



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

Basic Financial Statements

September 30, 2024

(With Independent Auditors' Report Thereon)

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Basic Financial Statements
September 30, 2024

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Introduction

The following discussion presents an overview of the financial position and financial activities of University of South Alabama (the University), including the University of South Alabama Health System (USA Health), a division of the University, at September 30, 2024 and 2023, and for the years then ended. This discussion has been prepared by University management and should be read in conjunction with the financial statements and notes thereto, which follow.

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

Financial Highlights

In April 2023, the University of South Alabama Health Care Authority (HCA), a component of the University, entered into an agreement with Gulf Coast Health System to acquire an acute care hospital, its ancillary-related healthcare delivery businesses, and related facilities effective October 1, 2023. This acquisition is referred to as Ascension Providence. In April 2023, the University delivered up to \$80,000,000 University Facilities Revenue Bond (Draw-Down Loan), Series 2023-A, and up to \$20,000,000 Taxable University Facilities Revenue Bond (Draw-Down Loan), Series 2023-B. The short-term draw-down loans, along with internal contributions from the University, financed this acquisition. In return, the assets and liabilities acquired were assigned to the University at closing. These assets and liabilities are included in prepaid expenses, inventories, and other, capital assets, net, accounts payable and accrued liabilities, and noncurrent investments on the statement of net position. The University entered into an agreement with HCA to lease the acute care hospital and related facilities which HCA now manages and operates on behalf of the University. This lease agreement was recorded in accordance with GASB Statement No. 87, *Leases*, and is reflected in the University's current and noncurrent lease receivable balance on the statement of net position. See note 8 and 9 for additional detail.

At September 30, 2024 and 2023, the University had total assets and deferred outflows of approximately \$2,361,597,000 and \$2,049,385,000, respectively; total liabilities and deferred inflows of approximately \$1,676,936,000 and \$1,556,146,000, respectively; and net position of approximately \$684,661,000 and \$493,239,000, respectively.

As of September 30, 2023, the University held approximately \$89,590,000 in escrow for the Ascension Providence acquisition which was included in restricted cash on the statement of net position. The Ascension Providence acquisition, along with the termination of the 2016 swap and the final payment for the Series 2014 bond, attributed to an overall decrease in both restricted and unrestricted cash balances between 2023 and 2024 of \$87,776,000, or 25%, to \$270,194,000. There was a notable increase in investment balances between 2023 and 2024, increasing by \$33,315,000, or 8%, to \$439,302,000 at September 30, 2024. The University has

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experienced a significant growth in its healthcare operations over the past several years incurring increases in patient service revenues of \$134,810,000, or 17%, between 2023 and 2024.

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

Analysis of Financial Position and Results of Operations

Statement of Net Position

The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows, and net position of the University at September 30, 2024. Net position is displayed in three parts: net investment in capital assets, restricted, and unrestricted. Restricted net position may be either expendable or nonexpendable and is the net position that is restricted by law or external donors. Unrestricted net position is generally designated by management for specific purposes and is available for use by the University to meet current expenses for any purpose. The statement of net position, along with all of the University's basic financial statements, is prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

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The condensed schedules of net position at September 30, 2024 and 2023 follow (in thousands):

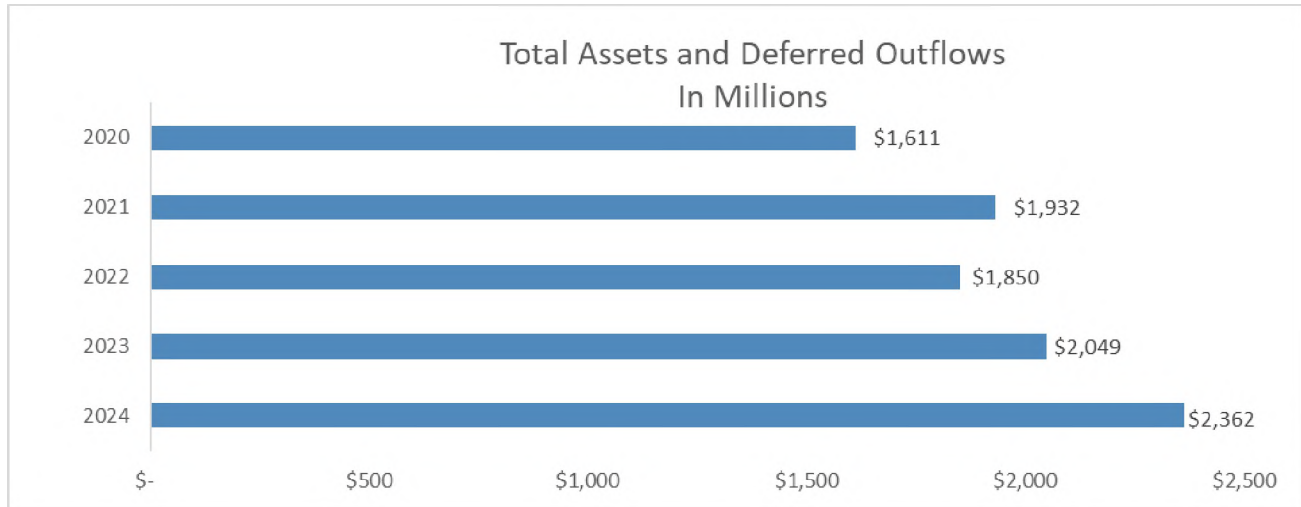
Condensed Schedules of Net Position

	<u>2024</u>	<u>2023</u>
Assets:		
Current	\$ 530,482	508,729
Capital assets, net	1,058,424	914,673
Other noncurrent	<u>511,320</u>	<u>383,610</u>
Total assets	2,100,226	1,807,012
Deferred outflows	<u>261,371</u>	<u>242,373</u>
Total assets and deferred outflows	<u><u>2,361,597</u></u>	<u><u>2,049,385</u></u>
Liabilities:		
Current	\$ 236,087	307,203
Noncurrent	<u>1,032,984</u>	<u>934,032</u>
Total liabilities	1,269,071	1,241,235
Deferred inflows	<u>407,865</u>	<u>314,911</u>
Total liabilities and deferred inflows	<u><u>\$ 1,676,936</u></u>	<u><u>1,556,146</u></u>
Net position:		
Net investment in capital assets	\$ 475,614	383,248
Restricted, nonexpendable	82,633	79,728
Restricted, expendable	121,306	90,416
Unrestricted (deficit)	<u>5,108</u>	<u>(60,153)</u>
Total net position	<u><u>\$ 684,661</u></u>	<u><u>493,239</u></u>

Assets included in the statement of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments, patient receivables, and accounts receivable, other. Of these amounts, cash and cash equivalents, investments, patient receivables, and accounts receivable, other comprise approximately 49%, 14%, 18%, and 13% respectively, of current assets at September 30, 2024. Noncurrent assets consist primarily of restricted investments, lease receivables, and capital assets. The increase in total assets and deferred outflows is attributed to an increase in capital assets and lease receivables.

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



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

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

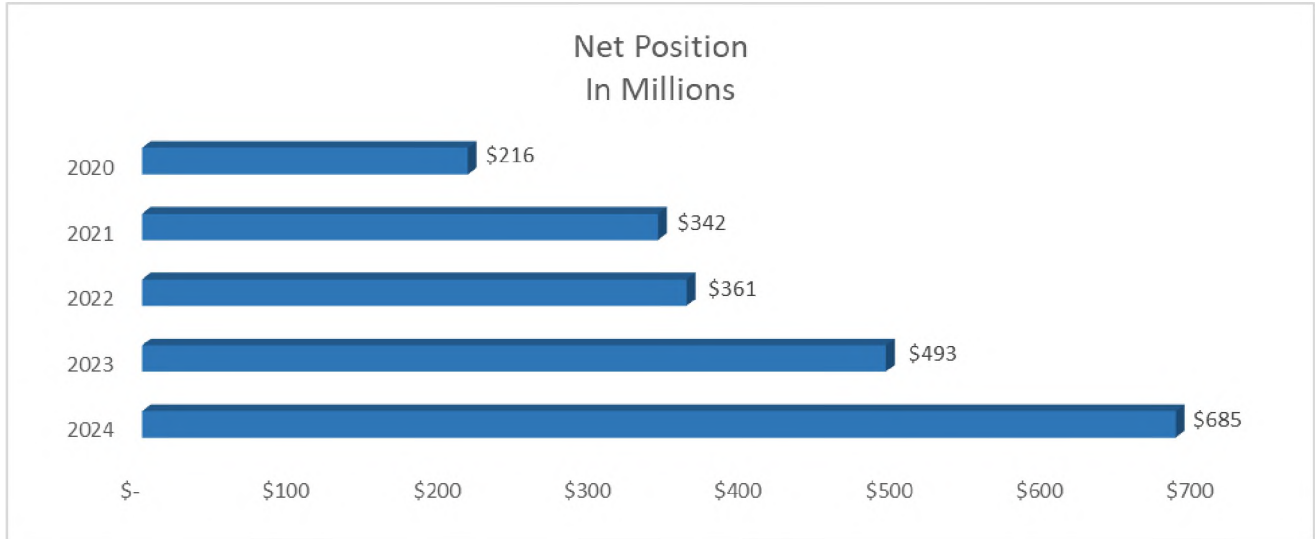
Restricted nonexpendable net position consists primarily of the University's permanent endowment funds. In accordance with the policies of the University and donor agreements, the earnings from these funds may be expended, but the corpus may not be expended and must remain intact with the University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

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

Unrestricted 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, 2024 is the impact of the net pension liability recorded pursuant to the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions--an amendment of GASB Statement No. 27*, and the impact of the net OPEB liability recorded pursuant to the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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



Restricted net position increased by approximately \$33,795,000 between September 30, 2024 and 2023, primarily due to market increases on endowment investments and gifts to the University. Unrestricted net position increased from \$(60,153,000) to \$5,108,000 between September 30, 2024 and 2023. A summary of unrestricted net position (deficit) at September 30, 2024 and 2023 is summarized as follows (in thousands):

	<u>2024</u>	<u>2023</u>
Unrestricted deficit related to net pension liability	\$ (349,710)	(375,894)
Unrestricted deficit related to net OPEB liability	(78,808)	(53,421)
Unrestricted net position related to other activity	433,626	369,162
Unrestricted net position (deficit)	<u>\$ 5,108</u>	<u>(60,153)</u>

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 tuition and fees (net of scholarship allowances), patient service revenues (net of provision for bad debts), most noncapital grants and contracts, revenues from auxiliary enterprises, and sales and services of educational

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activities. Operating expenses are those expenses paid or incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the University.

Nonoperating revenues have the characteristics of nonexchange transactions because, generally, no goods or services are provided. Such transactions include state appropriations, net investment income, increase from termination of hedging instrument, 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, and transfers to affiliates to fund operations.

The condensed schedules of revenues, expenses, and changes in net position for the years ended September 30, 2024 and 2023 follow (in thousands):

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

	2024	2023
Operating revenues:		
Tuition and fees, net	\$ 135,733	125,929
Patient service revenues, net	926,256	791,446
Federal, state, and private grants and contracts	63,915	62,507
Auxiliary, net and other	106,387	80,143
	1,232,291	1,060,025
Operating expenses:		
Salaries and benefits	739,331	653,681
Supplies and other services	461,047	418,707
Other	139,699	115,211
	1,340,077	1,187,599
Operating loss	(107,786)	(127,574)

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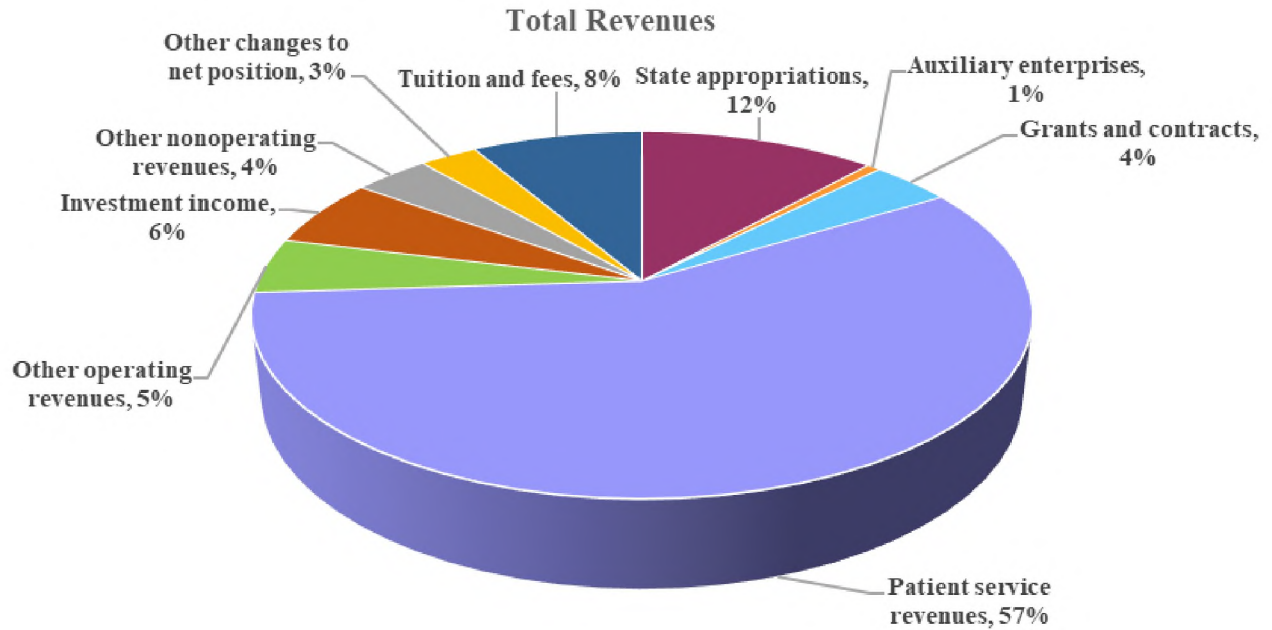
Condensed Schedules of Revenues, Expenses, and Changes in Net Position
(continued)

	2024	2023
Nonoperating revenues and expenses:		
State appropriations	\$ 187,908	181,177
Net investment income	83,382	42,889
Other, net	(18,269)	(2,920)
Net nonoperating revenues	253,021	221,146
Income before capital appropriations, contributions and grants, and additions to endowment	145,235	93,572
Capital appropriations, contributions and grants, and additions to endowment	46,187	38,479
Increase in net position	191,422	132,051
Beginning net position	493,239	361,188
Ending net position	\$ 684,661	493,239

Approximately 57% of total revenues of the University were patient service revenues, net in 2024. Excluding patient service revenues, tuition and fees charged to students and state appropriations represent the largest component of total University revenues, approximately 8% and 12% of total revenues in 2024, respectively. In 2024, grants and contracts (federal, state, and private) represented approximately 4% of total revenues.

