTF and GLTF are reported as blended component units (see note 18 for further discussion of, and disclosure for, these entities).

(c) USA HealthCare Management, LLC

In June 2010, the University's Board of Trustees approved the formation of USA HealthCare Management, LLC. HCM 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 HCM. HCM commenced operations in October 2010, and is reported as a blended component unit (see note 18 for further discussion of, and disclosure for, this entity).

(d) USA Health Billing Limited Liability Companies

In fiscal year 2019, the University formed the USA Health Physician Billing Services, LLC, USA Health Hospital Billing Services, LLC, USA Health Anesthesia Billing Services, LLC and USA Health Reference Lab Billing Services, LLC as non-profit limited liability companies, whereby the University is the sole member. These companies were created to assist with the complex patient and insurance billing of USA Health, a division of the University that includes two hospitals and a cancer treatment center. As of September 30, 2019, there has been no activity in these companies.

(e) University of South Alabama Health Care Authority

In May 2017, the University's Board of Trustees approved the formation of the University of South Alabama Health Care Authority (HCA). The HCA is a public corporation created under and pursuant to the provisions of the State of Alabama University Authority Act of 2016. The HCA employs physicians and staff of certain physician practice groups as determined appropriate by the University. Operations commenced on August 1, 2017. During fiscal year 2018 two non-profit limited liability companies were formed to manage the complex patient and insurance billings. The HCA is the sole member of these LLCs. As such, these entities are blended component units of the HCA. Since inception, HCA's operations have been partially funded by the University, with total support amounting to $9,394,000 during the year ended September 30, 2019 and $8,953,000 during the period August 1, 2017 (inception) through September 30, 2018. This support is reported in nonoperating expenses on the University's statements of revenues, expenses, and changes in net position. Due to the significance of the relationship between the University and HCA, the HCA is considered a component unit of the

University. The accompanying statements of net position and statements of revenues, expenses, and changes in net position for HCA as of and for the year ended September 30, 2019 and period August 1, 2017 (inception) through September 30, 2018 are discretely presented.

(f) University of South Alabama Foundation

The University of South Alabama Foundation is a not-for-profit corporation that was organized for the purpose of promoting education, scientific research, and charitable purposes, and to assist in developing and advancing the University in furthering, improving, and expanding its properties, services, facilities, and activities. Because of the significance of the relationship between the University and the USA Foundation, the USA Foundation is considered a component unit of the University. The Board of Directors of the USA Foundation is not appointed or controlled by the University. The University receives distributions from the USA Foundation primarily for scholarship, faculty and other support. Total distributions received or accrued by the University for the years ended September 30, 2019 and 2018 were $9,755,000 and $9,703,000, respectively, and are included primarily in other nonoperating revenues and capital contributions and grants in the University's statements of revenues, expenses, and changes in net position. The USA Foundation presents its financial statements in accordance with standards issued by the Financial Accounting Standards Board (FASB). The USA Foundation is reported in separate financial statements because of the difference in the financial reporting format since the USA Foundation follows FASB rather than GASB pronouncements. The USA Foundation has a June 30 fiscal year end, which differs from the University's September 30 fiscal year end. In accordance with GASB Statement No. 14 and GASB Statement No. 61, this discretely presented unit has been included with the most recent fiscal year. The accompanying consolidated statements of financial position and consolidated statements of activities and changes in net assets for the USA Foundation as of and for the years ended June 30, 2019 and 2018 are discretely presented.

In 2016, the FASB issued ASU 2016-14, *Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities.* ASU 2016-14 amends existing guidance for financial reporting by not for profit entities. The objectives are to reduce complexity and improve the utility of financial reporting for users of financial statements produced by not for profit entities. The Foundation adopted ASU 2016-14 for the current year. The principal changes required by ASU 2016-14 include eliminating the distinction between temporarily and permanently restricted net assets and enhancing quantitative and qualitative disclosures related to financial performance and the entity's liquidity and use of resources.

(g) USA Research and Technology Corporation

USA Research and Technology Corporation is a not-for-profit corporation that exists for the purpose of furthering the educational and scientific mission of the University by developing, attracting, and retaining technology and research industries in Alabama that will provide professional and career opportunities to the University's students and faculty. Because of the significance of the relationship between the University and the Corporation, the Corporation is considered a component unit of the University. The Corporation presents its financial statements in accordance with GASB. The accompanying statements of net position and statements of revenues, expenses, and changes in net position for the Corporation as of and for the years ended September 30, 2019 and 2018 are discretely presented.

(h) Measurement Focus and Basis of Accounting

For financial reporting purposes, the University is considered a special purpose governmental agency engaged only in business type activities, as defined by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Accordingly, the University's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

(i) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs could change by a material amount in the near term.

(j) Cash and Cash Equivalents

Cash and cash equivalents are defined as petty cash, demand accounts, certificates of deposit, and any short-term investments that take on the character of cash. These investments have maturities of less than three months at the time of purchase and include repurchase agreements and money market accounts.

(k) Investments and Investment Income

The University reports the fair value of investments using the three-level hierarchy established under GASB Statement No. 72, *Fair Value Measurement and Application*. The fair value of alternative investments (low-volatility multi-strategy funds of funds) and certain private equity partnerships do not have readily ascertainable market values and the University values these investments in accordance with valuations provided by the general partners or fund managers of the underlying partnerships or companies, typically based on net asset value (NAV) of the partnership or commingled vehicle. Because some of these investments are not readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the fair value that would have been used had a ready market for the investment existed. Investments received by gift are recorded at fair value at the date of receipt. Changes in the fair value of investments are reported in net investment income.

(l) Derivatives

The University has adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 establishes a framework for accounting and financial reporting related to derivative instruments, requiring the fair value of derivatives to be recognized in the basic financial statements. At September 30, 2019 and 2018, the University had two hedging derivative instruments, interest rate swaps, in effect. In accordance with hedge accounting, the changes in fair values of the interest rate swaps are reported as changes in deferred inflows and outflows and the fair values of the interest rate swaps are recognized in other long-term liabilities and deferred inflows and outflows on the statements of net position since the interest rate swaps were deemed effective.

(m) Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of employer contributions to the Teacher's Retirement System of Alabama and the Public Education Employees Health Insurance Plan subsequent to the plan's measurement dates, changes in proportion and differences between employer contributions and proportionate share of contributions related to the OPEB plan, changes in actuarial and other assumptions related to the pension plan, fair value of interest rate swaps and the loss on the defeasement of certain bond amounts.

Deferred inflows of resources consist of the proportionate share of the differences between expected and actual experience related to the pension plan, net difference between projected and actual earnings on pension and OPEB plan investments, changes of assumptions in OPEB plan, changes in proportion and differences between employer contributions and proportionate share of contributions in pension and OPEB plans, fair values of interest rate swaps and gain on the refunding of certain bond amounts.

(n) Bond Premiums, Discounts, and Debt Extinguishment Costs

Bond premiums, discounts, and debt extinguishment costs associated with the issuance of certain bond series are capitalized and amortized over the life of the respective bond series on a straight-line basis in accordance with generally accepted accounting principles.

(o) Accounts Receivable

Patient receivables primarily result from hospital and ambulatory patient service revenues. Accounts receivable – other includes amounts due from students, the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts and patient receivables are recorded net of estimated uncollectible amounts.

(p) Inventories

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

(q) Capital Assets

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

(Continued)

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

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

Certain buildings are componentized for depreciation purposes.

Interest costs for certain constructed assets are capitalized as a component of the cost of acquiring those assets. The amount of interest capitalized for the years ended September 30, 2019 and 2018 was approximately $2,030,000 and $1,105,000, respectively.

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, 2019 and 2018, no impairments were recorded.

(r) Unrecognized Revenues

Student tuition, fees, and dormitory rentals are initially recorded as unrecognized revenues and then recognized over the applicable portion of each school term.

(s) Cost Sharing Multiple-Employer Pension Plan

Employees of the University are covered by a cost sharing multiple-employer defined benefit pension plan (the Plan) administered by the Teachers' Retirement System of Alabama (TRS). The TRS financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to Plan requirements. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the GASB. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

(t) Postemployment Benefits Other Than Pensions (OPEB)

Employees of the University are covered by a cost sharing multiple-employer other post employment benefit plan administered by the Alabama Retired Education Employees Health Care Trust (Trust). The Trust's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the Plan. In accordance with GASB, the Trust is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

(u) Classification of Net Position

The University's net position is classified as follows:

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

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

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

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

(v) 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 paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's basic financial statements based on their classification as either an exchange or a nonexchange transaction. To the extent that revenues from such programs satisfy tuition and fees and certain other student charges, the University has recorded a scholarship discount and allowance.

(w) Donor Restricted Endowments

The University is subject to the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) of the Code of Alabama. This law allows the University, unless otherwise restricted by the donor, to spend net appreciation, realized and unrealized, of the endowment assets. The law also allows the University to appropriate for expenditure or accumulate to an endowment fund such amounts as the University determines to be prudent for the purposes for which the endowment fund was established. The University's endowment spending policy provides that 4.5% of the five-year invested net asset moving average value (inclusive of net realized and unrealized gains and losses), as measured at September 30, is available annually for spending. The University's policy is to retain the endowment net interest and dividend income and net realized and unrealized appreciation with the endowment after distributions allowed by the spending policy have been made. These amounts, unless otherwise directed by the donor, are included in restricted expendable net position.

(x) Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues.

Operating revenues include activities that have the characteristics of exchange transactions such as student tuition and fees, net of scholarship discounts and allowances; patient service revenues, net of provision for bad debts; most federal, state, and local grants and contracts; and sales and services of auxiliary enterprises, net of scholarship allowances.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as state appropriations, investment income and gifts and contributions.

(y) 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.

(z) 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.

(aa) Patient Service Revenues and Electronic Health Records Incentive Program

Patient service revenues are reported at estimated net realizable amounts due from patients, third-party payers and others for healthcare services rendered, including estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods, as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

The Centers for Medicare and Medicaid Services (CMS) has implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, and hospitals, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. USA Health utilizes a grant accounting model to recognize EHR incentive revenues. EHR incentive revenue is recorded ratably throughout the incentive reporting period when it is reasonably assured that it will meet the meaningful use objectives for the required reporting period and that the grants will be received. The EHR reporting period for hospitals is based on the federal fiscal year, which runs from October 1 through September 30.

University Hospital has met the Medicare and Medicaid meaningful use objectives for fiscal year 2018. The hospital also expects to meet meaningful use objectives in fiscal 2019. No meaningful use payment is expected for fiscal year 2018 forward as a result of the transition to the Merit-Based Incentive Payment System, which is an ambulatory Eligible Professional attestation. While University Hospital is moving to Penalty Aversion, it is still in the Meaningful Use program for eligible hospitals. Any payment adjustments for fiscal year 2017 through 2019 will not be paid until 2020.

(bb) Compensated Absences

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

(cc) Recently Adopted Accounting Pronouncements

In 2018, the University adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which updates the reporting guidance for governmental institutions that provide other postemployment benefits by requiring the recognition of the University's proportionate share of the net OPEB liability, based on an actuarial valuation, and the OPEB expense in the basic financial statements. The statement also enhances financial statement note disclosures. The adoption of the provisions of GASB No. 75 resulted in a restatement of beginning unrestricted net position at October 1, 2017 by decreasing unrestricted net position $229,687,000 (see note 13 for further discussion).

In 2019, the University adopted the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which updates the information that is disclosed in the financial statements related to debt. The University adopted this Statement and applied the effects retroactively. All effected disclosures were updated accordingly. There was no significant impact to the University in the adoption of this statement.

(2) Income Taxes

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

In addition, the University's discretely presented component units, except for HCA, are tax-exempt entities under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). The income of HCA is excluded from federal and state income taxation pursuant to the provisions of Section 115(1) of the Internal Revenue Code. Consistent with these designations, no provision for income taxes has been made in the accompanying discretely presented component unit financial statements.

(3) Cash and Cash Equivalents

Pursuant to the Security for Alabama Funds Enhancement Act, funds on deposit may be placed in an institution designated as a qualified public depository (QPD) by the State of Alabama. QPD institutions pledge securities to a statewide collateral pool administered by the State Treasurer's office. Such financial institutions contribute to this collateral pool in amounts proportionate to the total amount of public fund deposits at their respective institutions. The securities are held at the Federal Reserve Bank and are designated for the State of Alabama. Additional collateral was not required for University funds on deposit with QPD institutions. At September 30, 2019 and 2018, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately $11.7 and $11.4 billion, respectively. The University had cash and cash equivalents, including restricted cash and cash equivalents, in the pool of $170,463,000 and $96,336,000 at September 30, 2019 and 2018, respectively.

