UNIVERSITY OF SOUTH ALABAMA

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

Basic Financial Statements

September 30, 2009 and 2008

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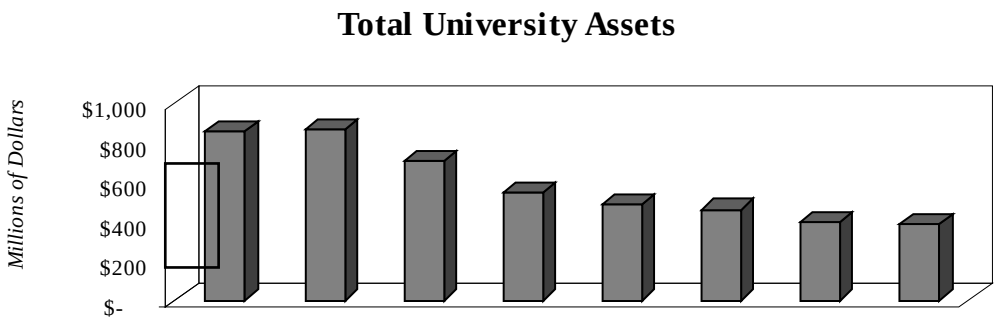
Total assets of the University as of September 30 are as follows:



Net assets represent the residual interest in the University's assets after liabilities are deducted. Net assets are classified into one of four categories:

Net assets invested in capital assets, net of related debt, represent 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.

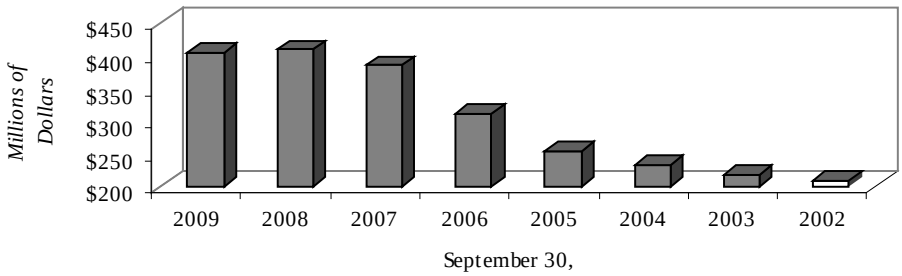
Restricted nonexpendable net assets consist primarily of the University's permanent endowment funds. While earnings from these funds may be expended, the corpus may not be expended for any reason and must remain intact with the University in perpetuity.

Restricted expendable net assets are 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 assets represent those net assets not subject to externally imposed stipulations. Even though these funds are not legally restricted, the majority of the University's unrestricted net assets have been internally designated for various projects, all supporting the missions of the University. These unrestricted net assets include funds for various academic and research programs, auxiliary operations (including the bookstore, student housing and dining services), student programs, capital projects and general operations.

Net assets of the University as of September 30 are as follows:

Net University Assets



All categories of restricted net assets increased by approximately 21% between September 30, 2008 and 2009 primarily due to the improvement in financial market conditions and due to the addition of restricted gifts to the University. Unrestricted net assets decreased from $174,105,000 to $161,883,000 between September 30, 2008 and 2009 reflecting the results of University financial operations during fiscal year 2009.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total University net assets as reported in the statement of net assets are based on the activity presented in the statement of revenues, expenses, and changes in net assets. The purpose of this statement is to present the change in net assets resulting from revenues earned by the University, both operating and nonoperating, and the

