2023 FINANCIAL REPORT

UNIVERSITY OF SOUTH ALABAMA

FLAGSHIP OF THE GULF COAST™

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Board of Trustees


MOULTON TOWER

Letter from the President

The state of the University of South Alabama is strong and our mission is clear: to make a lasting difference in the lives of those we serve through promoting discovery, health and learning.

At South, we strive on a daily basis to achieve this mission through the establishment of – and adherence to – five institutional strategic priorities: Student Access and Success; Graduate Education; Research, Discovery, and Creative Works; University Community Engagement; and Excellence in Healthcare. Everything we do at South, including management of our financial resources, is done with these priorities in mind.

Several key administrative positions have been filled in recent months following the retirement of the vice president of Finance and Administration. Mr. Peter Susman was appointed to the role of Chief Administrative Officer; Ms. Kristen Roberts was appointed Chief Financial Officer; and Mr. Buck Kelley was appointed Chief Facilities Management Officer. Together, the three administrators lead an integral part of the University's administrative structure.

During the past year, new deans were also appointed to the Honors College, the School of Computing and the Covey College of Allied Health Professions. In addition, new deans in the Mitchell College of Business and College of Education and Professional Studies will join the University in January 2024. These new leaders on the academic side will focus on the development of innovative programs that strengthen their respective areas and create exciting opportunities for our students.

As the University continues to grow, it is through a sound financial position that our priorities can be accomplished. Despite the economic challenges of the past several years and the extraordinary pressure placed on the University by the COVID-19 pandemic, the financial position of the University of South Alabama, as demonstrated in this financial report, remains extremely strong. This financial strength allows us to continue to serve the citizens of the state of Alabama, our region and beyond by providing top quality academic, research, healthcare and public service programs.

With a fall 2023 enrollment of nearly 14,000, the University enrolled one of the largest and most academically talented classes ever. This is a testament to the strength of our programs, the quality and dedication of our faculty and staff and the loyalty, spirit and pride of our 94,000-plus alumni. Similarly, USA Health continues its significant growth throughout Southwest Alabama committed and dedicated to the well-being of our patients, including through the recent acquisition of Providence Hospital in west Mobile and its clinics.

Campus life is constantly being enhanced and improved as evidenced by an ever-increasing demand for on-campus student housing. Residence halls in fall 2023 were at capacity. Additionally, more than 200 diverse student clubs and organizations engage students in campus life. Not a day passes where our USA students are not giving back to the community. Hundreds participate in philanthropy projects and community-service activities throughout the year, showcasing our students as the thoughtful, engaged young leaders they are.

There has never been a better or more exciting time to be a Jaguar. On a daily basis, we are touching lives and making a lasting difference in the world around us, all the while striving to make the University of South Alabama the Flagship of the Gulf Coast.

Jo Bonner

Jo Bonner
President

Letter from the Board of Trustees Chair Pro Tempore

The Board of Trustees is the governing body of the University of South Alabama as established by an act of the Alabama Legislature in 1963. The Board serves in a role of accountability to the citizens of Alabama for all matters of the University, including its financial resources. The Board consistently strives to help advance USA as a leader in education, research, healthcare and public service in Alabama, the region and around the globe.

The Board of Trustees is committed to enhancing the success of the University of South Alabama and ensuring that our strategic direction and priorities are a focus in the achievement of the University mission. This can only be accomplished through the shared responsibility of all of the University constituencies.

The University embraces the numerous opportunities to enhance the quality of life around us, all-the-while providing solutions to many complex challenges by engaging our faculty, staff and students in a number of different ways. Through it all, the University remains financially strong and continues to grow and advance its mission in a fiscally responsible manner. My colleagues on the Board, along with President Jo Bonner, and the University's dedicated and outstanding leadership team, faculty, staff and students will continue to work together in an effort to secure USA as the Flagship of the Gulf Coast.

Arlene Mitchell
Chair Pro Tempore, Board of Trustees
University of South Alabama


THE UNIVERSITY OF SOUTH ALABAMA
Class
Of
2023

Letter from the Chief Financial Officer, Finance and Administration

I am pleased to present the University of South Alabama's annual financial report for the year ended September 30, 2023. It is the responsibility of University management to ensure that these financial statements, including management's discussion and analysis and the accompanying notes to the financial statements, are complete and presented in accordance with U. S. generally accepted accounting principles, and I am confident that the accompanying financial statements accurately represent the financial position and results of operations of the University, including its Health System.

The management of the University of South Alabama is responsible for the integrity and objectivity of the financial information presented in these statements, and we believe that the University's system of internal accounting controls provides reasonable assurance that assets are protected and that all transactions and events are properly recorded. The Board of Trustees of the University, through the Audit and Finance Committees, monitors the financial and accounting operations of the University.

Kristen Roberts

Kristen Roberts
Chief Financial Officer, Finance and Administration
University of South Alabama


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UNIVERSITY OF SOUTH ALABAMA

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

Basic Financial Statements

September 30, 2023

(With Independent Auditors' Report Thereon)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2023

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, 2023 and 2022, 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, USA HealthCare Management, LLC, Jaguar Realty, LLC, and various billing entities 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 are discretely presented.

Financial Highlights

At September 30, 2023 and 2022, the University had total assets and deferred outflows of $2,049,385,000 and $1,849,857,000, respectively; total liabilities and deferred inflows of $1,556,146,000 and $1,488,669,000, respectively; and net position of $493,239,000 and $361,188,000, respectively.

The University has experienced a significant growth in its healthcare operations over the past several years incurring increases in net patient service revenues of $71,391,000, or 10%, between 2022 and 2023. Due to improved operational performance by both the University and USA Health, significant market growth, and the issuance of the 2023 bonds, there was a notable increase in cash and investment balances between 2022 and 2023, increasing by $159,510,000, or 26%, to $763,957,000 at September 30, 2023.

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

Statement of Net Position

The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows, and net position of the University at September 30, 2023. 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 statement of net position, along with all of the University's basic financial statements, is prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

(Continued)

UNIVERSITY OF SOUTH ALABAMA
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September 30, 2023

The condensed schedules of net position at September 30, 2023 and 2022 follow (in thousands):

Condensed Schedules of Net Position

		2023	2022
Assets:			
Current	$	508,729	362,646
Capital assets, net		914,673	840,112
Other noncurrent		383,610	421,804
Total assets		1,807,012	1,624,562
Deferred outflows		242,373	225,295
Total assets and deferred outflows		2,049,385	1,849,857
Liabilities:			
Current	$	307,203	211,958
Noncurrent		934,032	975,247
Total liabilities		1,241,235	1,187,205
Deferred inflows		314,911	301,464
Total liabilities and deferred inflows	$	1,556,146	1,488,669
Net position:			
Net investment in capital assets	$	383,248	373,258
Restricted, nonexpendable		79,728	74,299
Restricted, expendable		90,416	90,534
Unrestricted deficit		(60,153)	(176,903)
Total net position	$	493,239	361,188

Assets included in the statement of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, restricted cash and cash equivalents, and investments. Of these amounts, cash and cash equivalents, restricted cash and cash equivalents, and investments comprise approximately 50%, 17%, and 13%, respectively, of current assets at September 30, 2023. Noncurrent assets consist primarily of restricted cash and cash equivalents, restricted investments, and capital assets. The increase in total assets and deferred outflows is attributed to an increase in investment value and restricted cash and cash equivalents.

(Continued)

UNIVERSITY OF SOUTH ALABAMA
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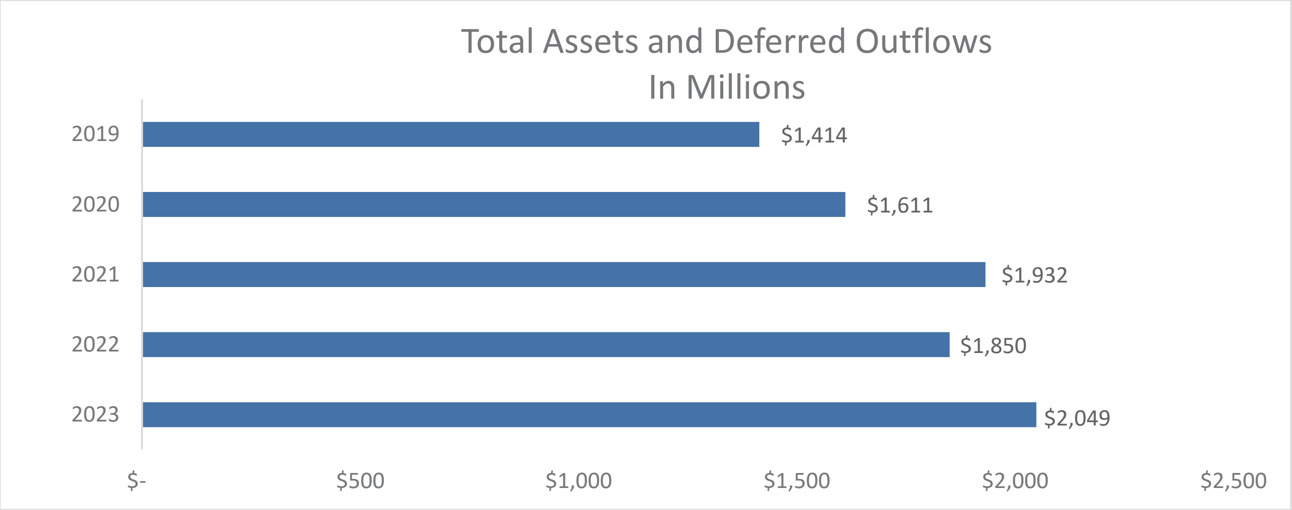
Total assets and deferred outflows of the University as of September 30 is as follows:



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 and donor agreements, 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 deficit of net position represents amounts not invested in capital assets or 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, 2023 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.

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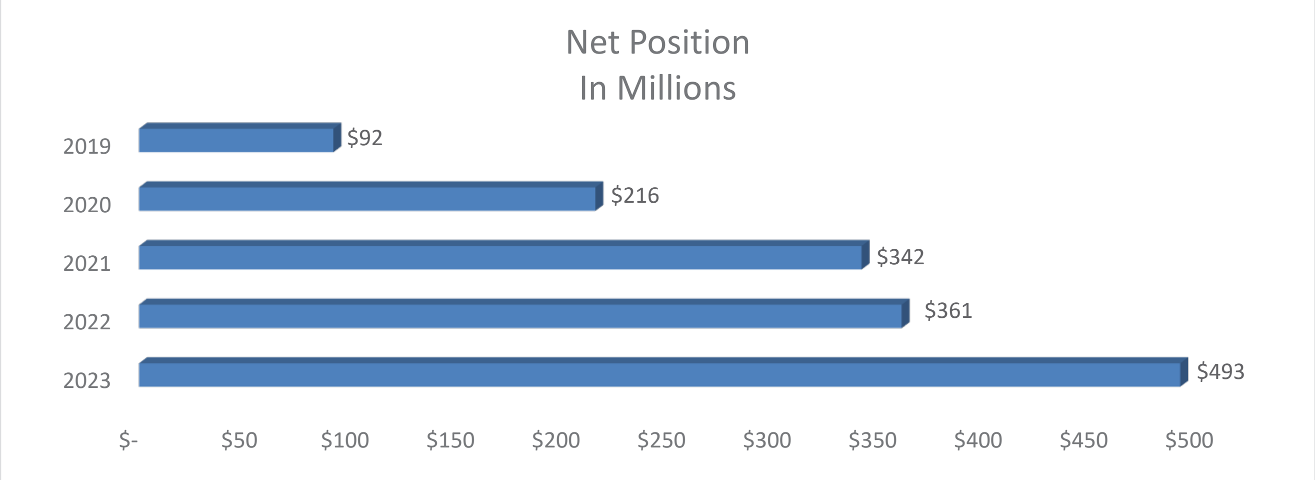
Net position of the University as of September 30 is as follows:



All categories of restricted net position collectively increased by approximately $5,311,000 between September 30, 2023 and 2022, primarily due to market increases on investments. Unrestricted deficit decreased from $(176,903,000) to $(60,153,000) between September 30, 2023 and 2022. A summary of unrestricted net position (deficit) at September 30, 2023 is summarized as follows (in thousands):

		2023	2022
Unrestricted deficit related to net pension liability	$	(375,894)	(237,578)
Unrestricted deficit related to net OPEB liability		(53,421)	(205,378)
Unrestricted net position related to other activity		369,162	266,053
Unrestricted net position (deficit)	$	(60,153)	(176,903)

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total University net position are based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of this statement is 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

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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.

The condensed schedules of revenues, expenses, and changes in net position for the years ended September 30, 2023 and 2022 follow (in thousands):

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

		2023	2022
Operating revenues:			
Tuition and fees, net	$	125,929	130,677
Patient service revenues, net		791,446	720,055
Federal, state, and private grants and contracts		62,507	48,749
Other		80,143	80,440
		1,060,025	979,921
Operating expenses:			
Salaries and benefits		653,681	587,844
Supplies and other services		418,707	409,008
Other		115,211	98,038
		1,187,599	1,094,890
Operating loss		(127,574)	(114,969)
Nonoperating revenues and expenses:			
State appropriations		181,177	140,709
Net investment income		42,889	(53,135)
Other, net		(2,920)	27,626
Net nonoperating revenues		221,146	115,200
Income before capital contributions and grants and additions to endowment		93,572	231

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UNIVERSITY OF SOUTH ALABAMA
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Condensed Schedules of Revenues, Expenses, and Changes in Net Position

		2023	2022
Capital appropriations, contributions and grants, and additions to endowment	$	38,479	25,711
Increase in net position		132,051	25,942
Beginning net position		361,188	342,310
Cumulative effect of change in account principle		—	(7,064)
Beginning balance, as adjusted		361,188	335,246
Ending net position	$	493,239	361,188

In 2022, the University adopted the provisions of GASB Statement No. 87, *Leases*, which establishes a single model for lease accounting, whereby certain leases that were previously classified as operating leases are now reported on the statement of net position. GASB Statement No. 87 required the University to record right-of-use assets and the corresponding current and noncurrent portions of lease liabilities for noncancelable, long-term contracts related to use of tangible property under which the University is the lessee. In addition, GASB Statement No. 87 required the University to record the current and noncurrent portions of lease receivables and the corresponding deferred inflow of resources for noncancelable, long-term contracts related to use of tangible property under which the University is the lessor. The adoption of the provisions of GASB Statement No. 87 resulted in a restatement of beginning unrestricted net position at October 1, 2021 by decreasing unrestricted net position $7,064,000.

In 2023, the University adopted the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which requires subscription-based information technology arrangements (SBITA) be recorded as both an intangible asset and a corresponding subscription liability, provides capitalization criteria for outlays related to nonsubscription payments, and requires note disclosures for SBITA. This adoption resulted in increased right-of-use assets and the related lease and subscription obligations at the beginning of the fiscal year, in the amount of $25,081,000, which is represented in capital assets, net on the statement of net position. Upon analysis of the facts and circumstances at the time of adoption, the impact on beginning net position was deemed immaterial by management, and therefore, no prior-period adjustment was necessary.