At September 30, 2019, restricted cash and cash equivalents consist of $5,243,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, $42,073,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture, $11,200,000 related to collateral requirements of interest rate swaps, $925,000 related to restricted donations related to certain capital projects, and $740,000 related to endowment funds. At September 30, 2018, restricted cash and cash equivalents consist of $6,411,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, $1,722,000 related to collateral requirements of HCM, $8,189,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture, and $59,000 related to endowment funds.

(4) Investments

(a) University of South Alabama

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

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

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

Investments of the University, by type, at fair value, are as follows at September 30, 2019 and 2018 (in thousands):

	2019	2018
U.S. Treasury securities	$ 14,681	9,139
U.S. federal agency notes	75,299	103,119
Commingled equity funds	95,925	113,863
Commingled fixed income funds	27,591	38,184
Marketable equity securities	26,207	12,803
Marketable debt securities	9,969	—
Real estate	125	275
Private equity	12,526	2,049
Managed income alternative investments (low-volatility multi-strategy funds of funds)	31,861	33,732
	$ 294,184	313,164

At September 30, 2019 and 2018, restricted investments consist of endowment funds, funds held in the PLTF and GLTF to pay insurance liability claims and funds related to collateral requirements of the interest rate swaps.

At September 30, 2019 and 2018, $22,243,000 and $19,120,000, respectively, of cumulative appreciation in fair value of investments of donor-restricted endowments was recognized and is included in restricted expendable net position in the accompanying statements of net position.

The University invests in several private equity funds. At September 30, 2019, the University had capital commitments to those funds of $5,396,000.

(i) Credit Risk and Concentration of Credit Risk

Nonendowment Cash Pool Investment Policy

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

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

Endowment Fund Investment Policy

The University Investment Policies limit investment in fixed income securities to securities with a minimum “BAA” rating, at the time of purchase, by both Moody’s and Standard and Poor’s. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor’s, and/or Moody’s. Investment in fixed income securities within the fixed income portfolio shall be restricted to only investment grade bonds rated “BAA” or higher. Any investment in below investment grade bonds shall be considered an equity or fixed income alternative investment.

Additionally, the University Investment Policies require that not more than 5% of the Endowment Fund assets of the University be allocated to an individual investment manager and no more than 25% of the Endowment Fund assets be allocated to a “Funds of Funds” or multi-manager fund.

(Continued)

The University's exposure to credit risk and concentration of credit risk at September 30, 2019 and 2018 is as follows:

	2019	
	Credit rating	**Percentage of total investments**
Federal National Mortgage Association	AAA	3.2 %
Federal Home Loan Mortgage Corporation	AAA	3.7
Federal Farm Credit Banks Funding Corporation	AAA	9.8
Common Fund Bond Fund	AAA	7.4
Federal Farm Credit Banks Debenture	AAA/AA+	8.9
PIMCO Pooled Bond Fund	BAA+/AA/A	2.0
US Treasury securities	AAA/AA+	5.0
Marketable debt securities	Various	3.0

	2018	
	Credit rating	**Percentage of total investments**
Federal National Mortgage Association	AAA	9.1 %
Federal Home Loan Mortgage Corporation	AAA	4.6
Federal Farm Credit Banks Funding Corporation	AAA	9.9
Common Fund Bond Fund	AAA	10.4
Federal Farm Credit Banks Debenture	AAA/AA+	8.7
PIMCO Pooled Bond Fund	BAA+/AA/A	1.8
Federal Home Loan Banks Debenture	AAA/AA+	0.6
US Treasury securities	AAA/AA+	2.9

(Continued)

(ii) Interest Rate Risk

At September 30, 2019 and 2018, the maturity dates of the University's fixed income investments are as follows (in thousands):

	2019				
		Years to maturity			
	Fair value	Less than 1	1–5	6–10	More than 10
U.S. Treasury securities	$ 14,681	—	8,543	6,138	—
U.S. federal agency notes	75,299	22,419	42,696	—	10,184
Marketable debt securities	9,969	—	4,679	5,290	—
Commingled fixed income funds	27,591	1,375	1,445	3,128	21,643
	$ 127,540	23,794	57,363	14,556	31,827

	2018				
		Years to maturity			
	Fair value	Less than 1	1–5	6–10	More than 10
U.S. Treasury securities	$ 9,139	9,139	—	—	—
U.S. federal agency notes	103,119	23,819	79,300	—	—
Commingled fixed income funds	38,184	2,936	—	2,707	32,541
	$ 150,442	35,894	79,300	2,707	32,541

Commingled fixed income funds are classified based on the weighted average maturity of the individual investment instruments within each fund.

The University's Investment Policies do not specifically address the length to maturity on investments which the University must follow; however, they do require that the maturity range of investments be consistent with the liquidity requirements of the University.

(iii) Mortgage-Backed Securities

The University, from time to time, invests in mortgage-backed securities such as the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), and other government sponsored enterprises of the United States government. The University invests in these securities to increase the yield and return on its investment portfolio given the available alternative investment opportunities.

(iv) Fair Value Measurement

Fair value measurements represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The University measures and records its investments using fair value measurement guidelines established by GASB Statement No. 72. These guidelines prioritize the inputs of valuation techniques used to measure fair value, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs

The level in the fair value hierarchy that determines the classification of an asset or liability depends on the lowest level input that is significant to the fair value measurement. Observable inputs are derived from quoted market prices for assets or liabilities traded on an active market where there is sufficient activity to determine a readily determinable market price. Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable inputs. The University's assets that have unobservable inputs consist of the investment in real estate, with fair value based on an independent third party appraisal performed by qualified appraisers specializing in real estate investments, and of investments in private capital, with fair value determined by the investment managers and primarily utilizes management assumptions and best estimates after considering internal and external factors. Other assets included in the University's investment portfolio with unobservable inputs are the shares or units in certain partnerships or other commingled funds that do not have readily determinable fair values. For these funds, fair value is estimated using the net asset value reported by the investment managers as a practical expedient to fair value. Such investments have not been categorized within the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of net position.

The following tables summarize the fair value measurements for all investment assets and liabilities carried at fair value as of September 30, 2019 and 2018 (in thousands):

	Asset fair value measurements at September 30, 2019			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. Treasury securities	$ 14,681	—	—	14,681
U.S. federal agency notes	—	75,299	—	75,299
Commingled equity funds	58,570	37,355	—	95,925
Commingled fixed income funds	5,948	21,643	—	27,591
Marketable equity securities	26,207	—	—	26,207
Marketable debt securities	9,969	—	—	9,969
Private equity	—	—	11,513	11,513
Real estate	—	—	125	125
Total investments at fair value	$ 115,375	134,297	11,638	261,310
Investments measured at NAV:				
Private equity				1,013
Managed income alternative investments (low volatility multi-strategy funds of funds)				31,861
Total investments				$ 294,184

	Liability fair value measurements at September 30, 2019			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Interest rate exchange agreements	$ —	45,750	—	45,750

Description		Asset fair value measurements at September 30, 2018 Level 1	Level 2	Level 3	Total
U.S. Treasury securities	$	9,139	—	—	9,139
U.S. federal agency notes		—	103,119	—	103,119
Commingled equity funds		66,895	46,968	—	113,863
Commingled fixed income funds		5,642	32,542	—	38,184
Marketable equity securities		12,803	—	—	12,803
Private equity		—	—	1,640	1,640
Real estate		—	—	275	275
Total investments at fair value	$	94,479	182,629	1,915	279,023
Investments measured at NAV:					
Private equity					409
Managed income alternative investments (low volatility multi-strategy funds of funds)					33,732
Total investments				$	313,164

Description		Liability fair value measurements at September 30, 2018 Level 1	Level 2	Level 3	Total
Interest rate exchange agreements	$	—	33,826	—	33,826

A rollforward schedule of amounts for Level 3 financial instruments for the fiscal years ended September 30, 2019 and 2018 is as follows (in thousands):

Description		Private equity and real estate 2019	2018
Beginning balance	$	1,915	1,144
Purchases		9,630	665
Net realized/unrealized gains (losses)		598	303
Sales		(505)	(197)
Ending balance	$	11,638	1,915

(b) University of South Alabama Foundation

Investments in securities consist primarily of equity securities totaling $150,796,000 and $137,722,000 at June 30, 2019 and 2018, respectively.

Investment income was comprised of the following for the years ended June 30, 2019 and 2018 (in thousands):

		2019	2018
Unrealized gains	$	13,188	15,736
Realized gains		3,227	4,210
Timber sales		2,505	2,921
Interest and dividends		2,214	2,124
Rents		642	646
Royalties		85	89
	$	21,861	25,726

Investment related expenses in the amounts of $359,000 and $347,000 are included in the USA Foundation's management and general expenses in the accompanying consolidated statements of activities and changes in net assets for the years ended June 30, 2019 and 2018, respectively.

Real estate at June 30, 2019 and 2018 consisted of the following property held (in thousands):

		2019	2018
Land and land improvements – held for investment	$	60,448	68,071
Building and building improvements – held for investment		1,060	1,092
	$	61,508	69,163

Timber and mineral properties are stated at fair value. Depletion of mineral properties is recognized over the remaining producing lives of the properties based on total estimated production and current-period production. Depletion of timber properties is recognized on a specific identification basis as timber rights are sold or on a unit basis for sales made on that basis. Reforestation costs consisting of site preparation and planting of seedlings are capitalized.

Investments at June 30, 2019 and 2018, include an equity interest in a timberland management company. The company's primary assets consist of timberland. The Foundation's proportionate share of the fair value of the company is based upon the valuation from the trustee responsible for the management of the company and the timber valuation.

The USA Foundation has adopted Accounting Standards Codification (ASC) 820, *Fair Value Measurement and Disclosures*. ASC 820 provides a single definition of fair value and a hierarchical framework for measuring it, as well as establishing additional disclosure requirements about the use of

(Continued)

fair value to measure assets and liabilities. Fair value measurements are classified as either observable or unobservable in nature. Observable fair values are derived from quoted market prices for investments traded on an active exchange or in dealer markets where there is sufficient activity and liquidity to allow price discovery by substantially all market participants (Level 1). The USA Foundation's observable values consist of investments in exchange-traded equity securities with a readily determinable market price. Other observable values are fair value measurements derived either directly or indirectly from quoted market prices (Level 2). Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable (Level 3). The USA Foundation's unobservable values consist of investments in timber and real estate with fair values based on independent third-party appraisals performed by qualified appraisers specializing in timber and real estate investments.

The USA Foundation's investment assets at June 30, 2019 and 2018, are summarized based on the criteria of ASC 820 as follows (in thousands):

	Fair value measurements at June 30, 2019			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 96,151	—	—	96,151
Timber and mineral properties	—	—	164,307	164,307
Real estate	—	—	61,508	61,508
Other investments	—	—	5,809	5,809
	$ 96,151	—	231,624	327,775
Investment in Commonfund measured at NAV				54,645
				$ 382,420

	Fair value measurements at June 30, 2018			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$ 84,072	—	—	84,072
Timber and mineral properties	—	—	160,949	160,949
Real estate	—	—	69,163	69,163
Other investments	—	—	5,805	5,805
	$ 84,072	—	235,917	319,989
Investment in Commonfund measured at NAV				53,650
				$ 373,639

(Continued)

For the years ended June 30, 2019 and 2018, activity in investment assets valued at fair value based on unobservable values is as follows (in thousands):

Description		2019 Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	$	160,949	69,163	5,805	235,917
Net unrealized gains (losses)		6,247	(7,620)	4	(1,369)
Reforestation		281	—	—	281
Depreciation/depletion		(3,170)	(35)	—	(3,205)
Ending balance	$	164,307	61,508	5,809	231,624

Description		2018 Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	$	160,351	69,186	5,808	235,345
Net unrealized gains (losses)		4,533	10	(3)	4,540
Additions		25	7	—	32
Reforestation		112	—	—	112
Depreciation/depletion		(4,072)	(40)	—	(4,112)
Ending balance	$	160,949	69,163	5,805	235,917

As of June 30, 2019, the USA Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of the USA Foundation’s equity securities at June 30, 2019 are considered readily liquid. Timber and mineral properties, real estate, and other investments are generally considered illiquid.