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16% Grants and contracts

11% Patient services revenues 37%

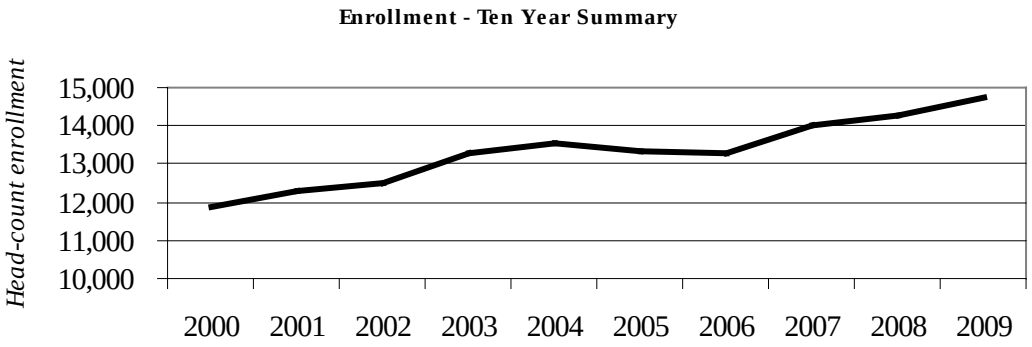
14% Auxiliary enterprises

3% Tuition & fees

Capital Assets and Debt Administration

Total capital asset additions for the University were approximately $84,904,000 in 2009. During 2009, the Mitchell Cancer Institute, the Nursing and Allied Health Building, and a major addition to the University's central utility plant system were placed into service and the Football Field House was substantially completed. Significant construction projects that remain in progress at September 30, 2009 include the Student Recreation Center, Bell Tower, and the Engineering and Science Building. Significant projects in fiscal 2007 and 2008 included Building II in the USA Technology and Research Park, JagTran (the campus shuttle system), Meisler Hall, and various ongoing projects. At September 30, 2009, the University has outstanding commitments of approximately $56,218,000 for various capital projects.

In a prior year, the State of Alabama made allocations from state bond issues to the University in the amount of $21,332,000. During 2009, $10,171,000 was recognized by the University and is reportn,1w [(, t)-5(h)11(e)-2(U)



In that same time period, in-state tuition per credit hour has increased by aed by aed by aed by aed by aed bycpMeA4mO(e

The ten year history of State Appropriations for the University is as follows:

State Appropriations - Ten Year History

Independent Auditors' Report on Basic Financial Statements and Schedule of Expenditures of Federal Awards

The Board of Trustees
University of South Alabama:

We have audited the accompanying basic financial statements of the University of South Alabama, a component unit of the State of Alabama, (the University) and its aggregate discretely presented component units as of and for the years ended September 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the 2009 and 2008 consolidated financial statements of the University of South Alabama Foundation, which represents 80%, 101% and (50)%, respectively, of the 2009 assets, net assets, and revenues, gains and other support of the discretely presented component units and 82%, 100% and (14)%, respectively, of the 2008 assets, net assets, and revenues, gains and other support of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of South Alabama Foundation, is based on the report of the other auditors.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of September 30, 2009 and 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with U. S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2009, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 through 11 is not a required part of the basic financial statements but is supplementary information required by U. S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of

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UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statements of Financial Position

June 30, 2009 and 2008

(In thousands)

Assets

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

Statements of Financial Position

September 30, 2009 and 2008

(In thousands)

Assets		**2009**	**2008**
Current assets:			
Cash and cash equivalents	$	1,397	846
Patient accounts receivable (net of allowance for uncollectible accounts of approximately $4,827 and $5,281)		10,395	10,747
Other current assets		1,039	1,269
Total current assets		12,831	12,862
Interest in assets of University of South Alabama Professional Liability Trust Fund		20,685	20,928
Property and equipment, net		2,475	2,604
Total assets	$	35,991	36,394
Liabilities and Net Assets (Deficit)			
Current liabilities:			
Accounts payable			
Current portion of notes payable			

UNIVERSITY OF SOUTH ALABAMA

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2009

(In thousands)

		Unrestricted			
Revenues, gains, and other support:					
Net realized and unrealized losses on investments	$	(24,589)			
Rents, royalties and timber sales		5,852			
Interest and dividends		816			
Gifts		5			
Required match of donor contributions		(13)			
Interfund interest		(118)			
Transfers		125			
Reclassification of net assets based on change in law		(1,931)			
Net assets released from program restrictions		1,327			
Total revenues, gains, and other support		(18,526)			
Expenditures:					
Program services:					
Faculty support		2,299			
Scholarships		1,065			
Other		1,506			
Total program service expenditures		4,870			
Management and general		1,536			
Other investment expens					

UNIVERSITY OF SOUTH ALABAMA FOUNDATION
(Discretely Presented Component Unit)

Consolidated Statement of Activities and Changes in Net Assets

Year ended June 30, 2008

(In thousands)