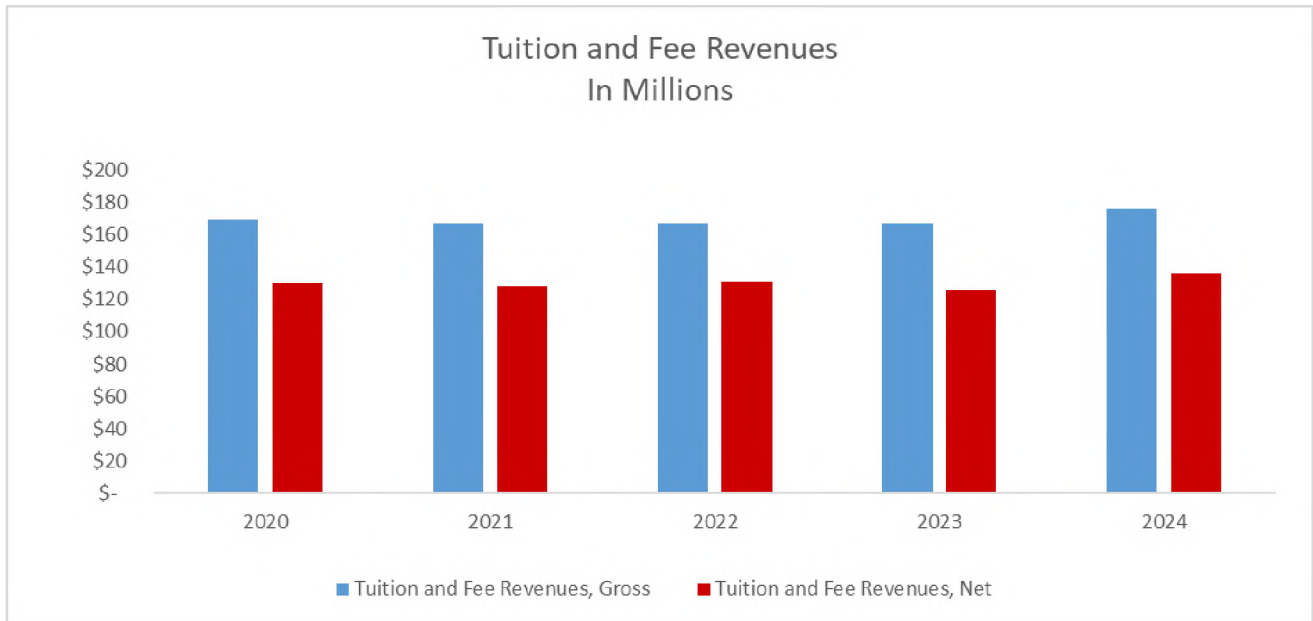
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A summary of University revenues for the year ended September 30, 2024 is presented as follows:



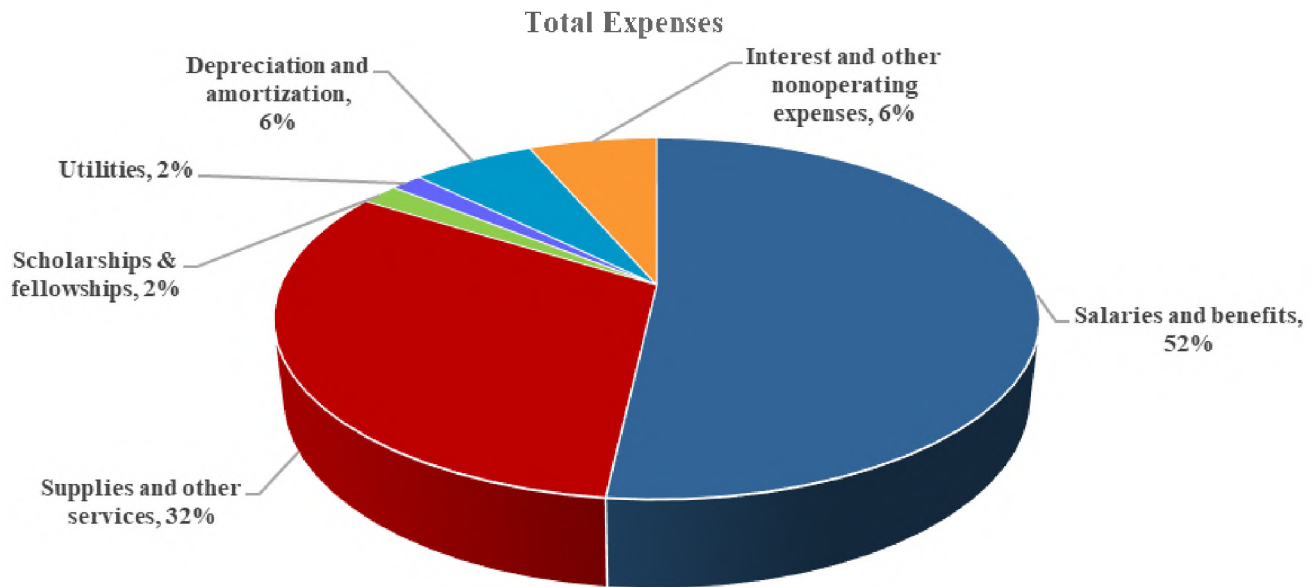
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Tuition revenues have generally remained steady in recent years. Although tuition rates did not increase from 2023 to 2024, there was a slight increase in tuition revenues due to an increase in enrollment. Tuition and fees, gross and net of scholarship allowances, for the past five fiscal years are as follows:



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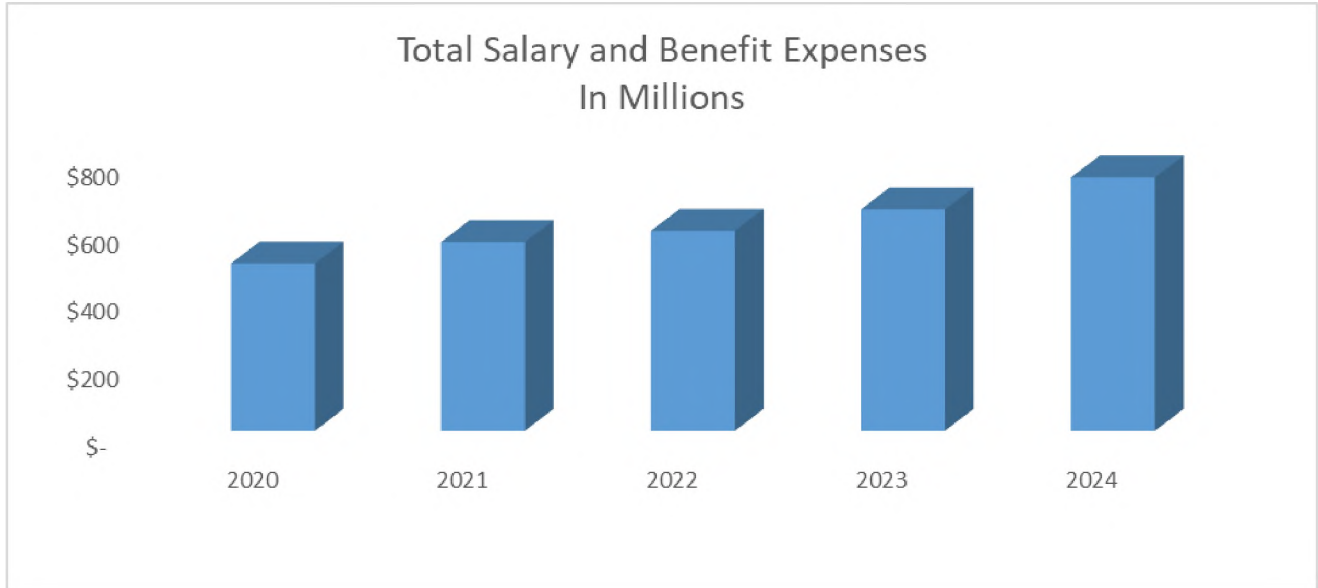
University expenses are presented using their natural expense classifications. A summary of University expenses for the year ended September 30, 2024 is presented as follows:



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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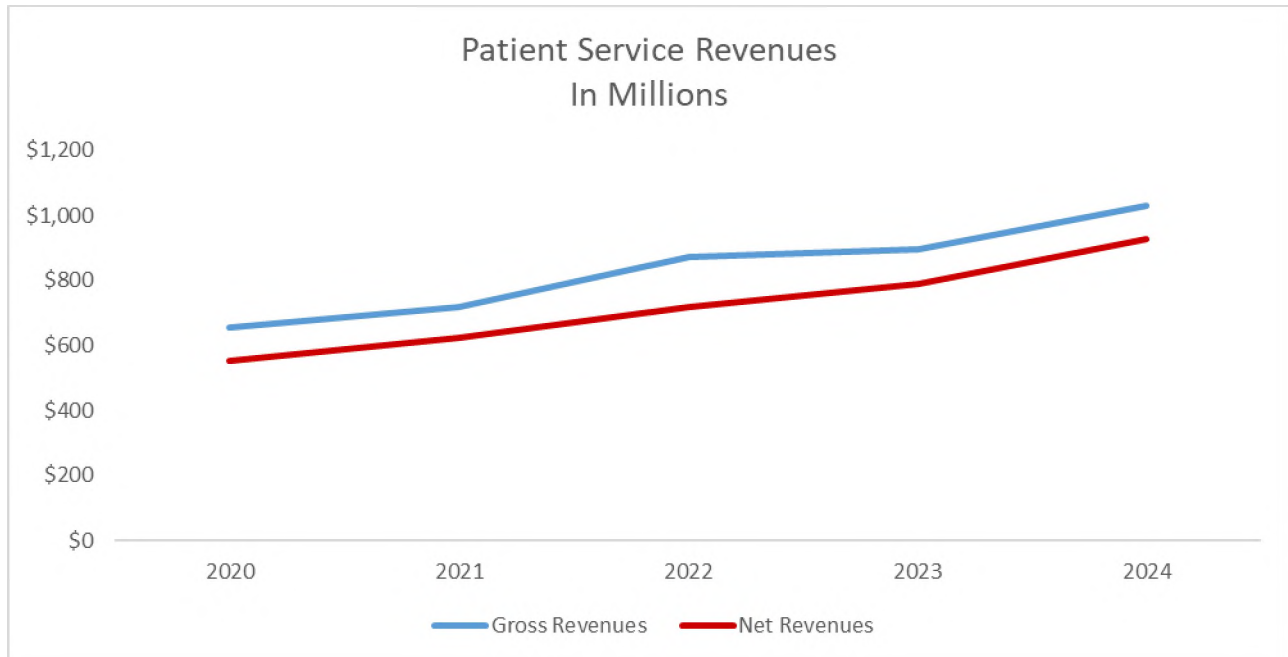
In 2024, approximately 52% of the University's total expenses were salaries and benefits.



For the year ended September 30, 2024, the University reported an operating loss of approximately \$107,786,000. The operating loss is offset by state appropriations, which, as mentioned earlier, are reported as nonoperating revenues. After considering all nonoperating revenues and expenses, including capital appropriations, capital contributions and grants, and additions to the endowment, the total increase in net position was approximately \$191,422,000 for the year ended September 30, 2024.

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

Capital Assets and Debt Administration

Total capital asset additions for the University were approximately \$245,578,000 in 2024. Significant construction projects that remain in progress as of September 30, 2024 include the new College of Medicine Building and related utility improvements, demolition of Alpha Hall South and East, Children's and Women's 5th floor renovation, Pediatric Emergency Department expansion, University Hospital Hybrid Operating Room renovation, and the Science Laboratory Building renovation. Major projects completed and placed into service in fiscal year 2024 include: the Physician's Office Building, North Drive utility and Central Energy Plant improvements; renovations of ROTC building, Simulation Lab, and Dining Hall; and construction of a Campus Storm Shelter and 3D Printing Lab. At September 30, 2024, the University had outstanding commitments of approximately \$196,632,000 for various capital projects. Additional information regarding the University's capital assets is included in note 5.

On March 5, 2021, the Financial Conduct Authority announced that the final publication date for US London Interbank Offered Rate (LIBOR) would be June 30, 2023. Loans maturing after the end of LIBOR were

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reviewed to determine if appropriate language, referred to as fallback language, was used to provide for the replacement of LIBOR with an alternative index. The Alternative Reference Rates Committee (ARRC) has recommended the Secured Overnight Financing Rate (SOFR) as an alternative to replace LIBOR. As recommended by the ARRC, all rate and fee settings for affected facilities maturing after the end of LIBOR have been replaced with a SOFR-based index.

In April 2023, the University delivered up to \$80,000,000 University Facilities Revenue Bond (Draw-Down Loan), Series 2023-A, and up to \$20,000,000 Taxable University Facilities Revenue Bond (Draw-Down Loan), Series 2023-B to finance the Ascension Providence acquisition. The 2023 Bonds were originally issued with April 2024 maturity dates. In March 2024, the University entered various amendments with respect to the 2023 Bonds to extend the maturity date to April 18, 2025. The 2023 Bonds were structured as draw-down obligations under which the University, from time to time through April 14, 2025, could request funds from the 2023-A totaling up to \$80,000,000 (2023-A Advances) and from the 2023-B totaling up to \$20,000,000 (2023-B Advances). In July 2024, the University issued long-term financing to refund the 2023-A and 2023-B Bonds by issuing its \$72,810,000 University Facilities Revenue Bonds, Series 2024-A and its \$19,925,000 Taxable University Facilities Revenue Bonds, Series 2024-B. In addition, the University refunded the Series 2016-B, 2016-C, and 2016-D Bonds by issuing its \$90,850,000 University Facilities Revenue Bond, 2024-C.

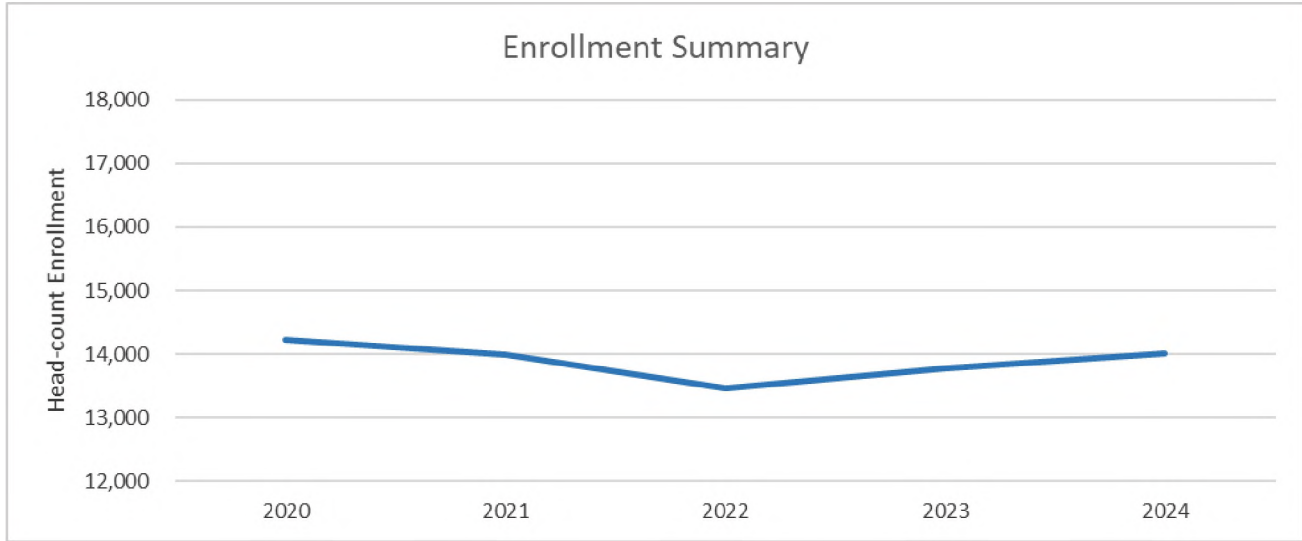
The University's credit rating is A1 (Stable) as rated by Moody's Investors Service and A+ (Stable) as rated by Standard and Poor's Global Ratings. Moody's Investors Services revised the University's outlook from negative to stable and affirmed its A1 issuer and revenue bond ratings in June 2024. Standard and Poor's Global Ratings affirmed the University's current rating in June 2024. Additional information regarding the University's debt is included in note 8.