(5) Capital Assets

(a) University of South Alabama

A summary of the University's capital asset activity for the years ended September 30, 2019 and 2018 follows (in thousands):

	2019				
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Land and other	$ 23,106	1,276	—	—	24,382
Construction-in-progress	83,472	69,091	(55,533)	—	97,030
	106,578	70,367	(55,533)	—	121,412
Capital assets being depreciated:					
Land improvements	39,591	2,219	6,598	—	48,408
Buildings, fixed equipment, and infrastructure	786,620	4,459	47,259	(147)	838,191
Other equipment	246,185	7,952	1,676	(12,535)	243,278
Library materials	74,958	3,799	—	—	78,757
	1,147,354	18,429	55,533	(12,682)	1,208,634
Less accumulated depreciation for:					
Land improvements	(23,224)	(1,904)	—	—	(25,128)
Buildings, fixed equipment, and infrastructure	(301,598)	(23,625)	—	123	(325,100)
Other equipment	(151,189)	(19,923)	—	12,418	(158,694)
Library materials	(58,105)	(3,218)	—	—	(61,323)
	(534,116)	(48,670)	—	12,541	(570,245)
Capital assets being depreciated, net	613,238	(30,241)	55,533	(141)	638,389
Capital assets, net	$ 719,816	40,126	—	(141)	759,801

	2018				
	Beginning balance	**Additions**	**Transfers**	**Reductions**	**Ending balance**
Capital assets not being depreciated:					
Land and other	$ 22,840	266	—	—	23,106
Construction-in-progress	130,024	49,188	(94,218)	(1,522)	83,472
	152,864	49,454	(94,218)	(1,522)	106,578
Capital assets being depreciated:					
Land improvements	33,814	361	5,416	—	39,591
Buildings, fixed equipment, and infrastructure	751,117	3,472	32,031	—	786,620
Other equipment	175,916	18,912	56,771	(5,414)	246,185
Library materials	71,070	3,888	—	—	74,958
	1,031,917	26,633	94,218	(5,414)	1,147,354
Less accumulated depreciation for:					
Land improvements	(21,846)	(1,378)	—	—	(23,224)
Buildings, fixed equipment, and infrastructure	(278,953)	(22,645)	—	—	(301,598)
Other equipment	(135,026)	(21,400)	—	5,237	(151,189)
Library materials	(54,988)	(3,117)	—	—	(58,105)
	(490,813)	(48,540)	—	5,237	(534,116)
Capital assets being depreciated, net	541,104	(21,907)	94,218	(177)	613,238
Capital assets, net	$ 693,968	27,547	—	(1,699)	719,816

At September 30, 2019, the University had commitments of approximately $42,456,000 related to various construction projects.

(b) USA Research and Technology Corporation

Changes in capital assets for the years ended September 30, 2019 and 2018 are as follows (in thousands):

		2019				
		Beginning balance	Additions	Transfers	Reductions	Ending balance
Land	$	223	—	—	—	223
Land improvements		1,976	9	—	—	1,985
Buildings		28,303	149	—	—	28,452
Tenant improvements		1,840	337	—	(203)	1,974
Other equipment		373	14	—	—	387
Construction in progress - nondepreciable		—	10	—	—	10
		32,715	519	—	(203)	33,031
Less accumulated depreciation for:						
Land improvements		(1,312)	(94)	—	—	(1,406)
Buildings		(8,769)	(733)	—	—	(9,502)
Tenant improvements		(954)	(225)	—	178	(1,001)
Other equipment		(250)	(32)	—	—	(282)
		(11,285)	(1,084)	—	178	(12,191)
Capital assets, net	$	21,430	(565)	—	(25)	20,840

	2018				
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Land	$ 223	—	—	—	223
Land improvements	1,976	—	—	—	1,976
Buildings	28,291	12	—	—	28,303
Tenant improvements	1,155	682	3	—	1,840
Other equipment	275	111	—	(13)	373
Construction in progress - nondepreciable	3	—	(3)	—	—
	31,923	805	—	(13)	32,715
Less accumulated depreciation for:					
Land improvements	(1,218)	(94)	—	—	(1,312)
Buildings	(8,037)	(732)	—	—	(8,769)
Tenant improvements	(759)	(195)	—	—	(954)
Other equipment	(220)	(30)	—	—	(250)
	(10,234)	(1,051)	—	—	(11,285)
Capital assets, net	$ 21,689	(246)	—	(13)	21,430

(Continued)

(6) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the years ended September 30, 2019 and 2018 follows (in thousands):

	2019					
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable	$ 370,201	71,813	(18,385)	423,629	16,211	407,418
Notes payable from direct borrowings	5,160	—	(865)	4,295	892	3,403
Capital lease obligations	18,270	2,240	(5,008)	15,502	5,462	10,040
Total long-term debt	393,631	74,053	(24,258)	443,426	22,565	420,861
Other noncurrent liabilities:						
Net pension liability	296,654	—	(13,915)	282,739	—	282,739
Net OPEB liability	256,178	3,240	—	259,418	—	259,418
Other long-term liabilities	91,165	15,596	(10,310)	96,451	6,374	90,077
Total other noncurrent liabilities	643,997	18,836	(24,225)	638,608	6,374	632,234
Total noncurrent liabilities	$ 1,037,628	92,889	(48,483)	1,082,034	28,939	1,053,095

(Continued)

	2018					
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable	$ 389,424	427	(19,650)	370,201	18,262	351,939
Notes payable from direct borrowings	5,542	—	(382)	5,160	867	4,293
Capital lease obligations	17,332	4,940	(4,002)	18,270	4,968	13,302
Total long-term debt	412,298	5,367	(24,034)	393,631	24,097	369,534
Other noncurrent liabilities:						
Net pension liability	336,477	—	(39,823)	296,654	—	296,654
Net OPEB liability	—	256,178	—	256,178	—	256,178
Other long-term liabilities	101,992	2,067	(12,894)	91,165	6,669	84,496
Total other noncurrent liabilities	438,469	258,245	(52,717)	643,997	6,669	637,328
Total noncurrent liabilities	$ 850,767	263,612	(76,751)	1,037,628	30,766	1,006,862

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 current portion of other long-term liabilities.

During 2017, the University entered into a note payable for a period of ten years payable monthly at $19,000. This agreement commenced in November 2016 to finance improvements of the HVAC system. The amount outstanding on the note at September 30, 2019 and 2018 is $1,605,000 and $1,831,000, respectively, and is reported as long-term debt (and current portion thereof) in the statements of net position.

In March 2015, the University entered into a variable interest rate revolving line of credit with Compass Bank to, among other reasons, fund the acquisition of certain real property by USA Health. The total amount available under the line of credit was $5,000,000 and interest on the outstanding amounts accrued at the rate of the London InterBank Offered Rate (LIBOR) plus 1.00%. In July 2018, the University converted the line of credit into a term loan for a period of five years, with monthly payments of $63,000 and interest accruing at the fixed rate of 3.85% per annum. The amount outstanding at September 30, 2019 and 2018 is $2,690,000 and $3,329,000, respectively, and is reported as long-term debt (and current portion thereof) in the statements of net position.

(a) USA Research and Technology Corporation

(i) Notes Payable

Notes payable from direct borrowings consisted of the following at September 30, 2019 and 2018 (in thousands):

		2019	2018
PNC Bank promissory note, 4.38%, payable through 2028	$	12,640	13,066
PNC Bank promissory note, 4.50%, payable through 2021		7,418	7,719
University of South Alabama, 3.0%, payable through 2023		1,186	—
	$	21,244	20,785

During 2018 a variable interest rate note payable to Wells Fargo Bank, N.A. was refunded with the proceeds of a loan from PNC Bank, N.A. The note payable to Wells Fargo Bank, N.A. was incurred by the Corporation to acquire Buildings II and III in the USA Technology & Research Park and to provide funds for renovations and tenant finishing costs. In addition to refunding the Wells Fargo note payable, the refunding proceeds were used to terminate an interest rate swap that was used to fix the interest rate on the Wells Fargo note. Over the term of each note payable, the cash flows required to service the PNC Bank note payable exceed the cash flows required to service the Wells Fargo note payable by $2,352,759. The economic loss due to the refunding was $587,552.

The first promissory note payable to PNC Bank has a 10-year term and amortization is based on a 20-year term. The promissory note payable is secured by an interest in tenant leases for Buildings II and III, and an interest in income received from rental of Buildings II and III. The Corporation agreed to not transfer or encumber the buildings or its leasehold interest in the real estate on which the buildings stand.

The second promissory note payable to PNC Bank has a 10-year term and amortization is based on a 20-year term. The promissory note payable is secured by an interest in tenant leases for Building I and the dialysis services building, and an interest in income received from rental of Building I and the dialysis services building. The Corporation agreed to not transfer or encumber the buildings or its leasehold interest in the real estate on which the buildings stand.

In connection with each PNC note, the University entered into an agreement with the lender providing that for any year in which the Corporation’s debt service coverage ratio is less than 1 to 1, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to 1 to 1. The debt service coverage ratio is calculated by dividing the sum of unrestricted cash and cash equivalents at the beginning of the year (reduced by current year capital asset additions) and current year change in net position (determined without depreciation, amortization, and interest expenses) by current year debt service. For fiscal 2019, the Corporation’s debt service coverage ratio was 1.22 to 1. Management believes the Corporation was in compliance with its debt covenants, including the debt service coverage ratio covenant, at September 30, 2019.

During fiscal 2019, the payable to the University at September 30, 2018 was converted into a promissory note payable to the University. It is a fully-amortizing note with a 5-year term.

(ii) Debt Service on Long-Term Obligations

At September 30, 2019, total future debt service by fiscal year is as follows (in thousands):

	Debt service on notes		
	Principal	**Interest**	**Total**
2020	$ 1,043	904	1,947
2021	7,860	654	8,514
2022	786	518	1,304
2023	817	488	1,305
2024	530	460	990
2025–2029	10,208	1,504	11,712
Total	$ 21,244	4,528	25,772

(iii) Derivative Transaction

The Corporation was a party to a derivative with Wells Fargo Bank, N.A., the counterparty (successor to Wachovia Bank, N.A. the original counterparty). The derivative was a “receive-variable, pay-fixed” interest rate swap entered into in connection with the promissory note to Wells Fargo Bank, N.A.

Under the swap, the Corporation paid Wells Fargo a fixed payment of 6.10% and received a variable payment of the one-month LIBOR rate plus 0.85%. Conversely, the Wells Fargo loan bore interest at the one-month LIBOR rate plus 0.85%. The Corporation paid $329,600, under the interest rate swap agreement for the year ended September 30, 2018, which is reflected as an increase in interest expense.

The swap terminated on June 20, 2018 as part of a transaction refunding the Wells Fargo loan with the proceeds of a loan from PNC Bank. The fee paid by the Corporation to Wells Fargo to terminate the swap was $1,478,000. Pursuant to GASB Statement No. 65, the fee is reported in deferred outflows on the statements of net position and amortized to interest expense according to the percentage of annual interest paid on the loan from PNC Bank to the total interest to be paid on that loan over the 118 months that were remaining on the Wells Fargo loan when the swap was terminated. At September 30, 2019 and 2018, the balance was $1,262,000 and $1,442,000 respectively.