	Unrestricted			
Revenues, gains, and other support:				
Net realized and unrealized gains (losses) on investments	$ 3,011			
Rents, royalties and timber sales	4,536			
Interest and dividends	1,663			
Gifts	—			
Other income	5			
Required match of donor contributions	(167)			
Interfund interest	(513)			
Net assets released from program restrictions	[illegible]	[illegible]	[illegible]	[illegible]
Total revenues, gains, and other suppor	[illegible]	[illegible]	[illegible]	[illegible]

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

Statements of Operations and Changes in Unrestricted Net Assets (Deficit)

Years ended September 30, 2009 and 2008

(In thousands)

		2009	2008
Unrestricted revenues, gains and other support:			
Net patient service revenue	$	68,257	67,484
Other revenue		8,046	7,857
Total unrestricted revenues, gains, and other support		76,303	75,341
Expenses:			
Salaries and benefits		47,936	46,212
General and administrative		12,746	17,748
Provision for uncollectible accounts		13,582	13,459
Depreciation and amortization		976	993
Interest		7	65
Total expenses		75,247	78,477
Operating income (loss)		1,056	(3,136)
Nonoperating gains			
Total nonoperating gains			
Revenues over (under) expenses			
Contributions restricted for debt service, received and expended within the same year			
Transfer of capital to University of South Alabama College of Medicine			
Change in unrestricted net assets (deficit)			
Unrestricted net (deficit) assets at beginning of year			
Unrestricted net deficit at end of year			

See accompanying notes to basic financial statements.

USA RESEARCH AND TECHNOLOGY CORPORATION
(Discretely Presented Component Unit)

Statements of Revenues, Expenses, and Changes in Net Assets

Year ended September 30, 2009

(In thousands)

		2009	2008
Operating revenues:			
Rental income	$	3,475	2,878
Tenant reimbursements		39	29
Total operating revenues		3,514	2,907
Operating expenses:			
Building management and operating expenses		804	533
Depreciation and amortization		810	681
Legal and administrative fees		34	32
Insurance		48	57
Total operating expenses		1,696	1,303
Operating income		1,818	1,604
Nonoperating revenues (expenses):			
Investment income		31	83
Interest expense		(1,635)	(1,426)
Donation revenue		159	140
Other		5	3
Net nonoperating expenses		(1,440)	(1,200)
Transfer of building to University of South Alabama		(423)	—
Change in net assets		(45)	404
Net assets:			
Beginning of year		1,492	1,088
End of year	$	1,447	1,492

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended September 30, 2009 and 2008

(In thousands)

	2009	2008
Cash flows from operating activities:		
Receipts related to tuition and fees	$ 63,151	57,061
Receipts from and on behalf of patients and third-party payers	201,850	206,743
Receipts from grants and contracts	74,695	79,517
Receipts related to auxiliary enterprises	16,832	16,823
Payments to suppliers and vendors	(142,998)	(141,907)
Payments to employees and related benefits	(378,752)	(366,379)
Payments for scholarships and fellowships	(5,615)	(5,451)
Other operating receipts	34,084	31,856
Net cash used in operating activities	(136,753)	(121,737)
Cash flows from noncapital financing activities:		
State appropriations	108,451	139,737
Endowment gifts	5,099	9,361
Agency funds received	515	625
Agency funds disbursed	(687)	(280)
Stafford and PLUS loans received	83,809	76,739
Stafford and PLUS loans disbursed	(83,768)	(76,857)
New loans issued to students	(26)	(113)
Student loan repayments	300	299
Other nonoperating revenues	23,852	26,476
Other nonoperating expenses	(2,133)	(5,173)
Net cash provided by noncapital financing activities	135,412	170,814
Cash flows from capital and related financing activities:		
Capital contributions and grants	5,062	19,268
Purchases of capital assets	(72,108)	(89,417)
Proceeds from sale of capital assets	105	68
Proceeds from issuance of capital debt	—	120,085
Principal payments on capital debt	(4,877)	(5,281)
Interest payments on capital debt	(12,131)	(7,860)
Net cash (used in) provided by capital and related financing activities	(83,949)	36,863
Cash flows from investing activities:		
Interest and dividends on investments	6,455	11,590
Purchases of investments	(86,749)	(392,507)
Proceeds from sales of investments	170,689	368,100
Net cash provided by (used in) investing activities	90,395	(12,817)
Net increase in cash and cash equivalents	5,105	73,123
Cash and cash equivalents (unrestricted and restricted):		
Beginning of year	130,807	57,684
End of year	$ 135,912	130,807