Economic Outlook

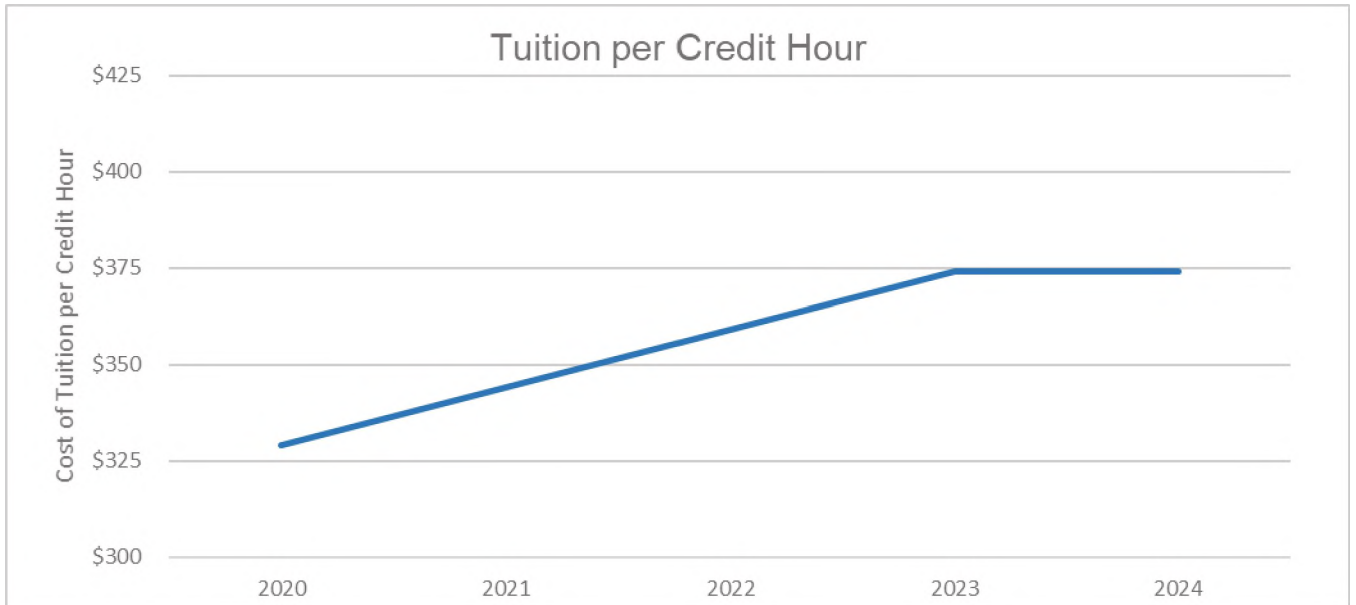
While tuition and fee rates per credit hour have increased over the past five years, there were declines in enrollment from 2020 to 2022. The University experienced an increase in enrollment of approximately 2% between Fall 2022 and Fall 2023 and an increase of 2% between Fall 2023 and Fall 2024. The rise in enrollment for Fall 2024 is due mainly to increased freshman enrollment.

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The enrollment trend for the University between 2020 and 2024 is as follows:



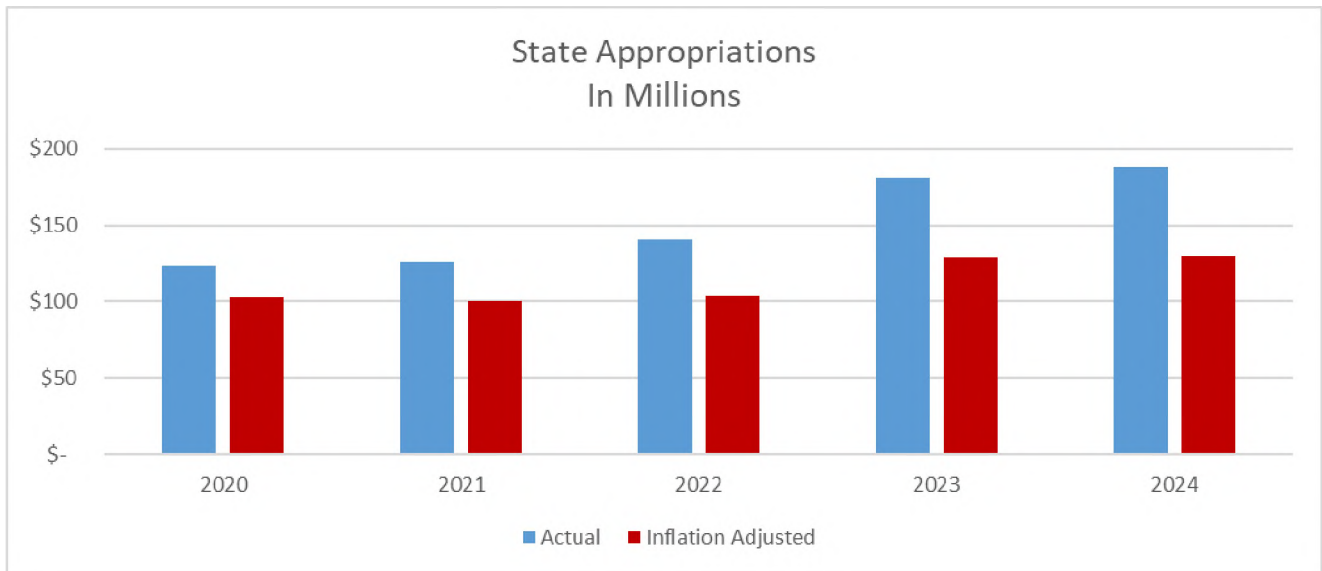
During the same period, in-state tuition per credit hour for in-person classes has increased by approximately 14%, with no increase from 2023 to 2024. Similar increases have been experienced in out-of-state tuition and College of Medicine tuition. Web tuition has decreased slightly during that period. The trend of in-state tuition per credit hour between 2020 and 2024 is as follows:



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A state appropriation in the amount of approximately \$150,375,000 and \$140,714,000 was authorized for the years ended September 30, 2024 and 2023, respectively. Additional appropriations of approximately \$37,533,000 and \$40,463,000 were received in 2024 and 2023 for advancement and technology, capital project improvements, certain academic and healthcare initiatives, and equipment. A state appropriation in the amount of approximately \$161,458,000, representing an increase of approximately 7%, has been authorized for the year ending September 30, 2025. While no announcement has been made, the University is aware that reductions in the 2025 appropriation are possible.

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



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

Requests for Information

These basic financial statements are designed to provide a general overview of the University of South Alabama and its component units' financial activities and to demonstrate the University's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Kristen Roberts; Chief Financial Officer; University of South Alabama Administration Building Suite 353, Mobile, Alabama 36688. These basic financial statements can be obtained from our website at <http://www.southalabama.edu/departments/financialaffairs/businessoffice/statements.html>.



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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), as of and for the year ended September 30, 2024, 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, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

We did not audit the financial statements of University of South Alabama Foundation, which represent 63% and 14%, respectively, of the assets and revenues, gains and other support of the aggregate discretely presented component units as of September 30, 2024 and for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for University of South Alabama Foundation, is based solely on the report of the other auditors.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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



Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2025 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
January 17, 2025

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

Statement of Net Position

September 30, 2024

(In thousands)

Current assets:	
Cash and cash equivalents	\$ 246,798
Restricted cash and cash equivalents	23,396
Investments	72,138
Patient receivables (net of allowance for doubtful accounts of \$84,006)	92,102
Accounts receivable, other	64,146
Notes receivable, net	1,545
Prepaid expenses, inventories, and other	20,872
Lease receivable, current portion	9,485
Total current assets	530,482
Noncurrent assets:	
Restricted investments	281,422
Investments	85,742
Other noncurrent assets and accounts receivable	37,481
Lease receivable, less current portion	106,675
Capital assets, net	1,058,424
Total noncurrent assets	1,569,744
Total assets	2,100,226
Deferred outflows	
Total assets and deferred outflows	2,361,597
Current liabilities:	
Accounts payable and accrued liabilities	105,996
Unrecognized revenues	68,670
Deposits	3,137
Current portion of other long-term liabilities	3,423
Current portion lease and subscription obligations	27,160
Current portion of long-term debt	27,701
Total current liabilities	236,087
Noncurrent liabilities:	
Long-term debt, less current portion	482,442
Lease and subscription obligations, less current portion	55,751
Other long-term liabilities, less current portion	66,273
Net pension liability	349,710
Net other postemployment benefits liability	78,808
Total noncurrent liabilities	1,032,984
Total liabilities	1,269,071
Deferred inflows	
Total liabilities and deferred inflows	407,865
Net position:	
Net investment in capital assets	475,614
Restricted, nonexpendable:	
Scholarships	48,447
Other	34,186
Restricted, expendable:	
Scholarships	42,310
Other	78,996
Unrestricted	5,108
Total net position	\$ 684,661

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, 2024

(In thousands)

Operating revenues:	
Tuition and fees (net of scholarship allowances of \$39,893)	\$ 135,733
Patient service revenues (net of provision for bad debts of \$103,155)	926,256
Federal grants and contracts	35,732
State grants and contracts	10,699
Private grants and contracts	17,484
Auxiliary enterprises (net of scholarship allowances of \$1,234)	26,830
Other operating revenues	79,557
Total operating revenues	1,232,291
Operating expenses:	
Salaries and benefits	739,331
Supplies and other services	461,047
Scholarships and fellowships	27,486
Utilities	22,801
Depreciation and amortization	89,412
Total operating expenses	1,340,077
Operating loss	(107,786)
Nonoperating revenues (expenses):	
State appropriations	187,908
Net investment income	83,382
Increase upon hedge termination	14,713
Interest expense	(21,201)
Other nonoperating revenues	60,015
Other nonoperating expenses	(71,796)
Net nonoperating revenues	253,021
Income before capital appropriations, capital contributions and grants, and additions to endowment	145,235
Other changes in net position:	
Capital appropriations	27,516
Capital contributions and grants	13,170
Additions to endowment	5,501
Total other changes in net position	46,187
Increase in net position	191,422
Net position:	
Beginning of year	493,239
End of year	\$ 684,661

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, 2024

(In thousands)

Cash flows from operating activities:	
Receipts related to tuition and fees	\$ 137,328
Receipts from and on behalf of patients and third-party payers	883,136
Receipts from grants and contracts	67,847
Receipts related to auxiliary enterprises	27,763
Payments to suppliers and vendors	(475,671)
Payments to employees and related benefits	(753,054)
Payments for scholarships and fellowships	(27,486)
Other operating receipts	55,134
Net cash used in operating activities	<u>(85,003)</u>
Cash flows from noncapital financing activities:	
State appropriations	187,908
Endowment gifts	5,501
Agency funds received	3,441
Agency funds disbursed	(3,018)
Student loan program disbursements	(141,048)
Student loan program receipts	140,803
Other nonoperating revenues	55,774
Other nonoperating expenses	(71,302)
Net cash provided by noncapital financing activities	<u>178,059</u>
Cash flows from capital and related financing activities:	
Capital contributions and grants	13,170
Purchases of capital assets	(148,976)
Proceeds from sales of capital assets	203
Proceeds from issuance of capital debt	198,440
Principal payments on capital debt	(263,286)
Interest payments on capital debt	(27,893)
Net cash used in capital and related financing activities	<u>(228,342)</u>
Cash flows from investing activities:	
Interest and dividends on investments	24,274
Purchases of investments	(108,838)
Proceeds from sales of investments	132,074
Net cash provided by investing activities	<u>47,510</u>
Net decrease in cash and cash equivalents	(87,776)
Cash and cash equivalents (unrestricted and restricted):	
Beginning of year	<u>357,970</u>
End of year	<u>\$ 270,194</u>

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

Statement of Cash Flows

Year ended September 30, 2024

(In thousands)

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (107,786)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	89,412
Changes in assets and liabilities, net:	
Student receivables	(1,008)
Net patient receivables	(43,752)
Grants and contracts receivables	3,153
Other receivables	(49,695)
Prepaid expenses, inventories, and other	(4,442)
Accounts payable and accrued liabilities	24,863
Unrecognized revenues	4,252
Net cash used in operating activities	<u>\$ (85,003)</u>
Reconciliation of cash and cash equivalents to the statement of net position:	
Cash and cash equivalents classified as current assets	\$ 246,798
Restricted cash and cash equivalents classified as current assets	2
Restricted cash and cash equivalents classified as noncurrent assets	<u>23,394</u>
Total cash and cash equivalents	<u>\$ 270,194</u>
Noncash investing, noncapital financing, and capital and related financing transactions:	
Net increase in fair value of investments recognized as a component of investment gains	\$ 53,232
Payments on behalf of the University by the Alabama Public School and College Authority reducing purchases of capital assets	27,516
Net increase in lease and subscription obligations	58,140
Addition of deferred inflow of resources related to lease receivables	117,626
Decrease in accounts payable related to capital projects	(1,664)
Addition of note payable due for financing purchases	102
Loss on disposals of capital assets	(182)
In connection with the Ascension Providence acquisition the noncash assets and liabilities acquired were as follows:	
Prepaid expenses, inventories, and other	\$ 7,737
Capital assets	81,467
Current liabilities	(2,236)
Other long term investments	2,622

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, 2024

(In thousands)

Assets		
Cash and cash equivalents	\$	1,819
Investments:		
Equity securities		262,850
Timber and mineral properties		178,218
Real estate		6,375
Other		5,815
Other assets		<u>504</u>
Total assets	\$	<u><u>455,581</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$	162
Other liabilities		<u>876</u>
Total liabilities		<u>1,038</u>
Net assets:		
Without donor restrictions		61,833
With donor restrictions		<u>392,710</u>
Total net assets		<u>454,543</u>
Total liabilities and net assets	\$	<u><u>455,581</u></u>

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, 2024

(In thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues, gains, losses, and other support:			
Net realized and unrealized gains on investments	\$ 7,675	48,900	56,575
Rents, royalties, and timber sales	3,200	161	3,361
Interest and dividends	893	2,163	3,056
Gifts	3	9	12
Required match of donor contributions	(4)	4	—
Interfund interest	(892)	892	—
Other income	43	—	43
Transfer of net assets	(24)	24	—
Net assets released from program restrictions	13,022	(13,022)	—
Total revenues, gains, losses, and other support	<u>23,916</u>	<u>39,131</u>	<u>63,047</u>
Expenditures:			
Program services:			
Faculty support	3,380	—	3,380
Scholarships	1,231	—	1,231
Other academic programs	11,942	—	11,942
Total program service expenditures	16,553	—	16,553
Management and general	2,936	—	2,936
Other investment expense	1,105	—	1,105
Depletion expense	3,631	—	3,631
Depreciation expense	48	—	48
Total expenditures	<u>24,273</u>	<u>—</u>	<u>24,273</u>
Change in net assets	(357)	39,131	38,774
Net assets – beginning of year	62,190	353,579	415,769
Net assets – end of year	<u>\$ 61,833</u>	<u>392,710</u>	<u>454,543</u>

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, 2024

(In thousands)

Assets:	
Current assets:	
Cash and cash equivalents	\$ 2,042
Lease receivable, current portion	2,926
Prepaid expenses and other current assets	66
Accrued interest receivable	58
Total current assets	<u>5,092</u>
Noncurrent assets:	
Capital assets, net	17,367
Lease receivable, less current portion	11,647
Total noncurrent assets	<u>29,014</u>
Deferred outflows	<u>461</u>
Total assets and deferred outflows	<u>34,567</u>
Liabilities:	
Current liabilities:	
Deposits, other current liabilities, and accrued expenses	192
Unrecognized rent revenue	286
Notes payable, current portion	1,061
Total current liabilities	<u>1,539</u>
Noncurrent liabilities:	
Notes payable, less current portion	<u>15,906</u>
Total noncurrent liabilities	15,906
Deferred inflows	<u>13,991</u>
Total liabilities and deferred inflows	<u>\$ 31,436</u>
Net position:	
Net investment in capital assets	\$ 1,009
Unrestricted	<u>2,122</u>
Total net position	<u>\$ 3,131</u>

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, 2024

(In thousands)

Operating revenues	\$	3,775
Operating expenses:		
Building management and operating expenses		1,264
Depreciation and amortization		1,326
Legal and administrative fees		413
Insurance		87
Total operating expenses		3,090
Operating income		685
Nonoperating revenues (expenses):		
Interest expense		(820)
Interest income		81
Other		433
Net nonoperating expenses		(306)
Increase in net position		379
Net position:		
Beginning of year		2,752
End of year	\$	3,131

See accompanying notes to basic financial statements.