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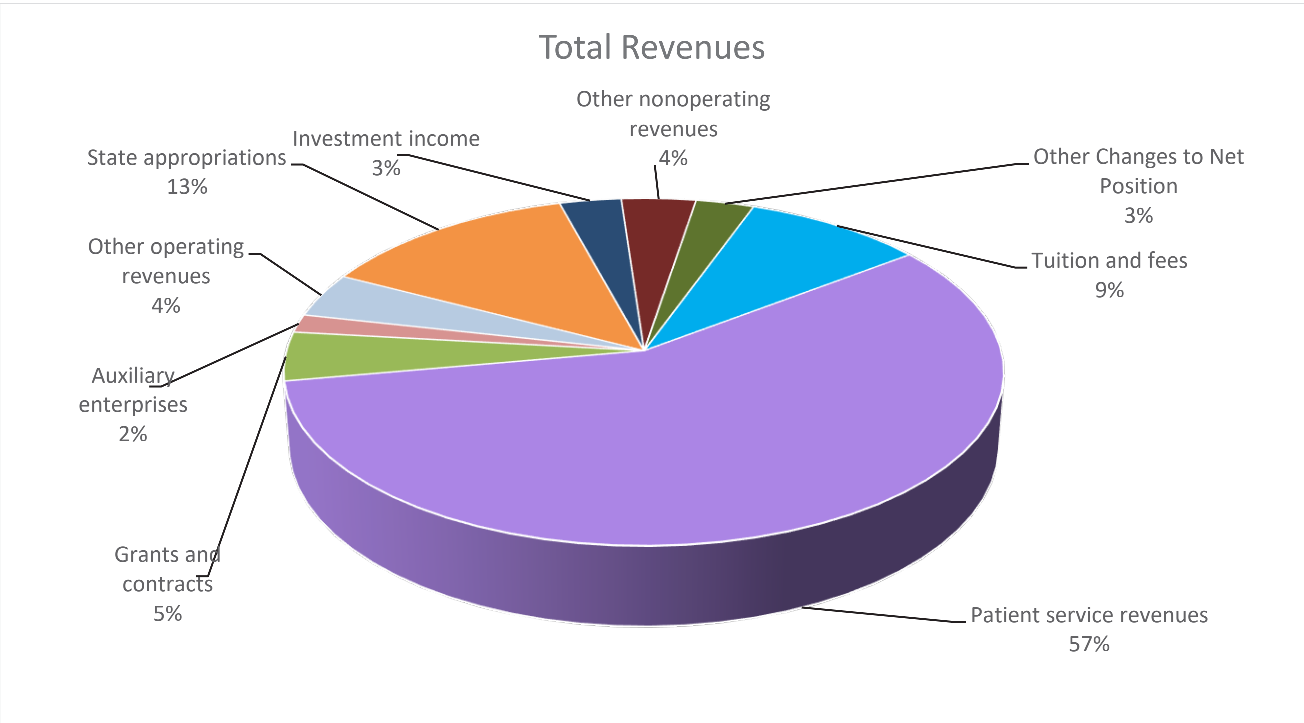
Approximately 57% of total revenues of the University were net patient service revenues in 2023. Excluding patient service revenues, tuition and fees charged to students and state appropriations represent the largest component of total University revenues, approximately 9% and 13% of total revenues in 2023, respectively. In 2023, grants and contracts (federal, state, and private) represented approximately 5% of total revenues.

A summary of University revenues for the year ended September 30, 2023 is presented as follows:



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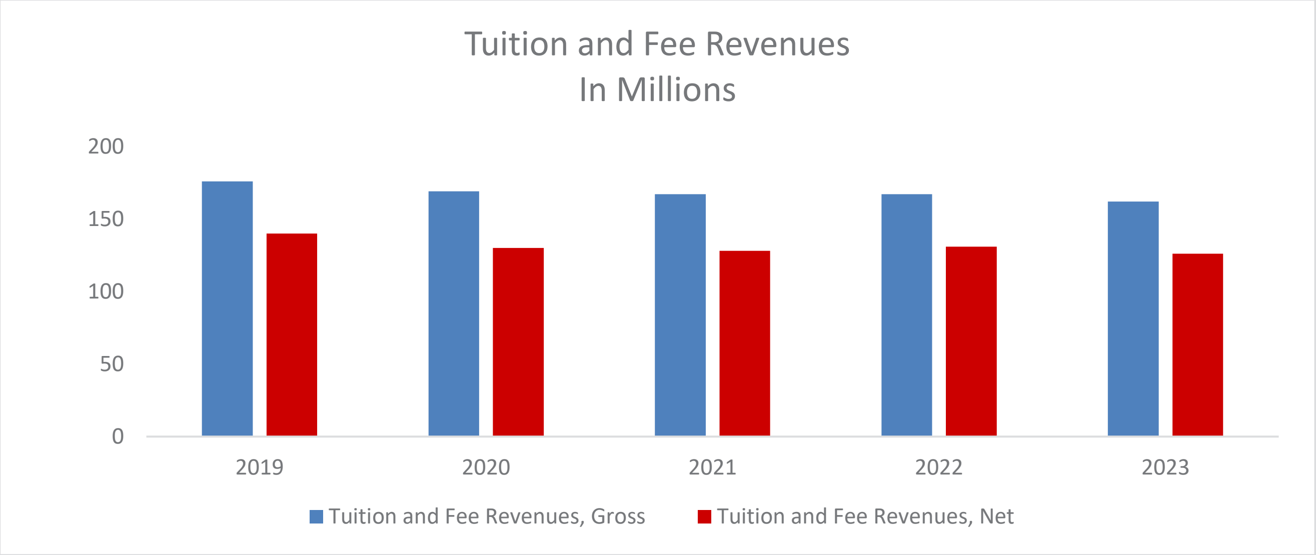
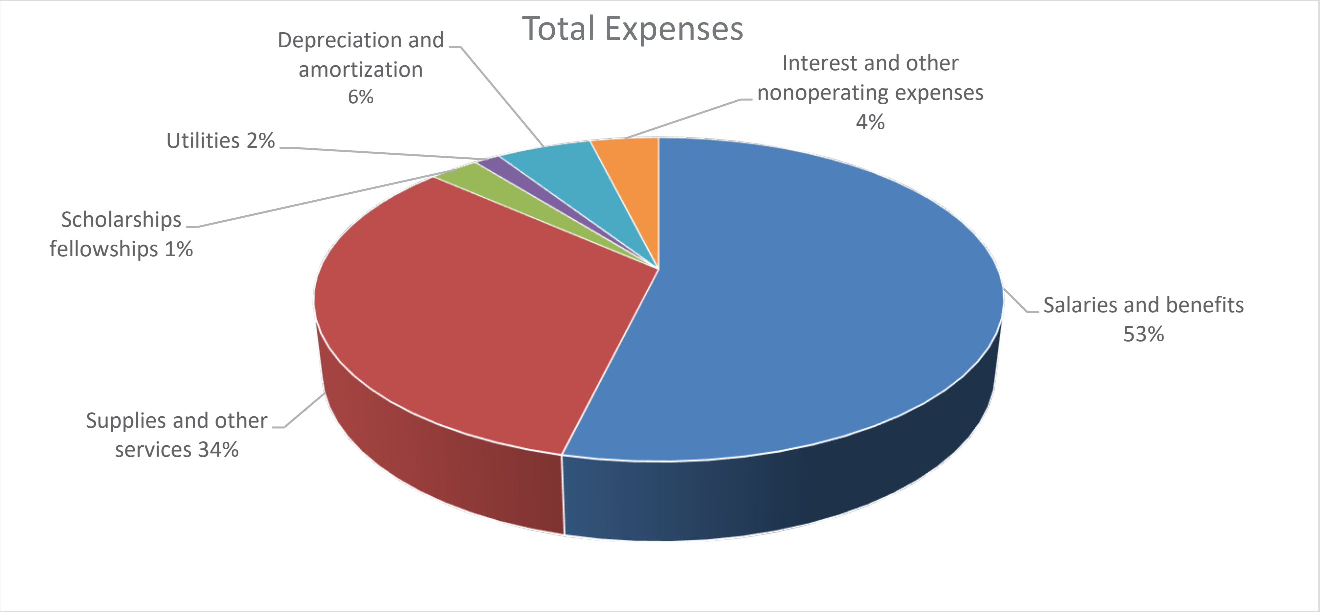
Tuition revenues have generally remained steady in recent years. A decline in enrollment coupled with increases in tuition rates have caused tuition revenues to remain relatively flat. Tuition and fees, gross and net of scholarship allowances, for the past five fiscal years are as follows:



University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2023 is presented as follows:



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UNIVERSITY OF SOUTH ALABAMA
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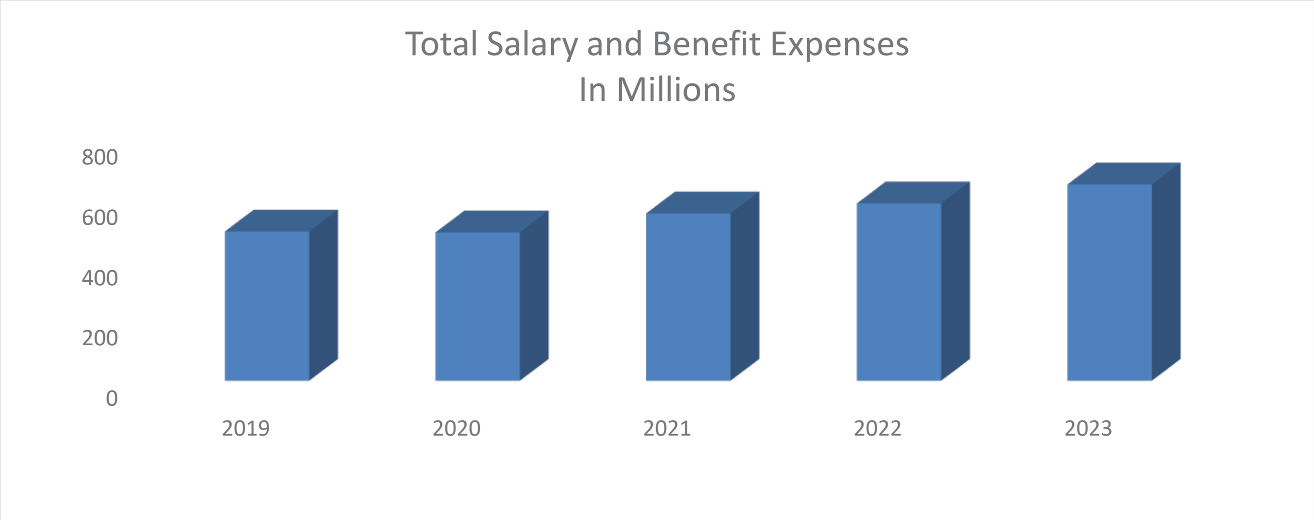
Functional classifications represent expenses categorized based on the function within the University. Such University functions include instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, and scholarships. Expenses related to auxiliary enterprise activities, USA Health, and depreciation and amortization are presented separately. Functional expense information is presented in note 18 to the basic financial statements.

In 2023, approximately 53% of the University's total expenses were salaries and benefits.



For the year ended September 30, 2023, the University reported an operating loss of approximately $127,574,000. The operating loss is offset by state appropriations, which, as mentioned earlier, are reported as nonoperating revenues. After considering all nonoperating revenues and expenses, including capital appropriations, capital contributions and grants, and additions to the endowment, the total increase in net position was approximately $132,051,000 for the year ended September 30, 2023.

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UNIVERSITY OF SOUTH ALABAMA
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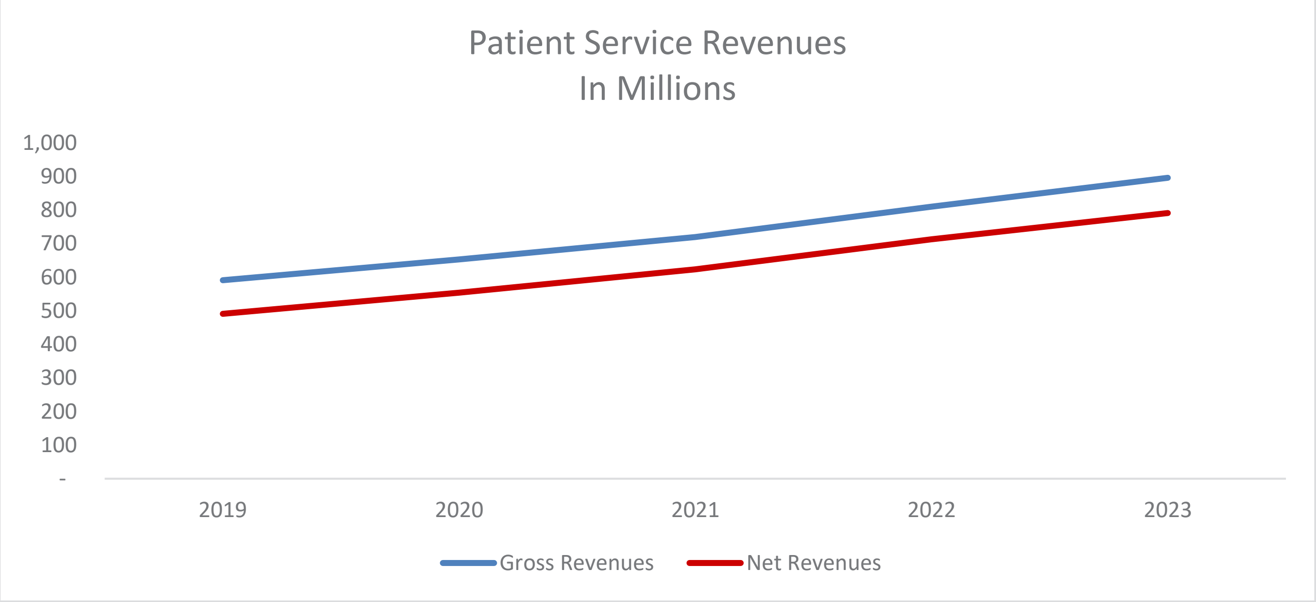
Management's Discussion and Analysis (Unaudited)
September 30, 2023

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



Statement of Cash Flows

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

Capital Assets and Debt Administration

Total capital asset additions for the University were approximately $95,530,000 in 2023. Significant construction projects that remain in progress as of September 30, 2023 include the campus storm shelter, a 3D printer lab, Science Laboratory Building renovation, new Central Energy Plant, the demolition of Alpha Hall South and East, and utilities improvement in preparation for the new College of Medicine Building. Major projects completed and placed into service in fiscal year 2023 include Gamma 0-4 HVAC upgrade, Greek housing renovations, outdoor pool repairs, quantum cell service, Football Fieldhouse roof repairs, and the North Drive utilities project. At September 30, 2023, the University had outstanding commitments of approximately $26,764,000 for various capital projects. Additional information regarding the University's capital assets is included in note 5.

On March 5, 2021, the Financial Conduct Authority announced that the final publication date for US LIBOR would be June 30, 2023. Loans maturing after the end of LIBOR were reviewed to determine if appropriate language, referred to as fallback language, was used to provide for the replacement of LIBOR with an alternative index. The Alternative Reference Rates Committee (ARRC) has recommended the Secured Overnight Financing Rate (SOFR) as an alternative to replace LIBOR. As recommended by the ARRC, all rate

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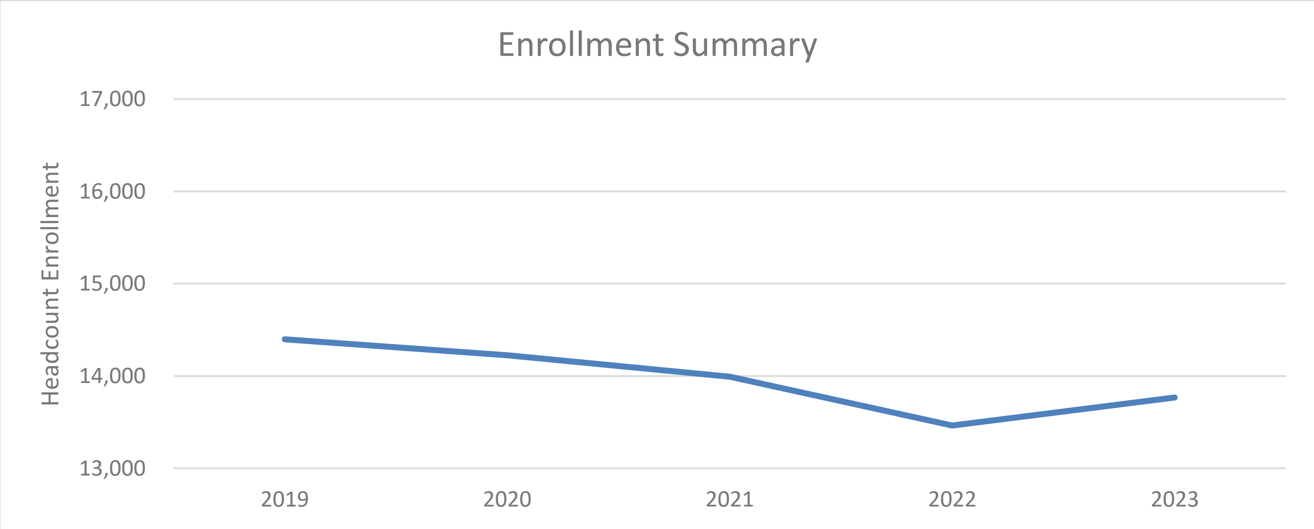
and fee settings for affected facilities maturing after the end of LIBOR have been replaced with a SOFR-based index.