(7) Bonds Payable

Bonds payable consisted of the following at September 30, 2019 and 2018 (in thousands):

		2019	2018
Capital Appreciation Series 1999 Bonds, 4.70% to 5.25%, paid in full as of November 2018	$	—	7,496
University Facilities Revenue Capital Improvement Bonds, Series 2010, 3.81%, payable through August 2030		19,086	20,482
University Facilities Revenue Capital Improvement Bonds, Series 2012-A, 2.92% payable through August 2032		17,700	18,842
University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2.83% payable through August 2033		24,196	25,589
University Facilities Revenue Capital Improvement Bonds, Series 2013-B, 2.83% payable through August 2033		6,049	6,397
University Facilities Revenue Capital Improvement Bonds, Series 2013-C, 2.78% payable through August 2028		6,485	7,112
University Facilities Revenue Refunding Bonds, Series 2014-A, variable rate payable at 68% of LIBOR plus .73%, 1.87% and 2.21% at September 30, 2019 and 2018, respectively, payable through March 2024		38,365	39,030
University Facilities Revenue Capital Improvement Bonds, Series 2015, 2.47% payable through August 2030		4,125	4,500
University Facilities Revenue Refunding Bonds, Series 2016-A, 3.00% to 5.00% payable through November 2037		83,020	85,605
University Facilities Revenue Refunding Bonds, Series 2016-B, variable rate payable at 68% of one-month LIBOR plus 0.72%, 1.86% and 2.20% at September 30, 2019 and 2018, respectively, payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2021		20,000	20,000
University Facilities Revenue Refunding Bonds, Series 2016-C, variable rate payable at 68% of one-month LIBOR plus 0.77%, 1.91% and 2.25% at September 30, 2019 and 2018, respectively, payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2023		35,000	35,000
University Facilities Revenue Refunding Bonds, Series 2016-D, variable rate payable at 68% of one-month LIBOR plus 0.83%, 1.97% and '2.31% at September 30, 2019 and 2018, respectively, payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2026		45,000	45,000
University Facilities Revenue Bonds, Series 2017, 2.00% to 5.00%, payable through October 2037		34,990	36,230

	2019	2018
University Facilities Revenue Bonds, Series 2019-A, 5.00%, payable through April 2049	47,750	—
University Facilities Revenue Bonds, Series 2019-B, 3.09% to 4.10%, payable through April 2033	18,440	—
	400,206	351,283
Plus unamortized premium	25,155	20,761
Less unaccreted discount	—	(3)
Less unamortized debt extinguishment costs	(1,732)	(1,840)
	$ 423,629	370,201

Substantially all student tuition and fee and auxiliary revenues secure University bonds. Additionally, security for all bonds includes Children's and Women's Hospital revenues in an amount not exceeding $10,000,000. Capital Appreciation Series 1999 Bonds were paid in full in November 2018. The Series 2010 Bonds began maturing in August 2011 and are redeemable beginning in February 2020. The Series 2012-A and 2012-B Bonds began maturing in August 2013. The Series 2012-A Bonds are redeemable beginning in August 2021 and the Series 2012-B Bonds were paid in full in February 2018. The Series 2013-A, 2013-B and 2013-C Bonds began maturing in August 2014 and are redeemable beginning in June 2023. The Series 2014-A bonds began maturing in March 2015 and are redeemable by the University at any time. The Series 2015 Bonds began maturing in August 2015 and are redeemable beginning in June 2020. The Series 2016-A Bonds began maturing in November 2018 and are redeemable beginning in November 2026. The Series 2016-B, C & D Bonds will begin maturing in December 2024 and are redeemable at any time. The Series 2017 Bonds began maturing in October 2017 and are redeemable beginning in October 2027. The Series 2019-A and B Bonds will begin maturing in April 2033 and April 2021, respectively, and are redeemable beginning in April 2029.

In September 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016, with a face value of $85,605,000. The proceeds from the Series 2016 Bonds were used to partially defease the Series 2008 Bonds. The funds were deposited into escrow trust funds to provide for the subsequent repayment of the Series 2008 Bonds when they were called in December 2018. Neither the asset of the escrow trust account, nor the defeased indebtedness is included in the accompanying statements of net position. The loss on the defeasement of the Series 2008 Bonds of $7,859,000 was recorded as a deferred outflow and is being amortized over the remaining life of the Series 2016 Bonds and the balance of the related deferred outflow totaled $6,663,000 and $7,051,000, respectively, at September 30, 2019 and 2018. The principal outstanding on all defeased bonds is $93,540,000 at September 30, 2019 and 2018. The undefeased portion of the Series 2008 bonds was paid in full in August 2018.

In December 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016-B, C & D, with a face value totaling $100,000,000. The proceeds refunded the remaining outstanding Series 2006 Bonds. The gain on the refunding of the Series 2006 Bonds of $4,539,000 was recorded as a deferred inflow and is being amortized over the remaining life of the Series 2016-B, C & D Bonds and the balance of the related net deferred inflow at September 30, 2019 and 2018 totaled $3,896,000 and $4,122,000, respectively.

In February 2019, the University issued its University Facilities Revenues Bonds, Series 2019-A and 2019-B, with a face value of $47,750,000 and $18,440,000, respectively. The proceeds from the Series 2019-A and 2019-B are financing a new football stadium on the campus of the University.

During the years ended September 30, 2019 and 2018, the maturity value of the Capital Appreciation Bonds increased $49,000 and $427,000, respectively, over the original principal amount of $19,810,000, reflecting accretion of interest.

Approximately $5,292,000 and $8,189,000 of proceeds from the issuance of the Series 2017 Bonds remained unspent at September 30, 2019 and 2018, respectively, and is included in restricted cash and cash equivalents in the accompanying statements of net position. Approximately $36,781,000 of proceeds from the issuance of the Series 2019-A and B Bonds remained unspent at September 30, 2019 and is included in restricted cash and cash equivalents on the statement of net position. All bond funds are restricted for capital purposes as outlined in the bond indentures.

The University is subject to arbitrage restrictions on its bonded indebtedness prescribed by the U.S. Internal Revenue Service. As such, amounts are accrued as needed in the University's basic financial statements for any expected arbitrage liabilities. At September 30, 2019 and 2018, no amounts were due or recorded in the financial statements.

The University is subject to restrictive covenants related to its bonds payable. At September 30, 2019, management believes the University complied with such financial covenants.

(Continued)

Debt Service on Long-Term Obligations

Total debt service (which includes bonds and notes payable) by fiscal years is as follows as of September 30, 2019 (in thousands):

	Debt service on notes and bonds				
	Bonds		Notes Payable from Direct Borrowing		
	Principal	Interest	Principal	Interest	Total
2020	$ 16,374	12,853	892	92	30,211
2021	18,349	11,986	918	66	31,319
2022	19,154	11,522	945	39	31,660
2023	20,002	11,036	847	11	31,896
2024	20,869	10,531	227	—	31,627
2025–2029	99,761	44,114	466	—	144,341
2030–2034	101,562	27,913	—	—	129,475
2035-2039	73,705	12,487	—	—	86,192
2040-2044	14,560	6,223	—	—	20,783
2045–2049	15,870	2,337	—	—	18,207
Subtotal	400,206	$ 151,002	4,295	208	555,711
Plus (less):					
Unamortized bond premium	25,155		—		
Unamortized debt extinguishment costs	(1,732)		—		
Total	$ 423,629		4,295		

The principal amount of debt service due on bonds at September 30, 2019 and 2018, includes $49,000 and $427,000, respectively, representing additional maturity value on Capital Appreciation Series 1999 Bonds. These bonds matured during fiscal 2019. Although this additional maturity is presented as principal on the debt service schedule above, it is also recognized as interest expense on an annual basis in the University’s basic financial statements as it accretes.

(8) Capital Lease Obligations

The University has entered into various capital leases as a method of financing medical equipment, computer software and hardware, a heat recovery system, and other office equipment.

Future minimum capital lease payments at September 30, 2019 are as follows (in thousands):

Year ending September 30:		
2020	$	5,904
2021		5,672
2022		3,979
2023		485
2024		160
2025-2038		96
		16,296
Less amounts representing interest		(794)
Net minimum lease payments	$	15,502

These amounts are included in long-term debt (and current portion thereof) in the accompanying statements of net position.

(9) Derivative Transactions – Interest Rate Swaps

The University is a party to two derivatives with Wells Fargo Bank, the counterparty. In December 2013, Wells Fargo exercised its option with respect to the synthetic advance refunding of the Series 2004 Bonds to enter into an interest rate swap agreement with the University with an effective date of March 15, 2014. The resulting derivative is a “receive-variable, pay-fixed” interest rate swap. As part of the overall plan of the synthetic refunding of the Series 2004 Bonds, the University redeemed those bonds in April 2014 with proceeds from the Series 2014-A Bonds.

In September 2016, Wells Fargo exercised its option with respect to the synthetic advance refunding of the Series 2006 Bonds to enter into an interest rate swap agreement with the University with an effective date of September 1, 2016. The resulting derivative is a “receive-variable, pay-fixed” interest rate swap. As part of the overall plan of the synthetic refunding of the Series 2006 Bonds, the University redeemed those bonds in December 2016 with proceeds from the Series 2016-B, C & D Bonds.

Objective of the transactions. As noted, both interest rate swaps were the result of the original January 2008 synthetic advance refunding of the Series 2004 and Series 2006 Bonds. The objective of these transactions was to realize debt service savings currently from future debt refunding and create an economic benefit to the University.

The 2014 swap will terminate in March 2024, when the Series 2014-A Bonds mature. The notional amount of the swap will at all times match the outstanding principal amount of the bonds. 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 LIBOR plus 0.25%. Conversely, the Series 2014-A Bonds bear interest on a monthly basis at 68% of the one-month LIBOR rate plus 0.73%.

The 2016 swap will terminate in December 2036, when the Series 2016-B, C & D Bonds mature. The notional amount of the swap will at all times match the outstanding principal amount of the bonds. Under the swap, the University pays the counterparty a fixed semi-annual payment based on an annual rate of 5% and receives on a monthly basis a variable payment of 68% of the one-month LIBOR plus 0.25%. Conversely, the Series 2016-B, C & D Bonds bear a weighted average interest on a monthly basis at 68% of the one-month LIBOR rate plus 0.79%.

Fair value. The 2014 interest rate swap had a negative fair value of approximately $(9,138,000) at its inception. This amount, net of any amortization and adjustments to fair market value, is reported as a borrowing arising from the 2014 interest rate swap as other long-term liabilities in the amount of $(3,653,000) and $(3,597,000) in the statements of net position at September 30, 2019 and 2018, respectively. The change in the fair value of the swap of $56,000 and $2,268,000, respectively, during the years ended September 30, 2019 and 2018, is reported as a deferred inflow and contra liability (other long-term liabilities) in the statements of net position since the interest rate swap is a hedging derivative instrument. Net deferred inflows of resources for the 2014 interest rate swap totaled $459,000 and $1,429,000 at September 30, 2019 and 2018, respectively.

The 2016 interest rate swap had a negative fair value of approximately $(48,530,000) at its inception. This amount, net of any amortization and adjustments to fair value, is reported as a borrowing arising from the 2016 interest rate swap as other long-term liabilities in the amount of ($42,097,000) and ($30,229,000) in the statements of net position at September 30, 2019 and 2018, respectively. The change in the fair value of the swap of $11,868,000 and $9,514,000 during the years ended September 30, 2019 and 2018, respectively, is reported as a deferred outflow and contra asset (other noncurrent assets) in the statements of net position in the year ended September 30, 2019 and a deferred inflow and contra liability (other long-term liabilities) in the statements of net position for the year ended September 30, 2018 since the interest rate swap is a hedging derivative instrument. Net deferred inflows and outflows of resources for the 2016 interest rate swap totaled $956,000 of deferred outflows at September 30, 2019 and $13,308,000 of deferred inflows at September 30, 2018.

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

Risks Associated with these Transactions

Interest rate risk. As the LIBOR rate decreases, the net payments on the swaps increase. This, however, is mitigated by the fact that a decline in the LIBOR rate will also result in a decrease of the University’s interest payments on the Series 2014-A and Series 2016-B, C & D Bonds. The University’s exposure is limited to 0.48% and 0.54% of the notional amounts, the difference in the payment from the counterparty and the interest payment on the Series 2014-A and Series 2016-B, C & D Bonds.

Credit risk. As of September 30, 2019 and 2018, the University was not exposed to credit risk on the interest rate swaps because they had a negative fair value. However, if interest rates change and the fair value of the derivatives become positive, the University would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa2 by Moody's Investor Services and A+ by Standard & Poor's Ratings Services as of September 30, 2019 and 2018.

Termination risk. The University may be required to terminate the swaps based on certain standard default and termination events, such as failure to make payments, breach of agreements and bankruptcy. As of the current date, no events of termination have occurred.

Derivative payments and hedged debt. As interest rates fluctuate, variable rate debt interest and net derivative payments will fluctuate. Using interest rates as of September 30, 2019 and calculating interest for subsequent years using forward rates of one month LIBOR, debt service requirements for the 2014 interest rate swap payments, by fiscal year, are as follows (in thousands):

		Variable rate loan		Interest rate	
		Principal	**Interest**	**swap, net**	**Total**
2020	$	6,925	534	1,370	8,829
2021		7,280	353	1,163	8,796
2022		7,655	254	855	8,764
2023		8,050	158	522	8,730
2024		8,455	54	177	8,686
Total	$	38,365	1,353	4,087	43,805

Debt service requirements for the 2016 interest rate swap payments, by fiscal year, are as follows (in thousands):

		Variable rate loan		Interest rate	
		Principal	**Interest**	**swap, net**	**Total**
2020	$	—	1,566	3,974	5,540
2021		—	1,324	4,215	5,539
2022		—	1,316	4,224	5,540
2023		—	1,332	4,208	5,540
2024–2028		24,180	6,346	18,726	49,252
2029–2033		37,890	4,305	11,607	53,802
2034–2037		37,930	1,078	3,204	42,212
Total	$	100,000	17,267	50,158	167,425

(10) Patient Service Revenues

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

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

Medicare – Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Additionally, USA Health is reimbursed for both direct and indirect medical education costs (as defined), principally based on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. USA Health is generally paid for certain retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by USA Health and audits by the Medicare fiscal intermediary.