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

Statement of Net Position

September 30, 2024

(In thousands)

Current assets:	
Cash and cash equivalents	\$ 2,484
Restricted cash and cash equivalents	431
Patient receivables (net of allowance for doubtful accounts of \$25,855)	60,821
Accounts receivable, other	6,474
Inventories	2,529
Lease receivable, current portion	975
Other current assets	<u>1,932</u>
Total current assets	<u>75,646</u>
Noncurrent assets:	
Capital assets, net	150,289
Investments	936
Lease receivable, less current portion	<u>3,173</u>
Total noncurrent assets	<u>154,398</u>
Total assets	<u>\$ 230,044</u>
Current liabilities:	
Accounts payable and accrued liabilities	\$ 49,307
Accrued salaries and wages	5,396
Lease and subscription obligations, current portion	9,899
Long-term debt, current portion	195
Other liabilities, current portion	<u>210</u>
Total current liabilities	<u>65,007</u>
Noncurrent liabilities:	
Lease and subscription obligations, less current portion	109,116
Long-term debt, less current portion	21,478
Other liabilities, noncurrent	<u>1,885</u>
Total noncurrent liabilities	132,479
Deferred inflows	<u>3,680</u>
Total liabilities and deferred inflows	<u>\$ 201,166</u>
Net position:	
Net investment in capital assets	\$ 9,572
Restricted	431
Unrestricted	<u>18,875</u>
Total net position	<u>\$ 28,878</u>

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position

Year ended September 30, 2024

(In thousands)

Operating revenues:	
Patient service revenues (net of provision for bad debts of \$25,023)	\$ 273,727
Other operating revenues	32,477
Total operating revenues	<u>306,204</u>
Operating expenses:	
Salaries and benefits	159,711
Building and equipment expenses	15,294
Medical and surgical supplies	97,684
Other expenses	73,775
Depreciation and amortization	9,268
Total operating expenses	<u>355,732</u>
Operating loss	<u>(49,528)</u>
Nonoperating revenues (expenses):	
Investment income	666
Support from University of South Alabama	69,059
Interest expense	(5,769)
Other nonoperating revenues	139
Other nonoperating expenses	(119)
Total nonoperating revenues, net	<u>63,976</u>
Increase in net position	14,448
Net position at beginning of period	<u>14,430</u>
Net position at end of period	<u>\$ 28,878</u>

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, 2024

(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, 2024, the University reports University of South Alabama Foundation (USA Foundation), USA Research and Technology Corporation (the Corporation), and University of South Alabama Health Care Authority (HCA) as discretely presented component units. Each of these entities issue separate audited financial statements, which can be obtained by contacting Kristen Roberts, Chief Financial Officer, University of South Alabama Administration Building, Suite 353, Mobile, Alabama 36688.

GASB requires the University, as the primary government, to include in its basic financial statements, as a blended component unit, organizations that, even though they are legally separate entities, meet certain requirements. Based on these requirements, the University reports the Professional Liability Trust Fund (PLTF); General Liability Trust Fund (GLTF); USA HealthCare Management, LLC; Jaguar Realty, LLC; USA Health Physician Billing Services, LLC; USA Health Hospital Billing Services, LLC; USA Health Anesthesia Billing Services, LLC; USA Health Reference Lab Billing Services, LLC; USA Health MCI Business Services, LLC; USA Health Children's and Women's Provider Based Clinics, LLC; Providence Medical Network IPA, LLC (Providence IPA); USA Health Rehabilitation Services, LLC; and USA Health Community Providers, LLC as blended component units. All significant transactions between the University and its blended component units have been eliminated.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Notes to Basic Financial Statements
September 30, 2024

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

In October 2023, through the acquisition of Ascension Providence, the University obtained joint ownership of South Coast Real Estate Venture, LLC (South Coast), HighProv, LLC, Providence Home Medical Services, LLC, Compass Providence Urgent Care, LLLP, and the Providence IPA. The Providence IPA meets the GASB criteria to be included in the University's basic financial statements as a blended component unit. HighProv, LLC and Providence Home Medical Services, LLC are currently included in investments on the statement of net position in accordance with GASB Statement No.14. Both Compass Providence Urgent Care, LLLP and South Coast were dissolved in 2024.

(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 20 for further discussion of, and disclosure for, these entities).

(c) USA HealthCare Management, LLC

In June 2010, the University's Board of Trustees approved the formation of USA HealthCare Management, LLC (HCM). HCM was organized for the purpose of managing and operating on behalf of, and as agent for, payroll activities related to the healthcare clinical enterprise of the University. The University is the sole member of HCM. HCM commenced operations in October 2010 and is reported as a blended component unit (see note 20 for further discussion of, and disclosure for, this entity).

(d) Providence Medical Network IPA, LLC

Through the Ascension Providence acquisition in October 2023, the University became the sole member of the Providence IPA. The Providence IPA is a legally separate entity reported as a blended component unit and operates as an independent physician association. Revenues of approximately \$2,072,000, excluding significant transactions between the University and the IPA, are included within other operating revenues on the statement of revenues, expenses, and changes in net position. Expenses of approximately \$2,027,000, excluding significant transactions between the University and the IPA, are included within supplies and other services on the statement of revenues, expenses, and changes in net position. The Providence IPA has a calendar year-end, which differs from the

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Notes to Basic Financial Statements
September 30, 2024

University's September 30 year-end. In accordance with GASB Statement No. 14 and Statement No. 61, the University has included the Providence IPA's financial statements for the period October 1, 2023 through December 31, 2023 in the University's financial statements as of September 30, 2024. For the year ended September 30, 2024, the Providence IPA has paid approximately \$56,000 in claims to the University (see note 20 for further discussion of, and disclosure for, this entity).

(e) USA Health Billing Limited Liability Companies

Over the last few years, the University formed the USA Health Physician Billing Services, LLC; USA Health Hospital Billing Services, LLC; USA Health Anesthesia Billing Services, LLC; USA Health Reference Lab Billing Services, LLC; USA Health MCI Business Services, LLC; USA Health Children's and Women's Provider Based Clinics, LLC; and USA Health Community Providers, LLC as limited liability companies, whereby the University is the sole member. These companies were created to assist with the complex patient and insurance billing of USA Health, a division of the University that includes two hospitals, a free-standing emergency department, a cancer treatment center, and various health clinics. Based on GASB requirements, the University, as the primary government, includes these limited liability companies as blended component units. All significant transactions between the University and its blended component units have been eliminated.

(f) 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 Health HCA Industrial Medicine Clinic, LLC; USA Health IPA, LLC; USA Health Daphne Family Practice, LLC; USA Mobile County ASC; USA Health HCA Providence Hospital, LLC; and USA Health Providence Retail Pharmacy, LLC. USA HCA OBGYN Services, LLC and USA HCA PBC, LLC were also formed by HCA as the sole member, however, both were dissolved in January 2024. These two companies were created to assist with the complex patient and insurance billings within HCA. Based on the criteria listed above, GASB requires HCA, as the primary government, to include each of these limited liability companies as blended component units. All significant transactions among HCA and its blended component units have been eliminated.

HCA holds a 51% equity interest in USA BC ASC Holdco, LLC (USA BC ASC Holdco), a multimember limited liability company formed to invest in USA Baldwin County ASC, LLC (USA BC ASC), a limited liability company formed to develop, own, and operate the Ambulatory Surgery Center on the USA Health Mapp Family Campus. For the year ended September 30, 2024, HCA's capital account balance is \$942,000 and is presented on the statement of net position as an investment.

In August 2020, HCA formed USA Health IPA, LLC (the IPA), a limited liability company of which HCA is the sole member. The IPA was formed to operate an independent physician association, which

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Notes to Basic Financial Statements
September 30, 2024

began in August 2021. Exclusive of transactions between HCA and the IPA totaling \$917,000, IPA revenues and expenses of approximately \$7,599,000 and \$7,599,000, respectively, are included within the statement of revenues, expenses, and changes in net position. The IPA has a calendar year-end, which differs from HCA's September 30 year-end. In accordance with GASB Statement No. 14 and GASB Statement No. 61, HCA has included the IPA's financial statements for the year ended December 31, 2023 in HCA's financial statements as of September 30, 2024. For the year ended September 30, 2024, the IPA has paid approximately \$516,000 in claims to HCA.

During fiscal year 2022, HCA obtained an equity interest in a multimember limited liability company, USA Fairhope Physician Investors, LLC (FPI). HCA's capital account balance is presented on the September 30, 2024 statement of net position as a noncurrent investment.

Since inception, HCA's operations have been partially funded by the University, with total support amounting to \$69,059,000 for the year ended September 30, 2024. This support is reported in nonoperating expenses on the University's statement of revenues, expenses, and changes in net position. Due to the significance of the relationship between the University and HCA, HCA is considered a component unit of the University. The accompanying statement of net position and statement of revenues, expenses, and changes in net position for HCA as of and for year ended September 30, 2024 are discretely presented.

(g) University of South Alabama Foundation

USA Foundation is a not-for-profit corporation that was organized for the purpose of promoting education, scientific research, and charitable purposes, and to assist in developing and advancing the University in furthering, improving, and expanding its properties, services, facilities, and activities. Because of the significance of the relationship between the University and USA Foundation, USA Foundation is considered a component unit of the University. The Board of Directors of USA Foundation is not appointed or controlled by the University. The University receives distributions from USA Foundation primarily for scholarship, faculty, and other support. Total distributions received or accrued by the University for the year ended September 30, 2024 were \$18,332,000 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, 2024 in the University's financial statements as of September 30, 2024. 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, 2024 are discretely presented.

UNIVERSITY OF SOUTH ALABAMA
(A Component Unit of the State of Alabama)
Notes to Basic Financial Statements
September 30, 2024

(h) USA Research and Technology Corporation

In June 2002, the University's Board of Trustees approved the formation of the Corporation. The Corporation is a not-for-profit corporation that exists for the purpose of furthering the educational and scientific mission of the University by developing, attracting, and retaining technology and research industries in Alabama that will provide professional and career opportunities to the University's students and faculty. Due to 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, 2024 are discretely presented.

(i) 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.

(j) 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.

(k) Cash and Cash Equivalents (including restricted amounts)

Cash and cash equivalents are defined as petty cash, demand accounts, certificates of deposit, and any short-term investments that take on the character of cash. These investments have maturities of less than three months at the time of purchase and include repurchase agreements and money market accounts. Restricted cash and cash equivalents share the same definitions and maturities of unrestricted cash and cash equivalents but are designated by external parties for specified purposes such as collateral requirements, designated gifts, or bond proceeds.

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(l) Investments and Investment Income

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

(m) Derivatives

The University has adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and GASB Statement No. 99, *Omnibus 2022*. 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. GASB Statement No. 99 establishes requirements for the presentation of deferred outflows or inflows related to changes in fair value of hedging instruments when hedge accounting is terminated. During fiscal year 2024, the University paid off a hedging derivative instrument, the 2014 swap, and terminated a hedging derivative instrument, the 2016 swap, both of which were in the form of interest rate swaps. In accordance with hedge accounting, changes in fair values of the interest rate swaps were reported as changes in deferred inflows and outflows and the fair values of the interest rate swaps were 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. At the time of the interest rate swap termination, the balance of the deferred inflow of resources related to changes in fair value of the swap was recognized as a component of nonoperating revenues, separate from net investment income, on the statement of revenues, expenses, and changes in net position. At September 30, 2024, the University had no remaining hedging derivative instruments in the form of interest rate swaps in effect.

(n) 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, the difference between the consideration provided and the net position acquired for South Coast in the Ascension Providence acquisition, and the loss on the defeasement of certain bond series.

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

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in proportion and differences between employer contributions and proportionate share of contributions in pension and OPEB plans, gain on the refunding of certain bond series, and the value of contractual rights to lease revenue in future reporting periods.

(o) 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.

(p) 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.

(q) Lease Receivable

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

(r) 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.

(s) Capital Assets

Capital expenditures with a cost of \$5,000 or more are capitalized 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 aggregate capital asset purchases, including renewals and renovations, are capitalized. Purchases for multiple items of minor equipment are evaluated to see if they are part of a single overall transaction, have a single objective, and meet or exceed the established aggregate threshold of \$75,000. If a purchase of minor equipment meets the aggregate guidelines and has a useful life of two or more years, it is capitalized at cost once all items are received and placed into use. Costs for repairs and maintenance are expensed when incurred.

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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	10 to 100 years
Fixed equipment	10 to 20 years
Land improvements	8 to 20 years
Library materials	10 years
Other equipment	3 to 15 years

Certain buildings are componentized for depreciation purposes.

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

The University evaluates impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. For the year ended September 30, 2024, no impairments were identified.

(t) 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.

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(u) 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.

(v) 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.

(w) 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.

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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.

(x) *Scholarship Allowances and Student Financial Aid*

Student tuition and fees, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's basic financial statements based on their classification as either an exchange or a nonexchange transaction. To the extent that revenues from such programs satisfy tuition and fees and certain other student charges, the University has recorded a scholarship discount and allowance.

(y) *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.

(z) *Classification of Revenues*

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

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

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

(aa) 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.

(bb) 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.

(cc) Patient Service Revenues

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

(dd) Compensated Absences

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

(ee) Recently Adopted Accounting Pronouncements

In fiscal year 2024, the University adopted the provisions of GASB Statement No. 99, related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53. The objective of this statement is to establish accounting and reporting requirements for exchange and exchange-like financial guarantees, other derivative instruments that do not meet the definition of investment derivative instruments nor hedging derivative instruments, and termination of hedge accounting. There was no significant impact to the University's basic financial statements in the adoption of this pronouncement.

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In addition, the University adopted GASB Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*, which 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. This statement also provides guidance on the presentation of required supplementary information and supplementary information affected by a change in accounting principle or error correction. There was no significant impact to the University's basic financial statements in the adoption of this pronouncement.

(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, 2024, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately \$18.7 billion. The University had cash and cash equivalents, including restricted cash and cash equivalents, in the pool of \$236,361,000 at September 30, 2024.

At September 30, 2024, restricted cash and cash equivalents consist of \$13,556,000 related to unspent bond cash, \$2,462,000 related to cash included in the PLTF and GLTF to pay insurance liability claims, \$6,781,000 related to restricted donations related to certain capital projects, \$595,000 related to endowment funds, and \$2,000 related to the Providence IPA.

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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.

The University holds a 50% equity interest in Providence Home Medical Services (Home Medical), a multimember limited liability company that was formed to own and operate a durable medical equipment provider. The University’s capital account balance in Home Medical is considered an investment in a joint venture, pursuant to GASB Statements Nos. 14 and 61. The University’s capital account balance is approximately \$177,000 for the year ended September 30, 2024 and is presented on the statement of net position as an investment.

The University holds a 35% equity interest in HighProv, LLC (HighProv), a multimember limited liability company formed to construct, own, and operate a hotel facility. For the year ended September 30, 2024, the University’s capital account balance is \$683,000 and is presented on the statement of net position as an investment.

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Investments and restricted investments of the University, by type, at fair value at September 30, 2024 (in thousands) are as follows:

Commingled equity funds	\$	112,970
Commingled fixed income funds		57,502
Joint ventures		860
Managed income alternative investments (low-volatility, multistrategy funds of funds)		40,137
Marketable debt securities		13,487
Marketable equity securities		60,202
Private credit alternative fixed income investments		11,288
Private equity alternative investments		15,139
Private real estate		525
Private REIT alternative real estate investments		4,844
Real estate		8,479
U.S. federal agency notes		95,252
U.S. treasury securities		18,617
		18,617
	\$	439,302

At September 30, 2024, restricted investments consist of endowment funds and funds held in the PLTF and GLTF to pay insurance liability claims.