In April 2023, the University of South Alabama Health Care Authority (a component of the University) entered into an agreement with Gulf Coast Health System to acquire an acute care hospital, its ancillary-related healthcare delivery businesses, and related facilities effective October 1, 2023. This acquisition is referred to as Ascension Providence. In April 2023, the University delivered up to $80,000,000 University Facilities Revenue Bond (Draw-Down Loan), Series 2023-A, and up to $20,000,000 Taxable University Facilities Revenue Bond (Draw-Down Loan), Series 2023-B. The proceeds, along with internal contributions from the University, are financing this acquisition. The draw down facility allows the University, from time to time through April 15, 2024, to request funds from the 2023-A totaling up to $80,000,000 (2023-A Advances) and from the 2023-B totaling up to $20,000,000 (2023-B Advances). Interest payments are due on June 1, 2023, September 1, 2023, December 1, 2023, March 1, 2024, and April 19, 2024. The principal balance, which will be paid with proceeds from a long-term bond issuance, will be due on April 19, 2024. At September 30, 2023, the outstanding principal for 2023-A is $67,020,000 and 2023-B is $16,635,000.

The University's credit rating is A1 (Negative) as rated by Moody's Investors Service and A+ (Stable) as rated by Standard and Poor's Global Ratings. Moody's Investors Services revised the University's outlook to negative from stable and affirmed its A1 issuer and revenue bond ratings in July 2023. Standard and Poor's Global Ratings affirmed the University's current rating in February 2023. Additional information regarding the University's debt is included in note 8.

Economic Outlook

While tuition and fee rates per credit hour have increased over the past five years, there have been declines in enrollment from 2019 through 2022. The University experienced a decline in enrollment of approximately 4% between Fall 2021 and Fall 2022 and an increase of 2% between Fall 2022 and Fall 2023. The University did have a rise in enrollment for Fall 2023, due mainly to increased freshman enrollment. The enrollment trend for the University between 2019 and 2023 is as follows:



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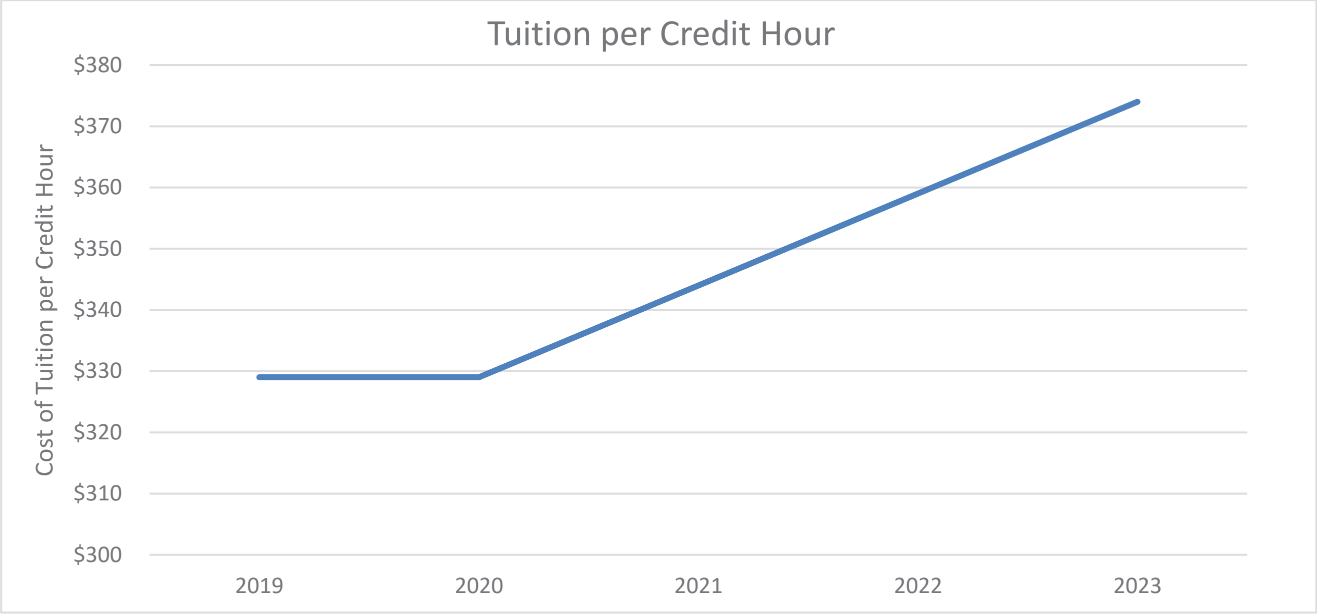
During the same period, in-state tuition per credit hour for in-person classes has increased by approximately 9%. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. Web tuition has decreased slightly during that period. The trend of in-state tuition per credit hour between 2019 and 2023 is as follows:



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UNIVERSITY OF SOUTH ALABAMA
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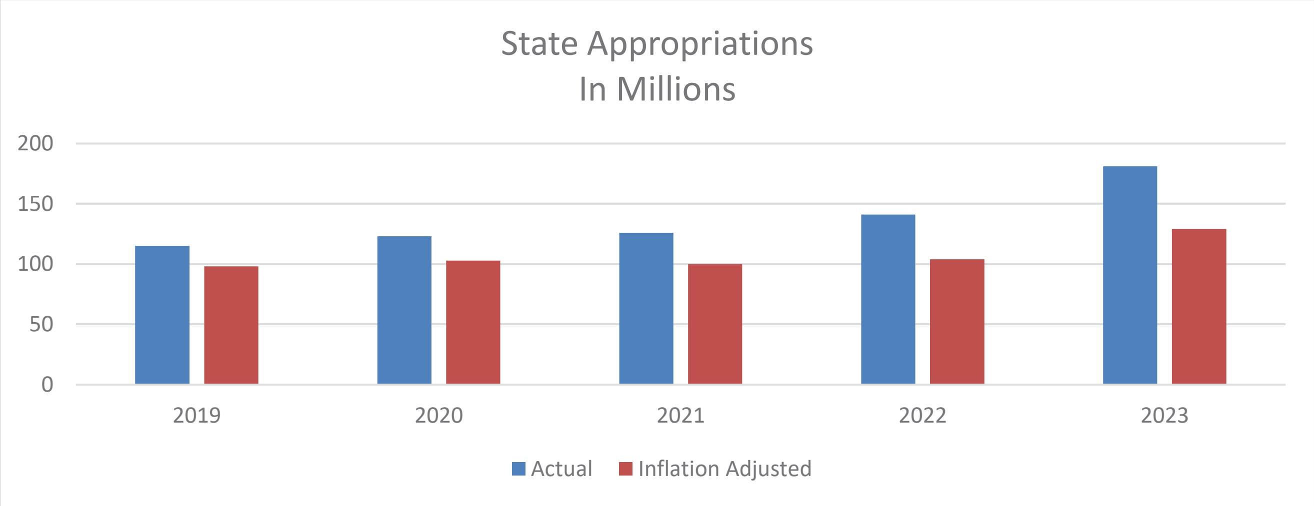
A state appropriation in the amount of approximately $140,714,000 and $129,098,000 was authorized for the years ended September 30, 2023 and 2022, respectively. Additional appropriations of approximately $40,463,000 were received in 2023 for capital project improvements and equipment. In 2022, additional appropriations of $4,111,000 and $7,500,000 were received for advancement and technology and certain academic and healthcare initiatives. A state appropriation in the amount of approximately $150,375,000, representing an increase of approximately 6.87%, has been authorized for the year ending September 30, 2024. While no announcement has been made, the University is aware that reductions in the 2024 appropriation are possible.

The five-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 healthcare operations.

During the second fiscal quarter of 2020, the United States was thrust into the midst of a pandemic health crisis related to the spread of COVID-19 (the Crisis). The University returned to normal operations for the Fall 2021 semester, and USA Health operations have returned to a normal level with minimum impact on the finances of USA Health.

The University has taken all necessary steps to ensure that the University takes full advantage of the Coronavirus Aid, Relief, and Economic Security Act of 2020 (the CARES Act). As of September 30, 2023, the University (including USA Health) has been awarded $105,456,000 in CARES Act and other funding from federal and state sources for COVID-19 relief. Of this amount, $6,202,000 was awarded in the year ended September 30, 2023 and $6,189,000 was awarded in the year ended September 30, 2022. Of the total amount awarded, $12,703,000 has been recognized as nonoperating revenue in the statements of revenues, expenses, and changes in net position for the year ended September 30, 2023.

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UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
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September 30, 2023

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 Kristen Roberts; Chief Financial Officer; University of South Alabama Administration Building Suite 353, 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 Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of University of South Alabama (the University), a component unit of the State of Alabama, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University, as of September 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

We did not audit the financial statements of University of South Alabama Foundation, which represent 82% and 33%, respectively, of the assets and revenues of the aggregate discretely presented component units as of September 30, 2023 and for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for University of South Alabama Foundation, is based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of University of South Alabama Foundation were not audited in accordance with *Government Auditing Standards*.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, schedule of the University's proportionate share of the net pension liability and related ratios, schedule of the University's pension contributions, schedule of the University's proportionate share of the net OPEB liability and related ratios, and the schedule of the University's OPEB contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2023 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
December 20, 2023

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

Statement of Net Position

September 30, 2023

(In thousands)

Current assets:	
Cash and cash equivalents	$ 254,276
Restricted cash and cash equivalents	89,590
Investments	67,472
Patient receivables (net of allowance for doubtful accounts of $117,709)	48,350
Accounts receivable, other	31,200
Notes receivable, net	705
Prepaid expenses, inventories, and other	16,429
Lease receivable, current portion	707
Total current assets	508,729
Noncurrent assets:	
Restricted cash and cash equivalents	14,104
Restricted investments	262,264
Investments	76,251
Other noncurrent assets and accounts receivable	29,041
Lease receivable, less current portion	1,950
Capital assets, net	914,673
Total noncurrent assets	1,298,283
Total assets	1,807,012
Deferred outflows	242,373
Total assets and deferred outflows	2,049,385
Current liabilities:	
Accounts payable and accrued liabilities	103,834
Unrecognized revenues	64,430
Deposits	2,914
Current portion of other long-term liabilities	5,974
Current portion lease and subscription obligations	20,862
Current portion of long-term debt	109,189
Total current liabilities	307,203
Noncurrent liabilities:	
Long-term debt, less current portion	409,809
Lease and subscription obligations, less current portion	30,485
Other long-term liabilities, less current portion	64,423
Net pension liability	375,894
Net other postemployment benefits liability	53,421
Total noncurrent liabilities	934,032
Total liabilities	1,241,235
Deferred inflows	314,911
Total liabilities and deferred inflows	1,556,146
Net position:	
Net investment in capital assets	383,248
Restricted, nonexpendable:	
Scholarships	46,072
Other	33,656
Restricted, expendable:	
Scholarships	32,554
Other	57,862
Unrestricted deficit	(60,153)
Total net position	$ 493,239

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2023

(In thousands)

Operating revenues:		
Tuition and fees (net of scholarship allowances of $40,572)	$	125,929
Patient service revenues (net of provision for bad debts of $105,307)		791,446
Federal grants and contracts		33,285
State grants and contracts		12,992
Private grants and contracts		16,230
Auxiliary enterprises (net of scholarship allowances of $1,255)		23,227
Other operating revenues		56,916
Total operating revenues		1,060,025
Operating expenses:		
Salaries and benefits		653,681
Supplies and other services		418,707
Scholarships and fellowships		17,590
Utilities		20,481
Depreciation and amortization		77,140
Total operating expenses		1,187,599
Operating loss		(127,574)
Nonoperating revenues (expenses):		
State appropriations		181,177
Net investment income		42,889
Interest expense		(17,347)
Other nonoperating revenues		51,727
Other nonoperating expenses		(37,300)
Net nonoperating revenues		221,146
Income before capital appropriations, capital contributions and grants, and additions to endowment		93,572
Other changes in net position		
Capital appropriations		12,691
Capital contributions and grants		16,333
Additions to endowment		9,455
Total other changes in net position		38,479
Increase in net position		132,051
Net position:		
Beginning of year		361,188
End of year	$	493,239

See accompanying notes to basic financial statements.

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

Statement of Cash Flows

Year ended September 30, 2023

(In thousands)

Cash flows from operating activities:	
Receipts related to tuition and fees	$ 129,029
Receipts from and on behalf of patients and third-party payers	791,835
Receipts from grants and contracts	54,319
Receipts related to auxiliary enterprises	24,376
Payments to suppliers and vendors	(443,897)
Payments to employees and related benefits	(672,436)
Payments for scholarships and fellowships	(17,590)
Other operating receipts	78,668
Net cash used in operating activities	(55,696)
Cash flows from noncapital financing activities:	
State appropriations	181,177
Endowment gifts	9,455
Agency funds received	3,352
Agency funds disbursed	(4,068)
Student loan program disbursements	(133,090)
Student loan program receipts	132,959
Other nonoperating revenues	40,302
Other nonoperating expenses	(32,283)
Net cash provided by noncapital financing activities	197,804
Cash flows from capital and related financing activities:	
Capital contributions and grants	16,333
Purchases of capital assets	(66,670)
Proceeds from sales of capital assets	111
Proceeds from issuance of capital debt	83,655
Principal payments on capital debt	(44,594)
Interest payments on capital debt	(21,822)
Net cash used in capital and related financing activities	(32,987)
Cash flows from investing activities:	
Interest and dividends on investments	14,724
Purchases of investments	(63,396)
Proceeds from sales of investments	48,920
Net cash provided by investing activities	248
Net increase in cash and cash equivalents	109,369
Cash and cash equivalents (unrestricted and restricted):	
Beginning of year	248,601
End of year	$ 357,970

(Continued)

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

Statement of Cash Flows

Year ended September 30, 2023

(In thousands)

Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(127,574)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization		77,140
Changes in assets and liabilities, net:		
Student receivables		13
Net patient receivables		2,256
Grants and contracts receivables		(4,296)
Other receivables		4,311
Prepaid expenses, inventories, and other		(5,236)
Accounts payable and accrued liabilities		(2,377)
Unrecognized revenues		67
Net cash used in operating activities	$	(55,696)
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and cash equivalents classified as current assets	$	254,276
Restricted cash and cash equivalents classified as current assets		89,590
Restricted cash and cash equivalents classified as noncurrent assets		14,104
Total cash and cash equivalents	$	357,970
Noncash investing, noncapital financing, and capital and related financing transactions:		
Net increase in fair value of investments recognized as a component of investment gains	$	25,540
Payments on behalf of the University by the Alabama Public School and College Authority reducing purchases of capital asset		12,691
Addition of lease and subscription obligations		15,898
Gifts of capital, investments, and other assets		1,048
Increase in accounts payable related to capital assets		5,051
Addition of note payable due for financing purchases		802
Loss on disposals of capital assets		(829)