(Continued)

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

Statements of Cash Flows

Years ended September 30, 2009 and 2008

(In thousands)

		2009	2008
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(152,937)	(152,765)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation and amortization expense		25,183	20,168
Changes in assets and liabilities, net:			
Student receivables		(1,186)	(598)
Net patient accounts receivable		(4,911)	3,628
Grants and contracts receivables		(3,542)	1,742
Other receivables		1,512	8,345
Prepaid expenses, inventories, and other		(2,351)	1,035
Accounts payable and accrued liabilities		(1,703)	(8,445)
Deferred revenue		3,182	5,153
Net cash used in operating activities	$	(136,753)	(121,737)
Noncash investing, noncapital financing, and capital and related financing transactions:			
Increase (decrease) in fair value of investments recognized as a component of investment income	$	4,716	(13,771)
Additional maturity on capital appreciation bonds payable recorded as interest expense		1,998	1,813
Payments on behalf of the University by the Alabama Public School and College Authority reducing purchases of capital assets		9,786	—
Gifts of capital and other assets		613	60
Pledges of operating and capital gifts		559	412
Capitalization of construction period interest		2,483	1,537
Increase (decrease) in accounts payable related to capital assets		179	(2,226)

See accompanying notes to basic financial statements.

UNIVERSITY OF SOUTH ALABAMA
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Notes to Basic Financial Statements

September 30, 2009 and 2008

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The accompanying basic financial statements present the financial position and activities of the University of South Alabama (the University), which is a component unit of the State of Alabama. The financial statements of the University are intended to present the financial position, changes in financial position and, where applicable, cash flows of only that portion of the basic financial statements and the aggregate discretely presented component units of the State of Alabama that is attributable to the transactions of the University.

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, 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 and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete. Accordingly, the basic financial statements include the accounts of the University, as the primary government, and the accounts of the following entities as component units.

The University has adopted GASB Statement No. 39 which 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. The statement also clarifies reporting requirements for those organizations. Based on these criteria as of September 30, 2009 and 2008, the University reports the University of South Alabama Foundation (USA Foundation), the University of South Alabama Health Services Foundation (USAHSF), and the USA Research and Technology Corporation (the Corporation) as discretely presented component units.

The University is also affiliated with the South Alabama Medical Science Foundation (SAMSF). This entity is not considered a component unit of the University under the provisions of GASB Statement Nos. 14 and 39 because the University does not consider SAMSF significant enough to warrant inclusion in the University's reporting entity (see note 14 for further discussion of this entity).

(b) Professional Liability and General Liability Trust Funds

GASB Statement No. 14 requires the University, as the primary government, to include in its financial statements, as a component unit, organizations that, even ths th.lds

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Notes to Basic Financial Statements

September 30, 2009 and 2008

(o) Scholarship Allowances and Student Financial Aid

Student tuition and fees, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and

promises that are expected to be collected in future years are recorded at the present value of the estimated future cash flows.

(s) 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.

(t) Net Patient Service Revenue

Net patient service revenue is 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

(3) Cash

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, 2009, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately $6,589,000,000. The University had cash and cash equivalred ip25(A)21s]TJ 0.002s. tt-J -0.01p25(A1(t)-3(i)-t)]TJ 0.rsac Septemac --3mbes30, 2009, the 20(quT

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The University's exposure to credit risk and concentration of credit risk at September 30, 2008 is as follows:

	Credit rating	Percentage of total investments
Federal Home Loan Mortgage Corporation		

UNIVERSITY OF SOUTH ALABAMA .26(/(o63 ( )T1Um)d [-8tQe)-2(nt)- (U5 0

Terms

A summary of the transactions is as follows:

Issue	Date of issue	Option expiration date	Effective date of swap	Termdate	

amortized and that amortization is included as investment income in the statement of revenues, expenses, and changes in net assets.

The intrinsic value of the payment to the University is considered a borrowing, and as such is included in long-term debt on the University's 2009 statement of net assets. Interest is being accreted on, and added to, the borrowing through the expiration date of the option. For the years ended September 30, 2009 and 2008, $375,000 and $269,000, respectively, was accreted and is included in interest expense in the statements of revenues, expenses, and changes in net assets.