At September 30, 2024, \$42,747,000 of cumulative increase in fair value of investments of donor-restricted endowments was recognized and is included in restricted expendable net position in the accompanying statement of net position.

The University invests in several private equity and private credit funds. At September 30, 2024, the University had outstanding capital commitments to those funds of \$23,740,000.

(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 multimanager fund.

The University’s exposure to credit risk and concentration of credit risk at September 30, 2024 is as follows:

	Credit rating	Percentage of total investments
Commingled fixed income funds	Various	13.1 %
Marketable debt securities	Various	3.1
U. S. federal agency notes	AAA	21.7
U. S. treasury securities	AAA	4.2

(ii) *Interest Rate Risk*

At September 30, 2024, the maturity dates of the University’s fixed income investments are as follows (in thousands):

	Fair value	Years to maturity			
		Less than 1	1–5	6–10	More than 10
Commingled fixed income funds	\$ 57,502	—	32,211	25,291	—
Marketable debt securities	13,487	4,776	7,457	1,254	—
U. S. federal agency notes	95,252	37,226	51,129	170	6,727
U. S. treasury securities	18,617	1,288	12,429	4,900	—
	\$ 184,858	1,288	12,429	4,900	6,727

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

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

(iii) Custodial Credit Risk

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

(iv) Mortgage-Backed Securities

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

(v) Fair Value Measurement

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

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

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

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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, 2024 (in thousands):

Description	Asset fair value measurements			
	Level 1	Level 2	Level 3	Total
Commingled equity funds	\$ 107,027	2,310	3,633	112,970
Commingled fixed income funds	53,022	4,480	—	57,502
Joint ventures	—	—	860	860
Marketable debt securities	13,487	—	—	13,487
Marketable equity securities	60,202	—	—	60,202
Private credit alternative fixed income investments	—	—	5,935	5,935
Private equity alternative investments	—	—	13,012	13,012
Private real estate	—	—	525	525
Private REIT alternative real estate investments	—	—	4,844	4,844
Real estate	—	—	8,479	8,479
U.S. federal agency notes	—	95,252	—	95,252
U.S. treasury securities	18,617	—	—	18,617
Total investments at fair value	\$ <u>252,355</u>	<u>102,042</u>	<u>37,288</u>	391,685
Investments measured at NAV:				
Private equity alternative investments				2,127
Private credit alternative fixed income investments				5,353
Managed income alternative investments (low-volatility, multistrategy funds of funds)				<u>40,137</u>
Total investments			\$	<u>439,302</u>

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A roll-forward schedule for Level 3 financial instruments for the year ended September 30, 2024 is as follows (in thousands):

Beginning balance	\$	25,532
Purchases		6,403
Net realized/unrealized gains		107
Sales		(1,347)
Other		6,593
		6,593
Ending balance	\$	37,288

(b) Health Care Authority

HCA holds a 2.5% equity interest in USA Fairhope Physician Investors LLC (FPI), a multimember limited liability company that was formed to invest in the entity that developed and is now leasing an ambulatory surgical center. HCA's capital account balance is approximately \$(6,000) for the year ended September 30, 2024 and is presented on the statement of net position as an investment. The loss represents a depreciation loss only. As a whole, there is positive monthly cash flow and no expectation for HCA to be required to contribute additional capital.

HCA holds a 51% equity interest in USA BC ASC Holdco, LLC (USA BC ASC Holdco), a multimember limited liability company formed to invest in USA Baldwin County ASC, LLC (USA BC ASC), a limited liability company formed to develop, own, and operate the Ambulatory Surgery Center on the USA Health Mapp Family Campus. For the year ended September 30, 2024, HCA's capital account balance is \$942,000 and is presented on the statement of net position as an investment.

(c) University of South Alabama Foundation

Investments in securities consist primarily of equity securities totaling \$262,850,000 at June 30, 2024.

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Investment gains was composed of the following for the year ended June 30, 2024 (in thousands):

Unrealized gains	\$	50,890
Realized gains		5,685
Net realized and unrealized gains on investments		56,575
Timber sales		2,576
Rents		697
Royalties		88
Rents, royalties, and timber sales		3,361
Interest and dividends		3,056
Total investment income	\$	62,992

Investments consisted of participation in the Foundation's pooled investment funds. Investment related expenses in the amount of \$440,000 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, 2024.

Real estate at June 30, 2024 consisted of the following property held (in thousands):

Land and land improvements – held for investment	\$	5,314
Building and building improvements – held for investment		1,061
	\$	6,375

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, 2024 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.

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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, 2024 are summarized, based on the criteria of ASC 820, as follows (in thousands):

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities	\$ 160,615	—	—	160,615
Timber and mineral properties	—	—	178,218	178,218
Real estate	—	—	6,375	6,375
Other investments	—	—	5,815	5,815
	<u>\$ 160,615</u>	<u>—</u>	<u>190,408</u>	<u>351,023</u>
Investment in Commonfund measured at NAV				<u>102,235</u>
			<u>\$ 453,258</u>	

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A roll-forward schedule for Level 3 financial instruments for the fiscal year ended June 30, 2024 is as follows (in thousands):

<u>Description</u>	<u>Timber and mineral properties</u>	<u>Real estate</u>	<u>Other investments</u>	<u>Total</u>
Beginning balance	\$ 176,002	9,064	5,814	190,880
Net unrealized gains (losses)	5,422	(759)	1	4,664
Reforestation	305	—	—	305
Purchase of timberland	120	—	—	120
Purchase of building improvements	—	23	—	23
Contribution of real estate	—	(1,920)	—	(1,920)
Depreciation/depletion	(3,631)	(33)	—	(3,664)
Ending balance	<u>\$ 178,218</u>	<u>6,375</u>	<u>5,815</u>	<u>190,408</u>

As of June 30, 2024, USA Foundation has no outstanding commitments to purchase securities or other investments.

As part of USA Foundation's liquidity management, the Foundation structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Cash withdrawals from the Foundation's managed investments coincide with the Foundation's spending obligations, but may be adjusted higher or lower based on the timing of when investment income is received and expenditures become due. In addition to financial assets available within one year, the Foundation receives investment income from timber sales, rents and royalties, and interest and dividends that are used to meet the Foundation's general expenditures within one year. The Foundation believes it has sufficient assets to meet its obligations.

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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, 2024 is as follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending balance</u>
Capital assets not being depreciated or amortized:					
Land and other	\$ 32,402	11,868	1,000	—	45,270
Certificate of Need	—	200	25	—	225
Intangible assets	—	1,207	—	—	1,207
Construction in progress	93,769	59,111	(50,598)	—	102,282
	<u>126,171</u>	<u>72,386</u>	<u>(49,573)</u>	<u>—</u>	<u>148,984</u>
Capital assets being depreciated or amortized:					
Land improvements	76,842	943	6,264	—	84,049
Buildings, fixed equipment, and infrastructure	1,049,483	69,930	42,889	(6,028)	1,156,274
Other equipment	242,077	27,307	420	(9,193)	260,611
Library materials	97,346	4,262	—	—	101,608
Right-of-use assets	80,146	70,750	—	(24,943)	125,953
	<u>1,545,894</u>	<u>173,192</u>	<u>49,573</u>	<u>(40,164)</u>	<u>1,728,495</u>
Less accumulated depreciation and amortization for:					
Land improvements	(37,622)	(3,747)	—	—	(41,369)
Buildings, fixed equipment, and infrastructure	(425,862)	(33,085)	119	5,954	(452,874)
Other equipment	(190,405)	(22,675)	(119)	9,085	(204,114)
Library materials	(75,683)	(4,036)	—	—	(79,719)
Right-of-use assets	(27,820)	(25,827)	—	12,668	(40,979)
	<u>(757,392)</u>	<u>(89,370)</u>	<u>—</u>	<u>27,707</u>	<u>(819,055)</u>
Capital assets being depreciated, net	<u>788,502</u>	<u>83,822</u>	<u>49,573</u>	<u>(12,457)</u>	<u>909,440</u>
Capital assets, net	<u>\$ 914,673</u>	<u>156,208</u>	<u>—</u>	<u>(12,457)</u>	<u>1,058,424</u>

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A summary of the University's net right-of-use assets, which are included in capital assets on the statement of net position, activity categorized by classification for the year ended September 30, 2024 are as follows (in thousands):

		<u>Ending balance</u>
Right-of-use assets:		
Buildings	\$	9,455
Equipment		39,785
Office space		11,158
Software		<u>65,555</u>
		<u>125,953</u>
Less accumulated amortization for right-of-use assets:		
Buildings		(3,533)
Equipment		(9,190)
Office space		(5,049)
Software		<u>(23,207)</u>
		<u>(40,979)</u>
Right-of-use assets, net	\$	<u><u>84,974</u></u>

Depreciation and amortization of capital assets for the year ended September 30, 2024 was \$89,370,000 for the University. In addition, the University amortizes bond costs of issuance that is included in other noncurrent assets and accounts receivable on the statement of net position. For the year ended September 30, 2024, amortization of bond costs of issuance was approximately \$42,000 resulting in total depreciation and amortization of \$89,412,000. See note 8 for additional details regarding bonds.

At September 30, 2024, the University had commitments of approximately \$196,632,000 related to various capital projects.

For the year ended September 30, 2024, the University received \$27,516,000 in capital grants from the Alabama Public School and College Authority for the site preparation and construction of the new College of Medicine facility, and this amount is included in capital appropriations on the statement of revenues, expenses, and changes in net position.

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(b) USA Research and Technology Corporation

Changes in capital assets for the year ended September 30, 2024 are as follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated or amortized:					
Land	\$ 223	—	—	—	223
Construction in progress	114	—	(93)	(21)	—
	<u>337</u>	<u>—</u>	<u>(93)</u>	<u>(21)</u>	<u>223</u>
Capital assets being depreciated or amortized:					
Land improvements	1,985	—	—	—	1,985
Buildings	28,788	84	—	—	28,872
Tenant improvements	2,717	426	90	—	3,233
Other equipment	408	10	3	—	421
Computer software	56	—	—	—	56
Lease commissions	406	50	—	—	456
Right-of-use assets	3	—	—	—	3
	<u>34,363</u>	<u>570</u>	<u>93</u>	<u>—</u>	<u>35,026</u>
Less accumulated depreciation or amortization for:					
Land improvements	(1,783)	(27)	—	—	(1,810)
Buildings	(12,511)	(793)	—	—	(13,304)
Tenant improvements	(1,600)	(417)	—	—	(2,017)
Other equipment	(362)	(11)	—	—	(373)
Computer software	(24)	(16)	—	—	(40)
Lease commissions	(275)	(61)	—	—	(336)
Right-of-use assets	(1)	(1)	—	—	(2)
	<u>(16,556)</u>	<u>(1,326)</u>	<u>—</u>	<u>—</u>	<u>(17,882)</u>
Capital assets being depreciated or amortized, net	<u>17,807</u>	<u>(756)</u>	<u>93</u>	<u>—</u>	<u>17,144</u>
Capital assets, net	<u>\$ 18,144</u>	<u>(756)</u>	<u>—</u>	<u>(21)</u>	<u>17,367</u>

Depreciation and amortization expense totaled \$1,326,000 for the year ended September 30, 2024.

At September 30, 2024, there were no construction projects in progress. At September 30, 2024, the Corporation had outstanding commitments of approximately \$37,500.

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The Corporation's net right-of-use assets categorized by classification for the year ended September 30, 2024 are as follows (in thousands):

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

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(c) Health Care Authority

A summary of HCA's capital assets activity for the year ended September 30, 2024 is as follows (in thousands):

	2024				Ending balance
	Beginning balance	Additions	Transfers	Reductions	
Capital assets not being depreciated or amortized:					
Construction in progress	\$ 556	57	(7)	(549)	57
Works of art	1	—	—	—	1
	<u>557</u>	<u>57</u>	<u>(7)</u>	<u>(549)</u>	<u>58</u>
Capital assets being depreciated or amortized:					
Buildings	33,024	—	29	(4)	33,049
Leasehold improvements	5,362	55	(29)	—	5,388
Equipment	4,266	114	7	(216)	4,171
Computer software	139	—	—	—	139
Right-of-use assets	13,741	114,635	—	(3,885)	124,491
	<u>56,532</u>	<u>114,804</u>	<u>7</u>	<u>(4,105)</u>	<u>167,238</u>
Less accumulated depreciation or amortization for:					
Buildings	(1,030)	(1,249)	(14)	—	(2,293)
Leasehold improvements	(597)	(551)	14	—	(1,134)
Equipment	(2,323)	(442)	—	101	(2,664)
Computer software	(77)	(21)	—	—	(98)
Right-of-use assets	(4,155)	(7,005)	—	342	(10,818)
	<u>(8,182)</u>	<u>(9,268)</u>	<u>—</u>	<u>443</u>	<u>(17,007)</u>
Capital assets being depreciated or amortized, net	<u>48,350</u>	<u>105,536</u>	<u>7</u>	<u>(3,662)</u>	<u>150,231</u>
Capital assets, net	<u>\$ 48,907</u>	<u>105,593</u>	<u>—</u>	<u>(4,211)</u>	<u>150,289</u>

Construction in progress totaled \$57,000 as of September 30, 2024 and relates to renovation projects at USA Mobile Diagnostic Center and USA Health Family Practice Associates. A clinic renovation project that began in prior years was determined as no longer needed during fiscal year 2024. This resulted in a decrease to construction in progress in the amount of \$549,000 in the current year that was expensed rather than capitalized.

Depreciation and amortization totaled \$9,268,000 for the year ended September 30, 2024.

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At September 30, 2024, HCA had commitments of approximately \$28,000 related to construction projects for USA Mobile Diagnostic Center.

A summary of HCA's net right-of-use assets categorized by classification for the year ended September 30, 2024 is as follows (in thousands):

		<u>Ending balance</u>
Right-of-use assets:		
Buildings	\$	116,929
Equipment		7,305
Software subscriptions		<u>257</u>
		<u>124,491</u>
Less accumulated amortization for right of use:		
Buildings		(9,280)
Equipment		(1,500)
Software subscriptions		<u>(38)</u>
		<u>(10,818)</u>
Right-of-use assets, net	\$	<u><u>113,673</u></u>

HCA entered into a lease agreement with the University for the hospital facilities and related equipment acquired in the Ascension Providence acquisition. The lease is for 31 years with quarterly rental payments equal to the principal and interest incurred on the debt service related to the acquisition. This lease is accounted for in accordance with GASB 87, *Leases*, and is reflected in net capital assets and current and noncurrent lease obligations on the statement of net position.

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(6) Noncurrent Liabilities

(a) University of South Alabama

A summary of the University's noncurrent liability activity for the year ended September 30, 2024 is as follows (in thousands):

	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Long-term debt:						
Bonds payable	\$ 518,201	215,060	(223,855)	509,406	27,515	481,891
Notes payable	797	102	(162)	737	186	551
Lease and subscription obligations	51,347	58,140	(26,576)	82,911	27,160	55,751
Total long-term debt	<u>570,345</u>	<u>273,302</u>	<u>(250,593)</u>	<u>593,054</u>	<u>54,861</u>	<u>538,193</u>
Other noncurrent liabilities:						
Net pension liability	375,894	—	(26,184)	349,710	—	349,710
Net OPEB liability	53,421	25,387	—	78,808	—	78,808
Other long-term liabilities	70,397	51,389	(52,090)	69,696	3,423	66,273
Total other noncurrent liabilities	<u>499,712</u>	<u>76,776</u>	<u>(78,274)</u>	<u>498,214</u>	<u>3,423</u>	<u>494,791</u>
Total noncurrent liabilities	<u>\$ 1,070,057</u>	<u>350,078</u>	<u>(328,867)</u>	<u>1,091,268</u>	<u>58,284</u>	<u>1,032,984</u>

Other long-term liabilities primarily consist of self-insurance liabilities and liabilities related to compensated absences. Amounts due within one year are included in current portion of other long-term liabilities.