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 Financial Position

June 30, 2023

(In thousands)

Assets		
Cash and cash equivalents	$	1,718
Investments:		
Equity securities		223,532
Timber and mineral properties		176,002
Real estate		9,064
Other		5,814
Other assets		603
Total assets	$	416,733
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$	103
Other liabilities		861
Total liabilities		964
Net assets:		
Without donor restrictions		62,190
With donor restrictions		353,579
Total net assets		415,769
Total liabilities and net assets	$	416,733

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, 2023

(In thousands)

		Without donor restrictions	With donor restrictions	Total
Revenues, gains, losses, and other support:				
Net realized and unrealized gains on investments	$	4,208	37,345	41,553
Rents, royalties, and timber sales		3,779	198	3,977
Interest and dividends		1,579	1,317	2,896
Gifts		1	68	69
Required match of donor contributions		(4)	4	—
Interfund interest		(712)	712	—
Other income		30	—	30
Net assets released from program restrictions		11,987	(11,987)	—
Total revenues, gains, losses, and other support		20,868	27,657	48,525
Expenditures:				
Program services:				
Faculty support		3,003	—	3,003
Scholarships		1,245	—	1,245
Other academic programs		9,012	—	9,012
Total program service expenditures		13,260	—	13,260
Management and general		2,696	—	2,696
Other investment expense		1,159	—	1,159
Depletion expense		4,195	—	4,195
Depreciation expense		44	—	44
Total expenditures		21,354	—	21,354
Change in net assets		(486)	27,657	27,171
Net assets – beginning of year		62,676	325,922	388,598
Net assets – end of year	$	62,190	353,579	415,769

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION

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

Statement of Net Position

September 30, 2023

(In thousands)

Assets:		
Current assets:		
Cash and cash equivalents	$	2,200
Lease receivable, current portion		2,650
Prepaid expenses and other current assets		25
Accrued interest receivable		52
Total current assets		4,927
Noncurrent assets:		
Capital assets, net		18,144
Lease receivable, less current portion		9,440
Total noncurrent assets		27,584
Deferred outflows		607
Total assets and deferred outflows		33,118
Liabilities:		
Current liabilities:		
Deposits, other current liabilities, and accrued expenses		313
Unrecognized rent revenue		351
Notes payable, current portion		1,022
Total current liabilities		1,686
Noncurrent liabilities:		
Notes payable, less current portion		16,967
Total noncurrent liabilities		16,967
Deferred inflows		11,713
Total liabilities and deferred inflows	$	30,366
Net position:		
Net investment in capital assets	$	918
Unrestricted		1,834
Total net position	$	2,752

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit of the University of South Alabama)

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2023

(In thousands)

Operating revenues	$	4,202
Operating expenses:		
Building management and operating expenses		1,140
Depreciation and amortization		1,318
Legal and administrative fees		575
Insurance		65
Total operating expenses		3,098
Operating income		1,104
Nonoperating revenues (expenses):		
Interest expense		(871)
Interest income		73
Other		374
Net nonoperating expenses		(424)
Increase in net position		680
Net position:		
Beginning of year		2,072
End of year	$	2,752

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
(Discretely Presented Component Unit of the University of South Alabama)

Statement of Net Position

September 30, 2023

(In thousands)

Current assets:		
Cash and cash equivalents	$	3,614
Restricted cash and cash equivalents		558
Patient receivables (net of allowance for doubtful accounts of approximately $1,198)		3,392
Inventories		91
Lease receivable, current portion		324
Other current assets		1,582
Total current assets		9,561
Noncurrent assets:		
Capital assets, net		48,907
Investments		458
Lease receivable, less current portion		3,045
Total noncurrent assets		52,410
Total assets		61,971
Current liabilities:		
Accounts payable and accrued liabilities		9,248
Accrued salaries and wages		2,882
Other liabilities, current portion		26
Lease and subscription obligations, current portion		1,934
Long-term debt, current portion		160
Total current liabilities		14,250
Noncurrent liabilities:		
Other liabilities, noncurrent		202
Lease and subscription obligations, less current portion		8,129
Long-term debt, less current portion		21,674
Total noncurrent liabilities		30,005
Deferred inflows		3,286
Total liabilities and deferred inflows		47,541
Net position:		
Net investment in capital assets		17,002
Restricted		558
Unrestricted deficit		(3,130)
Total net position	$	14,430

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA HEALTH CARE AUTHORITY
(Discretely Presented Component Unit of the University of South Alabama)

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2023

(In thousands)

Operating revenues:	
Net patient service revenues	$ 46,296
Other operating revenues	14,667
Total operating revenues	60,963
Operating expenses:	
Salaries and benefits	48,759
Building and equipment expenses	6,280
Medical and surgical supplies	4,909
Other expenses	32,306
Depreciation and amortization	4,141
Total operating expenses	96,395
Operating loss	(35,432)
Nonoperating revenues (expenses):	
Investment income	155
Support from University of South Alabama	35,385
Interest expense	(1,484)
Total nonoperating revenues, net	34,056
Decrease in net position	(1,376)
Net position at beginning of period	15,806
Net position at end of period	$ 14,430

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Notes to Basic Financial Statements

September 30, 2023

(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 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, 2023, the University reports University of South Alabama Foundation (USA Foundation), USA Research and Technology Corporation (the Corporation), and University of South Alabama Health Care Authority (HCA) as discretely presented component units. Each of these entities issue separate audited financial statements, which can be obtained by contacting Kristen Roberts, Chief Financial Officer, University of South Alabama Administration Building, Suite 353, Mobile, Alabama 36688.

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF), Gulf Coast TotalCare (Gulf Coast), the University of South Alabama Foundation for Research and Commercialization (FRAC), Jaguar Athletic Fund (JAF), and the USA Presidential 1963 Fund. These entities are considered component units of the University under the provisions of GASB Statement Nos. 14, 39, 61, and 80. However, these entities are not presented in the accompanying basic financial statements as the University does not consider them significant enough to warrant inclusion in the University's reporting entity.

(Continued)

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; Jaguar Realty, LLC; USA Health Physician Billing Services, LLC; USA Health Hospital Billing Services, LLC; USA Health Anesthesia Billing Services, LLC; USA Health Reference Lab Billing Services, LLC; USA Health MCI Business Services, LLC; USA Health Children's and Women's Provider Based Clinics, LLC; and USA Health Community Providers, LLC as blended component units. All significant transactions between 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 PLTF 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 GLTF 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 19 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). HCM was organized for the purpose of managing and operating on behalf of, and as agent for, payroll activities related to the healthcare 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 19 for further discussion of, and disclosure for, this entity).

(d) USA Health Billing Limited Liability Companies

Over the last few years, the University formed the USA Health Physician Billing Services, LLC; USA Health Hospital Billing Services, LLC; USA Health Anesthesia Billing Services, LLC; USA Health Reference Lab Billing Services, LLC; USA Health MCI Business Services, LLC; USA Health Children's and Women's Provider Based Clinics, LLC; and USA Health Community Providers, LLC as 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, a free-standing emergency department, a cancer treatment center, and various health clinics. Based on GASB requirements, the University, as the primary government, includes these limited liability companies as blended component units. All significant transactions between the University and its blended component units have been eliminated.

(Continued)

(e) University of South Alabama Health Care Authority

In May 2017, the University's Board of Trustees approved the formation of HCA. HCA is a public corporation created under and pursuant to the provisions of the State of Alabama University Authority Act of 2016. HCA employs physicians and staff of certain physician practice groups as determined appropriate by the University. HCA presents its financial statements in accordance with GASB.

HCA is the sole member of the following companies: Mobile Heart USA, LLC; USA HCA OBGYN Services, LLC; USA HCA PBC, LLC; USA Health HCA Industrial Medicine Clinic, LLC; USA Health Daphne Family Practice, LLC; USA Health IPA, LLC; USA Health Mobile County ASC, LLC; USA Health HCA Providence Hospital, LLC; and USA Health Providence Retail Pharmacy, LLC. Based on the criteria listed above, GASB requires HCA, as the primary government, to include each of these limited liability companies as blended component units. All significant transactions among HCA and its blended component units have been eliminated.

HCA holds a 51% equity interest in USA BC ASC Holdco, LLC, a limited liability company formed in 2020, and Surgery Center Holdings, Inc. owns the remaining 49%. USA BC ASC Holdco, LLC. owns 51% of USA Baldwin County ASC, LLC and the remaining 49% is owned by an unrelated third party. There has been no financial activity to date for USA BC ASC Holdco, LLC or USA Baldwin County ASC, LLC. HCA's capital account balance is $443,000 and is presented on the statement of net position as an investment.

During fiscal year 2022, HCA obtained an equity interest in a multimember limited liability company, USA Fairhope Physician Investors, LLC (FPI). FPI was initially considered as a component unit under the provisions of GASB Statement Nos. 14 and 61. Amendment 1 to the initial agreement was executed during fiscal year 2023, removing HCA's control of the entity and ability to impose its will on the entity. The change resulted in HCA's relationship with FPI shifting from a component unit to an investment in a joint venture. HCA's capital account balance is presented on the 2023 statement of net position as an investment. No distributions have been received by HCA to date; therefore, no income statement impact has been reported.

In 2023, HCA formed USA Health HCA Providence Hospital, LLC and USA Health Providence Retail Pharmacy, LLC as limited liability companies, whereby HCA is the sole member. There was no financial activity for these entities during the year ended September 30, 2023.

Since inception, HCA's operations have been partially funded by the University, with total support amounting to $35,385,000 during the year ended September 30, 2023. This support is reported in nonoperating expenses on the University's statement of revenues, expenses, and changes in net position. Due to the significance of the relationship between the University and HCA, HCA is considered a component unit of the University. The accompanying statement of net position and statement of revenues, expenses, and changes in net position for HCA as of and for the year ended September 30, 2023 are discretely presented.

(Continued)

(f) University of South Alabama Foundation

USA 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 USA Foundation, USA Foundation is considered a component unit of the University. The Board of Directors of USA Foundation is not appointed or controlled by the University. The University receives distributions from USA Foundation primarily for scholarship, faculty, and other support. Total distributions received or accrued by the University for the year ended September 30, 2023 were $20,900,000 and are included primarily in other nonoperating revenues and capital contributions and grants in the University's statement of revenues, expenses, and changes in net position. In addition, USA Foundation donated a 63-acre parcel of land on Dauphin Island, Alabama, which has an estimated value of approximately $1,000,000. This land donation is included in capital assets, net on the statement of net position and the gift revenue is in nonoperating revenues on the statement of revenues, expenses, and changes in net position for the University. USA Foundation presents its financial statements in accordance with standards issued by the Financial Accounting Standards Board (FASB). USA Foundation is reported in separate financial statements because of the difference in the financial reporting framework since USA Foundation follows FASB rather than GASB. 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, the University has included USA Foundation's statements for the year ended June 30, 2023 in the University's financial statements as of September 30, 2023. The accompanying consolidated statement of financial position and consolidated statement of activities and changes in net assets for USA Foundation as of and for the year ended June 30, 2023 are discretely presented.

(g) USA Research and Technology Corporation

In June 2002, the University's Board of Trustees approved the formation of the Corporation. The Corporation is a not-for-profit corporation that exists for the purpose of furthering the educational and scientific mission of the University by developing, attracting, and retaining technology and research industries in Alabama that will provide professional and career opportunities to the University's students and faculty. Because of the significance of the relationship between the University and the Corporation, the Corporation is considered a component unit of the University. The Corporation presents its financial statements in accordance with GASB. The accompanying statement of net position and statement of revenues, expenses, and changes in net position for the Corporation as of and for the year ended September 30, 2023 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 Government*s, 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

(Continued)

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 (including restricted amounts)

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. Restricted cash and cash equivalents share the same definitions and maturities of unrestricted cash and cash equivalents but are designated by external parties for specified purposes such as collateral requirements, designated gifts, or bond proceeds.

(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, multistrategy 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, 2023, the University had two hedging derivative instruments in the form of 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 statement of net position since the interest rate swaps are deemed effective.

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UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Notes to Basic Financial Statements

September 30, 2023

(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, changes in the 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 the OPEB plan, changes in proportion and differences between employer contributions and proportionate share of contributions in pension and OPEB plans, changes in the fair values of interest rate swaps, gain on the refunding of certain bond amounts, and the value of contractual rights to lease revenue in future reporting periods.

(n) Bond Premiums, Discounts, and Loss on Extinguishment Costs

Bond premiums, discounts, and loss on 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.

(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) Lease Receivable

Lease receivable and current portion thereof on the statement of net position represents the University's contractual right to receive cash in exchange for the right to use an asset for a specific amount of time. Lease receivables are recognized at the commencement date based on the present value of lease payments to be received over the lease term discounted using an appropriate incremental borrowing rate. The commencement date is either when the lessee takes possession of the asset or, in the case of real estate leases, when the landlord makes the building or office space available for use. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain the lessee will exercise that option. Interest revenue is recognized as a component of the lease payments received and is included in other nonoperating revenues on the statement of revenues, expenses, and changes in net position.

(q) 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.

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(r) Capital Assets

Capital assets are recorded at cost, if purchased, or, if donated, at fair 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 statement of revenues, expenses, and changes in net position.

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.

Lease and subscriptions are included in capital assets as right-of-use assets on the statement of net position. Right-of-use assets represent the University's right to use an underlying asset for the specified term and are comprised of leased equipment, buildings, office space, and subscription-based information technology arrangements. Lease and subscription right-of-use assets are recognized at the commencement date based on the present value of the payments over the agreement term discounted using the lessor interest rate or an appropriate incremental borrowing rate. The commencement date is either when the University takes possession of the asset or when the asset becomes available for use. Amortization of right-of-use assets is recognized on a straight-line basis over the agreement term or useful life of the asset, whichever is shorter.

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 year ended September 30, 2023, no impairments were identified.

(s) Unrecognized Revenues

Student tuition, fees, and dormitory rentals are billed in advance and initially recorded as a component of unrecognized revenues in the statement of net position and, then recognized in revenue over the applicable portion of each school term.

(Continued)

(t) 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 Annual Comprehensive Financial Report.

(u) Postemployment Benefits Other Than Pensions (OPEB)

Employees of the University are covered by a cost sharing multiple-employer other postemployment 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 Annual Comprehensive Financial Report.

(v) 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.

(Continued)

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.

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.

(w) 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 statement 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.

(x) 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.

(y) 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; sales and services of auxiliary enterprises, net of scholarship allowances; and lease revenue.

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

(z) 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.

(aa) 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.

(bb) Patient Service Revenues

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.

(cc) Compensated Absences

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

(dd) Recently Adopted Accounting Pronouncements

In 2023, the University adopted the provisions of GASB Statement No. 91, *Conduit Debt Obligations*. 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 issuer, and improve note disclosures. There was no significant impact to the financial statements as a result of adoption.

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In addition, the University adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which requires subscription-based information technology arrangements (SBITA) to be recorded as both a right-of-use asset and a corresponding subscription liability, provides capitalization criteria for outlays related to nonsubscription payments, and requires note disclosures for SBITA. This adoption resulted in increased right-of-use assets and related subscription liabilities at the beginning of the fiscal year, in the amount of $25,081,000, which is represented in capital assets, net on the statement of net position. Upon analysis of the facts and circumstances at the time of adoption, the effect on prior period net position was immaterial.

Additionally, the University adopted certain provisions of GASB Statement No. 99, *Omnibus 2022*, related to public-private and public-public partnership arrangements (PPP) and SBITA. The objective of this statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements and accounting and financial reporting for financial guarantees. There was no significant impact to the financial statements as a result of adoption.

