UNIVERSITY OF SOUTH ALABAMA

2022 FINANCIAL REPORT

TABLE OF CONTENTS

Board of Trustees

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, enhancement of research and graduate education, research and discovery to advance knowledge and collaboration, 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 weeks and months including the naming of Dr. Andrea M. Kent as our Executive Vice President and Provost; Mr. Jim Berscheidt, our Vice President for Marketing and Communications; and Ms. Polly Stokely, our Vice President for Finance and Administration. I was also pleased to announce the elevation of Dr. Joél Lewis Billingsley as our new Vice President for Diversity and Community Engagement. We are making good progress as we conduct several national searches for other key leaders in the ranks of our Deans.

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 crisis, 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 2022 enrollment of nearly 14,000, the grade point average of our freshman class indicates that South Alabama enrolled the most academically talented class 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 90,000-plus alumni. Similarly, USA Health continues its significant growth throughout Southwest Alabama committed and dedicated to the well-being of our patients.

These continue to be unprecedented times in our country and University; even so, we are fully open and operational, while continuously monitoring COVID, implementing cautionary protocols when needed. Classes are back in-person, the campus is alive with our students fully engaged and Hancock Whitney Stadium is the place to be on a Saturday afternoon in the fall. Our faculty, staff and students have demonstrated both resiliency and a renewed dedication to our mission as they seek to be a part of the solution to the many challenges facing the world.

Through these challenges, campus life is constantly being enhanced and improved as evidenced by an ever-increasing demand for on-campus student housing. More than 92 percent of our residential halls were occupied this year, another record.

Additionally, more than 200 diverse student clubs and organizations engage students in campus life. Leadership development is a continued area of focus in all areas of student life at the University, and the Office of Multicultural Student Affairs recently moved into its newly renovated offices at the former home for Alumni Relations, located in the heart of our campus.

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. As the University's fourth president, I pledge my total focus and energy is on guaranteeing our students have a first-class ticket to a brighter future.

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.

We are the University of South Alabama. We are South!

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


THE UNIVERSITY OF SOUTH ALABAMA

Letter from the Vice President for Finance and Administration

I am pleased to present this annual financial report for the University of South Alabama for the year ended September 30, 2022. I am confident that the accompanying financial statements fairly present the financial position and results of operations of the University, including its Health System. 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 fairly presented in accordance with U. S. generally accepted accounting principles.

The management of the University of South Alabama is responsible for the integrity and objectivity of the financial information presented in these statements. 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.

Polly Stokley

Polly Stokley
Vice President for Finance and Administration
University of South Alabama


SOUTH ALABAMA
DANGER
PELIGRO

UNIVERSITY OF SOUTH ALABAMA

(A Component Unit of the State of Alabama)

Basic Financial Statements

September 30, 2022

(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, 2022

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, 2022 and 2021, and for the years then ended. This discussion has been prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

The basic financial statements of the University consist of the University and its component units. The financial position and results of operations of the component units either are blended with the University's financial position and results of operations or are discretely presented. The treatment of each component unit is governed by pronouncements issued by the Governmental Accounting Standards Board (GASB). As more fully described in note 1 to the basic financial statements, the University of South Alabama Professional Liability Trust Fund, the University of South Alabama General Liability Trust Fund and USA HealthCare Management, LLC are reported as blended component units. The University of South Alabama Foundation, the USA Research and Technology Corporation and the University of South Alabama Health Care Authority are discretely presented.

Financial Highlights

At September 30, 2022 and 2021, the University had total assets and deferred outflows of $1,849,857,000 and $1,932,363,000, respectively; total liabilities and deferred inflows of $1,488,669,000 and $1,590,053,000, respectively; and net position of $361,188,000 and $342,310,000, respectively.

The University has experienced a significant growth in its health care operations over the past several years incurring increases in net patient service revenues of $97,377,000 or 16%, between 2021 and 2022. Due to significant market declines, there was a notable decrease in cash and investment balances between 2021 and 2022, decreasing by $95,246,000, or 14% to $604,447,000 at September 30, 2022.

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

Analysis of Financial Position and Results of Operations

Statements of Net Position

The statements of net position present the assets, deferred outflows, liabilities, deferred inflows and net position of the University at September 30, 2022. Net position is displayed in three parts: net investment in capital assets, restricted and unrestricted. Restricted net position may be either expendable or nonexpendable and is the net position that is restricted by law or external donors. Unrestricted net position is generally designated by management for specific purposes, and is available for use by the University to meet current expenses for any purpose. The statements of net position, along with all of the University's basic financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

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The condensed schedules of net position at September 30, 2022 and 2021 follow (in thousands):

Condensed Schedules of Net Position

		2022	2021
Assets:			
Current	$	362,646	363,476
Capital assets, net		840,112	841,811
Other noncurrent		421,804	448,536
Total assets		1,624,562	1,653,823
Deferred outflows		225,295	278,540
Total assets and deferred outflows		1,849,857	1,932,363
Liabilities:			
Current		211,958	241,038
Noncurrent		975,147	1,125,784
Total liabilities		1,187,105	1,366,822
Deferred inflows		301,464	223,231
Total liabilities and deferred inflows		1,488,569	1,590,053
Net position:			
Net investment in capital assets		373,258	402,125
Restricted, nonexpendable		74,299	108,116
Restricted, expendable		90,534	69,527
Unrestricted deficit		(176,903)	(237,458)
Total net position	$	361,188	342,310

Assets included in the statement of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments and net patient receivables. Of these amounts, cash and cash equivalents, investments and net patient receivables comprise approximately 58%, 9% and 14%, respectively, of current assets at September 30, 2022. Noncurrent assets consist primarily of restricted cash and cash equivalents, restricted investments and capital assets. The decrease in total assets and deferred outflows is attributed to a decline in investment value and restricted cash and cash equivalents.

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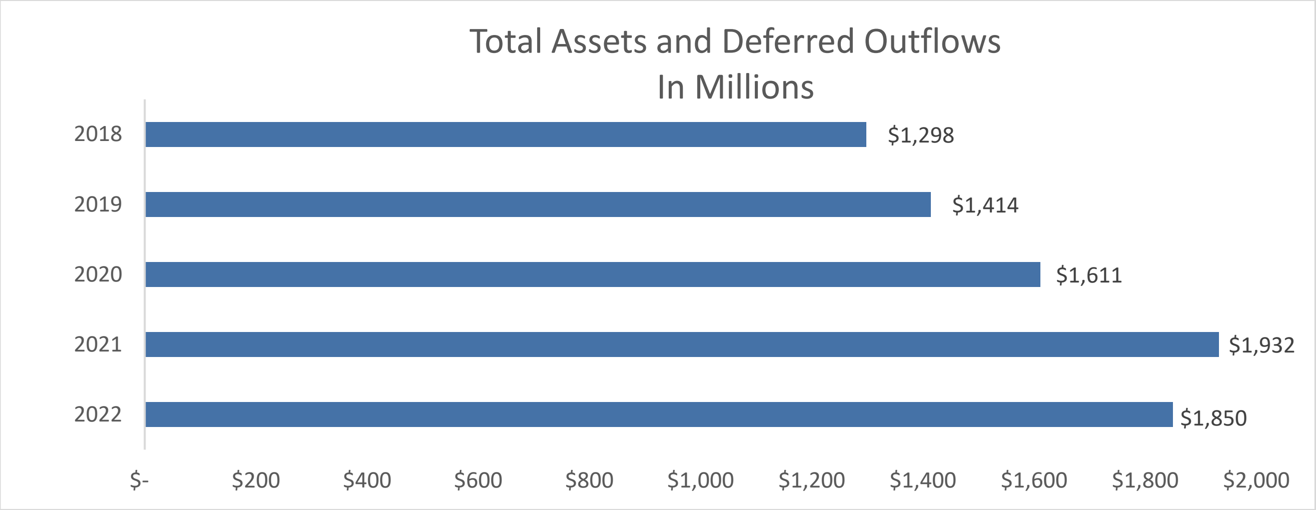
Total assets and deferred outflows of the University as of September 30 is as follows:



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, 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, 2022 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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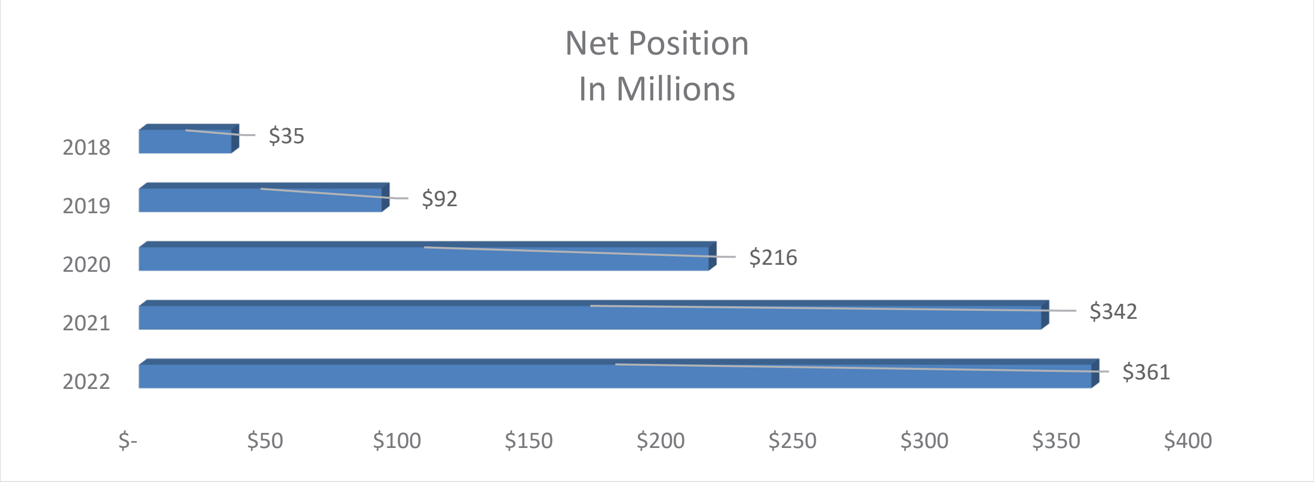
Net position of the University as of September 30 is as follows:



All categories of restricted net position collectively decreased by approximately $12,810,000 between September 30, 2022 and 2021, primarily due to market declines on investments. Unrestricted net position increased from $(237,458,000) to $(176,903,000) between September 30, 2022 and 2021. A summary of unrestricted net position (deficit) at September 30, 2022 is summarized as follows (in thousands):

Unrestricted (deficit) net position related to net pension liability	$	(237,578)
Unrestricted (deficit) net position related to net OPEB liability		(205,378)
Unrestricted net position related to other activity		266,053
Unrestricted net position (defict)	$	(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 produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University.