Fair Value

At September 30, 2009 and 2008, the derivative transactions had a fair value of $(17,986,000) and $(12,290,000), respectively.

Risks Associated with this Transaction

Certain risks are inherent to derivative transactions.

Interest rate risk. Interest rate risk, as a result of rising short-term interest rates causing higher interest rate payments, is effectively hedged by the University's fixed rate bonds. If the counterparty exercises its option, the underlying swaps are expected -14(s j 0.002-2(d)11(fym)B2i)-3(n)1-11(e)-1y

A summary of the University's capital asset activity for the year ended September 30, 2008 follows (in thousands):

	Beginning balance	Additions	Transfers	Reductions	Ending balance
Capital assets not being depreciated:					
Land	$ 29,271	55	—	(39)	29,287
Construction-in-progress	64,828	65,291	(11,868)	—	118,251
	94,099	65,346	(11,868)	(39)	147,538
Capital assets being depreciated:					
Land improvements	21,888	—	(28)	—	21,860
Buildings, fixed equipment, and infrastructure	298,751	1,432	10,918	—	311,101
Other equipment	99,147	18,116	978	(2,095)	116,146
Library materials	40,519	2,651	—	—	43,170
	460,305	22,199	11,868	(2,095)	492,277
Less accumulated depreciation for:					
Land improvements	(10,747)	(1,075)	—	—	(11,822)
Buildings, fixed equipment, and infrastructure	(159,404)	(8,118)	—	—	(167,522)
Other equipment	(68,165)	(8,705)	—	1,943	(74,927)
Library materials	(29,198)	(2,517)	—	—	(31,715)
	(267,514)	(20,415)	—	1,943	(285,986)
Capital assets being depreciated, net	192,791	1,784	11,868	(152)	206,291
Capital assets, net	$ 286,890	67,130	—	(191)	353,829

At September 30, 2008, the University had commitments of approximately $68,372,000 related to various construction projects.

(7) Noncurrent Liabilities

A summary of the University's noncurrent liability activity for the years ended September 30, 2009 and 2008 follows (in thousands): '

2009					
Beginning balance	Additions	Reductions	Ending balance	Less amounts due within	Noncurrent

resulting from the Series 2008 [illegible] (Ho 2i)(1 :(9gc02 [qIicngrUNI)3<)]T044 3Ii

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

Notes to Basic Financial Statements

September 30, 2009 and 2008

Blue Cross – Inpatient services rendered to Blue Cross subscribers are paid at a prospectively determined per diem rate. Outpatient services are reimbursed under a cost reimbursement methodology. For outpatient services, the Hospitals are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospitals and audits thereof by Blue Cross. The Hospitals' Blue Cross cost reports have been audited and settled for all fiscal years through 2008. Revenue from the Blue Cross program accounted for approximately 23% and 20% of the Hospitals' net patient service revenue for the years ended September 30, 2009 and 2008, respectively.

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

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

The equipment component of the lease is considered a capital lease (sales-type lease) and as such the current portion of the receivable has been recorded as a capital lease receivable in other current assets and the noncurrent portion has been recorded in other noncurrent assets in the accompanying basic financial statements of the University. The capital equipment lease is being amortized through fiscal 2011 at a fixed rate of 3.75%. Future receipts from this capital lease are expected as follows:

Year ending September 30:	
2010	$ —
2011	

All employees covered by this retirement plan must contribute 5% of their eligible earnings to TRS. An actuary employed by the TRS Board of Control establishes the employer-matching amount annually. During 2009, 2008 and 2007, the University made total contributions of $32,465,000, $30,252,000, and $22,023,000 (100% of the required contributions), respectively, to TRS on behalf of participants, which represents 12.07%, 11.06%, and 9.36%, respectively, of each participant's gross earnings. The University's payroll for all employees was approximately $295,647,000 and $288,477,000 in 2009 and 2008, respectively. Total payroll for University employees participating in the Teachers' Retirement System of Alabama was approximately $268,969,000 and $257,466,000 in 2009 and 2008, respectively.