(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, 2023, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately $17.6 billion. The University had cash and cash equivalents, including restricted cash and cash equivalents, in the pool of $357,970,000 at September 30, 2023.

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At September 30, 2023, restricted cash and cash equivalents consist of $3,280,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, $3,681,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture, $6,202,000 related to restricted donations related to certain capital projects, $941,000 related to endowment funds, and $89,590,000 restricted for the Ascension Providence acquisition.

(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 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.

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Investments and restricted investments of the University, by type, at fair value at September 30, 2023 (in thousands) are as follows:

U.S. treasury securities	$	15,578
U.S. federal agency notes		94,185
Commingled equity funds		98,076
Commingled fixed income funds		48,253
Marketable equity securities		59,872
Marketable debt securities		12,958
Private credit alternative fixed income investments		6,526
Private REIT alternative real estate investments		5,686
Private equity alternative investments		19,193
Real estate		8,479
Managed income alternative investments (low-volatility, multistrategy funds of funds)		37,181
	$	405,987

At September 30, 2023, 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, 2023, $30,146,000 of cumulative increase in fair value of investments of donor-restricted endowments was recognized and is included in restricted expendable net position in the accompanying statement of net position.

The University invests in several private equity and private credit funds. At September 30, 2023, the University had outstanding capital commitments to those funds of $26,293,000.

(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.

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UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Notes to Basic Financial Statements

September 30, 2023

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 multimanager fund.

The University's exposure to credit risk and concentration of credit risk at September 30, 2023 is as follows:

	Credit rating	Percentage of total investments
Federal National Mortgage Association	AAA	1.0 %
Federal Home Loan Mortgage Corporation	AAA	6.9
Federal Home Loan Banks	AAA	12.9
Federal Farm Credit Banks Funding Corporation	AAA	2.3
Common Fund Bond Fund	Various	4.0
PIMCO Pooled Bond Fund	Various	7.6
Blackrock Credit Strategies Income Fund	Various	0.3
US Treasury securities	AAA	3.8
Marketable debt securities	Various	3.2

(ii) Interest Rate Risk

At September 30, 2023, the maturity dates of the University's fixed income investments are as follows (in thousands):

		Years to maturity			
	Fair value	Less than 1	1–5	6–10	More than 10
US Treasury securities	$ 15,578	2,171	8,059	5,101	247
US federal agency notes	94,185	31,302	57,342	165	5,376
Marketable debt securities	12,958	4,971	5,181	2,806	—
Commingled fixed income funds	48,253	—	27,400	4,623	16,230
	$ 170,974	38,444	97,982	12,695	21,853

(Continued)

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 that the University must follow; however, they do require that the maturity range of investments be consistent with the liquidity requirements of the University.

(iii) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, an organization will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The University's investments are held by third-party institutions in the name of the University. The University's Investment Policies do not specifically address custodial credit risk.

(iv) 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.

(v) 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 are as follows:

- Level 1: Quoted prices for identical investments in active markets
- Level 2: Observable inputs other than quoted market prices
- 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

(Continued)

certain partnerships or other commingled funds that do not have readily determinable fair values. For these funds, fair value is estimated using the NAV 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 statement of net position.

The following tables summarize the fair value measurements for all investment assets and liabilities carried at fair value at September 30, 2023 (in thousands):

	Asset fair value measurements			
Description	Level 1	Level 2	Level 3	Total
U.S. treasury securities	$ 15,578	—	—	15,578
U.S. federal agency notes	—	94,185	—	94,185
Commingled equity funds	95,695	2,381	—	98,076
Commingled fixed income funds	44,341	3,912	—	48,253
Marketable equity securities	59,872	—	—	59,872
Marketable debt securities	12,958	—	—	12,958
Private credit alternative fixed income	6,526	—	—	6,526
Private REIT alternative real estate investments	5,686	—	—	5,686
Private equity alternative investments	—	—	17,053	17,053
Real estate	—	—	8,479	8,479
Total investments at fair value	$ 240,656	100,478	25,532	366,666
Investments measured at NAV:				
Private equity funds				2,140
Managed income alternative investments (low-volatility, multistrategy funds of funds)				37,181
Total investments				$ 405,987

	Liability fair value measurements			
Description	Level 1	Level 2	Level 3	Total
Interest rate exchange agreements	$ —	12,606	—	12,606

(Continued)

A roll-forward schedule for Level 3 financial instruments for the year ended September 30, 2023 is as follows (in thousands):

Beginning balance	$	16,378
Purchases		8,930
Net realized/unrealized gains		518
Sales		(294)
Ending balance	$	25,532

(b) Health Care Authority

HCA holds a 2.5% equity interest in USA Fairhope Physician Investors LLC (FPI), a multimember limited liability company that was formed to invest in the entity that developed and is now leasing an ambulatory surgical center. HCA's capital account balance in FPI is considered an investment in a joint venture, pursuant to GASB Statements Nos. 14 and 61. For the year ended September 30, 2023, HCA's capital account balance is $15,000 and is presented on the statement of net position as such. No distributions have been received by HCA to date; therefore, no income statement impact has been reported.

HCA holds a 51% equity interest in USA BC ASC Holdco, LLC (USA BC ASC Holdco), a multimember limited liability company formed to invest in USA Baldwin County ASC, LLC (USA BC ASC), a limited liability company formed to develop, own, and operate the Ambulatory Surgery Center on the USA Health Mapp Family Campus. For the year ended September 30, 2023, HCA's capital account balance is $443,000 and is presented on the statement of net position as an investment. HCA has received no distributions or allocations of gains or losses to date and there is no financial activity to report for USA BC ASC Holdco or USA BC ASC.

(c) University of South Alabama Foundation

Investments in securities consist primarily of equity securities totaling $223,532,000 at June 30, 2023.

Investment gains was composed of the following for the year ended June 30, 2023 (in thousands):

Unrealized gains	$	35,902
Realized gains		5,651
Net realized and unrealized gains on investments		41,553

(Continued)

Timber sales	$	3,064
Rents		785
Royalties		128
Rents, royalties, and timber sales		3,977
Interest and dividends		2,896
Total investment income	$	48,426

Investments consisted of participation in the Foundation's pooled investment funds. Investment related expenses in the amount of $404,000 are included in USA Foundation's management and general expenses in the accompanying consolidated statement of activities and changes in net assets for the year ended June 30, 2023.

Real estate at June 30, 2023 consisted of the following property held (in thousands):

Land and land improvements – held for investment	$	7,991
Building and building improvements – held for investment		1,073
	$	9,064

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, 2023 include an equity interest in a timberland management company. The company's primary assets consist of timberland. USA 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.

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 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). 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

(Continued)

quoted market price are classified as unobservable (Level 3). 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.

USA Foundation's investment assets at June 30, 2023 are summarized, based on the criteria of ASC 820, as follows (in thousands):

Description		Level 1	Level 2	Level 3		Total
Equity securities	$	133,476	—	—		133,476
Timber and mineral properties		—	—	176,002		176,002
Real estate		—	—	9,064		9,064
Other investments		—	—	5,814		5,814
	$	133,476	—	190,880		324,356
Investment in Commonfund measured at NAV						90,056
					$	414,412

A roll-forward schedule for Level 3 financial instruments for the fiscal year ended June 30, 2023 is as follows (in thousands):

Description		Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	$	176,680	9,034	5,809	191,523
Net unrealized gains		3,291	48	5	3,344
Reforestation		226	—	—	226
Purchase of building improvements		—	14	—	14
Depreciation/depletion		(4,195)	(32)	—	(4,227)
Ending balance	$	176,002	9,064	5,814	190,880

As of June 30, 2023, USA Foundation has no outstanding commitments to purchase securities or other investments

As part of USA Foundation's liquidity management, the Foundation structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Cash withdrawals from the Foundation's managed investments coincide with the Foundation's spending obligations but may be adjusted higher or lower based on the timing of when investment income is received and expenditures become due. In addition to financial assets available within one year, the Foundation

(Continued)

receives investment income from timber sales, rents and royalties, and interest and dividends that are used to meet the Foundation's general expenditures within one year. The Foundation believes it has sufficient assets to meet its obligations.

(5) Capital Assets

(a) University of South Alabama

A summary of the University's capital asset activity for the year ended September 30, 2023 is as follows (in thousands):

	Adjusted beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated or amortized:					
Land and other	$ 32,261	141	—	—	32,402
Construction in progress	68,240	60,788	(35,259)	—	93,769
	100,501	60,929	(35,259)	—	126,171
Capital assets being depreciated or amortized:					
Land improvements	76,801	41	—	—	76,842
Buildings, fixed equipment, and infrastructure	1,013,480	2,223	33,937	(157)	1,049,483
Other equipment	235,963	11,282	1,322	(6,490)	242,077
Library materials	92,340	5,006	—	—	97,346
Right-of-use assets	67,076	16,049	—	(2,979)	80,146
	1,485,660	34,601	35,259	(9,626)	1,545,894
Less accumulated depreciation and amortization for:					
Land improvements	(34,155)	(3,467)	—	—	(37,622)
Buildings, fixed equipment, and infrastructure	(397,002)	(29,277)	266	151	(425,862)
Other equipment	(176,004)	(20,177)	(266)	6,042	(190,405)
Library materials	(71,812)	(3,871)	—	—	(75,683)
Right-of-use assets	(10,120)	(20,304)	—	2,604	(27,820)
	(689,093)	(77,096)	—	8,797	(757,392)
Capital assets being depreciated, net	796,567	(42,495)	35,259	(829)	788,502
Capital assets, net	$ 897,068	18,434	—	(829)	914,673

(Continued)

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A summary of the University's net right-of-use assets, which are included in capital assets on the statement of net position, activity categorized by classification for the year ended September 30, 2023 are as follows (in thousands):

		Ending balance
Right-of-use assets:		
Automobile	$	15
Buildings		8,006
Equipment		27,439
Office space		7,685
Software		37,001
		80,146
Less accumulated amortization for right-of-use assets:		
Automobile		(12)
Buildings		(2,629)
Equipment		(12,360)
Office space		(2,869)
Software		(9,950)
		(27,820)
Right-of-use assets, net	$	52,326

Depreciation and amortization of capital assets for the year ended September 30, 2023 was $77,096,000 for the University. In addition, the University amortized bond costs of issuance for total depreciation and amortization of $77,140,000.

At September 30, 2023, the University had commitments of approximately $26,764,000 related to various construction projects.

For the year ended September 30, 2023, the University received $12,691,000 in capital grants from the Alabama Public School and College Authority for the site preparation and construction of the new College of Medicine facility.

(Continued)

(b) USA Research and Technology Corporation

Changes in capital assets for the year ended September 30, 2023 are as follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated or amortized:					
Land	$ 223	—	—	—	223
Construction in progress	20	94	—	—	114
	243	94	—	—	337
Capital assets being depreciated or amortized:					
Land improvements	1,985	—	—	—	1,985
Buildings	28,642	146	—	—	28,788
Tenant improvements	2,653	98	—	(34)	2,717
Other equipment	390	25	—	(7)	408
Computer software	41	15	—	—	56
Lease commissions	362	47	—	(3)	406
Right-of-use assets	—	3	—	—	3
	34,073	334	—	(44)	34,363
Less accumulated depreciation or amortization for:					
Land improvements	(1,689)	(94)	—	—	(1,783)
Buildings	(11,732)	(780)	1	—	(12,511)
Tenant improvements	(1,283)	(351)	—	34	(1,600)
Other equipment	(356)	(12)	(1)	7	(362)
Computer software	(11)	(13)	—	—	(24)
Lease commissions	(211)	(67)	—	3	(275)
Right-of-use assets	—	(1)	—	—	(1)
	(15,282)	(1,318)	—	44	(16,556)
Capital assets being depreciated or amortized, net	18,791	(984)	—	—	17,807
Capital assets, net	$ 19,034	(890)	—	—	18,144

Depreciation and amortization expense totaled $1,318,000 for the year ended September 30, 2023.

(Continued)

The Corporation's net right-of-use assets categorized by classification for the year ended September 30, 2023 are as follows (in thousands):

	Ending balance
Right-of-use assets:	
Software subscriptions	$ 3
	3
Less accumulated amortization for right-of-use assets:	
Software subscriptions	(1)
	(1)
Right-of-use assets, net	$ 2

(c) Health Care Authority

A summary of HCA's capital assets activity for the year ended September 30, 2023 is as follows (in thousands):

	2023				
	Adjusted beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Construction in progress	$ 12,198	554	(12,196)	—	556
Works of art	1	—	—	—	1
	12,199	554	(12,196)	—	557
Capital assets being depreciated:					
Buildings	—	22,241	10,783	—	33,024
Leasehold improvements	2,684	1,306	1,372	—	5,362
Equipment	4,094	163	36	(27)	4,266
Computer software	129	5	5	—	139
Right-of-use assets	13,716	116	—	(91)	13,741
	20,623	23,831	12,196	(118)	56,532
Less accumulated depreciation for:					
Buildings	—	(1,030)	—	—	(1,030)
Leasehold improvements	(196)	(401)	—	—	(597)
Equipment	(1,814)	(531)	—	22	(2,323)

(Continued)

	2023				
	Adjusted beginning balance	Additions	Transfers	Reductions	Ending balance
Computer software	$ (45)	(32)	—	—	(77)
Right-of-use assets	(2,099)	(2,147)	—	91	(4,155)
	(4,154)	(4,141)	—	113	(8,182)
Capital assets being depreciated, net	16,469	19,690	12,196	(5)	48,350
Capital assets, net	$ 28,668	20,244	—	(5)	48,907

Construction in progress totaled $556,000 as of September 30, 2023 and relates to renovation projects at the Mobile Diagnostic Center clinic and HCA Physicians Office Building.

Depreciation and amortization totaled $4,141,000 for the year ended September 30, 2023.

At September 30, 2023, HCA had commitments of $7,000 related to various construction projects.

A summary of HCA's net right-of-use assets categorized by classification for the year ended September 30, 2023 is as follows (in thousands):

	Ending balance
Right-of-use assets:	
Buildings	$ 13,657
Equipment	55
Software subscriptions	29
	13,741
Less accumulated amortization for right of use:	
Buildings	(4,110)
Equipment	(35)
Software subscriptions	(10)
	(4,155)
Right-of-use assets, net	$ 9,586

(Continued)

(6) Noncurrent Liabilities

(a) University of South Alabama

A summary of the University's noncurrent liability activity for the year ended September 30, 2023 is as follows (in thousands):

	Adjusted beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable	$ 458,916	83,655	(24,370)	518,201	109,000	409,201
Notes payable from direct borrowings	618	802	(623)	797	189	608
Lease and subscription obligations	57,095	15,898	(21,646)	51,347	20,862	30,485
Total long-term debt	516,629	100,355	(46,639)	570,345	130,051	440,294
Other noncurrent liabilities:						
Net pension liability	237,578	138,316	—	375,894	—	375,894
Net OPEB liability	205,378	—	(151,957)	53,421	—	53,421
Other long-term liabilities	81,662	5,129	(16,394)	70,397	5,974	64,423
Total other noncurrent liabilities	524,618	143,445	(168,351)	499,712	5,974	493,738
Total noncurrent liabilities	$ 1,041,247	243,800	(214,990)	1,070,057	136,025	934,032

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.

In August 2023, the University entered into a three-year direct borrowing finance purchase agreement for the purchase of medical equipment. The purchase agreement for the equipment was for $46,000, with a down payment of $5,000 and thirty-six monthly payments of $1,000. After thirty-six monthly payments of $1,000, the equipment will become property of the University. The amount outstanding at September 30, 2023 is $41,000, and is reported as long-term debt (and current portion thereof) in the statement of net position.