USA Health University Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2014.

USA Health Children's & Women's Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2017.

Revenues from the Medicare program accounted for approximately 14% and 18% of USA Health's net patient service revenues for the years ended September 30, 2019 and 2018, respectively.

Blue Cross – Inpatient services rendered to Blue Cross subscribers are paid at a prospectively determined per diem rate. Outpatient services are reimbursed under a cost reimbursement methodology. For outpatient services, USA Health is paid at a tentative rate with final settlement determined after submission of annual cost reports by USA Health and audits thereof by Blue Cross.

USA Health University Hospital's and USA Health Children's & Women's Hospital's Blue Cross cost reports have been audited by Blue Cross through September 30, 2016. The settlement process changed in April 2017 and future settlements will be based on outpatients for the periods prior to April 2017. Blue Cross cost findings are no longer required and it is not anticipated that settlements will occur for 2019 and future periods.

Revenues from the Blue Cross program accounted for approximately 30% and 28% of USA Health's net patient service revenues for the years ended September 30, 2019 and 2018, respectively.

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

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

Revenues from the Medicaid program accounted for approximately 29% and 32% of USA Health's net patient service revenues for the years ended September 30, 2019 and 2018, respectively.

Other – USA Health has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments to USA

Health under these agreements include discounts from established charges and prospectively determined daily and case rates.

The composition of net patient service revenues for the years ended September 30, 2019 and 2018 follows (in thousands):

		2019	2018
Gross patient service revenues	$	1,129,815	879,476
Less:			
Provision for contractual and other adjustments		(538,306)	(364,006)
Provision for bad debts		(99,713)	(99,436)
	$	491,796	416,034

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately $465,000 and $5,568,000 in patient service revenues for the years ended September 30, 2019 and 2018, respectively.

(11) Defined Benefit Cost Sharing Pension Plan

Employees of the University are covered by a cost sharing multiple-employer defined benefit pension plan administered by the TRS.

(a) Plan Description

The TRS was established in September 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 16-Chapter 25 of the code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

(b) Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after ten years of creditable service. Tier 1 TRS members who retire after age sixty with ten years or more of creditable service or with twenty-five years of services (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or formula method, with the member receiving payment under the method that yields the higher monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest three of the last ten years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age sixty-two with ten years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest five of the last ten years) for each year of service. Members are eligible for disability retirement if they have ten years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status, and eligibility for retirement.

(c) Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered Tier 1 members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rates were 12.41% of annual pay for Tier 1 members and 11.35% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were $22,481,000 and $22,262,000 for the years ended September 30, 2019 and 2018, respectively.

(d) Pension Liabilities, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2019 and 2018, the University reported a liability of $282,739,000 and $296,654,000, respectively, for its proportionate share of the collective net pension liability. At September 30, 2019, the collective net pension liability was measured as of September 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017. The University's proportion of the collective net pension liability is based on the employer's shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At the measurement date of September 30, 2018, the University's proportion of contributions to the pension plan was 2.843720%, which was a decrease of 0.174593% from its proportion measured as of September 30, 2017 of 3.018313%.

For the years ended September 30, 2019 and 2018, the University recognized pension expense of approximately $9,902,000 and $16,792,000, respectively, which is included in salaries and benefits on the statements of revenues, expenses, and changes in net position.

At September 30, 2019 and 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	2019	
	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	$ —	21,342
Changes of assumptions	15,716	—
Differences between expected and actual experience	6,101	8,613
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	27,369
Employer contributions subsequent to measurement date	22,481	—
	$ 44,298	57,324

	2018	
	Deferred outflows of resources	Deferred inflows of resources
Net difference between projected and actual earnings on pension plan investments	$ —	17,737
Changes of assumptions	17,706	—
Differences between expected and actual experience	—	12,718
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	21,769
Employer contributions subsequent to measurement date	22,262	—
	$ 39,968	52,224

At September 30, 2019, approximately $22,481,000 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ending September 30:		
2020	$	(7,674)
2021		(12,860)
2022		(10,894)
2023		(3,876)
2024		(203)
	$	(35,507)

(e) Actuarial Assumptions

The total pension liability as of September 30, 2019 and 2018 was determined by an actuarial valuation as of September 30, 2017 and 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

	2019	**2018**
Inflation	2.75 %	2.75 %
Investment rate of return*	7.70	7.75
Projected salary increases	3.25–5.00	3.25–5.00

* Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2017 valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015. Mortality rates for TRS were based on the RP-2000 White Collar Mortality Table projected to 2020 using Scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	2019	
	Target allocation	**Long-term expected rate of return***
Fixed income	17.0 %	4.4 %
U.S. large stocks	32.0	8.0
U.S. mid stocks	9.0	10.0
U.S. small stocks	4.0	11.0
International developed market stocks	12.0	9.5
International emerging market stocks	3.0	11.0
Alternatives	10.0	10.1
Real estate	10.0	7.5
Cash equivalents	3.0	1.5
	100.0 %	

* Includes assumed rate of inflation of 2.50%

(f) Discount Rate

The discount rate used to measure the total pension liability as of September 30, 2019 and 2018 was 7.70% and 7.75%, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

(g) Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.70%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage point higher (8.70%) than the current rate (in thousands):

		2019		
		1% Decrease (6.70)%	**Current rate (7.70)%**	**1% Increase (8.70)%**
University's proportionate share of collective net pension liability	$	393,576	282,739	188,988

(h) Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2018 as well as prior year reports. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2018. The auditors' report dated August 16, 2019 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating entities as of September 30, 2018 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

(12) Other Employee Benefits

(a) Other Pension Plans

Certain employees of the University also participate in a defined contribution pension plan. The defined contribution pension plan covers certain academic and administrative employees, and participation by eligible employees is optional. The plan is administered by the University and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) and Variable Annuity Life Insurance Company (VALIC). Under this plan, contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University contributed $506,000 and $551,000 in 2019 and 2018, respectively, representing 215 and 241 employees for 2019 and 2018, respectively, participating in this Plan.

All employees of HCM working at least half time are eligible to participate in a defined contribution pension plan. The plan is administered by HCM and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, TIAA-CREF and VALIC. Under this plan, contributions by eligible employees are matched equally by HCM up to a maximum of 5% of current annual pay. HCM contributed $4,916,000 and $4,703,000 in 2019 and 2018, respectively, representing 1,403 and 1,369 employees, respectively, participating in this plan. University employees as of September 30, 2010, who later transfer to HCM, are immediately vested in the plan. All other employees do not vest until they have held employment with HCM for thirty-six months; at which time they become 100% vested in the plan.

(b) Compensated Absences

Regular University employees accumulate vacation and sick leave and hospital and clinical employees accumulate paid time off. These are subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon separation of employment, employees who were hired before January 1, 2012 are paid all unused accrued vacation at their regular rate of pay up to a maximum of two times their annual accumulation rate. Employees hired after January 1, 2012 are not eligible for payment of unused accrued vacation or PTO hours upon separation of employment. The accompanying statements of net position include accruals for vacation pay and paid time off of approximately $12,866,000 and $13,793,000 at September 30, 2019 and 2018, respectively. The accrual is included in other long-term liabilities (and current portion thereof) in the accompanying financial statements. No accrual is recognized for sick leave benefits since no terminal cash benefit is available to employees for accumulated sick leave.

(13) Other Postemployment Benefit Plans

Retirees of the University are covered by the Public Education Employees Health Insurance Plan (PEEHIP), which is a cost sharing multiple-employer defined benefit OPEB plan administered by the TRS.

(a) Plan Description

The Alabama Retiree Health Care Funding Act of 2007 authorized and directed the Public Education Employees Health Insurance Board (Board) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in PEEHIP. Active and retiree health insurance benefits are paid through the PEEHIP. The PEEHIP was established in 1983 pursuant to the provisions of the Code of Alabama 1975, Title 16, Chapter 25A to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions and to fund benefits related to the plan. The responsibility for the general administration and operation of the PEEHIP is vested in its Board, which consists of 15 trustees. Title 16-Chapter 25 of the code of Alabama grants the authority to establish and amend the benefit terms to the PEEHIP Board. Effective for the year ended September 30, 2018, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, requires the reporting of the net OPEB liability and the OPEB expense in the financial statements as well as enhanced financial statements note disclosures.

(b) Benefits Provided

PEEHIP offers a basic hospital medical plan to active members and non-Medicare eligible retirees or active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO). In addition to or in lieu of the basic hospital medical plan or HMO, the PEEHIP offers four optional plans: Hospital Indemnity, Cancer, Dental, and Vision. Also, PEEHIP members (only active and non-Medicare eligible) may elect the Supplemental Plan as their hospital medical coverage instead of the PEEHIP Hospital Medical Plan. This

Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer.

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. The Medicare Advantage Prescription Drug (MAPD) plan is fully insured by United Healthcare and members are able to have all of their Medicare Part A, Part B, and Part D in one convenient plan.

(c) Contributions

The employer contribution to the health insurance premium is set forth by the Board annually.

Total employer contributions to the OPEB plan from the University were $7,772,000 and $7,728,000 for the years ended September 30, 2019 and 2018, respectively.

(d) OPEB Liabilities, OPEB Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2019 and 2018, the University reported a liability of $259,418,000 and $256,178,000, respectively, for its proportionate share of the net OPEB liability. At September 30, 2019, the net OPEB liability was measured as of September 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At the measurement date of September 30, 2018, the University's proportion of contributions to the OPEB plan was 3.156420%, which was a decrease of 0.292656% from its proportion measured as of September 30, 2017 of 3.449076%.

For the years ended September 30, 2019 and 2018, the University recognized OPEB expense of approximately $18,634,000 and $21,731,000, respectively, which is included in salaries and benefits on the statements of revenues, expenses, and changes in net position.

At September 30, 2019 and 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	2019 Deferred outflows of resources	2019 Deferred inflows of resources
Net difference between projected and actual earnings on OPEB plan investments	$ —	1,390
Differences between expected and actual experience	4,884	—
Changes of assumptions	—	12,636
Changes in proportion and differences between employer contributions and proportionate share of contributions	26,465	20,208
Employer contributions subsequent to the measurement date	7,772	—
	$ 39,121	34,234

	2018 Deferred outflows of resources	2018 Deferred inflows of resources
Net difference between projected and actual earnings on OPEB plan investments	$ —	1,364
Changes of assumptions	—	26,599
Changes in proportion and differences between employer contributions and proportionate share of contributions	32,722	—
Employer contributions subsequent to the measurement date	7,728	—
	$ 40,450	27,963

At September 30, 2019, approximately $7,772,000 reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2020. Other

(Continued)

amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year ending September 30:		
2020	$	(417)
2021		(417)
2022		(417)
2023		(105)
2024		(1,226)
Thereafter		(303)
	$	(2,885)

(e) Actuarial Assumptions

The total OPEB liability as of September 30, 2019 and 2018 was determined by an actuarial valuation performed as of September 30, 2017 and 2016, respectively, using the following actuarial assumptions, applied to all periods included in the measurement:

	2019	**2018**
Inflation	2.75%	2.75%
Projected salary increases*	3.25%–5.00%	3.25%–5.00%
Long-term investment rate of return**	7.25%	7.25%
Municipal bond index rate at the measurement date	4.18%	3.57%
Municipal bond index rate at the prior measurement date	3.57%	2.93%
Projected year for fiduciary net position to be depleted	2029	2042
Single equivalent interest rate at the measurement date	4.44%	4.63%
Single equivalent interest rate at the prior measurement date	4.63%	4.01%
Healthcare cost trend rate		
Pre-medicare eligible	7.00%	7.75%
Medicare eligible	5.00%	5.00%
Ultimate trend rate		
Pre-medicare eligible	4.75%	5.00%
Medicare eligible	4.75%	5.00%
Year of ultimate trend rate		
Pre-medicare eligible	2026	2022
Medicare eligible	2024	2022

* Includes 3.00% wage inflation

** Compounded annually, net of investment expense, and includes inflation

Rates of mortality for the period after service retirement are according to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015, submitted to and adopted by the TRS on September 13, 2016. The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2017 valuation were based on a review of recent plan experience done concurrently with the September 30, 2017 valuation.

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class are summarized in the following table:

	2019	
	Target allocation	**Long-term expected real rate of return***
Fixed income	30.0 %	4.4 %
U.S. large stocks	38.0	8.0
U.S. mid stocks	8.0	10.0
U.S. small stocks	4.0	11.0
International developed market stocks	15.0	9.5
Cash	5.0	1.5
	100.00 %	

* Geometric mean, includes 2.5% inflation

(f) Discount Rate

The discount rate used to measure the total OPEB liability at September 30, 2018 and 2017 was 4.44% and 4.63%, respectively. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating employers must contribute for each active employee. Approximately 20.307% of the employer contributions were used to assist in funding retiree benefit payments in 2018 and it is assumed that amount will increase by 2.75% per year. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2116. The long-term rate of return is used until the assets are expected to be depleted in 2029, after which the municipal bond rate is used.