The defined contribution pension plan covers certain academic and administrative employees, and participation by eligible employees is optional. Under this plan, administered by Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), contributions by eligible employees are matched equally by the University up to a maximum of 3% of current annual pay. The University and the employees each contributed $982,000 and $951,000 in 2009 and 2008, respectively, representing 519 and 457 employees participating in this Plan.

(b) Compensated Absences

Regular University employees accumulate vacation and sick leave, subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon termination of employment, employees are paid all unused accrued vacation at their regular rate of pay up to a maximum of two times their annual accumulation rate. The accompanying statements of net assets include accruals for vacation pay of approximately $16,398,000 and $16,197,000 at September 30, 2009 and 2008, respectively. The current portion of the accrual is included in pad 2(Ph(t)-5(ni)-3(g3(of.063 Tw)-2(c(T)-9(I)186a)1)6(i)]6 0.272 T Tc 0.0Tw (t)-5(h)-2(c)-2(c)-2(oue)ar

(f) USA Research and Technology Corporations Leases

The Corporation leases space in Building I to a single tenant under an operating lease. The lease has a 10-year initial term with two 5-year renewal options. Under the lease, the tenant must also pay, or reimburse to the Corporation for expenses paid by the Corporation, property taxes on the building, common area maintenance, utilities, and general liability and property damage insurance. In 2009, the lease calls for a one-time increase in monthly rent of 4%. Beginning on November 1, 2008, after providing a one-year advance notice, the tenant has the annual noncumulative option to terminate up to 10% of the square footage covered under the lease. Such advance notice was not received by November 1, 2008 or 2009.

Space in Buildings II and III is leased under operating leases to the University and various other tenants. Space under lease to the University was 48,556 and 51,662 square feet at September 30, 2009 and 2008, respectively. Under these leases, the Corporation must pay all operating expenses of the buildings, including utilities, janitorial, maintenance, property taxes, and insurance. Tenants will reimburse the Corporation for such expenses only as the total expenses for a year increase over the total expenses for the base year of the lease (the Corporation's fiscal year beginning after the date the lease is signed). The leases have terms varying from one to ten years.

The Corporation had four and three ground leases in place at September 30, 2009 and 2008, respectively. One lease is for a 40-year initial term with 20-year, and 15-year renewal options. The second lease is for a 30-year initial term with four 5-year renewal options. The first and second leases were in effect for the whole of each of the years ended September 30, 2009 and 2008. The third lease was entered into on March 14, 2008 and has a 38.5-year initial term with 20-year and 15-year renewal options. The fourth lease was entered into on June 26, 2009 and has a 29-year initial term with two 10-year renewal options.

Minimum future rentals by fiscal year are as follows:

2010	$	3,416,569
2011		3,211,788
2012		2,771,511
2013		2,197,768
2014		951,695
2015 – 2046		7,689,999
Total	$	20,239,330