Lease and Subscription Obligations

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

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between the amortization of the right-of-use asset and the reduction in liability balance related to principal payments will result in a difference between the net right-of-use asset and related lease and subscription obligations.

The University leases various automobiles, buildings, equipment, office space, and software subscriptions under leases expiring at various dates through 2039. Aggregate future minimum lease and subscription payments under noncancelable agreements as of September 30, 2024, by fiscal year, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 27,160	3,540	30,700
2026	16,954	2,518	19,472
2027	13,035	1,722	14,757
2028	12,256	1,081	13,337
2029	6,649	512	7,161
2030 – 2034	6,839	338	7,177
2035 – 2039	18	2	20
Lease and subscription obligations	\$ <u>82,911</u>	<u>9,713</u>	<u>92,624</u>

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

The University has commitments under leases and subscriptions for which the lease term has not commenced in the amount of \$11,646,000 as of September 30, 2024.

The University leases space from the Corporation and HCA. As of September 30, 2024, the University had current and noncurrent lease and subscription obligations of approximately \$1,973,000 and \$3,994,000 related to leases between the University and component units.

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(b) USA Research and Technology Corporation

Changes in noncurrent liabilities for the year ended September 30, 2024 are as follows (in thousands):

	September 30, 2024					
	Beginning balance	Additions	Reductions	Ending balance	Less amounts due within one year	Noncurrent liabilities
Notes payable	\$ 17,989	—	(1,022)	16,967	1,061	15,906

(i) Notes Payable

Notes payable from direct borrowings consisted of the following at September 30, 2024 (in thousands):

PNC Bank promissory note, 4.38%, payable through 2028	\$ 10,208
Hancock Whitney Bank promissory note, 3.08%, payable through 2031	<u>6,759</u>
	<u>\$ 16,967</u>

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

The promissory note payable to Hancock Whitney Bank has a 10-year term and is secured by an interest in rental leases and an interest in income received from rental of Building I. The Corporation agreed to not transfer or encumber the buildings or its leasehold interest in the real estate on which the buildings stand.

In connection with the PNC note and the Hancock Whitney note, the University entered into an agreement with both lenders providing that for any year in which the Corporation's debt service coverage ratio is less than 1 to 1, the University will pay the Corporation rent equal to the amount necessary to bring the ratio to 1 to 1. The debt service coverage ratio is calculated by dividing the sum of unrestricted cash and cash equivalents at the beginning of the year (reduced by current year capital asset additions) and current year change in net position (determined without depreciation, amortization, and interest expenses) by current year debt service. As of September 30, 2024, the Corporation's debt service coverage ratio was 2.41 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

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default, and (c) exercise any other remedies or rights, which it has under any instrument executed in connection with the loan. Prior to any of these actions, however, PNC Bank and Hancock Whitney Bank will give the Corporation 30 days to cure the default.

(ii) Debt Service on Long-Term Obligations

At September 30, 2024, total future debt service by fiscal year is as follows (in thousands):

	Debt service on notes payable		
	Principal	Interest	Total
2025	\$ 1,061	637	1,698
2026	1,101	597	1,698
2027	1,144	554	1,698
2028	9,028	424	9,452
2029	574	135	709
2030–2032	4,059	151	4,210
Total	\$ 16,967	2,498	19,465

(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, *Items Previously Reported as Assets and Liabilities*, 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, 2024, the unamortized balance in deferred outflows was \$461,000.

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(c) Health Care Authority

A summary of HCA's noncurrent liability activity for the year ended September 30, 2024 follows (in thousands):

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Ending balance</u>	<u>Less amounts due within one year</u>	<u>Noncurrent liabilities</u>
Long-term debt	\$ 21,834	—	(161)	—	21,673	195	21,478
Lease and subscription obligations	10,063	115,244	(2,875)	(3,417)	119,015	9,899	109,116
Other noncurrent liabilities	228	1,867	—	—	2,095	210	1,885
Total noncurrent liabilities	\$ 32,125	117,111	(3,036)	(3,417)	142,783	10,304	132,479

Long-Term Debt

HCA entered into an agreement with Family Medical Investments, LLC to construct a medical office building on the USA Health Mapp Family Campus. Construction began in 2021 and was completed in October 2022. The agreement commenced upon construction completion for an initial 15-year period plus two options to extend for consecutive 5-year terms. HCA began making monthly payments at an interest rate of 4.79% in October 2022 to Family Medical Investments, LLC. The total balance of principal payments outstanding at September 30, 2024 is \$21,673,000. Upon conclusion of the agreement term, HCA will obtain ownership of the building.

At September 30, 2024, future debt service for long-term debt by year is as follows (in thousands):

	Debt service on long-term debt		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 195	1,034	1,229
2026	236	1,024	1,260
2027	280	1,011	1,291
2028	326	997	1,323
2029	376	980	1,356
2030-2034	2,750	4,559	7,309
2035-2039	4,573	3,697	8,270
2040-2044	7,030	2,327	9,357
2045-2048	5,907	464	6,371
Total	\$ 21,673	16,093	37,766

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Lease and Subscription Obligations

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

HCA has entered into agreements to lease various buildings and equipment and to utilize various software under lease and subscription obligations expiring at various dates through 2055.

Aggregate future minimum lease payments under noncancelable agreements as of September 30, 2024, by fiscal year, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 9,899	3,720	13,619
2026	5,509	4,916	10,425
2027	5,641	4,664	10,305
2028	4,738	4,426	9,164
2029	3,278	4,228	7,506
2030–2034	11,828	19,335	31,163
2035–2039	13,621	16,392	30,013
2040–2044	16,986	13,031	30,017
2045–2049	21,156	8,855	30,011
2050–2055	26,359	3,656	30,015
	<u>\$ 119,015</u>	<u>83,223</u>	<u>202,238</u>

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

The University has entered into an equipment lease agreement on behalf of Providence Hospital in the amount of \$2,001,000 for which the terms have not yet commenced. HCA will be responsible for making lease payments to the University for use of the equipment once the terms commence. As of

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September 30, 2024, there are no other known lease or subscription commitments for which the terms have not yet commenced.

Other Noncurrent Liabilities

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

(7) Deferred Outflows and Inflows

(a) University of South Alabama

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 Bonds. The proceeds from this series were used to partially defease the Series 2008 Bonds resulting in a loss of the difference between the acquisition price of the new debt and the net carrying amount of the old debt. In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, this loss was recorded as a deferred outflow and is being amortized over the remaining life of the Series 2016-A Bonds. In 2024, the University acquired an 81% ownership interest in a legally separate entity, South Coast, in the Ascension Providence acquisition. During 2024, the University acquired the remaining 19% ownership interest in South Coast and formally dissolved the entity. In accordance with GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, the excess consideration provided over the net position acquired was recognized as a deferred outflow of resources and is being amortized over 338 months, the remaining service life of the capital assets acquired. Additionally, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions--an amendment of GASB Statement No. 27*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, changes in assumptions, changes in the proportion of total net liabilities relative to other plan participants, differences between employer contributions and the proportionate share of contributions, and employer contribution subsequent to the measurement date of the net pension liability but prior to the end of the fiscal year are presented as a deferred outflow of resources.

The components of deferred outflows of resources as of September 30, 2024 are summarized below (in thousands):

Loss on refunding of 2016-A bonds	\$	4,722
South Coast acquisition		128
Pension		87,398
OPEB		169,123
		261,371
	\$	261,371

Deferred inflows of resources are net asset acquisitions that are applicable to a future reporting period. In 2016, the University issued its 2016-B, C, and D Bonds. In accordance with GASB Statement Nos. 63

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and 65, the proceeds from these series refunded the remaining outstanding 2006 Bonds and the resulting gain was recognized as a deferred inflow of resources and was being amortized over the remaining life of the Series 2016-B, C, and D Bonds. In August 2024, the University refunded the Series 2016-B, C, and D with the Series 2024-C Bonds. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, Statement No. 63, and Statement No. 65, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred inflow and is being amortized over the remaining life of the Series 2024-C Bonds.

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 leases is recognized on a straight-line basis over the respective lease terms.

The components of deferred inflows of resources as of September 30, 2024 are summarized below (in thousands):

Gain on refunding of 2016 Series B, C and D Bonds	\$	2,761
Pension		36,367
OPEB		257,480
Leases		111,257
	\$	407,865

(b) Health Care Authority

Deferred inflows of resources represent HCA's right to receive lease revenue in future reporting periods. In accordance with GASB Statement No. 87, the deferred inflow of resources attributable to leases is recognized on a straight-line basis over the respective lease terms. Deferred inflows for the year ended September 30, 2024 totaled \$3,680,000.

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(8) Bonds Payable

Bonds payable consisted of the following at September 30, 2024 (in thousands):

University Facilities Revenue Capital Improvement Bonds, Series 2013-A, 2.83% payable through August 2033	\$ 16,617
University Facilities Revenue Capital Improvement Bonds, Series 2013-B, 2.83% payable through August 2033	4,154
University Facilities Revenue Capital Improvement Bonds, Series 2013-C, 2.78% payable through August 2028	3,080
University Facilities Revenue Capital Improvement Bonds, Series 2015, 2.47% payable through August 2030	2,250
University Facilities Revenue Refunding Bonds, Series 2016-A, 3.00% to 5.00% payable through November 2037	67,985
University Facilities Revenue Bonds, Series 2017, 2.00% to 5.00%, payable through October 2037	29,365
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	13,255
University Facilities Revenue Bonds, Series 2019-C, 1.87%, payable through April 1, 2030	11,150
University Facilities Revenue Bonds, Series 2020, 4%, payable through April 1, 2040	32,935
University Facilities Revenue Bonds, Series 2021, 4%, payable through April 1, 2041	36,655
University Facilities Revenue Bonds, Series 2021-B, 1.398%, payable through August 1, 2032	11,492
University Facilities Revenue Bonds, Series 2024-A, 5.0% through 2053 and 5.25% for 2054, payable through April 1, 2054	72,810
University Facilities Taxable Revenue Bonds, Series 2024-B, 4.753% to 5.233%, payable through April 1, 2035	19,925
University Facilities Revenue Bonds, Series 2024-C, 5%, payable through October 1, 2036	<u>90,850</u>
	460,273
Plus unamortized premium	50,331
Less unamortized debt extinguishment costs	<u>(1,198)</u>
	<u>\$ 509,406</u>

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 were redeemable at the option of the University beginning in June 2023. The Series 2014-A Bonds began maturing in June 2015 and were paid in full in March 2024. The Series 2015 Bonds began maturing in August 2015 and were redeemable at the option of the University beginning in June 2020. The Series 2016-A Bonds began maturing in November 2018 and are redeemable at the option of the University beginning in November 2026. The Series 2016-B, C, and D Bonds were refunded in August 2024 with the proceeds from Series 2024-C Bonds. The Series 2017 Bonds began maturing in

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October 2017 and are redeemable at the option of the University 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 at the option of the University beginning in April 2029. The Series 2019-C Bonds began maturing in April 2020 and are not subject to redemption. The Series 2020 Bonds began maturing in April 2021 and are redeemable at the option of the University beginning April 2030. The Series 2021 Bonds began maturing in April 2022 and are redeemable at the option of the University beginning April 2031. The Series 2021-B Bonds began maturing in August 2022 and are subject to redemption beginning August 2024. The Series 2023-A and 2023-B Bonds were amended and restated in April 2024, extending their final maturities to April 2025. The Series 2023-A and 2023-B Amended and Restated Bonds were refunded in July 2024 with proceeds from Series 2024-A and 2024-B Bonds. The Series 2024-A Bonds begin maturing in April 2035 and are redeemable at the option of the University beginning April 2034. The Series 2024-B Bonds begin maturing in April 2025 and are redeemable at the option of the University beginning April 2034. The Series 2024-C Bonds begin maturing in April 2025 and are redeemable at the option of the University beginning April 2034.

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 \$4,722,000 at September 30, 2024. The principal outstanding on the Series 2016-A Bonds is \$67,985,000 at September 30, 2024.

In December 2016, the University issued its University Facilities Revenue Refunding Bonds, Series 2016-B, C, and 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 was being amortized over the remaining life of the Series 2016-B, C, and D Bonds. In August 2024, the University refunded the Series 2016-B, C, and D with the Series 2024-C Bonds. In accordance with GASB Statement No. 23, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred inflow and is being amortized over the remaining life of the Series 2024-C Bonds. The balance of the related net deferred inflow at September 30, 2024 totaled \$2,761,000.

In April 2023, the University issued University Facilities Revenue Bond (Draw-Down Loan) 2023-A, which could be drawn up to \$80,000,000, and University Facilities Revenue Bond (Draw-Down Loan) 2023-B, which could be drawn upon up to \$20,000,000. Total amounts drawn for 2023-A and 2023-B Bonds were \$80,000,000 and \$18,510,000, respectively. These Bonds were short-term debt with the full principal balance due in April 2024. In March 2024, the University entered various amendments with respect to the 2023-A and 2023-B Bonds to extend the maturity date to April 18, 2025. Both the 2023-A and 2023-B Bonds were refunded in July 2024 with proceeds from the 2024-A and 2024-B Bonds.

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In October 2023, the University entered into a Revolving Line of Credit Agreement with Hancock Whitney Bank for up to \$50,000,000, with a term of up to thirty months, to provide funds for covering the operating expenses of HCA in managing and operating Providence Hospital. On September 30, 2024, the University terminated this line of credit without making any draws.

In July 2024, the University issued University Facilities Revenue Bonds Series 2024-A (\$72,810,000) and Taxable Series 2024-B (\$19,925,000). Proceeds of the Series 2024-A and 2024-B Bonds were used to refund the University Facilities Revenue Bonds (Draw-Down Loan) 2023-A and the University Facilities Revenue Bonds (Draw-Down Loan) 2023-B, the proceeds of which were used by the University to purchase and improve the healthcare facilities located at 6801 Airport Blvd., Mobile, AL, known as Providence Hospital.

In August 2024, the University issued University Facilities Revenue Bonds Series 2024-C (\$90,850,000). Proceeds of the Series 2024-C Bonds were used to refund the Amended and Restated University Facilities Revenue Refunding Bond Series 2016-B, 2016-C and 2016-D. The related interest rate swap agreement with Wells Fargo Bank was terminated using \$14,745,000 of University funds to pay swap termination fees, accrued interest and other related costs.

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, 2024, no amounts were due or recorded related to arbitrage in the financial statements.