(g) Sensitivity of the University's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates and Discount Rates

The following table presents the University's proportionate share of the net OPEB liability calculated using the health care cost trend rate of 7.00%, as well as what the net OPEB liability would be if calculated using 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate (in thousands):

		2019		
		1% Decrease (6.00)%	**Current rate (7.00)%**	**1% Increase (8.00)%**
University's proportionate share of collective net OPEB liability	$	213,247	259,418	318,199

The following table presents the University's proportionate share of the net OPEB liability calculated using the discount rate of 4.44%, as well as what the net OPEB liability would be if calculated using 1-percentage point lower 3.44% or 1-percentage point higher 5.44% than the current rate (in thousands):

		2019		
		1% Decrease (3.44)%	**Current rate (4.44)%**	**1% Increase (5.44)%**
University's proportionate share of collective net OPEB liability	$	309,894	259,418	218,701

(h) OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the Alabama Retired Education Employees' Health Care Trust's financial statements for the fiscal year ended September 30, 2018 and 2017, respectively. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2018 and 2017. Additional financial and actuarial information is available at www.rsa-al.gov.

(14) Risk Management

The University, HCM, SAMSF and HCA participate in the PLTF and the University, HCM, SAMSF, the Corporation and HCA participate in the GLTF. An independent trustee administers both funds. These trust funds are revocable and use contributions by the University and HCA, together with earnings thereon, to pay liabilities arising from the performance of its employees, trustees and other individuals acting on behalf of the University. Any risk related to the payment of claims is the responsibility of the PLTF and GLTF. If the trust funds are ever terminated, appropriate provision for payment of related claims will be made and any remaining balance may be distributed to the participating entities in proportion to contributions made.

As discussed in note 1, the PLTF and GLTF are blended component units of the University, and as such are included in the financial statements of the University for the year ended September 30, 2019 and 2018. Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. These liabilities are generally based on actuarial valuations and are reported at their present value.

The University, HCM and HCA each participate in a separate self-insured health plan administered by unaffiliated entities. Administrative fees paid by the University for such services were approximately $2,287,000 and $2,276,000 in 2019 and 2018, respectively. Contributions by the University and its employees, together with earnings thereon, are used to pay liabilities arising from healthcare claims. It is the opinion of University administration that plan assets are sufficient to meet future plan obligations.

The changes in the total self-insurance liabilities for the years ended September 30, 2019 and 2018 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

		2019	2018
Balance, beginning of year	$	40,405	39,115
Liabilities incurred and other additions		80,930	69,543
Claims, administrative fees paid and other reductions		(81,935)	(68,253)
Balance, end of year	$	39,400	40,405

These amounts are included in other long-term liabilities (and current portion thereof) and in accounts payable and accrued liabilities in the accompanying statements of net position.

(15) Other Related Parties and Related-Party Transactions

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. At September 30, 2019, SAMSF had total assets of $10,632,000, net assets of $9,403,000, and total revenues of $1,806,000. At September 30, 2018, SAMSF had total assets of $12,704,000, net assets of $10,828,000, and total revenues of $1,735,000. SAMSF reimburses the University for certain administrative expenses and other related support services. Total amounts received for such expenses were approximately $412,000 and $759,000 in 2019 and 2018, and are reflected as private grants and contracts in the accompanying statements of revenues, expenses, and changes in net position.

(16) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2019 and 2018, the University had been awarded approximately $36,381,000 and $18,442,000, respectively, in grants and contracts for which resources had not been received and for which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements, as the eligibility requirements of the awards have not been met. Advances are included in unrecognized revenues, and include amounts received from grant and contract sponsors which have not been expended under the terms of the agreements and, therefore, have not yet been included in revenues in the accompanying basic financial statements. Federal awards are subject to audit by federal agencies. The University's management believes any potential adjustment from such audits will not be material.

(b) Letter of Credit

In connection with USA Health's participation in the State of Alabama Medicaid Program, the University has established a $55,382 irrevocable standby letter of credit with Wells Fargo. The Alabama Medicaid Agency is the beneficiary of this letter of credit. No funds were advanced under this letter during the years ended September 30, 2019 and 2018.

(c) Federal Program Review

In November 2014, the University was the subject of a program review conducted by the U. S. Department of Education. The program review assessed the University's administration of Title IV, Higher Education Act programs for the 2013-2014 fiscal year and the first two months of the 2015 fiscal year. On October 10, 2017, the University received the final program review determination letter. Management appealed the factual and legal contentions in, and the calculation of the monetary liabilities and interest asserted in and associated with two findings. Management believes there will be no liability to the University beyond the amount currently accrued in the financial statements. The other findings were resolved to the US Department of Education's satisfaction.

(d) 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.

(e) Rent Supplement Agreements

The University has entered into two irrevocable rent supplement agreements with the Corporation and a financial institution. The agreements require that, in the event the Corporation fails to maintain a debt service coverage ratio of one to one with respect to all of its outstanding indebtedness, the University will pay to the Corporation any and all rent amounts necessary to cause the Corporation's net operating income to be equal to the Corporation's annual debt service obligations (see note 6). As of September 30, 2019 and 2018, no amounts were payable pursuant to these agreements.

(f) USA Research and Technology Corporation Leases

The Corporation leases space in Building I to five tenants under operating leases. One lease has a 5-year initial term expiring in October 2023 with two 5-year renewal options. The second lease has a 5-year term expiring in April 2024 with no renewal option. The third lease has a 5-year term expiring in July 2024 with no renewal option. The fourth lease has a 5-year initial term expiring in July 2024 with one 5-year renewal option. The fifth lease has a 90-month initial term expiring in June 2025 with two 5-year renewal options.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. The leases have remaining terms varying from month-to-month to five 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 eight tenants with month-to-month leases.

Under leases for Buildings I, II, and III, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, and insurance. Tenants will reimburse the Corporation for such expenses only as the total expenses for a year increase over the total expenses for the base year of the lease (which generally is the first calendar year of the lease term). Under Hub leases, the Corporation must pay all operating expenses of the space, without reimbursement from tenants.

Space under lease to the University was 63,965 and 51,168 square feet at September 30, 2019 and 2018, respectively.

The Corporation owns a building located on the premises of the USA University Hospital, which is leased to a single tenant. The Corporation paid for construction of the building shell and land improvements while the tenant paid for the cost of finishing the building's interior. The lease has a 10-year initial term expiring in March 2020 with three 5-year renewal options. Under the lease, the tenant must also pay for utilities, taxes, insurance, and interior repairs and maintenance. The Corporation is responsible for repairs and maintenance to the exterior and HVAC system.

The Corporation, as lessor, had three ground leases in place at September 30, 2019. One lease is for a 40-year initial term expiring in October 2046 with 20-year, and 15-year renewal options. The second lease is for a 30-year initial term expiring in October 2036 with four 5-year renewal options. The third lease has a 38.5-year initial term expiring in September 2046 with 20-year and 15-year renewal options.

Minimum future rentals by fiscal year are as follows (in thousands):

2020	$	3,100
2021		2,900
2022		2,733
2023		1,638
2024		1,228
2024–2047		6,136
Total	$	17,735

(17) Functional Expense Information

Operating expenses by functional classification for the years ended September 30, 2019 and 2018 are listed below (in thousands).

		2019	2018
Instruction	$	111,289	113,094
Research		27,944	25,578
Public service		7,245	7,871
Academic support		26,415	25,443
Student services		35,506	34,701
Institutional support		41,354	41,877
Operation and maintenance of plant		31,429	33,573
Scholarships		16,311	14,991
USA Health		482,270	450,748
Auxiliary enterprises		14,643	22,895
Depreciation and amortization		48,625	48,611
	$	843,031	819,382

(18) Blended Component Units

As more fully described in note 1, HCM, PLTF and GLTF are reported as blended component units. Required combining financial information of the aggregate blended component units as of and for the years ended September 30, 2019 and 2018 is presented below (in thousands):

		2019	2018
Current assets	$	15,340	18,243
Noncurrent assets		63,079	60,482
Total assets		78,419	78,725
Current liabilities		44,564	40,616
Noncurrent liabilities		31,816	36,414
Total liabilities		76,380	77,030
Net position	$	2,039	1,695

		2019	2018
Operating revenues	$	206,493	186,467
Operating expenses		(205,883)	(190,872)
Operating loss		610	(4,405)
Nonoperating revenues		47	
Nonoperating expenses		(313)	4,482
Change in net position	$	344	77

(19) Recently Issued Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement is effective for the current reporting period. Statement 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for ARO's. The GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. This statement will be effective for the University beginning with the fiscal year ending September 30, 2020. Statement 84 addresses the criteria for identifying fiduciary activities of all state and local governments. In June 2017, the GASB issued Statement No. 87, *Leases,* which will be effective for the University beginning with the fiscal year ending September 30, 2021. This statement establishes a single model for lease accounting whereby certain leases that were previously classified as operating leases will now be reported on the statements of net position. Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements,* was issued in March 2018 to enhance note disclosure for debt agreements. This statement is effective for the current reporting period. In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* which will be effective beginning with fiscal year September 30, 2021. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. GASB Statement No. 90, *Majority Equity Interests,* was issued in August 2018. Effective for the University beginning with the fiscal year ending September 30, 2020, this statement specifies that a majority equity interest in a legally separate organization should be reported as an investment using the equity method, with certain exceptions, if a government holding of the equity interest meets the definition of an investment. In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, which will be effective beginning with the fiscal year ending September 30, 2022. The objective of this statement is to clarify the definition of conduit debt obligations, establish that conduit debt is not a liability of the issuer, establish standards for reporting additional commitments and voluntary commitments extended by issuers and improve note disclosures.

The effect of the implementation of GASB Statement Nos. 84, 87, 89, 90 and 91 on the University has not yet been determined.

Statement Nos. 83 and 88 did not have a significant impact on the University's financial statements.

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

Required Supplementary Information

Schedule of the University's Proportionate Share of the Net Pension Liability (Unaudited)

Teachers' Retirement Plan of Alabama

September 30, 2019

(In thousands)

		2019	2018	2017	2016	2015
University's proportion of the net pension liability		2.843720 %	3.018313 %	3.108048 %	3.185471 %	3.322348 %
University's proportionate share of the net pension liability	$	282,739	296,654	336,477	329,294	297,734
University's covered-employee payroll		190,559	191,520	200,464	198,378	201,858
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll		148.37 %	154.89 %	167.85 %	165.99 %	147.50 %
Plan fiduciary net position as a percentage of the total pension liability		72.29 %	71.50 %	67.93 %	67.51 %	71.01 %

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

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

Required Supplementary Information

Schedule of the University's Pension Contributions (Unaudited)

Teachers' Retirement Plan of Alabama

September 30, 2019

(In thousands)

		2019	2018	2017	2016	2015
Contractually required contribution	$	22,481	22,262	23,664	23,405	23,524
Contributions in relation to the contractually required contribution		22,481	22,262	23,664	23,405	23,524
Contribution deficiency (excess)	$	—	—	—	—	—
University's covered-employee payroll	$	190,559	191,520	200,464	198,378	201,858
Contributions as a percentage of covered-employee payroll		11.80%	11.62%	11.80 %	11.80 %	11.65 %

Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

See accompanying independent auditors' report.

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Required Supplementary Information

Schedule of the University's Proportionate Share of the Net OPEB Liability (Unaudited)

Alabama Retired Education Employees' Health Care Trust

September 30, 2019

(In thousands)

		2019	2018	2017
University's proportion of the net OPEB liability		3.156420 %	3.449076 %	2.963813 %
University's proportionate share of the net OPEB liability	$	259,418	256,178	238,060
University's covered-employee payroll		190,559	191,520	200,464
University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll		136.14 %	133.76 %	118.75 %
Plan fiduciary net position as a percentage of the total OPEB liability		14.81 %	15.37 %	13.38 %

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Required Supplementary Information

Schedule of the University's OPEB Contributions (Unaudited)

Alabama Retired Education Employees' Health Care Trust

September 30, 2019

(in thousands)

		2019	2018	2017
Contractually required contribution	$	7,772	7,728	8,373
Contributions in relation to the contractually required contribution		7,772	7,728	8,373
Contribution deficiency (excess)	$	—	—	—
University's covered-employee payroll	$	190,559	191,520	200,464
Contributions as a percentage of covered-employee payroll		4.08 %	4.04 %	4.18 %

Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

See accompanying independent auditors' report.