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UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2022

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, 2022 and 2021 follow (in thousands):

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

		2022	2021
Operating revenues:			
Tuition and fees, net	$	130,677	128,040
Patient service revenues, net		720,055	622,678
Federal, state and private grants and contracts		48,749	44,589
Other		80,440	65,388
		979,921	860,695
Operating expenses:			
Salaries and benefits		587,844	554,587
Supplies and other services		409,008	338,512
Other		98,038	97,399
		1,094,890	990,498
Operating loss		(114,969)	(129,803)
Nonoperating revenues and expenses:			
State appropriations		140,709	126,481
Net investment income		(53,135)	54,294
Other, net		27,626	61,611
Net nonoperating revenues		115,200	242,386
Income before capital contributions and grants and additions to endowment		231	112,583

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Condensed Schedules of Revenues, Expenses, and Changes in Net Position (continued)

		2022	2021
Capital contributions and grants and additions to endowment	$	25,711	13,449
Increase in net position		25,942	126,032
Beginning net position		342,310	216,278
Cumulative effect of change in account principle		(7,064)	—
Beginning balance, as adjusted		335,246	216,278
Ending net position	$	361,188	342,310

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 will now be reported on the statement of net position. GASB Statement No. 87 required the University to record financing lease right-of-use assets and the corresponding current and noncurrent portions of financing lease liabilities for noncancellable, 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 financing lease receivables and the corresponding financing lease deferred inflow of resources for noncancellable, 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, 2022 by decreasing unrestricted net position $7,064,000. See note 9 for a further discussion.

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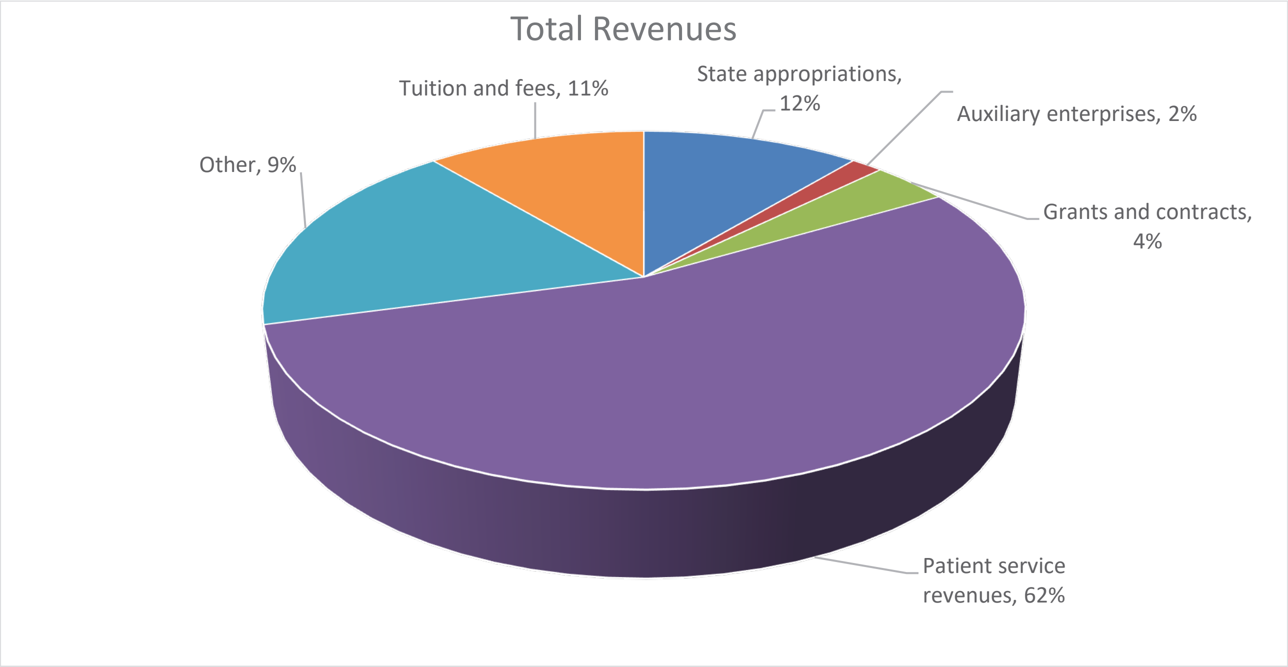
Approximately 62% of total revenues of the University were net patient service revenues in 2022. Excluding patient service revenues, tuition and fees charged to students and state appropriations represent the largest component of total University revenues, approximately 11% and 12% of total revenues in 2022, respectively. In 2022, grants and contracts (federal, state and private) represented approximately 4% of total revenues.

A summary of University revenues for the year ended September 30, 2022 is presented as follows:



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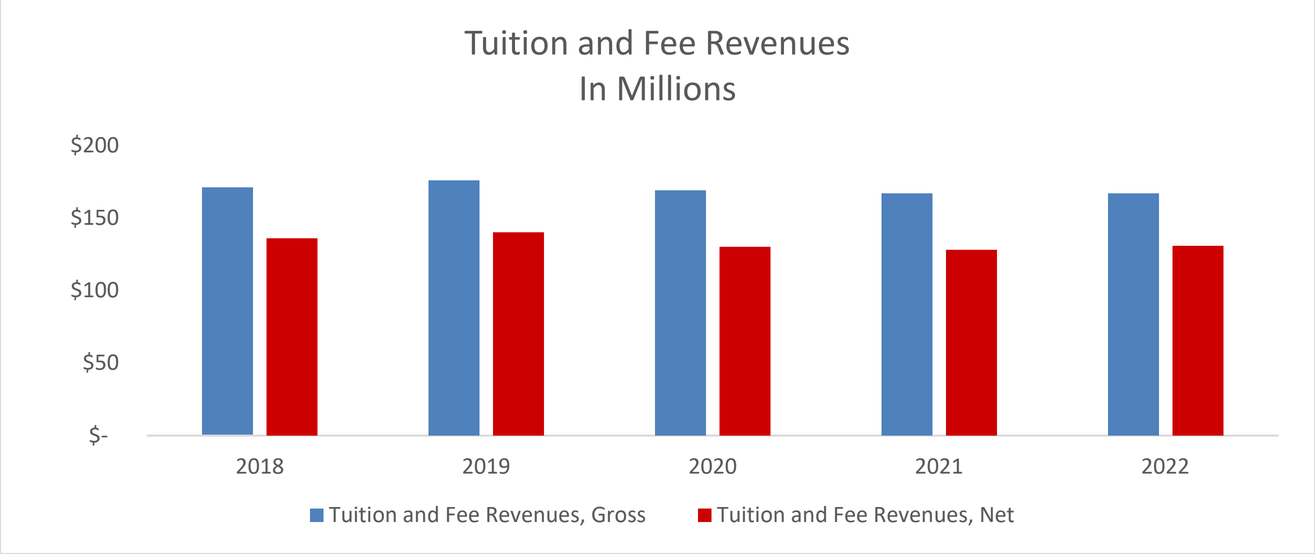
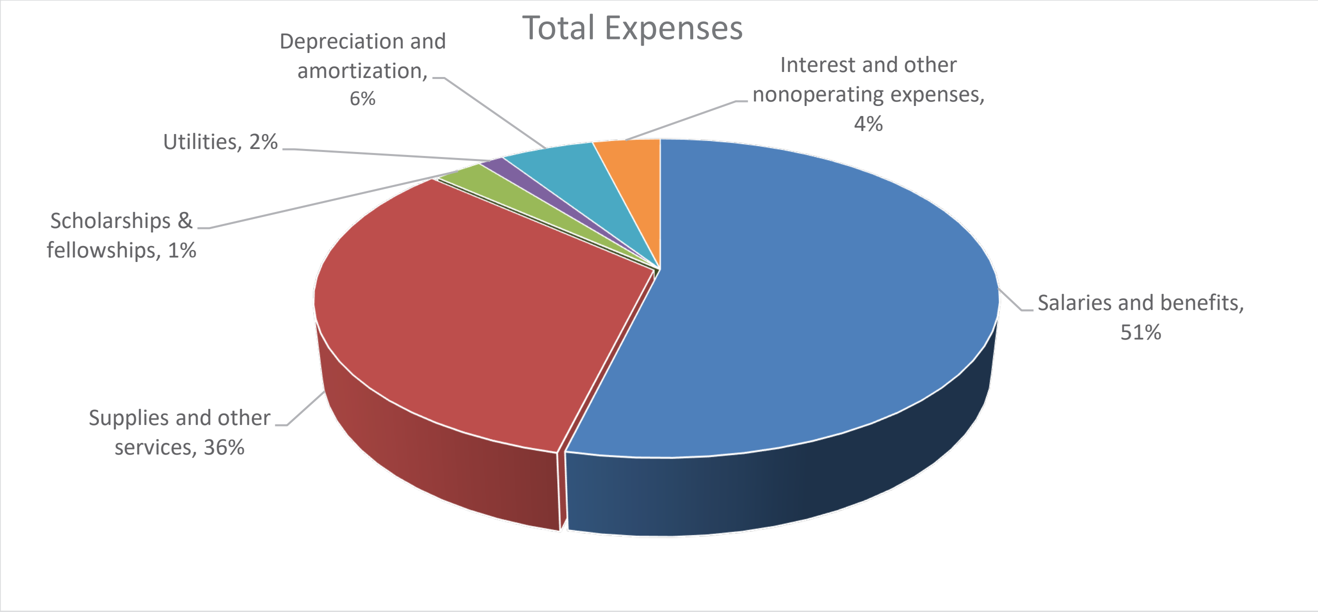
Tuition revenues have generally remained steady in recent years. A decline in enrollment coupled with increases in tuition rates have caused tuition revenues to remain relatively flat. Tuition and fees, gross and net of scholarship allowances, for the past ten fiscal years are as follows:



UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2022

University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2022 is presented as follows:



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

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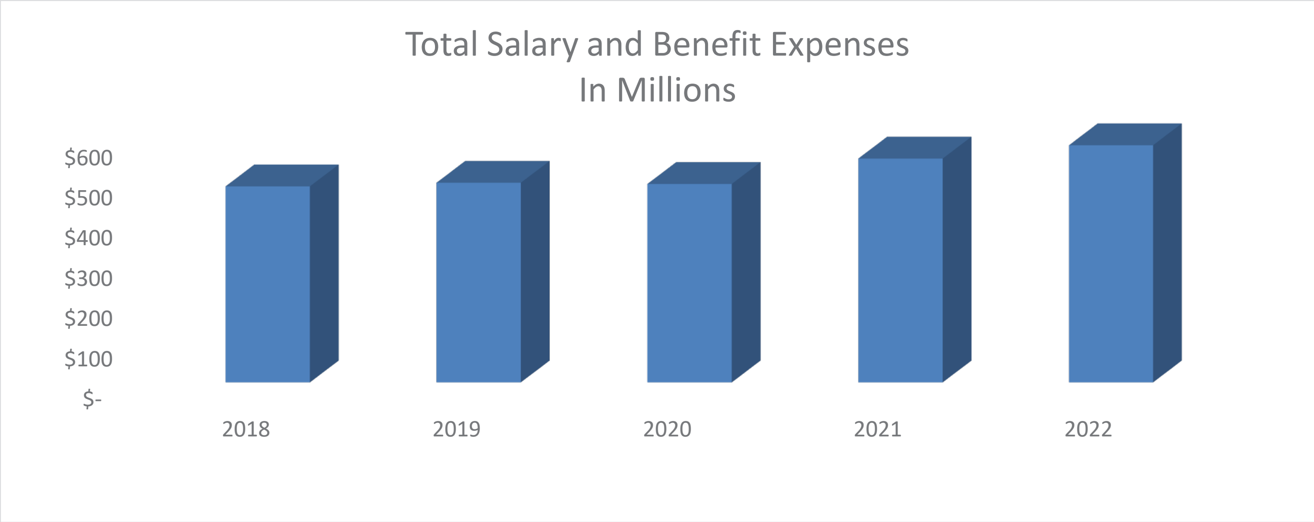
UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Management's Discussion and Analysis (Unaudited)
September 30, 2022

In 2022, respectively, approximately 51% of the University's total expenses were salaries and benefits.