The University refunded the 2023-A and 2023-B Bonds in July 2024 with the issuance of the Series 2024-A and 2024-B Bonds. This resulted in the elimination of the University's short-term borrowings. A summary of the University's short-term borrowing activity for the year ended September 30, 2024 follows (in thousands):

	Beginning balance	Additions	Reductions	Ending balance
Short-term debt:				
Bonds payable	\$ 83,655	14,855	(98,510)	—

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 fiscal year is as follows at September 30, 2024 (in thousands):

	Debt service on notes and bonds				
	Bonds		Notes payable from direct borrowing		
	Principal	Interest	Principal	Interest	Total
2025	25,454	17,701	186	31	43,372
2026	23,285	19,892	194	22	43,393
2027	24,190	18,980	191	13	43,374
2028	25,200	17,994	166	4	43,364
2029	25,431	16,944	—	—	42,375
2030–2034	126,083	67,943	—	—	194,026
2035–2039	109,670	37,882	—	—	147,552
2040–2044	39,160	21,039	—	—	60,199
2045–2049	35,990	12,227	—	—	48,217
2050–2054	25,810	4,204	—	—	30,014
Subtotal	460,273	\$ 234,806	737	70	695,886
Plus (less):					
Unamortized bond premium	50,331		—		
Unamortized debt extinguishment costs	(1,198)		—		
Total	\$ 509,406		737		

(9) Lease Receivables

(a) University of South Alabama

The University leases land, buildings, and suites to various lessees expiring at various dates through 2069. For the year ended September 30, 2024, the University recognized a total of \$10,930,000 of inflows of resources from leases, of which \$6,332,000 was recognized as lease revenue which is included in other operating revenues and interest of \$4,598,000, which was recognized as a component of net investment income in the statement of revenues, expenses, and changes in net position.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 9,485	3,640	13,125
2026	4,812	4,846	9,658
2027	4,600	4,627	9,227
2028	4,485	4,413	8,898
2029	3,182	4,218	7,400
2030–2034	11,456	19,337	30,793
2035–2039	13,622	16,396	30,018
2040–2044	16,988	13,035	30,023
2045–2049	21,158	8,858	30,016
2050–2054	26,361	3,658	30,019
2055–2059	3	2	5
2060–2064	4	1	5
2065–2069	4	1	5
Lease receivable	<u>\$ 116,160</u>	<u>83,032</u>	<u>199,192</u>

Of the \$116,160,000 lease receivable, \$110,700,000 is related to leases between the University and its component units.

(b) USA Research and Technology Corporation

The Corporation leases land, buildings, and suites to various lessees under financing leases and short term leases expiring at various dates through 2057. In Building I, space is leased under four lease agreements. The first lease had a 5-year initial term that expired in October 2023, which was renewed in November 2023 for a 5-year term expiring October 2028. The first lease has one 5-year renewal option remaining. The second lease had a 1 year initial term, which was amended to include an additional 2 year term expiring in December 2025 with no renewal options. The third lease had a 5 year initial term that expired July 2024 with one 5-year renewal option. The fourth lease had a 5-year initial term that expired April 2024, which was amended in January 2024 for a 5-year term expiring April 2029.

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

Under leases for Buildings I, II, and III, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, and insurance. Tenants will reimburse the Corporation for such expenses only as the total expenses for a year increase over the total expenses

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for the base year of the lease (which generally is the first calendar year of the lease term). In 2024, the Corporation recognized operating expense reimbursement income of \$37,000 as a component of operating revenues in the statement of revenues, expenses, and changes in net position.

Space under lease to the University was 80,092 square feet at September 30, 2024.

The Corporation owns a building located on the premises of USA Health, which is leased to a single tenant. The Corporation paid for construction of the building shell and land improvements while the tenant paid for the cost of finishing the building's interior. The lease had a 10 year initial term, which was set to expire in March 2020, with three 5 year renewal options. The initial lease was terminated in December 2022 and replaced with a new lease with an initial term of 10 years, expiring in March 2030, with three 5 year renewal options. Under the lease, the tenant must also pay for utilities, taxes, insurance, and interior repairs and maintenance. The Corporation is responsible for repairs and maintenance to the exterior and HVAC system.

The Corporation, as lessor, had three ground leases in place at September 30, 2024. 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, 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, 2024, the Corporation recognized a total of \$3,741,000 of inflows of resources from financing leases, of which \$3,321,000 was recognized as lease revenue and \$420,000 was recognized as interest income in other nonoperating revenues.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 2,926	408	3,334
2026	1,743	334	2,077
2027	1,582	284	1,866
2028	1,516	236	1,752
2029	1,248	191	1,439
2030–2034	1,687	697	2,384
2035–2039	1,240	511	1,751
2040–2044	1,568	295	1,863
2045–2049	819	72	891
2050–2054	143	27	170
2055–2059	101	5	106
Lease receivable	<u>\$ 14,573</u>	<u>3,060</u>	<u>17,633</u>

(c) Health Care Authority

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

Lease receivables represent HCA's contractual right to receive cash in exchange for the right to use an asset for a specific amount of time. HCA subleases buildings, suites, and land under leases expiring at various dates through 2073. For the year ended September 30, 2024, HCA recognized a total of \$970,000 of inflows of resources from leases, of which \$781,000 was recognized as lease revenue and \$189,000 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.

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Future minimum lease revenue under noncancelable agreements as of September 30, 2024, by fiscal year, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 975	162	1,137
2026	682	131	813
2027	727	98	825
2028	777	63	840
2029	237	36	273
2030-2034	250	130	380
2035-2039	28	111	139
2040-2044	35	104	139
2045-2049	44	95	139
2050-2054	55	84	139
2055-2059	69	71	140
2060-2064	86	54	140
2065-2069	107	32	139
2070-2073	76	7	83
	<u>\$ 4,148</u>	<u>1,178</u>	<u>5,326</u>

(10) Derivative Transactions – Interest Rate Swaps

The University was a party to two derivative instruments with Wells Fargo Bank, the counterparty, that terminated in 2024. The income associated with the derivatives is reported as a component of net investment income and the corresponding expense is reported as a component of interest expense. The terms of the derivatives required the University to post collateral when certain criteria were met.

The notional amount of the 2014 swap at all times matched the outstanding principal amount of the related bond. Under the swap, the University paid the counterparty a fixed semiannual payment based on an annual rate of 4.9753%. Prior to the cessation of LIBOR, the University received, on a monthly basis, a variable payment of 68% of the one month LIBOR. In connection with the cessation of LIBOR, the University adhered to the ISDA Fallback protocols, which meant that, as of the cessation of LIBOR on June 30, 2023, the University received payments calculated at 68% of Secured Overnight Financing Rate (SOFR) compounded in arrears + 0.11448%, plus 0.25%. Conversely, the 2014-A Bonds bore interest at 68% of One Month Term SOFR + 0.11448%, plus 0.73%.

The notional amount of the 2016 swap at all times matched the outstanding principal amount of the related bonds. Under the swap, the University paid the counterparty a fixed semiannual payment based on an annual rate of 5%. Prior to the cessation of LIBOR, the University received, on a monthly basis, a variable payment of 68% of the one-month LIBOR. In connection with the cessation of LIBOR, the University adhered to the ISDA Fallback protocols, which meant that, as of the cessation of LIBOR on June 30, 2023,

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the University received on a monthly basis a variable payment of 68% of SOFR Compounded in arrears + 0.11448%, plus 0.25%. Conversely, the Amended and Restated 2016 Bonds bore interest at 79% of one month compounded SOFR plus 72 basis points (with respect to the Amended and Restated 2016-B Bonds), 77 basis points (with respect to the Amended and Restated 2016-C Bonds), and 83 basis points (with respect to the Amended and Restated 2016-D Bonds).

The 2014 swap terminated in March 2024, when the Series 2014-A Bond matured. The 2016 swap terminated in August 2024, when the Amended and Restated 2016-B, C, and D Bonds were refunded with the Series 2024-C Bonds. The fee paid by the University to Wells Fargo Bank to terminate the swap was \$14,745,000. Pursuant to GASB Statement No. 53, and Statement No. 99, the balance in the deferred inflow of resources is reported in nonoperating revenues, separate from net investment income, as an increase upon hedge termination in the statement of revenues, expenses, and changes in net position.

(11) Patient Service Revenues

The University of South Alabama Health System (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 settlements determined after submission of annual cost reports by USA Health and audits by the Medicare fiscal intermediary.

Both USA Health University Hospital and 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 16% of USA Health's patient service revenues for the year ended September 30, 2024.

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

Revenues from the Blue Cross program accounted for approximately 27% of USA Health's patient service revenues for the year ended September 30, 2024.

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

USA Health qualifies as a Medicaid essential provider and, therefore, also receives supplemental payments based on formulas established by the Alabama Medicaid Agency. There can be no certainty that USA Health will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified. For the year ended September 30, 2024, the University received net supplemental payments from this program in the amount of \$96,202,000 and is included in patient service revenues on the statement of revenues, expenses, and changes in net position.

Revenues from the Medicaid program accounted for approximately 20% of USA Health's patient service revenues for the year ended September 30, 2024.

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

The composition of patient service revenues for the year ended September 30, 2024 follows (in thousands):

Gross patient service revenues	\$	2,375,103
Less:		
Provision for contractual and other adjustments		(1,345,692)
Provision for bad debts		(103,155)
		926,256
	\$	

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance which vary in amount. USA Health also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. USA Health estimates the provision for bad debts for patients with deductibles and coinsurance and for those who are uninsured based on historical experience and current market conditions. Subsequent changes to the estimate of the provision for bad debts are generally recorded as adjustments to net patient service revenues in the period

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of the change. For the year ended September 30, 2024, additional revenue of approximately \$12,681,000 was recognized due to changes in estimates of the provision for bad debts.

The composition of gross patient service revenues before the provision for contractual and other adjustments and the provision for bad debts by major payor source is as follows for the year ended September 30, 2024 (in thousands):

	Gross patient service revenues	Percentage
Medicare Advantage	\$ 456,429	19 %
Blue Cross	525,108	22
Medicare	291,390	12
Commercial	259,679	11
Medicaid	547,831	23
Other	172,185	8
Self pay	122,481	5
	<u>\$ 2,375,103</u>	<u>100 %</u>

In 2024, the University received \$12,224,000 as a prior year settlement related to the 340B Drug Pricing Program. This amount is included in patient service revenues for the year ended September 30, 2024.

The University provides charity care to patients who meet specific financial need criteria, as outlined in its USA Health Financial Assistance Policy. Charity care is defined as services provided to patients who are unable to pay for all or part of their care and for whom no expectation of payment exists. For the fiscal year ended September 30, 2024, charity care costs were calculated based on the cost-to-charge ratio, which was applied to the amounts of services provided to qualifying patients. The total charity care provided during the period was approximately \$23,654,000 which represents 1.0% of total hospital charges.

(12) Business and Credit Concentrations

The University grants credit to patients, substantially all of whom reside in the University's service area. The University generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, preferred provider arrangements, and commercial insurance policies).

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The mix of receivables from patients and third party payors as of September 30, 2024 is as follows:

Medicare	24 %
Self Pay	22
Blue Cross	19
Medicaid	15
Commercial	11
Other	9
	100 %

(13) Defined-Benefit Cost-Sharing Pension Plan

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

(a) Plan Description

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

(b) Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after ten years of creditable service. Tier 1 TRS members who retire after age 60 with 10 years or more of creditable service or with twenty-five years of services (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or formula method, with the member receiving payment under the method that yields the higher monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest three of the last ten years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Act 2022-222 amended benefits for Tier 2 members, and they are now eligible for retirement after 30 years of creditable service and are entitled to an annual retirement benefit, with a 2% reduction for each year under 62, 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

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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 are 12.59% of annual pay for Tier 1 members and 11.57% 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 \$22,307,000 for the year ended September 30, 2024 are included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

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

At September 30, 2024, the University reported a liability of \$349,710,000 for its proportionate share of the collective net pension liability. At September 30, 2024, the collective net pension liability was measured as of September 30, 2023 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2022. 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, 2023, the University's proportion of contributions to the pension plan was 2.191463%, which was a decrease of 0.227295% from its proportion measured as of September 30, 2022 of 2.418758%.

For the year ended September 30, 2024, the University recognized pension expense of approximately \$38,714,000, 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, 2024, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 31,269	4,721
Changes of assumptions	9,838	—
Net difference between projected and actual earnings on pension plan investments	23,984	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	31,646
Employer contributions subsequent to measurement date	22,307	—
	\$ 87,398	36,367

At September 30, 2024, approximately \$22,307,000 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ending September 30:	
2025	\$ 8,173
2026	5,391
2027	20,324
2028	(5,164)
	\$ 28,724

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(e) Actuarial Assumptions

The total pension liability as of September 30, 2024 was determined by an actuarial valuation as of September 30, 2022, 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, including inflation

** Includes inflation

The actuarial assumptions used in the September 30, 2022 valuation were based on the results of an actuarial experience study for the period from October 1, 2015 through September 30, 2020, and a discount rate of 7.45%. 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	1.5
	<u>100.0 %</u>	

* Includes assumed rate of inflation of 2.00%

(f) Discount Rate

The discount rate used to measure the total pension liability as of September 30, 2024 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 one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current rate (in thousands):

	1% Decrease (6.45)%	Current rate (7.45)%	1% Increase (8.45)%
University's proportionate share of collective net pension liability	\$ 456,856	349,710	259,593

(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, 2023 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, 2023. The auditors' report dated January 15, 2024 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, 2023 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

(14) Other Employee Benefits

(a) Other Pension Plans

Certain employees of the University also participate in a defined-contribution pension plan. The defined-contribution pension plan covers certain academic and administrative employees, and participation by eligible employees is optional. The plan is administered by the University and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). Under this plan, contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University contributed \$323,000 representing 135 employees for the year ended September 30, 2024.

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. Under this plan, contributions by eligible employees

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are matched equally by HCM up to a maximum of 5% of current annual pay. HCM contributed \$11,933,000 representing 3,113 employees participating in this plan for the year ended September 30, 2024. University employees as of September 30, 2010, who later transfer to HCM, are immediately vested in the plan. All other employees do not vest until they have held employment with HCM for 36 months; at which time, they become 100% vested in the plan.

Effective April 1, 2022, HCM adopted a deferred compensation retirement plan. All nonstudent employees are eligible to defer receipt of a portion of their salary until a later date. The plan is administered by HCM and the plan assets are held in annuity contracts and custodial accounts. The annuity contracts are with, and the custodial account assets are invested through investment options offered by, TIAA-CREF. Under this plan, contributions by eligible employees are not matched by HCM. During the year ended September 30, 2024, 231 employees participated in this plan. All eligible employees are fully vested in their accounts under this plan immediately upon contributing.

(b) *Compensated Absences*

Regular University employees accumulate vacation and sick leave and hospital and clinical employees accumulate paid time off. These are subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon separation of employment, employees who were hired before January 1, 2012 are paid all unused accrued vacation at their regular rate of pay up to a maximum of two times their annual accumulation rate. Employees hired after January 1, 2012 are not eligible for payment of unused accrued vacation or paid time off (PTO) hours upon separation of employment. Employees acquired through the Providence purchase were able to transfer their current PTO balances to the University. This transferred PTO is eligible for payout. The accompanying statement of net position includes accruals for vacation pay and paid time off of approximately \$10,498,000 at September 30, 2024. 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.

(15) Other Postemployment Benefit Plans

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

(a) *Plan Description*

The Alabama Retiree Health Care Funding Act of 2007 authorized and directed the Public Education Employees Health Insurance Board (Board) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in PEEHIP. Active and retiree health insurance benefits are paid through the PEEHIP. The PEEHIP was established in 1983 pursuant to the provisions of the Code of Alabama 1975, Title 16, Chapter 25A to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions and to fund benefits related to the plan. The responsibility for the general administration and operation of the PEEHIP is vested in its Board, which consists of 15 trustees. Title 16-Chapter 25 of the Code of Alabama grants the authority to establish and amend the benefit terms to the PEEHIP Board. GASB Statement No. 75, requires the

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reporting of the participating employers' share of net OPEB liability and the OPEB expense in the financial statements as well as enhanced financial statements note disclosures.

(b) Benefits Provided

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

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

(c) Contributions

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

Total employer contributions to the OPEB plan from the University were \$6,171,000 the year ended September 30, 2024 and are included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

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

At September 30, 2024, the University reported a liability of \$78,808,000, for its proportionate share of the net OPEB liability. At September 30, 2024, the net OPEB liability was measured as of September 30, 2023, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2022. 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, 2023, the University's proportion of contributions to the OPEB plan was 4.099978%, which was an increase of 1.034118% from its proportion measured as of September 30, 2022 of 3.065860%.