(1) Summary of Cost Sharing Pension Plan Provisions and Assumptions

Employees of the University of South Alabama are covered by a cost sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement System (TRS) of the State of Alabama.

(a) Actuarial Assumptions

The total pension liability as of September 30, 2019 and 2018 was determined by an actuarial valuation as of September 30, 2017 and 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

	2019	2018
Inflation	2.75 %	2.75 %
Investment rate of return*	7.70	7.75
Projected salary increases	3.25–5.00	3.25–5.00

* Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2017 valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015. Mortality rates for TRS were based on the RP-2000 White Collar Mortality Table projected to 2020 using Scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(b) Discount Rate

The discount rate used to measure the total pension liability as of September 30, 2019 and 2018 was 7.70% and 7.75%, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

(2) Summary of OPEB Plan Provisions and Assumptions

Retirees of the University of South Alabama are covered by the Public Education Employees Health Insurance Plan (PEEHIP), which is a cost sharing multiple-employer defined benefit OPEB plan administered by the Teachers Retirement System (TRS) of the State of Alabama.

(a) Changes in Actuarial Assumptions

In 2017, rates of withdrawal, retirement, disability, mortality, spouse coverage, and tobacco usage were adjusted to more closely reflect actual experience. In 2017, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 and later, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females.

(b) Recent Plan Changes

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the Medicare Advantage Prescription Drug plan.

The Health Plan was changed in 2017 to reflect the ACA maximum annual out-of-pocket amounts.

(c) Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, 2014, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule for the years ended September 30, 2019 and 2018:

	2019	2018
Actuarial cost method	Entry age normal	Projected unit credit
Amortization method	Level percent of pay	Level percent of pay
Remaining amortization period	26 years	27 year, closed
Asset valuation method	Market value of assets	Market value of assets
Inflation	3.00%	3.00%
Health care cost trend rate:		
Pre-medicare eligible	7.75%	7.50%
Medicare eligible	5.00%	5.75%
Ultimate trend rate:		
Pre-medicare eligible	5.00%	5.00%
Medicare eligible	5.00%	5.00%
Year of ultimate trend rate	2021 for Pre-medicare eligible 2018 for Medicare eligible	2019 for Pre-medicare eligible 2017 for Medicare eligible
Investment rate of return	5.00%, including inflation	5.00%, including inflation

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to USA expenditures	Total expenditures	Pass-through from USA expenditures
Student Financial Aid Cluster*:							
U.S. Department of Education:							
Federal Supplemental Educational Opportunity Grant Program	84.007			$ 459,273	—	459,273	—
Federal Work Study Program	84.033			545,372	—	545,372	—
Federal Perkins Loan Program	84.038			2,154,876	—	2,154,876	—
Federal Pell Grant Program	84.063			20,122,239	—	20,122,239	—
Federal Direct Student Loan Program	84.268			128,304,135	—	128,304,135	—
Teacher Education Assistance for College and Higher Education	84.379			65,617	—	65,617	—
Nurse Faculty Loan Program	93.264			167,905	—	167,905	—
Total Student Financial Aid Cluster				151,819,417	—	151,819,417	—
Research and Development Cluster*:							
U.S. Department of Agriculture:							
Forestry Research	10.652			224,359	—	224,359	—
Total U.S. Department of Agriculture				224,359	—	224,359	—
U.S. Department of Commerce:							
Measurement and Engineering Research and Standards	11.609			19,703	—	19,703	—
Sea Grant Support	11.417	18-03 548001-1000	Texas A&M University	—	201,021	201,021	105,746
Sea Grant Support	11.417	8006034-01.01 USA-R/HCE-11-PD	University of Southern Mississippi	—	2,018	2,018	—
Total CFDA				—	203,039	203,039	105,746
Marine Fisheries Initiative	11.433			78,131	—	78,131	—
Unallied Management Projects	11.454			34,308	—	34,308	34,308
Meteorologic and Hydrologic Modernization Development	11.467	SUBAWD001579	University Corporation for Atmospheric Research	—	27	27	—
Center for Sponsored Coastal Ocean Research – Coastal Ocean	11.478	17024-USA-001	Florida Gulf Coast University	—	65,457	65,457	38,762
Arrangements for Interdisciplinary Research Infrastructure	11.619	140453	Colorado State University	—	20,776	20,776	—
US Department of Commerce	11.UNK			30,679	—	30,679	—
Total U.S. Department of Commerce				162,821	289,299	452,120	178,816
U.S. Department of Defense:							
Basic and Applied Scientific Research	12.300			94,044	—	94,044	—
Military Medical Research and Development	12.420			160,643	—	160,643	81,185
Basic Scientific Research	12.431			155,458	—	155,458	—
Department of Defense	12.UNK	18-0473	Natural Fiber Welding, Inc.	—	27,406	27,406	—
Department of Defense	12.UNK	170262	Faraday Technology, Inc.	—	36,566	36,566	—
Total U.S. Department of Defense				410,145	63,972	474,117	81,185
U.S. Department of Interior:							
Wildlife Restoration	15.611	18-0044	ADCNR	—	3,592	3,592	—
Wildlife Restoration	15.611	19-0165	ADCNR	—	60,957	60,957	—
Total CFDA					64,549	64,549	—

(Continued)

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to USA expenditures	Total expenditures	Pass-through from USA expenditures
National Cooperative Geologic Mapping Program	15.810			$ 2,785	—	2,785	—
Department of Interior	15.UNK	140D0419-9-0003	Wichita State University	—	111,257	111,257	—
Department of Interior	15.UNK			1,698,117	—	1,698,117	—
Total U.S. Department of Interior				1,700,902	175,806	1,876,708	—
U.S. Department of Justice:							
National Sexual Assault Kit Initiative	16.833	150293	Mobile Police Department	—	7,412	7,412	—
National Sexual Assault Kit Initiative	16.833	18-0054	Mobile Police Department	—	104,545	104,545	—
National Sexual Assault Kit Initiative	16.833	2018-AK-BX-0006	City of Mobile	—	21,042	21,042	—
Total U.S. Department of Justice				—	132,999	132,999	—
U.S. Department of Transportation:							
U.S. Department of Transportation	20.UNK	15-ENG-220178-USA	Auburn University	—	(835)	(835)	—
Highway Planning and Construction	20.205	HSIP-NR18(911)	Alabama Department of Transportation	—	51,021	51,021	—
Highway Planning and Construction	20.205	930-937	Alabama Department of Transportation	—	17,343	17,343	—
Highway Planning and Construction	20.205	#1954 (0X-001954-000)	Alabama Department of Transportation	—	35,533	35,533	—
Highway Planning and Construction	20.205	#1954 (0X-001954-003)	Alabama Department of Transportation	—	69,736	69,736	—
Highway Planning and Construction	20.205	170358	The University of Alabama	—	(3,650)	(3,650)	—
Highway Planning and Construction	20.205	930-917	Alabama Department of Transportation	—	47,838	47,838	—
Highway Planning and Construction	20.205	930-980	Alabama Department of Transportation	—	44,576	44,576	9,141
Total CFDA				—	262,397	262,397	9,141
Total U.S. Department of Transportation				—	261,562	261,562	9,141
National Aeronautics and Space Administration:							
Aerospace Education Services Program	43.001			16,738	—	16,738	—
Aerospace Education Services Program	43.001	19-0026	University of Alabama in Huntsville	—	9,392	9,392	—
Aerospace Education Services Program	43.001	USA 19-001	Von Braun Center for Science & Innovation	—	1,939	1,939	—
Aerospace Education Services Program	43.001	RSA NO.1621208	Jet Propulsion Laboratory	—	17,220	17,220	—
Total CFDA				16,738	28,551	45,289	—
Exploration	43.003	XHAB 2019-09	National Space Grant Foundation	—	10,912	10,912	—
Exploration	43.003	XHAB 2019-10	National Space Grant Foundation	—	29,836	29,836	
Exploration	43.003	18-0175	University of Alabama in Huntsville	—	2,076	2,076	—
Total CFDA				—	42,824	42,824	—
Education	43.008	160195	University of Alabama in Huntsville	—	250,210	250,210	1,079
Education	43.008	2015-055	University of Alabama in Huntsville	—	2,076	2,076	—
Total CFDA				—	252,286	252,286	1,079
NASA	43.UNK			5,070	—	5,070	—
Total National Aeronautics and Space Administration				21,808	323,661	345,469	1,079
National Science Foundation:							
Engineering Grants	47.041			290,195	—	290,195	20,163
Engineering Grants	47.041	2017-91	University of Alabama in Huntsville	—	111,519	111,519	—
Total CFDA				290,195	111,519	401,714	20,163
Mathematical and Physical Sciences	47.049			145,072	—	145,072	—
Geosciences	47.050	17056-NSF-USA-MCI-02	Florida Gulf Coast University	208,225	171,315	379,540	58,266
Computer and Information Science and Engineering	47.070			253,333	—	253,333	40,995
Biological Sciences	47.074			196,852	—	196,852	—

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to USA expenditures	Total expenditures	Pass-through from USA expenditures
Social Behavioral and Economic Sciences	47.075			$ 65,129	—	65,129	—
Education and Human Resources	47.076			1,464,966	—	1,464,966	—
Polar Programs	47.078	UA 16-052	University of Alabama	—	81,365	81,365	—
International Science and Engineering (OISE) (B)	47.079			870,867	—	870,867	736,887
Office of Integrative Activities	47.083			223,877	—	223,877	—
Total National Science Foundation				3,718,516	364,199	4,082,715	856,311
Department of Veteran Affairs	64.UNK			10,850	—	10,850	—
US Environmental Protection Agency;							
Gulf of Mexico Program	66.475			18,248	—	18,248	—
Total US Environmental Protection Agency				18,248	—	18,248	—
U.S. Department of Energy:							
Basic Energy Sciences University and Science Education	81.049			44	—	44	—
Department of Energy	81.UNK	SC 6905-2186-46	Faraday Technology, Inc.	—	6,140	6,140	—
Total U. S. Department of Energy				44	6,140	6,184	—
U.S. Department of Health and Human Services:							
Biological Response to Environmental Health Hazards	93.113			1,136,166	—	1,136,166	52,605
Biological Response to Environmental Health Hazards	93.113	17056-NIH-USA/MCI-02	Florida Gulf Coast University	—	132,776	132,776	
Biological Response to Environmental Health Hazards	93.113	97220614	University of California, San Diego	—	156,792	156,792	—
Total CFDA				1,136,166	289,568	1,425,734	52,605
Research and Training in Alternative Medicine	93.213			175,481	—	175,481	—
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			6,917	—	6,917	—
Minority Health and Health Disparities Research	93.307			74,754	—	74,754	—
Minority Health and Health Disparities Research	93.307	U54 MD008602-P02USA	Bayou Clinic, Inc.	—	3,229	3,229	—
Total CFDA				74,754	3,229	77,983	—
Trans-NIH Research Support	93.310	170631	University of Alabama at Birmingham	—	(1,985)	(1,985)	—
Trans-NIH Research Support	93.310	18-0083	University of Alabama at Birmingham	—	453,118	453,118	—
Total CFDA				—	451,133	451,133	—
National Center for Advancing Translational Sciences	93.350	UC90631	University of Alabama at Birmingham	—	794	794	—
National Center for Advancing Translational Sciences	93.350	000520679-010	University of Alabama at Birmingham	—	47,760	47,760	—
National Center for Advancing Translational Sciences	93.350	000508606-008	University of Alabama at Birmingham	—	76,752	76,752	—
Total CFDA				—	125,306	125,306	—
Research Infrastructure Programs	93.351			299,327	—	299,327	150,903
Advanced Education Nursing Traineeships	93.358	XIONG/ZHA 001/R01NS140349	Morehouse School of Medicine, Inc.	—	58,539	58,539	—
Cancer Cause and Prevention Research	93.393			1,077,896	—	1,077,896	—
Cancer Cause and Prevention Research	93.393	FCCC#15137-01	Fox Chase Cancer Center	—	80,956	80,956	—
Cancer Cause and Prevention Research	93.393	0050999 (127962-1)	University of Pittsburgh	—	(4,462)	(4,462)	—
Total CFDA				1,077,896	76,494	1,154,390	—
Cancer Treatment Research	93.395			574,031	—	574,031	69,196
Cancer Treatment Research	93.395	170272	Children's Hospital of Philadelphia	—	204	204	—
Cancer Treatment Research	93.395	18-0307	ADT Pharmaceuticals Inc	—	6,894	6,894	—
Cancer Treatment Research	93.395	9500080216-13C WORK ORDER	Children's Hospital of Philadelphia	—	2,288	2,288	—
Cancer Treatment Research	93.395	1 R43 CA217502-01A1	ADT Pharmaceuticals, Inc.	—	17,569	17,569	—
Total CFDA				574,031	26,955	600,986	69,196