For the year ended September 30, 2022, the University reported an operating loss of approximately $114,969,000. The operating loss is offset partially by state appropriations, which, as mentioned earlier, are reported as nonoperating revenues. After considering all nonoperating revenues and expenses, including capital contributions and grants and additions to the endowment, the total change in net position was approximately $25,942,000 for the year ended September 30, 2022.

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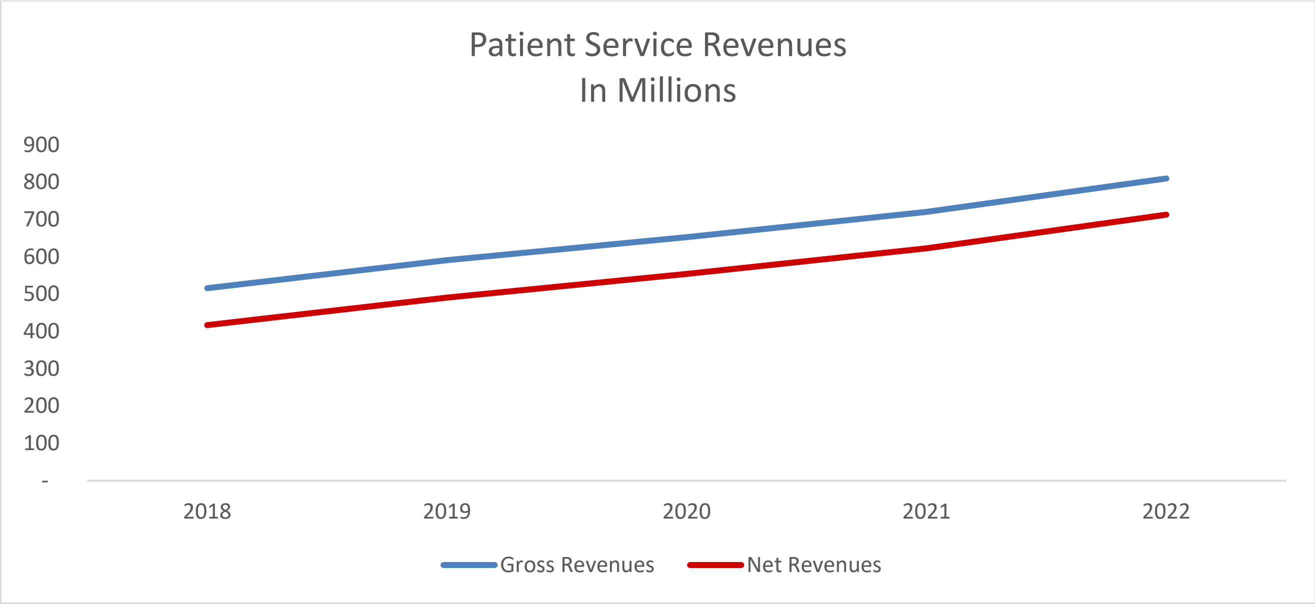
USA Health represents a significant portion of total University revenues. Operating patient service revenues, gross and net, for the last five fiscal years are presented as follows:



Statement of Cash Flows

The statement of cash flows present 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 by, the University is presented by category.

Capital Assets and Debt Administration

Total capital asset additions for the University were approximately $67,239,000 in 2022. Significant construction projects that remain in progress at September 30, 2022 include the 3D Printer Lab, Science Laboratory Building renovation, Ravine Bridge replacement, new Central Energy Plant, and new College of Medicine Building along with major continued upgrades on infrastructure on the University's main campus such as the North Drive Utilities project. Major projects completed and placed into service in fiscal year 2022 include the Supply Warehouse and Jag Tran Buildings, Multi-Cultural Center Renovation, Student Disabilities Renovation, Advising and Career Services Renovation, and South Drive Utilities Project Phase 3. At September 30, 2022, the University had outstanding commitments of approximately $36,948,000 for various capital projects. Additional information regarding the University's capital assets is included in note 5.

In March 2021, the University issued a new University Facilities Revenue Bond, Series 2021, with a face value of $40,555,000. The proceeds, along with internal contributions from the University, are financing USA Health facilities and transportation infrastructure. In July 2021, the University refinanced the Series 2012-A Bond with the University Facilities Revenue Bond, Series 2021-B, with a face value of $15,387,000. The terms for Bonds 2016-B, 2016-C and 2016-D were revised in September 2021 to address the removal of the LIBOR rate to be replaced by the ISDA-based replacement index after year ended September 30, 2021. The dates by which the

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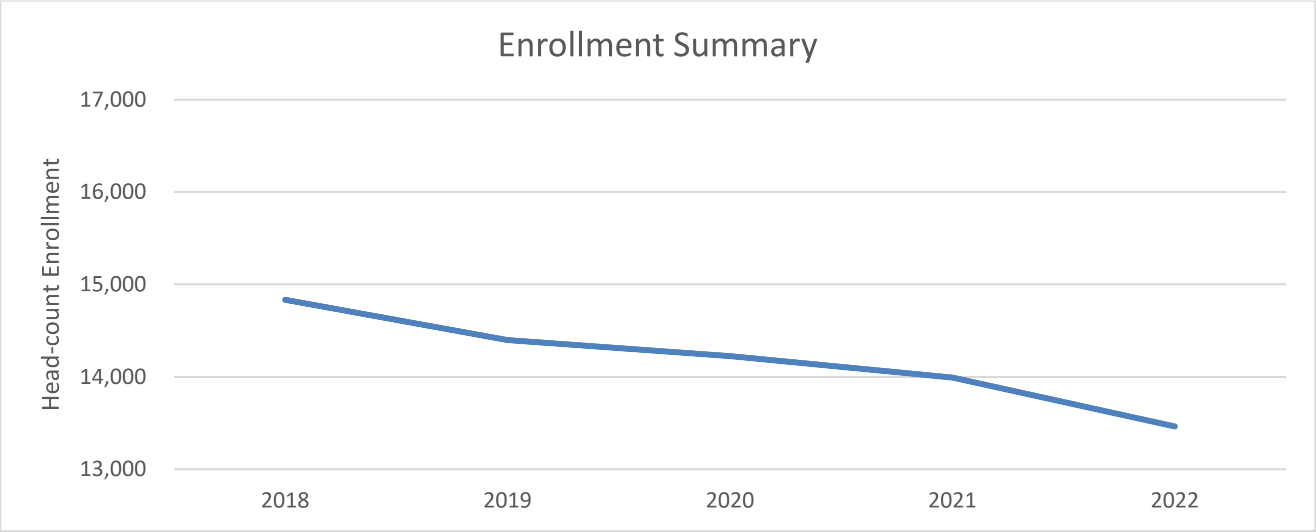
Lender may cause all of the outstanding principal on such bonds to mature and become due and payable by the University were extended 5 years for each bond. On March 5, 2021, the Financial Conduct Authority (FCA) announced the final publication date for US LIBOR is June 30, 2023. Loans maturing after the end of LIBOR will be reviewed to determine if appropriate language, referred to as fallback language, is 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.

The University's bond credit rating is A1 (Stable) as rated by Moody's Investors Service and A+ (Stable) as rated by Standard and Poor's Global Ratings. Neither rating changed during 2022 or 2021. Moody's Investors Service and Standard and Poor's Global Ratings affirmed their ratings in conjunction with their assessment of the 2021 Bond issuance. 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 ten years, there have been declines in enrollment since 2016. The University experienced a decline in enrollment of approximately 2% between Fall 2020 and Fall 2021 and an additional decline of 4% between Fall 2021 and Fall 2022, with declines primarily resulting from a decrease in international student enrollment and a decrease in the number of returning students. The enrollment trend for the University between 2013 and 2022 is as follows:



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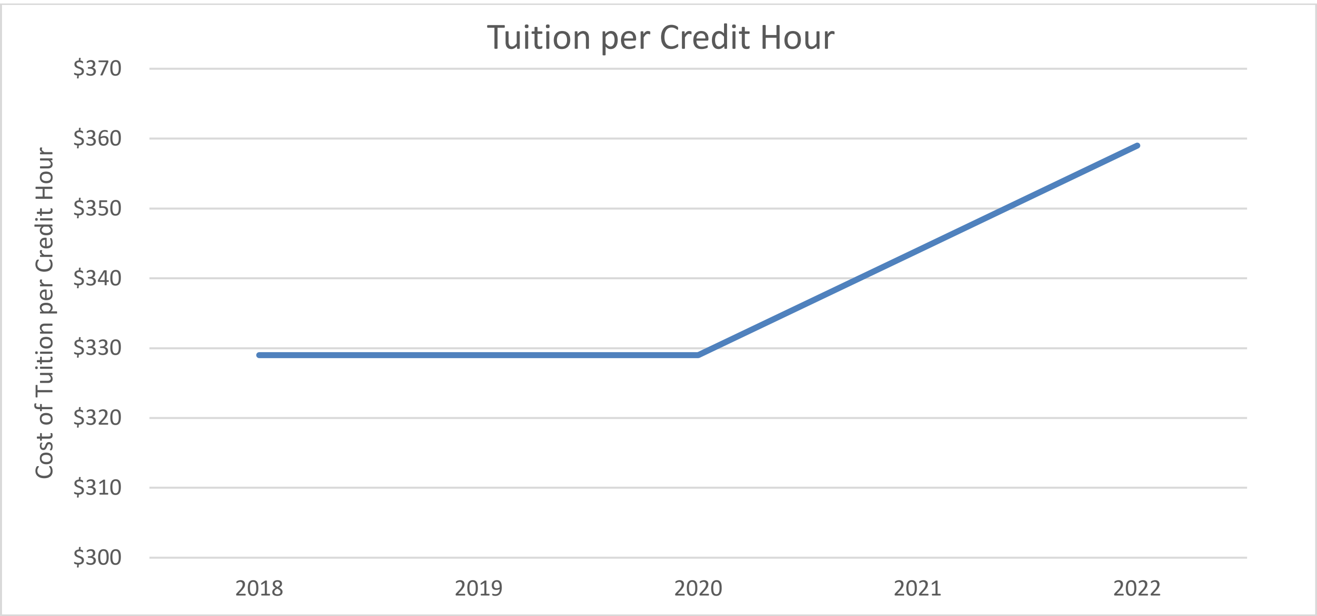
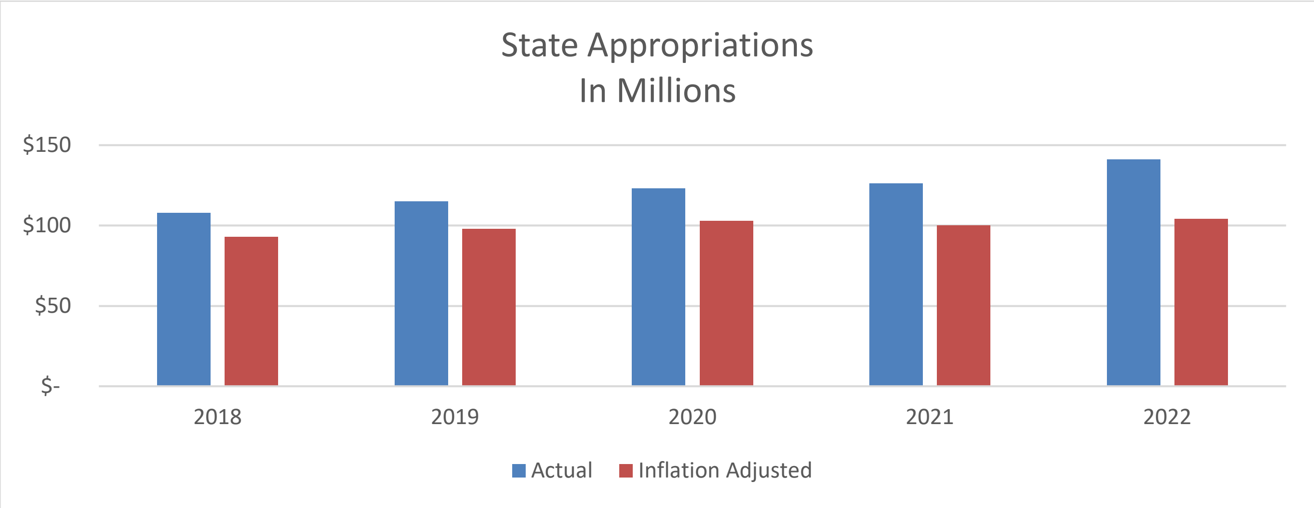
During the same period, in-state tuition per credit hour for in-person classes has increased by approximately 4%. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. Web tuition has decreased slightly during that period. The trend of in-state tuition per credit hour between 2013 and 2022 is as follows:



A state appropriation in the amount of approximately $129,098,000 and $121,564,000 was authorized and received for the years ended September 30, 2022 and 2021, respectively. Additional appropriations of approximately $4,111,000 and $7,500,000 and $4,017,000 and $900,000 were received during fiscal years 2022 and 2021, respectively for advancement and technology, and certain academic and health care initiatives. A state appropriation in the amount of approximately $140,714,000, representing an increase of approximately 9%, has been authorized for the year ending September 30, 2023. While no announcement has been made, the University is aware that reductions in the 2023 appropriation are possible.

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



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

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, 2022, the University (including USA Health) has been awarded $99,254,000 in CARES Act, and other funding from federal and state sources for COVID-19 relief. Of this amount $6,189,000 was awarded in the year ended September 30, 2022 and $68,749,000 was awarded in the year ended September 30, 2021. Of the total amount awarded $22,464,000 has been recognized as nonoperating revenue in the statements of revenues, expenses and changes in net position for the year ended September 30, 2022.

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Other than the issues presented above, University administration is not aware of any other currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during fiscal year 2023 or beyond.

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 Polly Stokley; Vice President for Finance and Administration; University of South Alabama Administration Building Room 300; 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, 2022, 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, 2022, 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 the University of South Alabama Foundation, which represent 84% and (11%), respectively, of the assets and revenues of the aggregate discretely presented component units as of September 30, 2022 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 the 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 audit 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 the 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.

KPMG

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 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.

KPMG

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2022 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 1, 2022

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

Statement of Net Position

September 30, 2022

(In thousands)

Current assets:		
Cash and cash equivalents	$	210,875
Investments		33,501
Patient receivables (net of allowance for doubtful accounts of $102,433)		50,607
Accounts receivable, other		48,129
Notes receivable, net		1,756
Prepaid expenses, inventories, and other		17,044
Financing lease receivable, current portion		734
Total current assets		362,646
Noncurrent assets:		
Restricted cash and cash equivalents		37,726
Restricted investments		244,836
Investments		77,509
Other noncurrent assets and accounts receivable		28,176
Right of use asset, net		31,874
Financing lease receivable, less current portion		1,683
Capital assets, net		840,112
Total noncurrent assets		1,261,916
Total assets		1,624,562
Deferred outflows		225,295
Total assets and deferred outflows		1,849,857
Current liabilities:		
Accounts payable and accrued liabilities		101,476
Unrecognized revenues		66,234
Deposits		3,378
Current portion of other long-term liabilities		6,508
Current portion financing lease obligations		9,374
Current portion of long-term debt		24,988
Total current liabilities		211,958
Noncurrent liabilities:		
Long-term debt, less current portion		434,546
Financing lease obligations, less current portion		22,590
Net pension liability		237,578
Net other postemployment benefits liability		205,378
Other long-term liabilities, less current portion		75,155
Total noncurrent liabilities		975,247
Total liabilities		1,187,205
Deferred inflows		301,464
Total liabilities and deferred inflows		1,488,669
Net position:		
Net investment in capital assets		373,258
Restricted, nonexpendable:		
Scholarships		39,893
Other		34,406
Restricted, expendable:		
Scholarships		30,196
Other		60,338
Unrestricted deficit		(176,903)
Total net position	$	361,188

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, 2022

(In thousands)

Operating revenues:		
Tuition and fees (net of scholarship allowances of $36,331)	$	130,677
Patient service revenues (net of provision for bad debts of $96,814)		720,055
Federal grants and contracts		25,222
State grants and contracts		10,939
Private grants and contracts		12,588
Auxiliary enterprises (net of scholarship allowances of $1,124)		21,562
Other operating revenues		58,878
Total operating revenues		979,921
Operating expenses:		
Salaries and benefits		587,844
Supplies and other services		409,008
Scholarships and fellowships		15,109
Utilities		18,055
Depreciation and amortization		64,874
Total operating expenses		1,094,890
Operating loss		(114,969)
Nonoperating revenues (expenses):		
State appropriations		140,709
Net investment losses		(53,135)
Interest expense		(14,884)
Other nonoperating revenues		76,910
Other nonoperating expenses		(34,400)
Net nonoperating revenues		115,200
Income before capital contributions and grants and additions to endowment		231
Capital contributions and grants		18,177
Additions to endowment		7,534
Increase in net position		25,942
Net position:		
Beginning of year, before cumulative effect of change in accounting principle		342,310
Cumulative effect of change in accounting principle (note 1 section (dd))		(7,064)
Beginning balance, as adjusted		335,246
End of year	$	361,188

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, 2022

(In thousands)

Cash flows from operating activities:		
Receipts related to tuition and fees	$	130,928
Receipts from and on behalf of patients and third-party payers		733,480
Receipts from grants and contracts		60,595
Receipts related to auxiliary enterprises		21,192
Payments to suppliers and vendors		(414,858)
Payments to employees and related benefits		(627,487)
Payments for scholarships and fellowships		(15,108)
Other operating receipts		33,956
Net cash used in operating activities		(77,302)
Cash flows from noncapital financing activities:		
State appropriations		140,689
Endowment gifts		7,534
Agency funds received		2,331
Agency funds disbursed		(2,079)
Student loan program receipts		131,413
Student loan program disbursements		(131,338)
Other nonoperating revenues		30,460
Other nonoperating expenses		(40,992)
Net cash provided by noncapital financing activities		138,018
Cash flows from capital and related financing activities:		
Capital contributions and grants		18,177
Purchases of capital assets		(64,782)
Proceeds from sales of capital assets		123
Principal payments on capital debt		(35,076)
Interest payments on capital debt		(21,268)
Net cash used in capital and related financing activities		(102,826)
Cash flows from investing activities:		
Interest and dividends on investments		2,061
Purchases of investments		(89,726)
Proceeds from sales of investments		89,051
Net cash provided by investing activities		1,386
Net decrease in cash and cash equivalents		(40,724)
Cash and cash equivalents (unrestricted and restricted):		
Beginning of year		289,325
End of year	$	248,601

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

Statement of Cash Flows

Year ended September 30, 2022

(In thousands)

Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(114,969)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization		64,874
Changes in assets and liabilities, net:		
Student receivables		1,193
Net patient receivables		3,221
Grants and contracts receivables		5,753
Other receivables		(62,027)
Prepaid expenses, inventories, and other		11,795
Accounts payable and accrued liabilities		7,533
Unrecognized revenues		5,325
Net cash used in operating activities	$	(77,302)
Noncash investing, noncapital financing, and capital and related financing transactions:		
Net decrease in fair value of investments recognized as a component of investment losses	$	(55,979)
Addition of financing lease obligations		29,783
Gifts of capital, investments and other assets		1,076
Increase in accounts payable related to capital assets		6,772

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, 2022

(In thousands)

Assets		
Cash and cash equivalents	$	1,556
Investments:		
Equity securities		196,016
Timber and mineral properties		176,680
Real estate		9,034
Other		5,809
Other assets		480
Total assets	$	389,575
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$	76
Other liabilities		901
Total liabilities		977
Net assets:		
Without donor restrictions		62,676
With donor restrictions		325,922
Total net assets		388,598
Total liabilities and net assets	$	389,575

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, 2022

(In thousands)

		Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, losses and other support:				
Net realized and unrealized gains (losses) on investments	$	4,700	(20,866)	(16,166)
Rents, royalties and timber sales		2,633	173	2,806
Interest and dividends		1,617	848	2,465
Gifts		155	2,440	2,595
Required match of donor contributions		(213)	213	—
Interfund interest		(245)	245	—
Other income		2	—	2
Net assets released from program restrictions		31,031	(31,031)	—
Total revenues, gains, losses and other support		39,680	(47,978)	(8,298)
Expenditures:				
Program services:				
Faculty support		3,236	—	3,236
Scholarships		1,167	—	1,167
Other academic programs		28,268	—	28,268
Total program service expenditures		32,671	—	32,671
Management and general		2,698	—	2,698
Other investment expense		1,255	—	1,255
Depletion expense		2,380	—	2,380
Depreciation expense		43	—	43
Total expenditures		39,047	—	39,047
Change in net assets		633	(47,978)	(47,345)
Net assets – beginning of year		62,043	373,900	435,943
Net assets – end of year	$	62,676	325,922	388,598

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, 2022

(In thousands)

Assets:		
Current assets:		
Unrestricted cash and cash equivalents	$	1,862
Financing lease receivable, current portion		3,546
Prepaid expenses and other current assets		10
Accrued interest receivable		58
Total current assets		5,476
Noncurrent assets:		
Intangible assets, net		181
Capital assets, net		18,853
Financing lease receivable, less current portion		10,356
Total noncurrent assets		29,390
Deferred outflows		761
Total assets and deferred outflows		35,627
Liabilities:		
Current liabilities:		
Deposits, other current liabilities, and accrued expenses		223
Unrecognized rent revenue		388
Notes payable, current portion		1,390
Total current liabilities		2,001
Noncurrent liabilities:		
Notes payable, less current portion		17,989
Total noncurrent liabilities		17,989
Deferred inflows		13,565
Total liabilities and deferred inflows		33,555
Net position:		
Net investment in capital assets		423
Unrestricted		1,649
Total net position	$	2,072

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, 2022

(In thousands)

Operating revenues	$	4,151
Operating expenses:		
Building management and operating expenses		1,135
Depreciation and amortization		1,281
Legal and administrative fees		352
Insurance		34
Total operating expenses		2,802
Operating income		1,349
Nonoperating revenues (expenses):		
Interest expense		(926)
Other		462
Net nonoperating expenses		(464)
Change in net position		885
Net position:		
Beginning of year		1,313
Cumulative effect of change in accounting principle		(126)
Beginning balance, as adjusted		1,187
End of year	$	2,072

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

Statement of Net Position

September 30, 2022

(In thousands)