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

Schedule of Expenditures of Federal Awards

Year ended September 30, 2009

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
Student Financial Aid Cluster*:						
U.S. Department of Education:						
Federal Pell Grant Program	84.063			$ 12,399,617	—	12,399,617
Federal Supplemental Educational Opportunity Grant Program	84.007			496,987	—	496,987
Federal Family Educational Loan Program	84.032			76,321,276	—	76,321,276
Federal Work Study Program	84.033			270,172	—	270,172
Academic Competitiveness Grant	84.375			109,838	—	109,838
National Science and Mathematics Access to Retain Talent Grant	84.376			229,706	—	229,706
Teacher Education Assistance for College and Higher Education	84.379			2,000	—	2,000
Total Student Financial Aid Cluster				89,829,596	—	89,829,596
Research and Development Cluster*:						
U.S. Department of Commerce:						
Sea Grant Support	11.417	USM-GRO2639/	University of Southern Mississippi	—	7,238	7,238
Undersea Research	11.430	08-04-068	University of Mississippi	—	9,365	9,365
Marine Fisheries Initiative	11.433			94,579	—	94,579
Unallied Management Projects	11.454	80182	Alabama Department of Conservation and Natural Resources	—	239,061	239,061
	11.454	2254KP-A-ADCNR	Dauphin Island Sea Lab (MESC)	—	82,435	82,435
Total CFDA				—	321,496	321,496
Habitat Conservation	11.463			804,795	—	804,795
Applied Meteorological Research	11.468			461,835	—	461,835
Congressionally Identified Award and Projects	11.469	TASK ORDER D-1	Dauphin Island Sea Lab (MESC)	—	22,646	22,646
Total U.S. Department of Commerce				1,361,209	360,745	1,721,954
U.S. Department of Defense:						
Military Medical Research and Development	12.420			142,806	—	142,806
Research and Technology Development	12.HUD001-09-1-TS01, N09-001			10,983	—	10,983
Total U.S. Department of Defense				153,789	—	153,789
U.S. Department of Housing and Urban Development:						
Community Development Block Grants	14.228	CDBG/HUD	Washington County Commission	—	9,490	9,490
U.S. Department of Interior:						
Cooperative Endangered Species Conservation Fund	15.615	80240	Alabama Division of Wildlife and Fisheries	—	18,674	18,674
National Cooperative Geologic Mapping Program	15.810			3,754	—	3,754
Historic Preservation Fund Grants-In-Aid	15.904	AL-06-003	Alabama Historical Commission	—	(476)	(476)
Total U.S. Department of Interior				3,754	18,198	21,952
U.S. Department of Justice:						
Developing, Testing and Demonstrating Promising New Programs	16.541			295,057	—	295,057
U.S. Department of Transportation:						
Highway Planning and Construction	20.205			262,704	—	262,704
Pipeline Safety Program Base Grants	20.700	8/10/2007	Prince William Sound Science Center	—	11,050	11,050
University Transportation Centers Program	20.701			143,187	—	143,187
Total U.S. Department of Transportation				405,891	11,050	416,941
National Aeronautics and Space Administration:						
Technology Transfer	43.002			338,557	—	338,557
	43.002	SUB2005-152-A5	University of Alabama in Huntsville	—	18,624	18,624
Total CFDA				338,557	18,624	357,181

(Continued)

UNIVERSITY OF SOUTH ALABAMA
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Schedule of Expenditures of Federal Awards

Year ended September 30, 2009

Federal sponsor / Program title	CFDA	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
Arthritis Musculoskeletal and Skin Diseases Research	93.846			$ 17,824	—	17,824
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			198,693	—	198,693
Extramural Research Programs in Neurosciences and Neurological Disorders	93.853			10,349	—	10,349
	93.853	70190	Columbia University	—		

UNIVERSITY OF SOUTH ALABAMA
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Notes to Schedule of Expenditures of Federal Awards

September 30, 2009

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the University of South Alabama (the University) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(3) Federal Family Education Loan Programs

During fiscal year ended September 30, 2009, the University advanced to students the following amount of new loans under the Federal Family Education Loan Program:

	CFDA #		Amount expended
Subsidized Stafford loans	84.032	$	27,653,280
Unsubsidized Stafford loans	84.032		45,490,314
Parents' Loans for Undergraduate Students	84.032		3,177,682
Total		$	76,321,276

UNIVERSITY OF SOUTH ALABAMA
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Schedule of Findings and Questioned Costs

Year ended September 30, 2009

I – Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	_____ yes __x__ no
Significant deficiency(ies) identified that are: not considered to be material weaknesses?	_____ yes __x__ none reported
Noncompliance material to financial statements noted?	_____ yes __x__ no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	_____ yes __x__ no
Significant deficiency(ies) identified that are: not considered to be material weaknesses?	_____ yes __x__ none reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____ yes __x__ no

Identification of major programs:

CFDA Numbers	Name of Federal Program/Cluster
84.063, 84.007, 84.032, 84.033, 84.375, 84.376, 84.379	Student Financial Aid Cluster
Various	Research and Development Cluster
93.247	U.S. Department of Health and Human Services / Advanced Education Nursing Grant Programs
93.887	U.S. Department of Health and Human Services / Health Care and Other Facilities
11.617	U.S. Department of Commerce / Congressionally-Identified Projects

Dollar threshold used to distinguish between type A and type B programs:	$ 1,269,321
Auditee qualified as low-risk auditee?	__x__ yes _____ no

UNIVERSITY OF SOUTH ALABAMA
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Schedule of Findings and Questioned Costs

Year ended September 30, 2009

Section II – Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*

There were no findings related to the financial statements reported in accordance with *Government Auditing Standards* for the year ended September 30, 2009.