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For the year ended September 30, 2024, the University recognized negative OPEB expense of approximately \$25,596,000, which is included in salaries and benefits on the statement of revenues, expenses, and changes in net position.

At September 30, 2024, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 1,541	124,356
Changes of assumptions	66,393	77,962
Net difference between projected and actual earnings on OPEB plan investments	2,692	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	92,326	55,162
Employer contributions subsequent to the measurement date	6,171	—
	\$ 169,123	257,480

At September 30, 2024, approximately \$6,171,000 reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending September 30, 2025.

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

Year ending September 30:	
2025	\$ (36,405)
2026	(5,121)
2027	(11,317)
2028	(29,845)
2029	(14,895)
Thereafter	3,054
	\$ (94,529)

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(e) Actuarial Assumptions

The total OPEB liability as of September 30, 2024 was determined by an actuarial valuation performed as of September 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Projected salary increases*	3.25-5.00 %
Long-term investment rate of return**	7.00 %
Municipal bond index rate at the measurement date	4.53 %
Municipal bond index rate at prior measurement date	4.40 %
Projected year for fiduciary net position to be depleted	N/A
Single equivalent interest rate at the measurement date	7.00 %
Single equivalent interest rate at prior measurement date	7.00 %
Healthcare cost trend rate	
Pre-Medicare eligible	7.00 %
Medicare eligible	***
Ultimate trend rate	
Pre-Medicare eligible	4.50 %
Medicare eligible	4.50 %
Year of ultimate trend rate	
Pre-Medicare eligible	2033
Medicare eligible	2033
Optional plans trend rate	2.00 %

* Includes 2.75% wage inflation

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

*** Initial Medicare trend rates are set based on negotiated increases through calendar year 2025.

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

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

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plan participation, rates of plan election, etc.) of the total OPEB liability were based on the September 30, 2022 valuation.

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
	<u>100 %</u>	

* Geometric mean, includes 2.50% inflation

(f) Discount Rate

The discount rate used to measure the total OPEB liability at September 30, 2024 was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating employers must contribute for each active employee, which is currently \$800 per non-university active member. 11.051% of the employer contributions were used to assist in funding retiree benefit payments in fiscal year 2023. It is assumed that the 11.051% will increase or decrease at the same rate as expected benefit payments for the closed group until reaching an employer rate of 20.000%, at which point, based on budget projections, the monthly employer rate will increase to \$940 starting in 2027 and with inflation at 2.5% starting in 2028. 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 2121.

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

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

	<u>1% Decrease (3.50)%</u>	<u>Current rate (4.50)%</u>	<u>1% Increase (5.50)%</u>
University's proportionate share of collective net OPEB liability	\$ 59,735	78,808	101,965

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

	<u>1% Decrease (6.00)%</u>	<u>Current rate (7.00)%</u>	<u>1% Increase (8.00)%</u>
University's proportionate share of collective net OPEB liability	\$ 97,288	78,808	63,079

(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, 2023. The supporting actuarial information is included in the GASB Statement No. 75 Report for PEEHIP prepared as of September 30, 2023. Additional financial and actuarial information is available at www.rsa-al.gov.

(16) 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

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the trust funds are ever terminated, appropriate provision for payment of related claims will be made and any remaining balance may be distributed to the participating entities in proportion to contributions made.

As discussed in note 1, the PLTF and GLTF are blended component units of the University and, as such, are included in the financial statements of the University for the year ended September 30, 2024. 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 \$4,235,000 in 2024 and are included in accounts payable and accrued liabilities on the statement of net position. Contributions by the University and its employees, together with earnings thereon, are used to pay liabilities arising from healthcare claims. It is the opinion of University administration that plan assets are sufficient to meet future plan obligations.

The changes in the total self-insurance liabilities for the year ended September 30, 2024 for the PLTF, GLTF, and health plan are summarized as follows (in thousands):

Balance, beginning of year	\$ 46,186
Premiums and other additions	103,865
Claims, administrative fees paid, and other reductions	<u>(77,430)</u>
Balance, end of year	<u>\$ 72,621</u>

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

(17) Other Related Parties and Related-Party Transactions

During the year ended September 30, 2024, the University had certain related-party transactions with affiliates as described below.

SAMSF is a not-for-profit corporation that exists for the purpose of promoting education and research at the University. For the year ended September 30, 2024, SAMSF had total assets of \$13,237,000, net assets of \$13,168,000, and total revenues of \$3,201,000. During fiscal year 2024, SAMSF made contributions in the amount of \$147,000 to support clinical trials and research at the University. Contributions from SAMSF are presented as private grants and contracts revenues on the statement of revenues, expenses, and changes in net position for the University.

JAF is a not-for-profit corporation that was organized for the purpose of providing support for the athletic programs and student-athletes at the University. For the year ended September 30, 2024, JAF had total

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assets of \$1,366,000, net assets of \$1,366,000, and total revenues of \$2,374,000. During fiscal year 2024, JAF made contributions to the University for the support of athletic programs and student-athletes in the amount of \$1,900,000. These contributions are presented as other nonoperating revenues on the statement of revenues, expenses, and changes in net position for the University.

Gulf Coast is an Alabama not-for-profit corporation created for the purpose of operating a community-led network to coordinate the healthcare of Medicaid patients in Southwest Alabama. For the year ended September 30, 2024, Gulf Coast had total assets of \$905,000, net assets of \$632,000, and total revenues of \$8,684,000. During fiscal year 2024, HCM (a blended component unit of the University) charged Gulf Coast a management fee of \$876,000 to cover management and administrative expenses for Gulf Coast operations. In addition, HCM transferred \$200,000 to Gulf Coast. The management fee and transfer are presented as other operating revenues and supplies and other services expense, respectively, on the statement of revenues, expenses, and changes in net position for the University.

FRAC is an Alabama non-for-profit corporation created for the purpose of promoting and advancing the University's educational, research, and service missions. For the year ended September 30, 2024, FRAC had total assets of \$57,000, net assets of \$57,000, and total revenues of \$16,000. FRAC has royalty sharing agreements in place with the University and inventors in which each party receives a designated percentage of licensing income generated from intellectual property. For fiscal year 2024, FRAC distributed \$3,000 to the University and \$1,000 to inventors under royalty sharing agreements.

(18) Commitments and Contingencies

(a) Grants and Contracts

At September 30, 2024, the University had been awarded approximately \$146,668,000 in grants and contracts for which resources had not been received and for which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements, as the eligibility requirements of the awards have not been met. Advances, if any, are included in unrecognized revenues and include amounts received from grant and contract sponsors that have not been expended under the terms of the agreements and, therefore, have not yet been included in revenues in the accompanying basic financial statements. Federal awards are subject to audit by federal agencies. The University's management believes any potential adjustment from such audits will not be material.

(b) Litigation

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

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(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, 2024, no amounts were payable pursuant to these agreements.

(d) USA Research and Technology Corporation Leases

The University has commitments under lease receivables with the Corporation. Space under lease to the University was 80,092 square feet at September 30, 2024. See note 9 for additional details.

(19) Functional Expense Information

Operating expenses by functional classification for the year ended September 30, 2024 are as follows (in thousands).

	2024
Instruction	\$ 120,002
Research	40,574
Public service	13,924
Academic support	29,288
Student services	47,567
Institutional support	12,167
Operation and maintenance of plant	14,016
Scholarships	26,120
USA Health	929,296
Auxiliary enterprises	17,711
Depreciation and amortization	89,412
	\$ 1,340,077

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(20) Blended Component Units

As more fully described in note 1, HCM, PLTF, GLTF, and the Providence IPA 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, 2024 follows (in thousands):

Current assets	\$	22,751
Noncurrent assets		71,700
Total assets		94,451
Current liabilities		36,809
Noncurrent liabilities		51,581
Total liabilities		88,390
Net position	\$	6,061
Operating revenues	\$	493,626
Operating expenses		(505,881)
Operating loss		(12,255)
Nonoperating revenues		13,202
Change in net position	\$	947

(21) Recently Issued Accounting Pronouncements

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 update measurement guidance and recognition requirements for compensated absences in addition to amending previously required disclosures.

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*, which is effective for fiscal years beginning after June 15, 2024. The objective of this statement is to establish reporting requirements for certain concentrations and constraints that may negatively impact operations or the ability to meet outstanding obligations.

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*, which is effective for fiscal years beginning after June 15, 2025. The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability.

In September 2024, the GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*, which is effective for fiscal years beginning after June 15, 2025. The objective of this Statement is to provide users of

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government financial statements with essential information about certain types of capital assets and requires disclosure of certain information regarding capital assets to be presented by major class.

The effect of the implementation of GASB Statement Nos. 101, 102, 103, and 104 on the University has not yet been determined.

(22) Subsequent Event

Subsequent to September 30, 2024, the University entered into an agreement to purchase Traditions at South, a 156 unit apartment complex, and the associated land for \$20,200,000. The acquired assets will be operated as student housing and the University has entered into an agreement with a property management firm to assist in the transition process. The University closed on this acquisition in December 2024.

In addition, the University entered into a membership donation agreement with Gulf Coast Health System resulting in the University becoming the sole Corporate Member of the Providence Foundation. The Providence Foundation was formed to support the mission and endeavors of Providence Hospital, which was acquired in the Ascension Providence acquisition and was previously reported in Ascension Health's June 30, 2024 financial statements. The Providence Foundation will be discretely presented in the University's financial statements for fiscal year 2025.

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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 2024

(In thousands of dollars)

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
University's proportion of the net pension liability	2.191463 %	2.418758 %	2.521971 %	2.551330 %	2.664536 %	2.843720 %	3.018313 %	3.108048 %	3.185471 %	3.322348 %
University's proportionate share of the net pension liability	\$ 349,710	375,894	237,578	315,591	294,615	282,739	296,654	336,477	329,294	297,734
University's covered-employee payroll during the measurement period	\$ 181,019	188,126	184,984	181,875	190,559	191,520	200,464	198,378	201,858	210,359
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	193.19 %	199.81 %	128.43 %	173.52 %	154.61 %	147.63 %	147.98 %	169.61 %	163.13 %	141.54 %
Plan fiduciary net position as a percentage of the total pension liability	63.57 %	62.21 %	76.44 %	67.72 %	69.85 %	72.29 %	71.50 %	67.93 %	67.51 %	71.01 %

Unaudited – see accompanying auditors' report.

Covered-employee payroll: payroll on which contributions to a pension plan are based.

The measurement period for each year presented is the prior fiscal year ending September 30.

For fiscal year 2024, the measurement period is October 1, 2022 - September 30, 2023.

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Required Supplementary Information

Schedule of the University's Pension Contributions (Unaudited)

Teachers' Retirement Plan of Alabama

September 30 of each year from 2015 to 2024

(In thousands of dollars)

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 22,307	21,345	22,005	21,566	21,413	22,481	22,262	23,664	23,405	23,524
Contributions in relation to the contractually required contribution	<u>22,307</u>	<u>21,345</u>	<u>22,005</u>	<u>21,566</u>	<u>21,413</u>	<u>22,481</u>	<u>22,262</u>	<u>23,664</u>	<u>23,405</u>	<u>23,524</u>
Contribution deficiency (excess)	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
University's covered-employee payroll	\$ 181,019	188,126	184,984	181,875	190,559	191,520	200,464	198,378	201,858	210,359
Contributions as a percentage of covered-employee payroll	12.32 %	11.35 %	11.90 %	11.86 %	11.24 %	11.74 %	11.11 %	11.93 %	11.59 %	11.18 %

Unaudited – see accompanying auditors' report.

Covered-employee payroll: payroll on which contributions to a pension plan are based.

The measurement period for each year presented is the prior fiscal year ending September 30.

For fiscal year 2024, the measurement period is October 1, 2022 - September 30, 2023.

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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 2024

(In thousands of dollars)

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
University's proportion of the net OPEB liability	4.099978 %	3.065860 %	3.974950 %	4.016210 %	2.737717 %	3.156420 %	3.449076 %	2.963813 %
University's proportionate share of the net OPEB liability	\$ 78,808	53,421	205,378	260,646	103,288	259,418	256,178	238,060
University's covered-employee payroll during the measurement period	\$ 181,019	188,126	184,984	181,875	190,559	191,520	200,464	198,378
University's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	43.54 %	28.40 %	111.02 %	143.31 %	54.20 %	135.45 %	127.79 %	120.00 %
Plan fiduciary net position as a percentage of the total OPEB liability	49.42 %	48.39 %	27.11 %	19.80 %	28.14 %	14.81 %	15.37 %	13.38 %

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

Unaudited – see accompanying auditors' report.

Covered-employee payroll: payroll on which contributions to a pension plan are based.

The measurement period for each year presented is the prior fiscal year ending September 30.

For fiscal year 2024, the measurement period is October 1, 2022 - September 30, 2023.

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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 2024

(In thousands of dollars)

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 6,171	6,382	5,859	6,868	7,947	7,772	7,728	8,373
Contributions in relation to the contractually required contribution	6,171	6,382	5,859	6,868	7,947	7,772	7,728	8,373
Contribution deficiency (excess)	\$ —	—	—	—	—	—	—	—
University's covered-employee payroll	\$ 181,019	188,126	184,984	181,875	190,559	191,520	200,464	198,378
Contributions as a percentage of covered-employee payroll	3.41 %	3.39 %	3.17 %	3.78 %	4.17 %	4.06 %	3.86 %	4.22 %

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

Unaudited – see accompanying auditors' report.

Covered-employee payroll: payroll on which contributions to a pension plan are based.

The measurement period for each year presented is the prior fiscal year ending September 30.

For fiscal year 2024, the measurement period is October 1, 2022 - September 30, 2023.

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September 30, 2024

(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, 2024 was determined by an actuarial valuation as of September 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Investment rate of return*	7.45%
Projected salary increases**	3.25-5.00%

* Net of pension plan investment expense

** Includes inflation

The actuarial assumptions used in the September 30, 2022 valuation were based on the results of an actuarial experience study for the period from October 1, 2015 through September 30, 2020, and a discount rate of 7.45%. 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 September 30, 2022 valuation reflects the impact of Act 2022-222.

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) Changes in Actuarial Assumptions

In 2021, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2021, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience, including a change in the discount rate from 7.70% to 7.45%. In 2021 and later, the expectation of retired life mortality was changed to the Pub-2010 Teacher Retiree Below Median Tables projected generationally with 66-2/3% of the MP-2020 scale beginning in 2019.

In 2018, the discount rate was changed from 7.75% to 7.70%.

In 2016, rates of retirement, disability, withdrawal and mortality were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 the expectation of retired life

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September 30, 2024

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

(c) Discount Rate

The discount rate used to measure the total pension liability as of September 30, 2024 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.

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

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

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	Market value of assets
Inflation	2.50%
Salary increase	3.25% to 5.00%, including inflation
Investment rate of return	7.45%, 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 2022, rates of plan participation and tobacco usage assumptions were adjusted to reflect actual experience more closely.

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September 30, 2024

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

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

(b) Recent Plan Changes

The September 30, 2022 valuation reflects the impact of Act 2022-222.

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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September 30, 2024

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

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Therefore, the actuarially determined employer contribution for fiscal year ended September 30, 2023 is determined based on the actuarial valuation as of September 30, 2020. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level percent of pay, closed
Remaining amortization period	21 years
Asset valuation method	Market value of assets
Inflation	2.75%
Healthcare cost trend rate:	
Pre-Medicare eligible	6.50%
Medicare eligible	*
Ultimate trend rate:	
Pre-Medicare eligible	4.75%
Medicare eligible	4.75%
Year of ultimate trend rate	2027 for pre-Medicare eligible 2024 for Medicare eligible
Investment rate of return	5.00%, including inflation
Optional plans trend rate	2.00%

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