Assets:		
Current assets:		
Cash and cash equivalents	$	3,970
Patient receivables (net of allowance for doubtful accounts of $1,708)		2,734
Inventories		87
Financing lease receivable, current portion		248
Other current assets		1,717
Total current assets		8,756
Noncurrent assets:		
Capital assets		17,052
Right of use assets, net		11,611
Financing lease receivable, less current portion		1,347
Other noncurrent assets		15
Total noncurrent assets		30,025
Total assets	$	38,781
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	$	5,788
Accrued salaries and wages		3,523
Current portion of financing lease obligations		1,882
Total current liabilities		11,193
Noncurrent liabilities:		
Other noncurrent liabilities		221
Financing lease obligations, less current portion		9,976
Total noncurrent liabilities		10,197
Deferred inflows		1,585
Total liabilities and deferred inflows	$	22,975
Net position:		
Net investment in capital assets		16,392
Unrestricted (deficit)		(586)
Total net position	$	15,806

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, 2022

(In thousands)

Operating revenues:		
Patient service revenues (net of provision for bad debts of $1,057)	$	39,436
Other operating revenues		8,536
Total operating revenues		47,972
Operating expenses:		
Salaries and benefits		42,355
Building and equipment expenses		5,326
Medical and surgical supplies		4,789
Other expenses		16,710
Depreciation and amortization		2,827
Total operating expenses		72,007
Operating loss		(24,035)
Nonoperating revenues:		
Investment income		13
Support from University of South Alabama		33,189
Interest expense		(485)
Other nonoperating revenues		314
Total nonoperating revenues		33,031
Increase in net position		8,996
Net position at beginning of year		6,810
Net position at end of year	$	15,806

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, 2022

(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, 2022, 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 Polly Stokley, Vice President for Finance and Administration, University of South Alabama Administration Building 300, 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 Statements No. 14, 39, 61 and 80. However, these entities are not presented in the accompanying financial statements as the University does not consider them significant enough to warrant inclusion in the University's reporting entity.

GASB requires the University, as the primary government, to include in its basic financial statements, as a blended component unit, organizations that, even though they are legally separate entities, meet certain requirements. Based on these requirements, the University reports the Professional Liability Trust Fund (PLTF), General Liability Trust Fund (GLTF), USA HealthCare Management, LLC (HCM),

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Jaguar Realty, LLC, USA Health Physician Billing Services, LLC, USA Health Hospital Billing Services, LLC, USA Health Anesthesia Billing Services, LLC, USA Health MCI Business Services, LLC, USA Health Children's and Women's Provider Based Clinics, LLC and USA Health Reference Lab Billing Services, 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 was organized for the purpose of managing and operating on behalf of, and as agent for, payroll activities related to the health care clinical enterprise of the University. The University is the sole member of HCM. HCM commenced operations in October 2010, and is reported as a blended component unit (see note 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 and USA Health Children's and Women's Provider Based Clinics, 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, and a cancer treatment center.

(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 Industrial Medicine, LLC, USA Health Daphne Family Practice, LLC, USA Health IPA, LLC, and USA BS ASC Holdco, LLC.

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In March 2022, HCA formed USA Health Mobile County ASC, LLC as a limited liability company, whereby HCA is the sole member. There was no financial activity for this entity during the year ended September 30, 2022.

In March 2022, HCA obtained an equity interest in USA Fairhope Physician Investors, LLC (FPI), a limited liability company that will develop and own real property to be used in the operation of the Baldwin County ambulatory surgery center. FPI is considered a component unit of HCA under the provisions of GASB Statements Nos. 14 and 61. However, HCA does not consider the operations of this entity to be significant enough to warrant inclusion of the discrete component unit financial statements within these financial statements. HCA's equity interest in FPI is presented within other noncurrent assets on the statement of net position.

Since inception, the HCA's operations have been partially funded by the University, with total support amounting to $33,189,000 during the year ended September 30, 2022. 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, the 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, 2022 are discretely presented.

(f) University of South Alabama Foundation

University of South Alabama Foundation is a not-for-profit corporation that was organized for the purpose of promoting education, scientific research, and charitable purposes, and to assist in developing and advancing the University in furthering, improving, and expanding its properties, services, facilities, and activities. Because of the significance of the relationship between the University and 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, 2022 were $23,762,000 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. 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, 2022 in the University's financial statements as of September 30, 2022. 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, 2022 are discretely presented.

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(g) USA Research and Technology Corporation

USA Research and Technology Corporation is a not-for-profit corporation that exists for the purpose of furthering the educational and scientific mission of the University by developing, attracting, and retaining technology and research industries in Alabama that will provide professional and career opportunities to the University's students and faculty. Because of the significance of the relationship between the University and the Corporation, the Corporation is considered a component unit of the University. The Corporation presents its financial statements in accordance with GASB. The accompanying 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, 2022 are discretely presented.

(h) Measurement Focus and Basis of Accounting

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

(i) Use of Estimates

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

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

(j) Cash and Cash Equivalents

Cash and cash equivalents are defined as petty cash, demand accounts, certificates of deposit, and any short-term investments that take on the character of cash. These investments have maturities of less than three months at the time of purchase and include repurchase agreements and money market accounts. 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 multi-strategy funds of funds) and certain private equity partnerships do not have readily ascertainable market values and the University values these investments in accordance

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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 losses.

(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, 2022, the University had two hedging derivative instruments in the form of interest rate swap, 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 were deemed effective.

(m) Deferred Outflows and Inflows of Resources

Deferred outflows of resources consist of employer contributions to the Teacher's Retirement System of Alabama and the Public Education Employees Health Insurance Plan subsequent to the plan's measurement dates, changes in proportion and differences between employer contributions and proportionate share of contributions related to the OPEB plan, changes in actuarial and other assumptions related to the pension plan, 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 financing 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.

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(o) *Accounts Receivable*

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

(p) *Inventories*

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

(q) *Capital Assets*

Capital assets are recorded at cost, if purchased, or, if donated, at 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.

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, 2022, no impairments were identified.

(r) *Financing Leases*

Financing leases as a lessee are included in financing lease right-of-use assets and financing lease obligations and the current portion thereof on the statement of net position.

Right of use assets represent the University's right to use an underlying asset for the lease term. Lease obligations represent the University's liability to make lease payments arising from the lease. Financing lease 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

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borrowing rate. The commencement date is either when the University takes possession of the asset or, in the case of real estate leases, when the landlord makes the building available for use. The incremental borrowing rate is based on the information available at the commencement date in determining the present value of lease payments. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise that option. 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.

Financing leases as a lessor are included in financing lease receivable and current portion thereof and deferred inflows of resources on the statement of net position.

Financing lease receivable represents the University's contractual right to receive cash in exchange for the right to use an asset for a specific amount of time. Deferred inflow of resources represents the University's contractual right to lease revenue in future reporting periods. Financing lease receivables and related deferred inflows of resources 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 incremental borrowing rate is based on the information available at the commencement date. 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. Deferred inflow of resources are recognized on a straight-line basis over the lease term while interest revenue is recognized as a component of other nonoperating revenues on the statement of revenues, expenses, and changes in net position.

(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.

(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.

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(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.

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

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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.

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.

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(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 and Electronic Health Records Incentive Program

Patient service revenues are reported at estimated net realizable amounts due from patients, third-party payers and others for health care 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 2022, the University adopted the provisions of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. In addition, the University adopted the provisions of GASB Statement No. 92, *Omnibus 2020*, which adds clarifying language and implementation guidance for Statement Nos. 73, 74, 84 and 87. Additionally, the University adopted Statement No. 93, *Replacement of Interbank Offered Rates*, which addresses financial reporting implications related to the replacement of LIBOR, which was expected to cease to exist in its current form at the end of 2021, and Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The University also adopted the provisions of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Plans Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32,* in 2022. The objective of Statement No. 97 is to improve consistency and comparability of reporting for those entities who rely on the government to perform the duties of a governing board in its absence, mitigate the costs of reporting for defined contribution plans, and improve relevance, consistency, and comparability of accounting and financial reporting of Section 457 plans that meet the definition of a pension plan. Additionally, the University adopted Statement No. 98, *the Annual Comprehensive Financial Report*, which replaces instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. There was no significant impact to the University in 2022 related to these statements.

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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 will now be reported on the statement of net position. GASB Statement No. 87 required the University to record financing lease right-of-use assets and the corresponding current and noncurrent portions of financing lease liabilities for noncancellable, 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 financing lease receivables and the corresponding financing lease deferred inflow of resources for noncancellable, 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, 2022 by decreasing unrestricted net position $7,064,000. See note 9 for further discussion.

(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, 2022, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately $16.8 billion. The University had cash and cash equivalents, including restricted cash and cash equivalents, in the pool of $248,601,000 at September 30, 2022.

At September 30, 2022, restricted cash and cash equivalents consist of $3,281,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, $29,134,000 of unspent proceeds from the issuance of University bonds for capital purchases as outlined in the bond indenture, $4,577,000 related to restricted donations related to certain capital projects, $734,000 related to endowment funds.

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(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, 2022 (in thousands) are as follows:

U.S. Treasury securities	$	12,339
U.S. federal agency notes		79,569
Commingled equity funds		90,850
Commingled fixed income funds		49,208
Marketable equity securities		48,910
Marketable debt securities		10,370
Private credit alternative fixed income investments		3,707
Private REIT alternative real estate investments		5,856
Private equity alternative investments		17,568
Real estate		979
Managed income alternative investments (low-volatility multi-strategy funds of funds)		36,490
	$	355,846

At September 30, 2022, 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, 2022, $27,892,000 of cumulative decrease 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, 2022, the University had outstanding capital commitments to those funds of $22,297,000.

(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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Endowment Fund Investment Policy

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

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

The University's exposure to credit risk and concentration of credit risk at September 30, 2022 is as follows:

	Credit rating	Percentage of total investments
Federal National Mortgage Association	AAA	1.1 %
Federal Home Loan Mortgage Corporation	AAA	6.1
Federal Home Loan Banks	AAA	11.9
Federal Farm Credit Banks Funding Corporation	AAA	3.2
Common Fund Bond Fund	Various	5.1
PIMCO Pooled Bond Fund	AA+/A-	8.5
Blackrock Credit Strategies Income Fund	Various	0.2
US Treasury securities	AAA	3.5
Marketable debt securities	Various	2.9

(ii) *Interest Rate Risk*

At September 30, 2022, 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
U.S. Treasury securities	$ 12,339	408	4,706	7,225	—
U.S. federal agency notes	79,569	—	73,169	199	6,201
Marketable debt securities	10,370	3,905	4,204	2,261	—
Commingled fixed income funds	49,208	—	27,104	4,037	18,067
	$ 151,486	4,313	109,183	13,722	24,268

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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, as follows:

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

The level in the fair value hierarchy that determines the classification of an asset or liability depends on the lowest level input that is significant to the fair value measurement. Observable inputs are derived from quoted market prices for assets or liabilities traded on an active market where there is sufficient activity to determine a readily determinable market price. Investments that are not traded on an active exchange and do not have a quoted market price are classified as unobservable inputs. The University's assets that have unobservable inputs consist of the investment in real estate, with fair value based on an independent third-party appraisal performed by qualified appraisers specializing in real estate investments, and of investments in private capital, with fair value determined by the investment managers and primarily utilizes management assumptions and best estimates after considering internal and external factors. Other assets included in the University's investment portfolio with unobservable inputs are the shares or units in

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UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Notes to Basic Financial Statements
September 30, 2022

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, 2022 (in thousands):

		Asset fair value measurements at September 30, 2022			
Description		**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. Treasury securities	$	12,339	—	—	12,339
U.S. federal agency notes		—	79,569	—	79,569
Commingled equity funds		65,166	25,684	—	90,850
Commingled fixed income funds		31,142	18,066	—	49,208
Marketable equity securities		48,910	—	—	48,910
Marketable debt securities		10,370	—	—	10,370
Private credit alternative fixed income		3,707	—	—	3,707
Private REIT alternative real estate investments		5,856	—	—	5,856
Private equity alternative investments		—	—	15,399	15,399
Real estate		—	—	979	979
Total investments at fair value	$	177,490	123,319	16,378	317,187
Investments measured at NAV:					
Private equity funds					2,169
Managed income alternative investments (low volatility multi-strategy funds of funds)					36,490
Total investments					$ 355,846

		Liability fair value measurements at September 30, 2022			
Description		**Level 1**	**Level 2**	**Level 3**	**Total**
Interest rate exchange agreements	$	—	18,070	—	18,070

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A rollforward schedule for Level 3 financial instruments for the year ended September 30, 2022 is as follows (in thousands):

Beginning balance	$	19,510
Purchases		3,058
Net realized/unrealized gains (losses)		(474)
Sales		(1,160)
Adjustment		(4,556)
Ending balance	$	16,378

(b) University of South Alabama Foundation

Investments in securities consist primarily of equity securities totaling $196,016,000 at June 30, 2022.