In September 2023, the University entered into a five-year direct borrowing finance purchase agreement for the purchase of software and equipment. The full amount of the purchase agreement is $756,000, with monthly payments in the amount of $14,000 through June 1, 2028. At the end of the scheduled payments, the equipment and software will become property of the University. The full amount is outstanding at September 30, 2023 and is reported as long-term debt (and current portion thereof) in the statement of net position.

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Lease and Subscription Obligations

The University determines whether an arrangement is a lease at inception by evaluating whether the contract conveys the right to use an identified asset and whether the University obtains substantially all of the economic benefits from and has the right to control the asset. Any lease or software subscription identified is recorded as a right-of-use asset under capital assets and lease and subscription obligations. Lease and subscription right-of-use assets and related obligations are recognized at the commencement date based on the present value of the payments over the agreement term discounted using an appropriate incremental borrowing rate. Amortization of right-of-use assets is recognized on a straight-line basis over the specified term or useful life of the asset, whichever is shorter. Interest expense is recognized as a component of the lease or subscription payment and recorded as such in the statement of revenues, expenses, and changes in net position. The difference in methodology between the amortization of the right-of-use asset and the reduction in liability balance related to principal payments will result in a difference between the net right-of-use asset and related lease and subscription obligations.

The University leases various automobiles, buildings, equipment, office space, and software subscriptions under leases expiring at various dates through 2038. Aggregate future minimum lease and subscription payments under noncancelable agreements as of September 30, 2023, by year, are as follows (in thousands):

		Principal	Interest	Total
2024	$	20,862	2,028	22,890
2025		13,937	1,290	15,227
2026		5,203	743	5,946
2027		3,393	523	3,916
2028		2,688	372	3,060
2029 – 2033		4,660	525	5,185
2034 – 2038		604	52	656
Lease and subscription obligations	$	51,347	5,533	56,880

These amounts are included in lease and subscription obligations and the current portion thereof in the accompanying statement of net position.

The University has commitments under leases and subscriptions for which the lease term has not commenced in the amount of $4,235,000 as of September 30, 2023.

The University leases space from the Corporation and HCA. See additional details in the following sections.

(Continued)

(b) USA Research and Technology Corporation

Changes in noncurrent liabilities for the year ended September 30, 2023 are as follows (in thousands):

	September 30, 2023					
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Notes payable	$ 19,379	—	(1,390)	17,989	1,022	16,967

(i) Notes Payable

Notes payable from direct borrowings consisted of the following at September 30, 2023 (in thousands):

PNC Bank promissory note, 4.38%, payable through 2028	$ 10,738
Hancock Whitney promissory note, 3.08%, payable through 2031	7,251
	$ 17,989

The promissory note payable to PNC Bank has a 10-year term and amortization is based on a 10-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 promissory note payable to Hancock Whitney Bank has a 10-year term and is secured by an interest in rental leases and an interest in income received from rental of Building I. 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 the PNC note and the Hancock Whitney note, the University entered into an agreement with both lenders 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. As of September 30, 2023, the Corporation's debt service coverage ratio was 2.07 to 1.

(Continued)

The Corporation's outstanding notes from direct borrowings with PNC Bank and Hancock Whitney Bank contain a provision that, in the event of default, PNC Bank or Hancock Whitney Bank may take any or all of the following actions: (a) declare the loan due and payable, (b) declare the note in default, and (c) exercise any other remedies or rights which it has under any instrument executed in connection with the loan. Prior to any of these actions, however, PNC Bank and Hancock Whitney Bank will give the Corporation 30 days to cure the default.

(ii) Debt Service on Long-Term Obligations

At September 30, 2023, total future debt service by year is as follows (in thousands):

	Debt service on notes payable		
	Principal	Interest	Total
2024	$ 1,022	676	1,698
2025	1,061	637	1,698
2026	1,101	597	1,698
2027	1,144	554	1,698
2028	9,028	424	9,452
2029-2031	4,633	286	4,919
Total	$ 17,989	3,174	21,163

(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.

The swap was 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 statement 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. As of September 30, 2023, the unamortized balance in deferred outflows was $607,000.

(Continued)

(c) Health Care Authority

A summary of HCA's noncurrent liability activity for the year ended September 30, 2023 is as follows (in thousands):

		Adjusted Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt	$	—	21,869	(35)	21,834	160	21,674
Lease and subscription obligations		11,878	116	(1,931)	10,063	1,934	8,129
Other noncurrent liabilities		241	—	(13)	228	26	202
Total noncurrent liabilities	$	12,119	21,985	(1,979)	32,125	2,120	30,005

Long-Term Debt

HCA entered into an agreement with Family Medical Investments, LLC to construct a medical office building on the Mapp Campus. Construction began in 2021 and was completed in October 2022. The agreement commenced upon construction completion for an initial 15-year period plus two options to extend for consecutive 5-year terms. HCA began making monthly payments at a 4.79% interest rate in October 2022 to Family Medical Investments, LLC. The total balance of principal payments outstanding at September 30, 2023 is $21,834,000. Upon conclusion of the agreement term, HCA will obtain ownership of the building.

At September 30, 2023, total future debt service by year is as follows (in thousands):

		Debt service on long-term debt		
		Principal	Interest	Total
2024	$	160	1,042	1,202
2025		198	1,034	1,232
2026		240	1,024	1,264
2027		284	1,011	1,295
2028		331	997	1,328
2029-2033		2,474	4,676	7,150
2034-2038		4,199	3,891	8,090
2039-2043		6,528	2,625	9,153
2044-2047		7,420	760	8,180
Total	$	21,834	17,060	38,894

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Lease and Subscription Obligations

HCA determines whether an arrangement is a lease at inception by evaluating whether the contract conveys the right to use an identified asset and whether HCA obtains substantially all of the economic benefits from and has the right to control the asset. Any lease or software subscription identified is recorded as a right-of-use asset under capital assets with a related lease and subscription obligation. Right-of-use assets and related obligations are recognized at the commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate. Amortization of right-of-use assets is recognized on a straight-line basis over the lease term or useful life of the asset, whichever is shorter. Interest expense is recognized as a component of the lease payment and recorded as such in the statement of revenues, expenses, and changes in net position. The difference in methodology between the amortization of the right-of-use asset and the reduction in liability balance related to principal payments will result in a difference between the net right-of-use asset and related lease and subscription liability.

HCA has entered into agreements to lease various buildings and equipment and to utilize various software subscriptions under lease and subscription obligations expiring at various dates through 2033.

Aggregate future minimum lease payments under noncancelable agreements as of September 30, 2023, by fiscal year, are as follows (in thousands):

		Principal	Interest	Total
2024	$	1,934	367	2,301
2025		1,882	291	2,173
2026		1,671	219	1,890
2027		1,683	152	1,835
2028		971	97	1,068
2029 – 2033		1,922	100	2,022
	$	10,063	1,226	11,289

These amounts are included in lease and subscription obligations and current portion thereof in the accompanying statement of net position.

HCA has no lease or subscription commitments for which the term has not commenced as of September 30, 2023.

Other Noncurrent Liabilities

Other noncurrent liabilities consist of liabilities related to long-term vacation accruals. Amounts due within one year are included in current portion of other long-term liabilities.

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(7) Deferred Outflows and Inflows

Deferred outflows of resources are consumption of net assets that are applicable to a future reporting period. In 2016, the University issued its Series 2016 Bond. The proceeds from this series were used to partially defease the Series 2008 Bonds resulting in a loss of the difference between the acquisition price of the new debt and the net carrying amount of the old debt. In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, this loss was recorded as a deferred outflow and is being amortized over the remaining life of the Series 2016 Bonds. Additionally, in accordance with GASB Statements Nos. 68 and 75, changes in assumptions, changes in the proportion of total net liabilities relative to other plan participants, differences between employer contributions and the proportionate share of contributions, and employer contribution subsequent to the measurement date of the net pension liability but prior to the end of the fiscal year are presented as a deferred outflow of resources.

The components of deferred outflows of resources as of September 30, 2023 are summarized below (in thousands):

Deferred outflows		
Loss on refunding of 2016 bonds	$	5,111
Pension		122,095
OPEB		115,167
	$	242,373

Deferred inflows of resources are net asset acquisitions that are applicable to a future reporting period. In 2016, the University issued its 2016-B, C, and Bonds. In accordance with GASB Statement Nos. 63 and 65, the proceeds from these series refunded the remaining outstanding 2006 bonds and the resulting gain is being amortized over the remaining life of the Series 2016-B, C, and D Bonds as a deferred inflow of resources. Additionally, the University is a party to two derivatives in which the change in fair value is reported as a deferred outflow. Additionally, in accordance with GASB Statement Nos. 68 and 75, the difference between the expected and actual experience and the net difference between projected and actual earnings on investments are presented as a deferred inflow of resources. Finally, in accordance with

(Continued)

GASB Statement No. 87, the deferred inflow of resources attributable to leases is recognized on a straight-line basis over the respective lease terms.

The components of deferred inflows of resources as of September 30, 2023 are summarized below (in thousands):

Deferred inflows		
Gain on refunding of 2016 Series B, C & D bonds	$	2,988
Interest rate swaps		19,406
Pension		29,230
OPEB		260,679
Leases		2,608
	$	314,911

(8) Bonds Payable

Bonds payable consisted of the following at September 30, 2023 (in thousands):

University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2.83% payable through August 2033	$	18,218
University Facilities Revenue Capital Improvement Bonds, Series 2013-B, 2.83% payable through August 2033		4,555
University Facilities Revenue Capital Improvement Bonds, Series 2013-C, 2.78% payable through August 2028		3,799
University Facilities Revenue Refunding Bonds, Series 2014-A, variable rate payable at 68% of SOFR compounded in arrears plus 0.11448%, plus 0.73%, payable through March 2024		8,455
University Facilities Revenue Capital Improvement Bonds, Series 2015, 2.47% payable through August 2030		2,625
University Facilities Revenue Refunding Bonds, Series 2016-A, 3.00% to 5.00% payable through November 2037		71,300
University Facilities Revenue Refunding Bonds, Series 2016-B, variable rate payable at 68% of SOFR compounded in arrears plus 0.11448%, plus 0.72% payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2026		20,000
University Facilities Revenue Refunding Bonds, Series 2016-C, variable rate payable at 68% of SOFR compounded in arrears plus 0.11448%, plus 77% payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2028		35,000

(Continued)

University Facilities Revenue Refunding Bonds, Series 2016-D, variable rate payable at 79% of one month LIBOR plus .83%, (3.313% at September 30, 2022), payable through December 2036, pursuant to the right of the holder to cause all principal to be due after December 1, 2026	$	45,000
University Facilities Revenue Bonds, Series 2017, 2.00% to 5.00%, payable through October 2037		30,880
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		14,615
University Facilities Revenue Bonds, Series 2019-C, 1.87%, payable through April 1, 2030		12,874
University Facilities Revenue Bonds, Series 2020, 4%, payable through April 1, 2040		34,035
University Facilities Revenue Bonds, Series 2021, 4%, payable through April 1, 2041		38,045
University Facilities Revenue Bonds, Series 2021-B 1.398%, payable through August 1, 2032		12,829
University Facilities Revenue Bonds, Series 2023-A variable rate payable at 80% adjusted term SOFR plus 0.45% payable through April 19, 2024		67,020
University Facilities Revenue Bonds, Series 2023-B variable rate payable at 80% adjusted term SOFR plus 0.45% payable through April 19, 2024		16,635
		483,635
Plus unamortized premium		35,865
Less unamortized debt extinguishment costs		(1,299)
	$	518,201

Substantially all student tuition and fee and auxiliary revenues secure University bonds. Additionally, security for all bonds includes USA Health Children's and Women's Hospital revenues in an amount not exceeding $10,000,000. 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 at any time. The Series 2015 Bonds began maturing in August 2015 and were 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, and D Bonds will begin maturing in December 2024 and became redeemable as of December 2017. The Series 2017 Bonds began maturing in October 2017 and are redeemable beginning in October 2027. The Series 2019-A Bonds will begin maturing in April 2033. The Series 2019-B Bonds began maturing in April 2021. Both Series 2019-A and 2019-B are both redeemable beginning in April 2029. The Series 2019-C Bonds began maturing in April 2020 and are not subject to redemption at the option of the University. Series 2020 Bonds began maturing in April 2021 and are redeemable beginning April 2030. Series 2021 Bonds began maturing in April 2022 and are redeemable beginning April 2041. The Series 2021-B Bonds began maturing in August 2022 and are not subject to redemption. The Series 2023-A and 2023-B will mature in April 2024 and were redeemable beginning April 2023.

(Continued)

In September 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016- A, with a face value of $85,605,000. The proceeds from the Series 2016-A 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 assets of the escrow trust account nor the defeased indebtedness is included in the accompanying statement 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-A Bonds. The balance of the related deferred outflow totaled $5,111,000 at September 30, 2023. The principal outstanding on all defeased bonds is $71,300,000 at September 30, 2023.

In December 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016-B, C, and, 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, and Bonds. The balance of the related net deferred inflow at September 30, 2023 totaled $2,988,000.

In September 2021, the terms for the outstanding bonds of the University designated “Series 2016-B,” “Series 2016-C,” and “Series 2016-D” (together, the Original 2016 Bonds), each of which bore interest at a variable rate based on a one-month LIBOR base index, were revised to address, among other things, the cessation of LIBOR. Specifically, the University issued bonds designated “Amended and Restated Series 2016-B,” “Amended and Restated Series 2016-C,” and “Amended and Restated Series 2016-D” (together, the Amended and Restated 2016 Bonds) in exchange for the Original 2016 Bonds. Each of the Amended and Restated 2016 Bonds provide that, upon the cessation of LIBOR as a base index for purposes of ISDA-based defined rates, the base index for such bond (the Replacement Index) would equal a benchmark replacement and any applicable spread adjustment that would apply for derivatives transactions referencing the ISDA Definitions. In addition, for each Amended and Restated 2016 Bond, the earliest date (the Put Date) on which the holder could elect to cause all scheduled principal thereunder to become due and payable was extended by approximately five years as compared to the first Put Date for the Original 2016 Bond exchanged therefor.

On March 5, 2021, the Financial Conduct Authority (FCA) announced the final publication date for US LIBOR is June 30, 2023. The Alternative Reference Rates Committee (ARRC) has recommended the Secured Overnight Financing Rate (SOFR) as an alternative to replace LIBOR.

Approximately $3,681,000 of proceeds from the issuance of the Series 2021 Bonds remained unspent at September 30, 2023 and are 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, 2023, no amounts were due or recorded in the financial statements.

(Continued)

In April 2023, the University issued University Facilities Revenue Bond (Draw-Down Loan) 2023-A, which can be drawn up to $80,000,000, and University Facilities Revenue Bond (Draw-Down Loan) 2023-B, which can be drawn upon up to $20,000,000. An initial draw of $485,000 was made on 2023-A at the inception of the bond. On September 27, 2023, an additional draw was made from 2023-A and 2023-B in the amounts of $66,535,000 and $16,635,000, respectively. The monies from both 2023-A and 2023-B can be drawn down at any time through the advance period, which ends in April 19, 2024, at which time the full principal drawn is due. The principal outstanding at September 30, 2023 for 2023-A is $67,020,000 and the balance for 2023-B is $16,635,000. Of the total funds drawn-down, $83,170,000 is unspent and is reported as current restricted cash and cash equivalents, which is related to the pending acquisition of Ascension Providence. These amounts are reported as current portion of long-term debt in the statement of net position. At September 30, 2023, the undrawn portion of 2023-A and 2023-B was $12,980,000 and $3,365,000, respectively.

A summary of the University's short-term borrowing activity for the year ended September 30, 2023 follows (in thousands):

	September 30, 2023			
	Beginning balance	Additions	Reductions	Ending balance
Short-term debt:				
Bonds payable	$ —	83,655	—	83,655

The University is subject to restrictive covenants related to its bonds payable.