(Continued)

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to USA expenditures	Total expenditures	Pass-through from USA expenditures
Cancer Biology Research	93.396			$ 791,836	—	791,836	—
Cardiovascular Diseases Research	93.837			559,949	—	559,949	—
Cardiovascular Diseases Research	93.837	1R43HL142325-01A1	EVAS Therapeutics LLC	—	55,555	55,555	—
Cardiovascular Diseases Research	93.837	180090	University of Alabama at Birmingham	—	7,356	7,356	—
Cardiovascular Diseases Research	93.837	PS#107223	Brigham and Women's Hospital	—	(2,395)	(2,395)	—
Total CFDA				559,949	60,516	620,465	—
Lung Diseases Research	93.838			5,059,549	—	5,059,549	94,975
Lung Diseases Research	93.838	170187	Thomas Jefferson University	—	169,306	169,306	—
Lung Diseases Research	93.838	080-18007-S11201	Thomas Jefferson University	—	29,665	29,665	—
Total CFDA				5,059,549	198,971	5,258,520	94,975
Blood Diseases and Resources Research	93.839	MUSC17-057-8C868	Medical University of South Carolina	—	5,423	5,423	—
Arthritis Musculoskeletal and Skin Diseases Research	93.846			39,632	—	39,632	—
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	576028	University of Pennsylvania	—	16,233	16,233	—
Clinical Research Related to Neurological Disorders	93.853			465,779	—	465,779	25,545
Allergy Immunology and Transplantation Research	93.855	18-0076	University of Alabama at Birmingham	—	2,660	2,660	—
Pharmacology Physiology and Biological Chemistry	93.859	783K893	University of Wisconsin-Madison	330,091	29,323	359,414	1,249
HIV Prevention Activities Health Department Based	93.940	19-0124	University of Alabama at Birmingham	—	31,328	31,328	—
Medicaid	93.UNK	17-0029	Tatva Biosciences, LLC	—	(358)	(358)	—
Medicaid	93.UNK	19-0062	Florida International University	—	966	966	—
Medicaid	93.UNK	HHSO100201500027C	Stratatech Corporation	—	18,294	18,294	—
National Institute of Health	93.UNK	18038-01	Fox Chase Cancer Center	—	75,296	75,296	—
Total U.S. Department of Health and Human Services				10,591,408	1,469,876	12,061,284	394,473
Total Research and Development Cluster				16,859,101	3,087,514	19,946,615	1,521,005
Other federal assistance:							
U.S. Department of Commerce:							
U.S. Department of Commerce	11.UNK	170364	Museum of Science	—	(20)	(20)	—
U.S. Department of Commerce	11.UNK	170230	Earth Networks, Inc.	—	65,110	65,110	—
Total U.S. Department of Commerce				—	65,090	65,090	—
Department of the Interior:							
National Cooperative Geologic Mapping Program	15.810			5,828	—	5,828	—
National Aeronautics and Space Administration:							
Aerospace Education Services Program	43.001	2015-055/NASA NNX15AJ18H	University of Alabama in Huntsville	—	4,872	4,872	—
Education	43.008	Various	University of Alabama in Huntsville	—	79,361	79,361	—
Total National Aeronautics and Space Administration				—	84,233	84,233	—
National Endowment for the Arts:							
Promotion of the Humanities Federal/State Partnership	45.129	0618-2429MN	Alabama Humanities Foundation	—	1,500	1,500	—
U. S. Environmental Protection Agency:							
Nonpoint Source Implementation Grants	66.460	160431	Alabama Department of Environmental Management	—	72	72	—
Nonpoint Source Implementation Grants	66.460	C80592039	Alabama Department of Environmental Management	—	81,188	81,188	—
Total U.S. Environmental Protection Agency				—	81,260	81,260	—

(Continued)

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to USA expenditures	Total expenditures	Pass-through from USA expenditures
U.S. Department of Education:							
Undergraduate International Studies and Foreign Language	84.016			$ 66,442	—	66,442	—
TRIO Cluster:							
TRIO Talent Search	84.044			330,405	—	330,405	—
TRIO Upward Bound	84.047			294,028	—	294,028	—
Total TRIO Cluster				624,433	—	624,433	—
Mathematics and Science Partnerships	84.366	U800174	Alabama State Department of Education	—	18,396	18,396	—
Improving Teacher Quality State Grants	84.367	U900532	Alabama State Department of Education	—	19,300	19,300	—
Improving Teacher Quality State Grants	84.367	17-0025	Alabama Commission on Higher Education	—	(2)	(2)	—
Total CFDA				—	19,298	19,298	—
Transition Programs for Students with Intellectual Disabilities into Higher Ed	84.407			460,329	—	460,329	—
Student Support and Academic Enrichment Program	84.242A	19-0083	Mobile County Public Schools System	—	12,512	12,512	
Total U.S. Department of Education			.	1,151,204	50,206	1,201,410	—
U.S. Department of Health and Human Services:							
Alzheimer's Disease Demonstration Grants to States	93.051	13-130338	South Alabama Regional Planning Commission	—	8,957	8,957	—
HIV Demonstration Program for Children, Adolescents	93.153			426,916	—	426,916	—
Substance Abuse and Mental Health Services	93.243			87,318	—	87,318	—
Advanced Education Nursing Grant Programs	93.247			920,493	—	920,493	—
ACA-Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNs)	93.638	18-0365	Vizient, Inc.	—	178,713	178,713	—
Foster Care Title IV-E	93.658	A19-0007-S010	University of Alabama	—	62,390	62,390	—
Medical Student Education	93.680			16,889	—	16,889	—
PPHF-2012 Mental and Behavioral Health Education and Training Grants	93.732			7,687	—	7,687	—
Medicaid Cluster	93.778	Various	Alabama Medicaid Agency	—	281,001	281,001	—
Center for Disease Control and Prevention	93.800	C80113229 (GC-18-382)	State of Alabama Dept of Public Health	—	47,340	47,340	—
Center for Disease Control and Prevention	93.800	19-0438	State of Alabama Dept of Public Health	—	10,040	10,040	—
Total CFDA				—	57,380	57,380	—
Hospital Preparedness Program (HPP) Center for Disease and Prevention	93.817	CEP-3-WD0-19/C90116102	State of Alabama Department of Public Health	—	32,417	32,417	—
Hospital Preparedness Program (HPP) Center for Disease and Prevention	93.817	19-0498	State of Alabama Department of Public Health	—	49,559	49,559	
Total CFDA				—	81,976	81,976	—
Grants for Primary Care Training and Enhancement	93.884			511,440	—	511,440	—
Medical Library Assistance	93.879	1600679	University of Maryland, Baltimore	—	1,700	1,700	—
National Bioterrorism Hospital Preparedness Program	93.889	C80113195 (GC-18-346)	State of Alabama Department of Public Health	—	201,729	201,729	—
National Bioterrorism Hospital Preparedness Program	93.889	C80113204 (GC-18-355)	State of Alabama Department of Public Health	—	740,634	740,634	—
National Bioterrorism Hospital Preparedness Program	93.889	19-0477	State of Alabama Department of Public Health	—	49,781	49,781	—
National Bioterrorism Hospital Preparedness Program	93.889	19-0474	State of Alabama Department of Public Health	—	146,518	146,518	—
Total CFDA				—	1,138,662	1,138,662	—
Cancer Prevention & Control Programs for State, Territorial & Tribal Orgs	93.898	C90116037 (GC-19-077)	State of Alabama Dept of Public Health	—	43,657	43,657	—
Cancer Prevention & Control Programs for State, Territorial & Tribal Orgs	93.898	C80113229 (GC-18-382)	State of Alabama Dept of Public Health	—	31,560	31,560	—
Cancer Prevention & Control Programs for State, Territorial & Tribal Orgs	93.898	C90116193 (GC-19-293)	State of Alabama Dept of Public Health	—	10,511	10,511	—
Cancer Prevention & Control Programs for State, Territorial & Tribal Orgs	93.898	19-0438	State of Alabama Dept of Public Health	—	6,694	6,694	—
Total CFDA				—	92,422	92,422	—
HIV Care Formula Grants	93.917	RW-USAF-1819	United Way of Central Alabama	—	25,215	25,215	—
HIV Care Formula Grants	93.917	190358	United Way of Central Alabama	—	31,492	31,492	—
Total CFDA				—	56,707	56,707	—
Total U.S. Department of Health and Human Services				1,970,743	1,959,908	3,930,651	—

(Continued)

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2018

Federal sponsor/Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through to USA expenditures	Total expenditures	Pass-through from USA expenditures
Corporation for National and Community Service:							
AmeriCorp Recovery	94.006			$ 24,823	—	24,823	—
Total other federal assistance				3,152,598	2,242,197	5,394,795	—
Total federal expenditures				$ 171,831,116	5,329,711	177,160,827	1,521,005

* Indicates major program

See accompanying notes to schedule of expenditures of federal awards.

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the University of South Alabama (the University) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance*). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Campus-Based Loan Programs

Outstanding campus-based federal loans made by the University are included in notes receivable in the University's 2019 statement of net position and consist of the following loan programs:

	CFDA #	Outstanding amount at September 30, 2019	Amount advanced in 2019
Federal Perkins Loan Program	84.038	$ 1,683,347	—
Nurse Faculty Loan Program	93.264	733,518	167,905
Nurse Faculty Loan Program ARRA	93.408	9,474	—
		$ 2,426,339	167,905

For the Federal Perkins Loan Program (FPLP) the accompanying schedule of expenditures of federal awards includes the beginning of the year balance of loans outstanding under the FPLP and current year FPLP loan advances to students totaling $2,154,876 and $0, respectively. No administrative cost allowance was claimed related to the FPLP during 2019.

(3) Contingencies

The University's federal programs are subject to financial and compliance audits by grantor agencies which may result in disallowed expenditures and affect the University's continued participation in specific programs.

(4) Federal Direct Student Loans (CFDA #84.268)

The University's Federal Direct Student Loan Program (Direct Loan) included in the Schedule represents loans advanced to students of the University during fiscal year 2019, which were not originated by the University. Accordingly, Direct Loan amounts are not reflected in the University's basic financial statements. It is not practicable to determine the balance of loans outstanding to students and former students of the University under these programs as of September 30, 2019.

(Continued)

During the year ended September 30, 2019, the University advanced to students the following amounts of new loans under Direct Loan Programs:

		Amount advanced
Stafford loans	$	19,560,156
Unsubsidized Stafford loans		72,058,837
Parent Loans for Students		36,685,142
Total	$	128,304,135

(5) Matching

Under the Federal Supplemental Education Opportunity Grant Program, the University matched $202,008 in funds awarded to students for the year ended September 30, 2019 in addition to the Federal share of expenditures included in the Schedule.

(6) Indirect Cost Rate

For the year ended September 30, 2019, the University did not elect to use the 10% De Minimus Indirect Cost Rate permitted by Uniform Guidance, as a negotiated indirect cost rate existed on all grants where indirect costs are applicable.

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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
University of South Alabama:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 19, 2019. Our report includes a reference to other auditors who audited the financial statements of the University of South Alabama Foundation, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the University of South Alabama Foundation and the USA Research and Technology Corporation were not audited in accordance with *Government Auditing Standards,* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the University of South Alabama Foundation and the USA Research and Technology Corporation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

KPMG

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Jackson, Mississippi
November 19, 2019

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

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Trustees
University of South Alabama:

Report on Compliance for Each Major Federal Program

We have audited the University of South Alabama's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended September 30, 2019. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the University and its aggregate discretely presented component units as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated November 19, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Jackson, Mississippi
November 19, 2019

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Schedule of Findings and Questioned Costs
Year ended September 30, 2019

(1) Summary of Auditors' Results

(a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

(b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weaknesses: **No**
- Significant deficiencies: **None reported**

(c) Noncompliance material to the financial statements: **No**

(d) Internal control deficiencies over major programs disclosed by the audit:

- Material weaknesses: **No**
- Significant deficiencies: **None reported**

(e) Type of report issued on compliance for major programs: **Unmodified**

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**

(g) Major programs:

- Student Financial Assistance Cluster – various CFDA numbers
- Research and Development Cluster – various CFDA numbers

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$760,243**

(i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs relating to Federal Awards

None