Investment losses was composed of the following for the year ended June 30, 2022 (in thousands):

Unrealized losses	$	(22,085)
Realized gains		5,919
Timber sales		1,951
Interest and dividends		2,465
Rents		751
Royalties		104
Total investment losses, net	$	(10,895)

Investment related expenses in the amount of $477,000 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, 2022.

Real estate at June 30, 2022 consisted of the following property held (in thousands):

Land and land improvements – held for investment	$	7,989
Building and building improvements – held for investment		1,045
	$	9,034

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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, 2022 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, and amounted to $176,680,000.

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 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, 2022, are summarized based on the criteria of ASC 820 as follows (in thousands):

Description	Level 1	Level 2	Level 3	Total
Equity securities	$ 114,806	—	—	114,806
Timber and mineral properties	—	—	176,680	176,680
Real estate	—	—	9,034	9,034
Other investments	—	—	5,809	5,809
	$ 114,806	—	191,523	306,329
Investment in Commonfund measured at NAV				81,210
				$ 387,539

A rollforward schedule for Level 3 financial instruments for the fiscal year ended June 30, 2022 is as follows (in thousands):

Description		Timber and mineral properties	Real estate	Other investments	Total
Beginning balance	$	171,385	19,904	5,809	197,098
Net unrealized gains		7,214	352	—	7,566
Reforestation		461	—	—	461
Gift of real estate		—	1,142	—	1,142
Sale of real estate		—	(1,330)	—	(1,330)
Contribution of Brookely Property			(11,000)	—	(11,000)
Depreciation/depletion		(2,380)	(34)	—	(2,414)
Ending balance	$	176,680	9,034	5,809	191,523

As of June 30, 2022 USA Foundation has no outstanding commitments to purchase securities or other investments. Additionally, substantially all of USA Foundation's equity securities at June 30, 2022 are liquid. Timber and mineral properties, real estate, and other investments are generally illiquid.

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(5) Capital Assets

(a) University of South Alabama

A summary of the University's capital asset activity for the year ended September 30, 2022 follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Land and other	$ 30,143	1,781	337	—	32,261
Construction-in-progress	76,183	36,480	(44,423)	—	68,240
	106,326	38,261	(44,086)	—	100,501
Capital assets being depreciated:					
Land improvements	71,829	161	4,811	—	76,801
Buildings, fixed equipment, and infrastructure	975,010	9,430	38,468	(9,428)	1,013,480
Other equipment	261,807	14,857	807	(41,508)	235,963
Library materials	87,810	4,530	—	—	92,340
	1,396,456	28,978	44,086	(50,936)	1,418,584
Less accumulated depreciation for:					
Land improvements	(30,657)	(3,498)	—	—	(34,155)
Buildings, fixed equipment, and infrastructure	(371,981)	(27,942)	—	2,921	(397,002)
Other equipment	(190,217)	(19,568)	—	33,781	(176,004)
Library materials	(68,116)	(3,696)	—	—	(71,812)
	(660,971)	(54,704)	—	36,702	(678,973)
Capital assets being depreciated, net	735,485	(25,726)	44,086	(14,234)	739,611
Capital assets, net	$ 841,811	12,535	—	(14,234)	840,112

Depreciation of capital assets for the year ended September 30, 2022 was $54,704,000 for the University.

At September 30, 2022, the University had commitments of approximately $36,948,000 related to various construction projects.

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(b) USA Research and Technology Corporation

Changes in capital assets for the year ended September 30, 2022 are as follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Land and other	$ 223	—	—	—	223
Construction-in-progress	116	25	(121)	—	20
	339	25	(121)	—	243
Capital assets being depreciated:					
Land improvements	1,985	—	—	—	1,985
Buildings	28,519	118	5	—	28,642
Tenant improvements	2,489	48	116	—	2,653
Other equipment	390	—	—	—	390
	33,383	166	121	—	33,670
Less accumulated depreciation for:					
Land improvements	(1,595)	(94)	—	—	(1,689)
Buildings	(10,964)	(768)	—	—	(11,732)
Tenant improvements	(954)	(329)	—	—	(1,283)
Other equipment	(332)	(24)	—	—	(356)
	(13,845)	(1,215)	—	—	(15,060)
Capital assets being depreciated, net	19,538	(1,049)	121	—	18,610
Capital assets, net	$ 19,877	(1,024)	—	—	18,853

Depreciation expense totaled $1,214,000 for the year ended September 30, 2022.

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(c) Health Care Authority

A summary of HCA's capital assets activity for the year ended September 30, 2022 follows (in thousands):

	2022				
	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Construction in progress	$ 2,245	10,907	(952)	(1)	12,199
Works of art	1	—	—	—	1
	2,246	10,907	(952)	(1)	12,200
Capital assets being depreciated:					
Leasehold improvements	1,014	1,109	839	(279)	2,683
Equipment	3,367	760	113	(145)	4,094
Computer software	129	—	—	—	129
	4,510	1,869	952	(424)	6,906
Less accumulated depreciation for:					
Leasehold improvements	(85)	(147)	—	38	(194)
Equipment	(1,307)	(552)	—	44	(1,815)
Computer software	(16)	(29)	—		(45)
	(1,408)	(728)	—	82	(2,054)
Capital assets being depreciated, net	3,102	1,141	952	(342)	4,852
Capital assets, net	$ 5,348	12,048	—	(343)	17,052

Depreciation of capital assets for the year ended September 30, 2022 was $729,000 for HCA.

At September 30, 2022, HCA had commitments of $412,000 related to various construction projects.

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(6) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the year ended September 30, 2022 follows (in thousands):

	Adjusted Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable	$ 482,244	—	(23,328)	458,916	24,370	434,546
Notes payable from direct borrowings	1,336	—	(718)	618	618	—
Capital lease obligations	3,046	—	(3,046)	—	—	—
Financing lease obligations	12,121	29,873	(10,030)	31,964	2,374	29,590
Total long-term debt	498,747	29,873	(37,122)	491,498	27,362	464,136
Other noncurrent liabilities:						
Net pension liability	315,591	—	(78,013)	237,578	—	237,578
Net OPEB liability	260,646	—	(55,268)	205,378	—	205,378
Other long-term liabilities	90,370	7,172	(15,879)	81,663	6,508	75,155
Total other noncurrent liabilities	666,607	7,172	(149,160)	524,619	6,508	518,111
Total noncurrent liabilities	$ 1,165,354	37,045	(186,282)	1,016,117	40,810	975,307

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 2018, the University converted a line of credit into a term loan for a period of five years, with monthly payments of $63,000 and interest accruing at the fixed rate of 3.85% per annum. The amount outstanding at September 30, 2022 is $618,000, and is reported as long-term debt (and current portion thereof) in the statement of net position.

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(a) USA Research and Technology Corporation

(i) Notes Payable

Notes payable from direct borrowings consisted of the following at September 30, 2022 (in thousands):

PNC Bank promissory note, 4.38%, payable through 2028	$	11,245
University of South Alabama, 3.00%, payable through 2023		406
Hancock Whitney promissory note, 3.08%, payable through 2031		7,728
	$	19,379

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 the University of South Alabama has a 4-year term and amortization is based on a 4-year term.

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, 2022, the Corporation’s debt service coverage ratio was 2.10 to 1.

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 that 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. The Corporation’s outstanding note from a direct borrowing with the University contains a provision that, in the event principal payments are not made when due, allows the University to declare the loan due and payable.

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(ii) Debt Service on Long-Term Obligations

At September 30, 2022, total future debt service by year is as follows (in thousands):

		Debt service on notes		
		Principal	Interest	Total
2023	$	1,390	720	2,110
2024		1,022	676	1,698
2025		1,061	637	1,698
2026		1,101	597	1,698
2027		1,144	554	1,698
2028–2032		13,661	710	14,371
Total	$	19,379	3,894	23,273

(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, 2022, the unamortized balance in deferred outflows was $760,767.

(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 Nos. 63 and 65, 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.

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The components of deferred outflows of resources as of September 30, 2022 are summarized below (in thousands):

Deferred Outflows		
Loss on refunding of 2016 bonds	$	5,498
Pension		57,944
OPEB		161,853
	$	225,295

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

The components of deferred inflows of resources as of September 30, 2022 are summarized below (in thousands):

Deferred Inflows		
Gain on refunding of 2016 Series B, C & D bonds	$	3,215
Interest Rate Swaps		17,251
Pension		91,655
OPEB		186,979
Financing leases		2,364
	$	301,464

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(8) Bonds Payable

Bonds payable consisted of the following at September 30, 2022 (in thousands):

University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2.83% payable through August 2033	$	19,776
University Facilities Revenue Capital Improvement Bonds, Series 2013-B, 2.83% payable through August 2033		4,943
University Facilities Revenue Capital Improvement Bonds, Series 2013-C, 2.78% payable through August 2028		4,499
University Facilities Revenue Refunding Bonds, Series 2014-A, variable rate payable at 68% of one month LIBOR plus .73%, (2.848% at September 30, 2022), payable through March 2024		16,505
University Facilities Revenue Capital Improvement Bonds, Series 2015, 2.47% payable through August 2030		3,000
University Facilities Revenue Refunding Bonds, Series 2016-A, 3.00% to 5.00% payable through November 2037		74,455
University Facilities Revenue Refunding Bonds, Series 2016-B, variable rate payable at 79% of one month LIBOR plus .72%, (3.203% 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		20,000
University Facilities Revenue Refunding Bonds, Series 2016-C, variable rate payable at 79% of one month LIBOR plus .77%, (3.253% 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, 2028		35,000
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, 2031		45,000
University Facilities Revenue Bonds, Series 2017, 2.00% to 5.00%, payable through October 2037		32,320
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		15,930

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University Facilities Revenue Bonds, Series 2019-C, 1.87%, payable through April 1, 2030	$	14,528
University Facilities Revenue Bonds, Series 2020, 4%, payable through April 1, 2040		35,090
University Facilities Revenue Bonds, Series 2021, 4%, payable through April 1, 2041		39,380
University Facilities Revenue Bonds, Series 2021-B 1.398%, payable through August 1, 2032		14,128
		422,304
Plus unamortized premium		38,019
Less unamortized debt extinguishment costs		(1,407)
	$	458,916

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 will begin maturing in April 2022 and are redeemable beginning April 2041. The Series 2021-B Bonds will begin maturing in August 2022 and are not subject to redemption.