(Continued)

Debt Service on Long-Term Obligations

Total debt service (which includes bonds and notes payable) by year is as follows at September 30, 2023 (in thousands):

	Debt service on notes and bonds				
	Bonds		Notes payable from direct borrowing		
	Principal	Interest	Principal	Interest	Total
2024	$ 106,947	15,486	189	41	122,663
2025	21,289	12,962	158	25	34,434
2026	22,190	12,343	166	18	34,717
2027	23,095	11,701	160	10	34,966
2028	24,115	10,994	124	2	35,235
2029–2033	122,024	43,250	—	—	165,274
2034–2038	116,415	22,302	—	—	138,717
2039–2043	28,485	8,161	—	—	36,646
2044–2048	15,890	3,131	—	—	19,021
2049–2053	3,185	159	—	—	3,344
Subtotal	483,635	$ 140,489	797	96	625,017
Plus (less):					
Unamortized bond premium	35,865		—		
Unamortized debt extinguishment costs	(1,299)		—		
Total	$ 518,201		797		

(9) Lease Receivables

(a) University of South Alabama

The University leases land, buildings, and suites to various lessees expiring at various dates through 2072. For the year ended September 30, 2023, the University recognized a total of $848,000 of inflows of resources from leases, of which $758,000 was recognized as lease revenue as other operating revenue and interest of $90,000 was recognized as a component of investment income in the statement of revenues, expenses, and changes in net position.

(Continued)

The following table provides future minimum lease revenue by year that is included in the measurement of the lease receivable (in thousands):

		Principal	Interest	Total
2024	$	707	97	804
2025		658	69	727
2026		190	50	240
2027		180	42	222
2028		177	35	212
2029–2033		727	65	792
2034–2038		1	4	5
2039–2043		2	3	5
2044–2048		2	3	5
2049–2053		2	3	5
2054–2058		3	2	5
2059–2063		3	2	5
2064–2068		4	1	5
2069–2073		1	—	1
Lease receivable	$	2,657	376	3,033

(b) USA Research and Technology Corporation

The Corporation leases land, buildings, and suites to various lessees under financing leases and short-term leases expiring at various dates through 2057. In Building I, space is leased under five lease agreements. The first lease has a 5 year initial term expiring in October 2023 with two 5 year renewal options. The second lease had a 1 year initial term, which was amended to include an additional 2 year term expiring in December 2025 with no renewal options. The third lease has a 5-year initial term expiring in August 2024 with one 5 year renewal option. The fourth and fifth leases both have 5-year terms and no renewal options, with the fourth lease expiring in April 2024 and the fifth lease in July 2024.

Space in Buildings II and III is leased to the University and various other tenants. The leases have remaining terms varying from month-to-month to seven years.

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). In 2023, the Corporation recognized operating expense reimbursement income of $19,000 as a component of operating revenues in the statement of revenues, expenses, and changes in net position.

Space under lease to the University was 78,123 square feet at September 30, 2023.

(Continued)

The Corporation owns a building located on the premises of the USA Health, 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 had a 10-year initial term, which was initially set to expire in March 2020, with three 5-year renewal options. The lease was renewed for an additional 10 years, expiring in March 2030, 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, 2023. One lease is for a 40-year initial term expiring in October 2046 with two renewal options—the first for 20 years and the second for 15 years. 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 two renewal options—the first for 20 years and the second for 15 years.

The terms and conditions of each lease agreement vary by tenant with some including early termination options. Of the existing lease agreements, three have early termination options. One tenant in Building I and two tenants in Building II have options to terminate their lease agreement early if notice is given within the stated timeframe and all, if any, monetary obligations have been met.

In 2023, a tenant in Building I exercised an early termination option that required payment of the unamortized portion of tenant improvement costs incurred by the Corporation. This payment totaled $164,000 and was recognized as a component of rental income and is recorded as operating revenues in the statement of revenues, expenses, and changes in net position.

For the year ended September 30, 2023, the Corporation recognized a total of $3,988,000 of inflows of resources from financing leases, of which $3,617,000 was recognized as lease revenue and $371,000 was recognized as interest income in other nonoperating revenues.

(Continued)

The following table provides future minimum lease revenue by year that is included in the measurement of the lease receivable (in thousands):

		Principal	Interest	Total
2024	$	2,650	332	2,982
2025		1,022	277	1,299
2026		925	246	1,171
2027		745	221	966
2028		741	198	939
2029–2033		1,967	737	2,704
2034–2038		1,155	542	1,697
2039–2043		1,464	342	1,806
2044–2048		1,154	106	1,260
2049–2053		136	31	167
2054–2058		131	9	140
Lease receivable	$	12,090	3,041	15,131

(c) Health Care Authority

Leases as a lessor are included in the lease receivable and current portion thereof on the statement of net position.

Lease receivables represent HCA’s contractual right to receive cash in exchange for the right to use an asset for a specific amount of time. HCA subleases buildings and suites to the University of South Alabama under leases expiring at various dates through 2072. For the year ended September 30, 2023, HCA recognized a total of $540,000 of inflows of resources from leases, of which $407,000 was recognized as lease revenue and $133,000 was recognized as interest income. Lease revenue is included within other operating revenues and interest income is included within investment income on the statement of revenues, expenses, and changes in net position.

(Continued)

Future minimum lease revenue under noncancelable agreements as of September 30, by fiscal year, are as follows (in thousands):

		Principal	Interest	Total
2024	$	324	132	456
2025		281	119	400
2026		291	108	399
2027		310	96	406
2028		195	86	281
2029–2033		880	316	1,196
2034–2038		609	162	771
2039–2043		34	105	139
2044–2048		42	97	139
2049–2053		53	87	140
2054–2058		66	74	140
2059–2063		82	57	139
2064–2068		102	37	139
2069–2073		100	12	112
	$	3,369	1,488	4,857

(10) Derivative Transactions – Interest Rate Swaps

The University is a party to two derivatives with Wells Fargo Bank, the counterparty. The income associated with the derivatives is a component of investment income and the corresponding expense is a component of interest expense. The terms of the derivatives require the University to post collateral when certain criteria are met. Such amounts as of September 30, 2023 totaled $14,285,000, which is included in restricted investments on the statement of net position.

The 2014 swap will terminate in March 2024, when the Series 2014-A Bond matures. The notional amount of the 2014 swap will at all times match the outstanding principal amount of the related bond. Under the swap, the University pays the counterparty a fixed semiannual payment based on an annual rate of 4.9753%. Prior to the cessation of LIBOR, the University received, on a monthly basis, a variable payment of 68% of the one-month LIBOR. In connection with the cessation of LIBOR, the University is adhering to the ISDA Fallback protocols, which means that, as of the cessation of LIBOR on June 30, 2023, the University receives payments calculated at 68% of SOFR compounded in arrears + 0.11448%, plus 0.25%.

(Continued)

The 2016 swap will terminate in December 2036, when the Amended and Restated 2016 Bonds reach their final scheduled maturity. The notional amount of the swap will at all times match the outstanding principal amount of the related bonds. Under the swap, the University pays the counterparty a fixed semiannual payment based on an annual rate of 5% and receives on a monthly basis a variable payment of 68% of SOFR Compounded in arrears + 0.11448%, plus 0.25%. Conversely, the Amended and Restated 2016 Bonds bear interest at 68% of SOFR compounded in arrears + 0.11448% plus 72 basis points (as respects the Amended and Restated 2016-B Bond), 77 basis points (as respects the Amended and Restated 2016-C Bond), and 83 basis points (as respects the Amended and Restated 2016-D Bond).

Fair value: The 2014 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 swap as other long-term liabilities in the amount of $40,000 in the statement of net position at September 30, 2023. The change in the fair value of the swap of $255,000, during the year ended September 30, 2023, is reported as a change in both deferred inflow and contra liability (other long-term liabilities) in the statement 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 $417,000 at September 30, 2023.

The 2016 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 swap as other long-term liabilities in the amount of $12,566,000 in the statement of net position at September 30, 2023. The change in the fair value of the swap of $5,210,000 during the year ended September 30, 2023, is reported as a change in both deferred inflow and contra liability (other long-term liabilities) in the statement of net position at September 30, 2023, since the interest rate swap is a hedging derivative instrument. Net deferred inflows of resources for the 2016 swap totaled $18,989,000 at September 30, 2023.

The fair values of the interest rate swaps are 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 SOFR rate decreases, the net payments on the swaps increase. This, however, is mitigated by the fact that a decline in the SOFR rate will also result in a decrease of the University's interest payments on the related bonds. The University's exposure is limited to 0.48% of the notional amount for the Series 2014-A and 0.47%, 0.52%, and 0.58% of the notional amounts for the Series 2016-B, 2016-C, and 2016-D, respectively. The exposure is the difference in the payment from the counterparty and the interest payment on the related bonds.

Credit risk: As of September 30, 2023, the University was not exposed to credit risk on the interest rate swaps because the swaps 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, 2023.

(Continued)

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, 2023, and calculating interest for subsequent years using forward rates of one-month LIBOR (adjusted to 68% of SOFR Compounded in arrears + 0.11448%, plus .73%), debt service requirements for the 2014 swap payments, by year, are as follows (in thousands):

		Variable rate note		Interest rate	
		Principal	Interest	swap, net	Total
2024	$	8,455	123	108	8,686
Total	$	8,455	123	108	8,686

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

		Variable rate note		Interest rate	
		Principal	Interest	swap, net	Total
2024	$	—	2,849	2,691	5,540
2025		5,600	2,440	2,937	10,977
2026		5,885	2,210	2,849	10,944
2027–2031		34,285	8,551	11,363	54,199
2032–2036		44,025	3,863	5,246	53,134
2037–2040		10,205	64	205	10,474
Total	$	100,000	19,977	25,291	145,268

(11) 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.

(Continued)

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, 2018.

USA Health Children's & Women's Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2020.

Revenues from the Medicare program accounted for approximately 14% of USA Health's patient service revenues for the year ended September 30, 2023.

Blue Cross Blue Shield – Inpatient services rendered to Blue Cross subscribers are paid at a contractually determined per diem rate based upon Medicare Severity Diagnosis Related Groups. Outpatient services are reimbursed under a contractually determined reimbursement methodology based on Blue Cross Enhanced Ambulatory Patient Groups.

Revenues from the Blue Cross program accounted for approximately 29% of USA Health's patient service revenues for the year ended September 30, 2023.

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 certainty 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. For the year ended September 30, 2023, the University received supplemental payments from this program in the amount of $87,279,000.

Revenues from the Medicaid program accounted for approximately 25% of USA Health's patient service revenues for the year ended September 30, 2023.

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 includes discounts from established charges and prospectively determined daily and case rates.

(Continued)

The composition of patient service revenues for the year ended September 30, 2023 follows (in thousands):

Gross patient service revenues	$	2,074,922
Less:		
Provision for contractual and other adjustments		(1,178,169)
Provision for bad debts		(105,307)
	$	791,446

(12) 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 60 with 10 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 62 with 10 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

(Continued)

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.

Tier 2 covered members of the TRS contribute 6.2% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rates are 12.59% of annual pay for Tier 1 members and 11.44% of annual pay for Tier 2 members. These required contribution rates are a percentage 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 $21,345,000 for the year ended September 30, 2023.

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

At September 30, 2023, the University reported a liability of $375,894,000 for its proportionate share of the collective net pension liability. At September 30, 2023, the collective net pension liability was measured as of September 30, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2021. 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, 2022, the University's proportion of contributions to the pension plan was 2.418758%, which was a decrease of 0.103213% from its proportion measured as of September 30, 2021 of 2.521971%.

For the year ended September 30, 2023, the University recognized pension expense of approximately $33,657,000, which is included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

(Continued)

At September, 30, 2023, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 8,263	9,122
Changes of assumptions	17,057	—
Net difference between projected and actual earnings on pension plan investments	75,430	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	20,108
Employer contributions subsequent to measurement date	21,345	—
	$ 122,095	29,230

At September 30, 2023, approximately $21,345,000 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ending September 30:	
2024	$ 16,985
2025	14,957
2026	11,588
2027	27,990
	$ 71,520

(e) *Actuarial Assumptions*

The total pension liability as of September 30, 2023 was determined by an actuarial valuation as of September 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Investment rate of return*	7.45 %
Projected salary increases	3.25–5.00%

* Net of pension plan investment expense

(Continued)

The actuarial assumptions used in the September 30, 2021 valuation were based on the results of an actuarial experience study for the period from October 1, 2015 through September 30, 2020. Mortality rates for TRS were based on the Pub-2010 Teacher Below Median tables adjusted for males (108% ages < 63, 96% ages > 67; phasing down 63–67) and for females (112% ages < 69, 98% > age 74, phasing down 69–74), projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2019.

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:

	Target allocation	Long-term expected rate of return*
Fixed income	15.0 %	2.8 %
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	9.0
Real estate	10.0	6.5
Cash equivalents	5.0	2.5
	100.0 %	

* Includes assumed rate of inflation of 2.00%

(f) Discount Rate

The discount rate used to measure the total pension liability as of September 30, 2023 was 7.45%. 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 7.45%, 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 one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current rate (in thousands):

	September 30, 2023		
	1% Decrease (6.45)%	Current rate (7.45)%	1% Increase (8.45)%
University's proportionate share of collective net pension liability	$ 486,391	375,894	282,821

(h) *Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Annual Comprehensive Financial Report for the fiscal year ended September 30, 2022 as well as prior-year reports. The supporting actuarial information is included in the GASB Statement No. 68 Report for the TRS prepared as of September 30, 2022. The auditors' report dated January 17, 2023 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, 2022 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

(13) 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). 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 $351,000 in 2023, representing 156 employees 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

(Continued)

contributed $9,402,000 in 2023, representing 2,909 employees, 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 36 months; at which time, they become 100% vested in the plan.

Effective April 1, 2022, HCM adopted a deferred compensation retirement plan. All nonstudent employees are eligible to defer receipt of a portion of their salary until a later date. 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. Under this plan, contributions by eligible employees are not matched by HCM. During the year ended September 30, 2023, 131 employees participated in this plan. All eligible employees are fully vested in their accounts under this plan immediately upon contributing.

(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 statement of net position include accruals for vacation pay and paid time off of approximately $11,194,000 at September 30, 2023. 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.

(14) 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. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, requires the reporting of the participating employers' share of net OPEB liability and the OPEB expense in the financial statements as well as enhanced financial statements note disclosures.

(Continued)

(b) Benefits Provided

PEEHIP offers a basic hospital medical plan to active members and non-Medicare eligible retirees. 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, 2020, Medicare eligible members and Medicare eligible dependents covered on a retiree contract were enrolled in the Humana Group Medicare Advantage plan for PEEHIP retirees. Effective January 1, 2023, United Health Care (UHC) Group replaced the Humana contract. The Medicare Advantage Prescription Drug Plan (MAPDP) is fully insured by UHC, and members are able to have all of their Medicare Part A, Part B, and Part D (prescription drug coverage) in one convenient plan. With the UHC plan for PEEHIP, retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Retirees have the same benefits in and out-of-network, and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

(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 $6,382,000 for the year ended September 30, 2023.

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

At September 30, 2023, the University reported a liability of $53,421,000 for its proportionate share of the net OPEB liability. At September 30, 2023, the net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2021. 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, 2022, the University's proportion of contributions to the OPEB plan was 3.065860%, which was a decrease of 0.90909% from its proportion measured as of September 30, 2021 of 3.974950%.

For the year ended September 30, 2023, the University recognized negative OPEB expense of approximately $25,190,000, which is included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

(Continued)

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Notes to Basic Financial Statements

September 30, 2023

At September 30, 2023, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 2,450	108,013
Changes of assumptions	43,332	77,758
Net difference between projected and actual earnings on OPEB plan investments	6,718	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	56,285	74,908
Employer contributions subsequent to the measurement date	6,382	—
	$ 115,167	260,679

At September 30, 2023, approximately $6,382,000 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 ending September 30, 2024.