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 $5,498,000, at September 30, 2022. The principal outstanding on all defeased bonds is $74,455,000 at September 30, 2022.

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In December 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016-B, C & D, with a face value totaling $100,000,000. The proceeds refunded the remaining outstanding Series 2006 Bonds. The gain on the refunding of the Series 2006 Bonds of $4,539,000 was recorded as a deferred inflow and is being amortized over the remaining life of the Series 2016-B, C & D Bonds. The balance of the related net deferred inflow at September 30, 2022 totaled $3,215,000.

In September 2021, the terms for Bonds 2016-B, 2016-C and 2016-D were revised to address the removal of the LIBOR rate to be replaced by the ISDA-based replacement index after the year ended September 30, 2021. The dates by which the Lender may cause all of the outstanding principal on such bonds to mature and become due and payable by the University were extended 5 years for each bond.

On March 5, 2021, the FCA announced the final publication date for US LIBOR is June 30, 2023. Loans maturing after the end of LIBOR will be reviewed to determine if appropriate language, referred to as fallback language, is used to provide for the replacement of LIBOR with an alternative index. The ARRC has recommended the SOFR as an alternative to replace LIBOR.

Approximately $1,354,000 of proceeds from the issuance of the Series 2020 Bonds remained unspent at September 30, 2022 and are included in restricted cash and cash equivalents on the statement of net position. Approximately $27,780,000 of proceeds from the issuance of the Series 2021 Bonds remained unspent at September 30, 2022 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, 2022, no amounts were due or recorded in the financial statements.

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

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Debt Service on Long-Term Obligations

Total debt service (which includes bonds and notes payable) by year is as follows at September 30, 2022 (in thousands):

	Debt service on notes and bonds				
	Bonds		Notes payable from direct borrowing		
	Principal	Interest	Principal	Interest	Total
2023	$ 22,324	14,095	618	11	37,048
2024	23,292	13,550	—	—	36,842
2025	21,289	12,962	—	—	34,251
2026	22,190	12,343	—	—	34,533
2027	23,095	11,701	—	—	34,796
2028–2032	121,199	47,206	—	—	168,405
2033–2037	125,410	26,508	—	—	151,918
2038-2042	41,380	9,885	—	—	51,265
2043-2047	15,950	3,928	—	—	19,878
2048–2052	6,175	468	—	—	6,643
Subtotal	422,304	$ 152,646	618	11	575,579
Plus (less):					
Unamortized bond premium	38,019		—		
Unamortized debt extinguishment costs	(1,407)		—		
Total	$ 458,916		618		

(9) Financing Leases

(a) University of South Alabama

Lessee Activities

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 identified as a financing lease is recorded as a right of use asset and financing lease obligation. Financing lease 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 financing lease obligation.

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A summary of the University's financing lease right of use assets activity for the year ended September 30, 2022 follows (in thousands):

		Adjusted Beginning Balance	Additions	Reductions	Ending Balance
Right of use assets:					
Automobile	$	15	—	—	15
Buildings		63	7,895	—	7,958
Equipment		12,043	17,181	(1,345)	27,879
Office space		—	4,797	(415)	4,382
		12,121	29,873	(1,760)	40,234
Less accumulated amortization for right of use assets:					
Automobile		—	(6)	—	(6)
Buildings		—	(1,248)	—	(1,248)
Equipment		—	(7,552)	1,345	(6,207)
Office space		—	(1,314)	415	(899)
		—	(10,120)	1,760	(8,360)
Right of use assets, net	$	12,121	19,753	—	31,874

The University leases various automobiles, buildings, equipment and office space under financing leases expiring at various dates through 2042. Aggregate future minimum lease payments under noncancelable finance leases as of September 30, 2022, by year, are as follows (in thousands):

		Principal	Interest	Total
2023	$	9,374	1,338	10,712
2024		7,632	1,019	8,651
2025		4,223	694	4,917
2026		2,631	519	3,150
2027		2,283	384	2,667
2028 - 2032		5,795	631	6,426
2033 - 2037		21	4	25
2038 - 2042		5	—	5
Financing lease obligations	$	31,964	4,589	36,553

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

The University has commitments of $1,543,000 under financing leases for which the lease term has not commenced as of September 30, 2022.

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

Lessor Activities

The University leases land, buildings, and suites to various lessees under financing leases expiring at various dates through 2042. For the year ended September 30, 2022, the University recognized a total of $856,000 of inflows of resources from leases, of which $749,000 was recognized as lease revenue and $108,000 was recognized as a component of interest income in the statement of revenues, expenses, and changes in net position.

(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 to five tenants under financing leases. The first lease has a 5-year initial term expiring in October 2023 with two 5-year renewal options. The second lease has a 5-year initial term expiring in August 2024 with one 5-year renewal option. The third lease has a 7.5-year initial term expiring in June 2025 with two 5-year renewal options. The fourth and fifth lease have 5-year terms expiring in April 2024 and July 2024 with no renewal options.

Space in Buildings II and III is leased under both financing leases and short-term leases 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).

Space under lease to the University was 78,123 square feet at September 30, 2022.

The Corporation owns a building located on the premises of the USA University Hospital, which is leased to a single tenant under a financing lease. 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, expiring in March 2020, with three 5-year renewal options. The lease was renewed for an additional 5 years, expiring in March 2025, 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.

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The Corporation, as lessor, had three ground leases in place at September 30, 2022. 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, four have early termination options. Two tenants 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.

For the year ended September 30, 2022, the Corporation recognized a total of $4,151,000 of inflows of resources from financing leases, of which $3,691,000 was recognized as lease revenue and $459,000 was recognized as interest income in other nonoperating revenues.

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

		Principal	Interest	Total
2023	$	3,546	380	3,926
2024		2,047	287	2,334
2025		1,092	239	1,331
2026		630	213	843
2027		450	197	647
2027 - 2032		1,895	782	2,677
2033 - 2037		1,099	577	1,676
2038 - 2042		1,398	386	1,784
2043 - 2047		1,451	148	1,599
2048 - 2052		131	36	167
2053 - 2056		162	13	175
Financing lease obligations	$	13,901	3,258	17,159

(c) Health Care Authority

Lessee Activities

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 identified as a financing lease is recorded as a right-of-use asset and financing lease obligations.

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A summary of HCA's financing lease right-of-use assets activity for the year ended September 30, 2022 follows (in thousands):

		Adjusted Beginning Balance	Additions	Reductions	Ending Balance
Right of use assets:					
Buildings	$	12,824	806	(135)	13,495
Equipment		66	14	—	80
		12,890	820	(135)	13,575
Less accumulated amortization for right of use:					
Buildings		—	(2,062)	135	(1,927)
Equipment		—	(37)	—	(37)
		—	(2,099)	135	(1,964)
Right of use assets, net	$	12,890	(1,279)	—	11,611

HCA leases various buildings and equipment under financing leases expiring at various dates through 2032.

Aggregate future minimum lease payments under noncancelable financing leases at September 30, 2022, by year, are as follows (in thousands):

		Principal	Interest	Total
2023	$	1,882	440	2,322
2024		1,853	366	2,219
2025		1,876	290	2,166
2026		1,671	219	1,890
2027		1,683	152	1,835
2028 - 2032		2,893	196	3,089
Financing lease obligations	$	11,858	1,663	13,521

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

HCA has commitments of $15,562,000 under financing leases for which the lease term has not commenced as of September 30, 2022.

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Lessor Activities

HCA subleases buildings and suites to the University of South Alabama under financing leases expiring at various dates through 2032. For the year ended September 30, 2022, HCA recognized a total of $60,000 of inflows of resources from leases, of which $50,000 was recognized as lease revenue and $11,000 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.

(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, 2022 totaled $20,842,000.

The 2014 swap will terminate in March 2024, when the Series 2014-A Bonds mature. The notional amount of the swap will at all times match the outstanding principal amount of the related bonds. Under the swap, the University pays the counterparty a fixed semi-annual payment based on an annual rate of 4.9753% and receives on a monthly basis a variable payment of 68% of the one-month LIBOR plus 0.25%. Conversely, the Series 2014-A Bonds bear interest on a monthly basis at 68% of the one-month LIBOR rate plus 73 basis points.

The 2016 swap will terminate in December 2036, when the Series 2016-B, C & D Bonds mature. The notional amount of the swap will at all times match the outstanding principal amount of the related bonds. Under the swap, the University pays the counterparty a fixed semi-annual payment based on an annual rate of 5% and receives on a monthly basis a variable payment of 68% of the one-month LIBOR plus 25 basis points. Conversely, the Series 2016-B, C & D Bonds bear interest at a variable rate of 79% of the benchmark plus 72, 77 and 83 basis points, respectively.

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 $294,000 in the statement of net position at September 30, 2022. The change in the fair value of the swap of $1,369,000, during the year ended September 30, 2022, is reported as a 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 $1,076,000 at September 30, 2022.

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 $17,776,000 in the statement of net position at September 30, 2022. The change in the fair value of the swap of $18,877,000 during the year ended September 30, 2022, is reported as a deferred outflow and contra asset (other noncurrent assets) in the statement of net position at September 30, 2022 since the interest rate swap is a hedging derivative instrument. Net deferred inflows and outflows of resources for the 2016 swap totaled $16,175,000 at September 30, 2022.

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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 LIBOR rate decreases, the net payments on the swaps increase. This, however, is mitigated by the fact that a decline in the LIBOR rate will also result in a decrease of the University's interest payments on the related bonds. The University's exposure is limited to 0.48% and 0.54% of the notional amounts, the difference in the payment from the counterparty and the interest payment on the related bonds.

Credit risk: As of September 30, 2022, the University was not exposed to credit risk on the interest rate swaps because they had a negative fair value. However, if interest rates change and the fair value of the derivatives become positive, the University would have a gross exposure to credit risk in the amount of the derivative's fair value. The counterparty was rated Aa2 by Moody's Investor Services and A+ by Standard & Poor's Ratings Services as of September 30, 2022.

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, 2022 and calculating interest for subsequent years using forward rates of one-month LIBOR, 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**
2023	$	8,050	305	376	8,731
2024		8,455	123	108	8,686
Total	$	16,505	428	484	17,417

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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
2023	$	—	2,693	2,847	5,540
2024		—	2,849	2,691	5,540
2025		5,600	2,440	2,937	10,977
2026–2030		32,610	9,389	12,380	54,379
2031–2035		41,880	4,916	6,575	53,371
2036–2039		19,910	382	708	21,000
Total	$	100,000	22,669	28,138	150,807

(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.

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, 2015.

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 13% of USA Health’s patient service revenues for the year ended September 30, 2022.

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.

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Revenues from the Blue Cross program accounted for approximately 27% of USA Health's patient service revenues for the year ended September 30, 2022.

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.

Revenues from the Medicaid program accounted for approximately 23% of USA Health's patient service revenues for the year ended September 30, 2022.

Other – USA Health has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payments to USA Health under these agreements include discounts from established charges and prospectively determined daily and case rates.

The composition of patient service revenues for the year ended September 30, 2022 follows (in thousands):

Gross patient service revenues	$	1,884,224
Less:		
Provision for contractual and other adjustments		(1,067,355)
Provision for bad debts		(96,814)
	$	720,055

Changes in estimates related to prior cost reporting periods resulted in an increase of approximately $435,000 in patient service revenues for the year ended September 30, 2022.

(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

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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 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 were 12.43% of annual pay for Tier 1 members and 11.32% 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 $22,005,000 for the year ended September 30, 2022.

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

At September 30, 2022, the University reported a liability of $237,578,000 for its proportionate share of the collective net pension liability. At September 30, 2022, the collective net pension liability was measured as of September 30, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2020. 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, 2021, the University's proportion of contributions to the pension plan was 2.521971%, which was a decrease of 0.029359% from its proportion measured as of September 30, 2020 of 2.551330%.

For the year ended September 30, 2022, the University recognized pension expense of approximately $5,810,000, which is included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

At September 30, 2022, 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
Net difference between projected and actual earnings on pension plan investments	$ —	56,080
Changes of assumptions	24,939	—
Differences between expected and actual experience	11,000	13,842
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	21,733
Employer contributions subsequent to measurement date	22,005	—
	$ 57,944	91,655

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At September 30, 2022, approximately $22,005,000 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, 2023. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ending September 30:		
2023	$	(14,587)
2024		(10,976)
2025		(13,258)
2026		(16,896)
	$	(55,717)

(e) Actuarial Assumptions

The total pension liability as of September 30, 2022 was determined by an actuarial valuation as of September 30, 2020, 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, 2020 valuation were based on the results of an actuarial experience study for the period 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.

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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%

(f) Discount Rate

The discount rate used to measure the total pension liability as of September 30, 2022 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.

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(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 1-percentage point lower (6.45%) or 1-percentage point higher (8.45%) than the current rate (in thousands):

		September 30, 2022		
		1% Decrease (6.45)%	**Current rate (7.45)%**	**1% Increase (8.45)%**
University's proportionate share of collective net pension liability	$	349,692	237,578	143,149

(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, 2021 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, 2021. The auditors' report dated January 19, 2022 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, 2021 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) and Variable Annuity Life Insurance Company (VALIC). Under this plan, contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University contributed $400,000 in 2022, representing 177 employees for 2022 participating in this Plan.

All employees of HCM working at least half time are eligible to participate in a defined contribution pension plan. The plan is administered by HCM and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, TIAA-CREF and VALIC. Under this plan, contributions by eligible employees are matched equally by HCM up to a maximum of 5% of current annual pay. HCM contributed $7,459,000 in 2022, representing 2,294 employees, participating in this plan. University

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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. Through September 30, 2022, 69 employees are participating 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 $12,085,000 at September 30, 2022. 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 health care 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 net OPEB liability and the OPEB expense in the financial statements as well as enhanced financial statements note disclosures.

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(b) Benefits Provided

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

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

(c) Contributions

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

Total employer contributions to the OPEB plan from the University were $5,859,000 for the year ended September 30, 2022.

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

At September 30, 2022, the University reported a liability of $205,378,000 for its proportionate share of the net OPEB liability. At September 30, 2022, the net OPEB liability was measured as of September 30, 2021 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020. 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, 2021, the University's proportion of contributions to the OPEB plan was 3.974950%, which was a decrease of 0.041260% from its proportion measured as of September 30, 2020 of 4.016210%.

For the year ended September 30, 2022, the University recognized OPEB expense of approximately $1,286,000, which is included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

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At September 30, 2022, 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
Net difference between projected and actual earnings on OPEB plan investments	$ —	6,406
Differences between expected and actual experience	4,859	71,452
Changes of assumptions	73,144	79,606
Changes in proportion and differences between employer contributions and proportionate share of contributions	77,991	29,515
Employer contributions subsequent to the measurement date	5,859	—
	$ 161,853	186,979

At September 30, 2022, approximately $5,859,000 reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2023.

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

Year ending September 30:	
2023	$ (15,970)
2024	(16,131)
2025	(15,794)
2026	14,704
2027	8,516
Thereafter	(6,310)
	$ (30,986)

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(e) Actuarial Assumptions

The total OPEB liability as of September 30, 2022 was determined by an actuarial valuation performed as of September 30, 2020, 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	2.29 %
Projected year for fiduciary net position to be depleted	2051
Single equivalent interest rate at the measurement date	3.97 %
Health care 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	2028
Medicare eligible	2025

* 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 2021

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, health care cost trends, rate of plan participation, rates of plan election, etc.) of the total OPEB liability were based on the September 30, 2020 valuation.

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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 2.5% inflation

(f) Discount Rate

The discount rate used to measure the total OPEB liability at September 30, 2021 was 3.97%. 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. 12.990% of the employer contributions were used to assist in funding retiree benefit payments in 2021. It is assumed that the 12.990% 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 2024. 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 2119. The long-term rate of return is used until the assets are expected to be depleted in 2051, after which the municipal bond rate is used.

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

The following table presents the University's proportionate share of the net OPEB liability calculated using the health care cost trend rate of 4.50%, as well as what the net OPEB liability would be if calculated using 1-percentage point lower 3.50% or 1-percentage point higher 5.50% than the current rate (in thousands):

		September 30, 2022		
		1% Decrease (3.50)%	Current rate (4.50)%	1% Increase (5.50)%
University's proportionate share of collective net OPEB liability	$	161,155	205,378	262,356

The following table presents the University's proportionate share of the net OPEB liability calculated using the discount rate of 3.97%, as well as what the net OPEB liability would be if calculated using 1-percentage point lower 2.97% or 1-percentage point higher 4.97% than the current rate (in thousands):

		September 30, 2022		
		1% Decrease (2.97)%	Current rate (3.97)%	1% Increase (4.97)%
University's proportionate share of collective net OPEB liability	$	252,624	205,378	167,482

(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, 2021. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2021. 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.

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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, 2022. Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. These liabilities are generally based on actuarial valuations and are reported at their present value.

The University, HCM and HCA each participate in a separate self-insured health plan administered by unaffiliated entities. Administrative fees paid by the University for such services were approximately $2,613,000 in 2022. Contributions by the University and its employees, together with earnings thereon, are used to pay liabilities arising from health care 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, 2022 for the PLTF, GLTF and health plan are summarized as follows (in thousands):

Balance, beginning of year	$	41,610
Liabilities incurred and other additions		95,550
Claims, administrative fees paid and other reductions		(87,145)
Balance, end of year	$	50,015

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

(16) Other Related Parties and Related-Party Transactions

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. At September 30, 2022, SAMSF had total assets of $10,652,000, net assets of $10,627,000, and total revenues of $1,509,000 for the year then ended.

(17) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2022, the University had been awarded approximately $82,936,000 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 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.

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(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.

(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, 2022, no amounts were payable pursuant to these agreements.

(d) USA Research and Technology Corporation Leases

The University has commitments under financing leases with the Corporation. Space under lease to the University was 78,123 square feet at September 30, 2022. See note 9 for additional details.

(18) Functional Expense Information

Operating expenses by functional classification for the year ended September 30, 2022 are as follows (in thousands).

Instruction	$ 116,918
Research	28,720
Public service	11,908
Academic support	25,888
Student services	36,573
Institutional support	27,097
Operation and maintenance of plant	30,313
Scholarships	16,766
USA Health	722,957
Auxiliary enterprises	12,876
Depreciation and amortization	64,874
	$ 1,094,890

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(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, 2022 as follows (in thousands):

Current assets	$	19,810
Noncurrent assets		51,617
Total assets		71,427
Current liabilities		22,342
Noncurrent liabilities		44,558
Total liabilities		66,900
Net position	$	4,527
Operating revenues	$	328,392
Operating expenses		(317,464)
Operating income		10,928
Nonoperating revenues		—
Nonoperating expenses		(10,128)
Change in net position	$	800

(20) Recently Issued Accounting Pronouncements

The GASB issued Statement No. 95*, Postponement of the Effective Dates of Certain Authoritative Guidance*, in May 2020. Statement 95 was effective immediately to provide temporary relief in light of the COVID-19 pandemic by postponing the effective dates of certain provisions of other GASB statements that are effective or scheduled to become effective for periods beginning after June 15, 2018. The effective date of the statements noted below have been adjusted to reflect the postponed effective date as provided by Statement No. 95.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, which will be effective beginning with the fiscal year ending September 30, 2023. 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.

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In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective beginning with the fiscal year ending September 30, 2023. Statement No. 96 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.

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 effective upon issuance. The requirements related to leases, public-private and public-public partnerships (PPP) and SBITA are effective for fiscal years beginning after June 15, 2022 and 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.

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. 91, 96, 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.

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The CARES Act was signed into law on March 27, 2020 and is 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 health care providers for purposes of covering costs incurred and lost revenues due to the pandemic. Through September 30, 2022, the University (including USA Health) has been awarded $99,254,000 in CARES Act, and other funding from federal and state sources for COVID-19 relief. Of this amount $6,189,000 was awarded during the year ended September 30, 2022. Of the total amounts awarded $22,464,000 has been recognized as nonoperating revenue in the statement of revenues, expenses, and changes in net position for the year ended September 30, 2022.

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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 2022

(In thousands)

	2022	2021	2020	2019	2018	2017	2016	2015
University's proportion of the net pension liability	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	$ 237,578	315,591	294,615	282,739	296,654	336,477	329,294	297,734
University's covered-employee payroll	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	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	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 2022

(In thousands)

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

(In thousands)

	2022	2021	2020	2019	2018	2017
University's proportion of the net OPEB liability	3.974950 %	4.016210 %	2.737717 %	3.156420 %	3.449076 %	2.963813 %
University's proportionate share of the net OPEB liability	$ 205,378	260,646	103,288	259,418	256,178	238,060
University's covered-employee payroll	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	109.17 %	140.90 %	56.79 %	136.14 %	133.76 %	118.75 %
Plan fiduciary net position as a percentage of the total OPEB liability	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 2022

(In thousands)

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

(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, 2022 was determined by an actuarial valuation as of September 30, 2020, 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, 2020 valuation were based on the results of an actuarial experience study for the period 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, 2022 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.

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UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Notes to Required Supplementary Schedules (Unaudited)
September 30, 2022

(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, 2018, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28.3 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increase	3.25% to 5.00%, including inflation
Investment rate of return	7.70%, 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 2020, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to more closely reflect actual experience.

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, health care cost trends, rate of plan participation, rates of plan election, etc.) of the total OPEB liability were based on the September 30, 2020 valuation.

(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.

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(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, 2018, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule for the year ended September 30, 2022:

Actuarial cost method	Entry age normal
Amortization method	Level percent of pay, closed
Remaining amortization period	23 years
Asset valuation method	Market value of assets
Inflation	2.750%
Health care cost trend rate:	
Pre-medicare eligible	6.75%
Medicare eligible	5.00%
Ultimate trend rate:	
Pre-medicare eligible	4.75%
Medicare eligible	4.75%
Year of ultimate trend rate	2026 for Pre-medicare eligible 2024 for Medicare eligible
Investment rate of return	5.00%, including inflation
Optional plans trend rate	2.00%


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