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

Year ending September 30:	
2024	$ (35,828)
2025	(35,176)
2026	(10,386)
2027	(16,525)
2028	(32,491)
Thereafter	(21,488)
	$ (151,894)

(Continued)

(e) Actuarial Assumptions

The total OPEB liability as of September 30, 2023 was determined by an actuarial valuation performed as of September 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Projected salary increases*	3.25-5.00 %
Long-term investment rate of return**	7.00 %
Municipal bond index rate at the measurement date	4.40 %
Municipal bond index rate at prior measurement date	2.29 %
Projected year for fiduciary net position to be depleted	N/A
Single equivalent interest rate at the measurement date	7.00 %
Single equivalent interest rate at prior measurement date	3.97 %
Healthcare cost trend rate	
Pre-Medicare eligible	6.50 %
Medicare eligible	***
Ultimate trend rate	
Pre-Medicare eligible	4.50 %
Medicare eligible	4.50 %
Year of ultimate trend rate	
Pre-Medicare eligible	2031
Medicare eligible	2027

* Includes 2.75% wage inflation

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

*** Initial Medicare claims are set based on scheduled increases through plan year 2025.

Mortality rates were based on the Pub-2010 Teacher Below Median tables adjusted for males (108% ages < 63, 96% ages > 67; phasing down 63–67) and for females (112% ages < 69, 98% > age 74, phasing down 69–74), projected generationally using scale MP-2020 adjusted by 66–2/3% beginning with year 2019.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2020, submitted to and adopted by the TRS on September 13, 2021. The remaining actuarial assumptions (e.g., initial per capita costs, healthcare cost trends, rate of plan participation, rates of plan election, etc.) of the total OPEB liability were based on the September 30, 2021 valuation.

(Continued)

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:

	Target allocation	Long-term expected real rate of return*
Fixed income	30 %	4.40 %
U.S. large stocks	38	8.00
U.S. mid stocks	8	10.00
U.S. small stocks	4	11.00
International developed market stocks	15	9.50
Cash	5	1.50
	100 %	

* Geometric mean, includes 2.50% inflation

(f) Discount Rate

The discount rate used to measure the total OPEB liability at September 30, 2023 was 7.00%. 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. 15.257% of the employer contributions were used to assist in funding retiree benefit payments in 2022. It is assumed that the 15.257% will increase at the same rate as expected benefit payments for the closed group until reaching an employer rate of 20.000%, at which point this amount will increase by $800 with inflation at 2.5% starting in 2027. The long-term expected rate of return on OPEB plan investments will be determined based on the allocation by the asset class and by the mean and variance of real returns. 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. Therefore, the projected future benefit payments for all current plan members were projected through 2120.

(Continued)

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

The following table presents the University's proportionate share of the net OPEB liability calculated using the healthcare cost trend rate of 4.50%, as well as what the net OPEB liability would be if calculated using one percentage point lower 3.50% or one percentage point higher 5.50% than the current rate (in thousands):

	September 30, 2023		
	1% Decrease (3.50)%	Current rate (4.50)%	1% Increase (5.50)%
University's proportionate share of collective net OPEB liability	$ 40,509	53,421	69,256

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

	September 30, 2023		
	1% Decrease (6.00)%	Current rate (7.00)%	1% Increase (8.00)%
University's proportionate share of collective net OPEB liability	$ 66,047	53,421	42,822

(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, 2022. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2022. Additional financial and actuarial information is available at www.rsa-al.gov.

(15) 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.

(Continued)

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, 2023. 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 $3,003,000 in 2023. 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 year ended September 30, 2023 for the PLTF, GLTF, and health plan are summarized as follows (in thousands):

Balance, beginning of year	$	50,015
Liabilities incurred and other additions		83,243
Claims, administrative fees paid, and other reductions		(87,072)
Balance, end of year	$	46,186

These amounts are included in other long-term liabilities and in accounts payable and accrued liabilities in the accompanying statement of net position.

(16) Other Related Parties and Related-Party Transactions

During the year ended September 30, 2023, the University had certain related-party transactions with affiliates as described below.

South Alabama Medical Science Foundation (SAMSF) is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. For the year ended September 30, 2023, SAMSF had total assets of $11,282,000, net assets of $11,232,000, and total revenues of $1,487,000. During fiscal year 2023, SAMSF made contributions in the amount of $267,000 to support clinical trials and research at the University. In addition, SAMSF also donated $26,000 in research equipment. Contributions from SAMSF are presented as private grants and contract revenues on the statement of revenues, expenses, and changes in net position for the University.

Jaguar Athletic Fund (JAF) is a not-for-profit corporation that was organized for the purpose of providing support for the athletic programs and student-athletes at the University. For the year ended September 30, 2023, JAF had total assets of $1,185,000, net assets of $1,179,000, and total revenues of $2,799,000. During fiscal year 2023, JAF made contributions to the University for the support of athletic programs and student-athletes in the amount of $2,400,000. These contributions are presented as other nonoperating revenues on the statement of revenues, expenses, and changes in net position for the University.

(Continued)

Gulf Coast TotalCare (Gulf Coast) is an Alabama not-for-profit corporation created for the purpose of operating a community-led network to coordinate the healthcare of Medicaid patients in Southwest Alabama. For the year ended September 30, 2023, Gulf Coast had total assets of $1,100,000, net assets of $596,000, and total revenues of $9,304,000. During fiscal year 2023, HCM (a blended component unit of the University) charged Gulf Coast a management fee of $1,048,000 to cover management and administrative expenses for Gulf Coast operations. In addition, HCM transferred $650,000 to Gulf Coast due to increased expenses related to COVID-19. The management fee and transfer are presented as other operating revenue and supplies and services, respectively, on the statement of revenues, expenses, and changes in net position for the University.

The University of South Alabama Foundation for Research and Commercialization (FRAC) is an Alabama non-for-profit corporation created for the purpose of promoting and advancing the University's educational, research, and service missions. For the year ended September 30, 2023, FRAC had total assets of $45,000, net assets of $45,000, and total revenues of $8,000. FRAC has royalty sharing agreements in place with the University and inventors in which each party receives a designated percentage of licensing income generated from intellectual property. For fiscal year 2023, FRAC distributed $11,000 to the University and $1,000 to inventors under royalty sharing agreements.

USA Presidential 1963 Fund is an Alabama not-for-profit corporation created for promoting charitable, scientific, literary, or educational initiatives that benefit and support of the University. This not-for-profit corporation had no financial activity for the year ended September 30, 2023.

(17) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2023, the University had been awarded approximately $153,569,000 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, if any, are included in unrecognized revenues and include amounts received from grant and contract sponsors that 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) Litigation

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

(Continued)

(c) 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, 2023, no amounts were payable pursuant to these agreements.

(d) USA Research and Technology Corporation Leases

The University has commitments under lease receivables with the Corporation. Space under lease to the University was 78,123 square feet at September 30, 2023. See note 9 for additional details.

(18) Functional Expense Information

Operating expenses by functional classification for the year ended September 30, 2023 are as follows (in thousands).

Instruction	$	120,779
Research		36,305
Public service		12,823
Academic support		28,956
Student services		44,326
Institutional support		22,895
Operation and maintenance of plant		14,126
Scholarships		17,563
USA Health		797,521
Auxiliary enterprises		15,165
Depreciation and amortization		77,140
	$	1,187,599

(Continued)

(19) 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 year ended September 30, 2023 as follows (in thousands):

Current assets	$	16,495
Noncurrent assets		55,018
Total assets		71,513
Current liabilities		24,253
Noncurrent liabilities		42,144
Total liabilities		66,397
Net position	$	5,116
Operating revenues	$	402,499
Operating expenses		(407,196)
Operating loss		(4,697)
Nonoperating revenues		5,287
Nonoperating expenses		—
Change in net position	$	590

(20) Recently Issued Accounting Pronouncements

In April 2022, the GASB issued Statement No. 99, *Omnibus* 2022. The objectives of the statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements and accounting and financial reporting for financial guarantees. The statement extends the use of LIBOR for accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement Nos. 53 and 63 were effective upon issuance. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*. The statement, effective for periods beginning after June 15, 2023, requires changes in accounting principles and error corrections be reported retroactively by restating prior periods, changes to or within the financial reporting entity to be reported by adjusting beginning balances of the current period, and changes in accounting estimates be reported prospectively by recognizing the change in the current period.

(Continued)

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, which is effective for fiscal years beginning after December 15, 2023. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences.

The effect of the implementation of GASB Statement Nos. 99, 100, and 101 on the University has not yet been determined.

(21) COVID-19 Pandemic

COVID-19, a respiratory disease caused by a novel strain of the coronavirus, has spread around the world, including the State of Alabama. The Centers for Disease Control confirmed the spread of the disease to the United States in February 2020 and the World Health Organization declared the COVID-19 outbreak a pandemic in March 2020.

The CARES Act was signed into law on March 27, 2020 and was designed to provide economic relief to Higher Education Institutions and other entities for a number of situations including the provision of direct financial support for students in need, reimbursement for the costs incurred as a result of moving instruction online, to provide relief funds for healthcare providers for purposes of covering costs incurred and lost revenues due to the pandemic. Through September 30, 2023, the University (including USA Health) has been awarded $105,456,000 in CARES Act, and other funding from federal and state sources for COVID-19 relief. Of this amount, $6,202,000 was awarded during the year ended September 30, 2023. Of the total amounts awarded, $12,703,000 has been recognized as nonoperating revenue in the statement of revenues, expenses, and changes in net position for the year ended September 30, 2023.

(22) Subsequent Event

On October 1, 2023, HCA acquired Ascension Providence, which included a hospital and multiple facilities, for $89,590,000. The University funded this acquisition with the cash proceeds from the University Facilities Revenue Bond (Draw-Down Loan), Series 2023-A, the Taxable University Facilities Revenue Bond (Draw-Down Loan), Series 2023-B, and internal contributions. In exchange for the University funding the acquisition, the University acquired ownership of the assets. The University entered into an agreement with HCA to operate and manage the Facilities under USA Health. The acquisition of Providence Hospital expands operations along the Gulf Coast region and is expected to have a significant impact on the financial position and results of operations for both the University and HCA during fiscal year 2024 and beyond.

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 and Related Ratios (Unaudited)

Teachers' Retirement Plan of Alabama

September 30 of each year from 2015 to 2023

(In thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015
University's proportion of the net pension liability	2.418758 %	2.521971 %	2.551330 %	2.664536 %	2.843720 %	3.018313 %	3.108048 %	3.185471 %	3.322348 %
University's proportionate share of the net pension liability	$ 375,894	237,578	315,591	294,615	282,739	296,654	336,477	329,294	297,734
University's covered-employee payroll	181,019	188,126	184,984	181,875	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	207.65 %	126.29 %	170.60 %	161.99 %	148.37 %	154.89 %	167.85 %	165.99 %	147.50 %
Plan fiduciary net position as a percentage of the total pension liability	62.21	76.44	67.72	69.85	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.

Unaudited – see accompanying 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 of each year from 2015 to 2023

(In thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 21,345	22,005	21,566	21,413	22,481	22,262	23,664	23,405	23,524
Contributions in relation to the contractually required contribution	21,345	22,005	21,566	21,413	22,481	22,262	23,664	23,405	23,524
Contribution deficiency (excess)	$ —	—	—	—	—	—	—	—	—
University's covered-employee payroll	$ 181,019	188,126	184,984	181,875	190,559	191,520	200,464	198,378	201,858
Contributions as a percentage of covered-employee payroll	11.79 %	11.70 %	11.66 %	11.77 %	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.

Unaudited – see accompanying 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 and Related Ratios (Unaudited)

Alabama Retired Education Employees' Health Care Trust

September 30 of each year from 2017 to 2023

(In thousands)

		2023	2022	2021	2020	2019	2018	2017
University's proportion of the net OPEB liability		3.065860 %	3.974950 %	4.016210 %	2.737717 %	3.156420 %	3.449076 %	2.963813 %
University's proportionate share of the net OPEB liability	$	53,421	205,378	260,646	103,288	259,418	256,178	238,060
University's covered-employee payroll		181,019	188,126	184,984	181,875	190,559	191,520	200,464
University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll		29.51 %	109.17 %	140.90 %	56.79 %	136.14 %	133.76 %	118.75 %
Plan fiduciary net position as a percentage of the total OPEB liability		48.39	27.11	19.80	28.14	14.81	15.37	13.38

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

Unaudited – see accompanying 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 of each year from 2017 to 2023

(In thousands)

		2023	2022	2021	2020	2019	2018	2017
Contractually required contribution	$	6,382	5,859	6,868	7,947	7,772	7,728	8,373
Contributions in relation to the contractually required contribution		6,382	5,859	6,868	7,947	7,772	7,728	8,373
Contribution deficiency (excess)	$	—	—	—	—	—	—	—
University's covered-employee payroll	$	181,019	188,126	184,984	181,875	190,559	191,520	200,464
Contributions as a percentage of covered-employee payroll		3.53 %	3.11 %	3.71 %	4.37 %	4.08 %	4.04 %	4.18 %

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

Unaudited – see accompanying auditors' report.

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Notes to Required Supplementary Schedules (Unaudited)

September 30, 2023

(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, 2023 was determined by an actuarial valuation as of September 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Investment rate of return*	7.45 %
Projected salary increases	3.25–5.00 %

* Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2021 valuation were based on the results of an actuarial experience study for the period from October 1, 2015 through September 30, 2020. Mortality rates for TRS were based on the Pub-2010 Teacher Below Median tables adjusted for males (108% ages < 63, 96% ages > 67; phasing down 63–67) and for females (112% ages < 69, 98% > age 74, phasing down 69–74), projected generationally using scale MP-2020 adjusted by 66 2/3% beginning with year 2019.

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, 2023 was 7.45%. 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)

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Notes to Required Supplementary Schedules (Unaudited)

September 30, 2023

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

The assumptions and methods used in the valuation are based on the results of the Experience Investigation for the five-year period ended September 30, 2020, dated July 12, 2021, and adopted by the Teachers' Retirement System Board of Control on September 13, 2021. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	Market value of assets
Inflation	2.50%
Salary increase	3.25% to 5.00%, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

(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 2021, rates of withdrawal, retirement, disability, and mortality were adjusted to reflect actual experience more closely. In 2021, economic assumptions and the assumed rates of salary increases were adjusted to reflect actual and anticipated experience more closely.

In 2019, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to reflect actual experience more closely.

(b) Recent Plan Changes

Beginning in plan year 2021, the Medicaid Advantage Prescription Drug plan premium rates exclude the ACA Health Insurer Fee, which was repealed on December 20, 2019.

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

The Health Plan is changed each year to reflect the ACA maximum annual out-of-pocket amounts.

(Continued)

UNIVERSITY OF SOUTH ALABAMA

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Notes to Required Supplementary Schedules (Unaudited)

September 30, 2023

(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, three years prior to the end of the fiscal year in which contributions are reported. Therefore, the actuarially determined employer contribution for fiscal year ended September 30, 2023 is determined based on the actuarial valuation as of September 30, 2019. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percent of pay, closed
Remaining amortization period	22 years
Asset valuation method	Market value of assets
Inflation	2.75%
Healthcare cost trend rate:	
Pre-Medicare eligible	6.75%
Medicare eligible	**
Ultimate trend rate:	
Pre-Medicare eligible	4.75%
Medicare eligible	4.75%
Year of ultimate trend rate	2027 for Pre-Medicare eligible 2024 for Medicare eligible
Investment rate of return	5.00%, including inflation
Optional plans trend rate	2.00%

**Initial Medicare claims are set based on scheduled increase through plan year 2022.


JORDAN

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