Alabama Community College System Office

Annual Financial Report

For the year ended September 30, 2022

Table of Contents

Independent Auditor's Report i

Management's Discussion and Analysis - *Unaudited* 1

Financial Statements

Statement of Net Position 8

Statement of Revenues, Expenses and Changes in Net Position 10

Statement of Cash Flows 11

Notes to the Financial Statements 12

Required Supplementary Information

Schedule of the Alabama Community College System (ACCS) Office's Proportionate Share of the Collective Net Pension Liability - Teachers' Retirement Plan of Alabama 33

Schedule of the Alabama Community College System (ACCS) Office's Contributions Pension - Teachers' Retirement Plan of Alabama 34

Notes to Required Supplementary Information for Pension Benefits 35

Schedule of the Alabama Community College System (ACCS) Office's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability - Alabama Retired State Employees' Health Care Trust 36

Schedule of the Alabama Community College System (ACCS) Office's Contribution Other Postemployment Benefits (OPEB) - Alabama Retired State Employees' Health Care Trust 37

Notes to Required Supplementary Information for Other Postemployment Benefits (OPEB) 38

Additional Information

System Office Officials 40

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* – Independent Auditor's Report 41

FORVIS

Independent Auditor's Report

Board of Trustees
Alabama Community College System Office
Montgomery, AL 36130

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Alabama Community College System Office (the "Office"), a component unit of the State of Alabama, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Office, as of September 30, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 State. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Office 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 opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2022, the Office adopted the provisions of Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America 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 Office's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

FORVIS

Auditor's 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 auditor's report that includes our opinion. 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 Office'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 Office'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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A), the schedule of the Office's proportionate share of the net pension liability, the schedule of Office's pension contributions, the schedule of the Office's proportionate share of the net OPEB liability, and the schedule of the Office's OPEB contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

FORVIS

Other Information

Management is responsible for the other information included in the annual financial report. The other information comprises the schedule of system office offices but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2023, on our consideration of the Office'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 Office'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 Office's internal control over financial reporting and compliance.

FORVIS, LLP

Memphis, TN
January 16, 2023

Alabama Community College System Office
Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

The Alabama Community College System (hereinafter "the ACCS") was created through Alabama Act 2015-125 (the "Act") as an independent department of state government to replace and succeed the duties of the Department of Postsecondary Education. The Act further transferred the authority, powers and duties assigned to the State Board of Education with respect to the supervision, administration, naming, financing, construction, and equipping of institutions of postsecondary education, including Alabama Technology Network, community and technical colleges, junior colleges and trade schools, however described, to a newly created Board of Trustees (the "Board"). The Alabama Community College System Board of Trustees plays a critical role in the education of hundreds of thousands of adults each year. The members of the Board of Trustees serve as guardians for the Alabama Community College System's mission and goals, with the Governor serving as chair of the Board by virtue of elected office. The other board members, appointed by the Governor, represent seven districts, with one state-wide member and an ex-officio liaison from the State Board of Education.

The ACCS is committed to providing accessible educational opportunities for career preparation, advancement, and lifelong learning throughout Alabama. The ACCS is dedicated to providing a dynamic learner centric environment where excellence in teaching, learning, and serving improves the lives of its students and the communities it serves. The ACCS seeks to maintain a sound fiscal foundation to support its mission in addition to providing responsible stewardship of public funds in compliance with state laws. The Alabama Community College System Office (the "Office") has oversite authority for the operation and management and the regulation pursuant to the Alabama Community College System Board of Trustees policies of the twenty-four community and technical colleges and the Alabama Technology Network comprising the Alabama Community College System. It provides technical and legal assistance to the System institutions as well as provides pass-through funds to the colleges for operations and specialized programs. The Alabama Community College System Office is publicly supported and under the direction and control of the Board of Trustees through the Chancellor of the Alabama Community College System.

The accompanying documentation presents the ACCS Office's financial statements for fiscal year 2021-2022. Three financial statements are presented: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows. This discussion and analysis of the ACCS Office's financial statements provides an overview of financial activities for the year ended September 30, 2022.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the ACCS Office at September 30, 2022. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the

ACCS Office. The Statement of Net Position presents end-of-year data concerning assets (current and non-current), deferred outflows of resources, liabilities (current and non-current), deferred inflows of resources, and net position (Assets and Deferred Outflows minus Liabilities and Deferred Inflows). The difference between current and non-current assets will be discussed in the financial statement disclosures.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the ACCS Office. Readers are able to determine the consumption or acquisition of net assets in one period attributable to future periods included as deferred outflows of resources or deferred inflows of resources, respectively. They are also able to determine how much the ACCS Office owes vendors, investors, and lending institutions. In summary, the Statement of Net Position provides a picture of the ACCS Office's assets and deferred outflows of resources in excess of its liabilities and deferred inflows of resources and the availability of the excess for expenditure by the ACCS Office.

Net Position is divided into two categories. The first category, Net Investment in Capital Assets, provides the ACCS Office's equity in property, plant, and equipment. The second category is Unrestricted Net Position, which is available to the ACCS Office for any appropriate purpose. A Condensed Statement of Net Position on September 30, 2022 and 2021 is presented below.

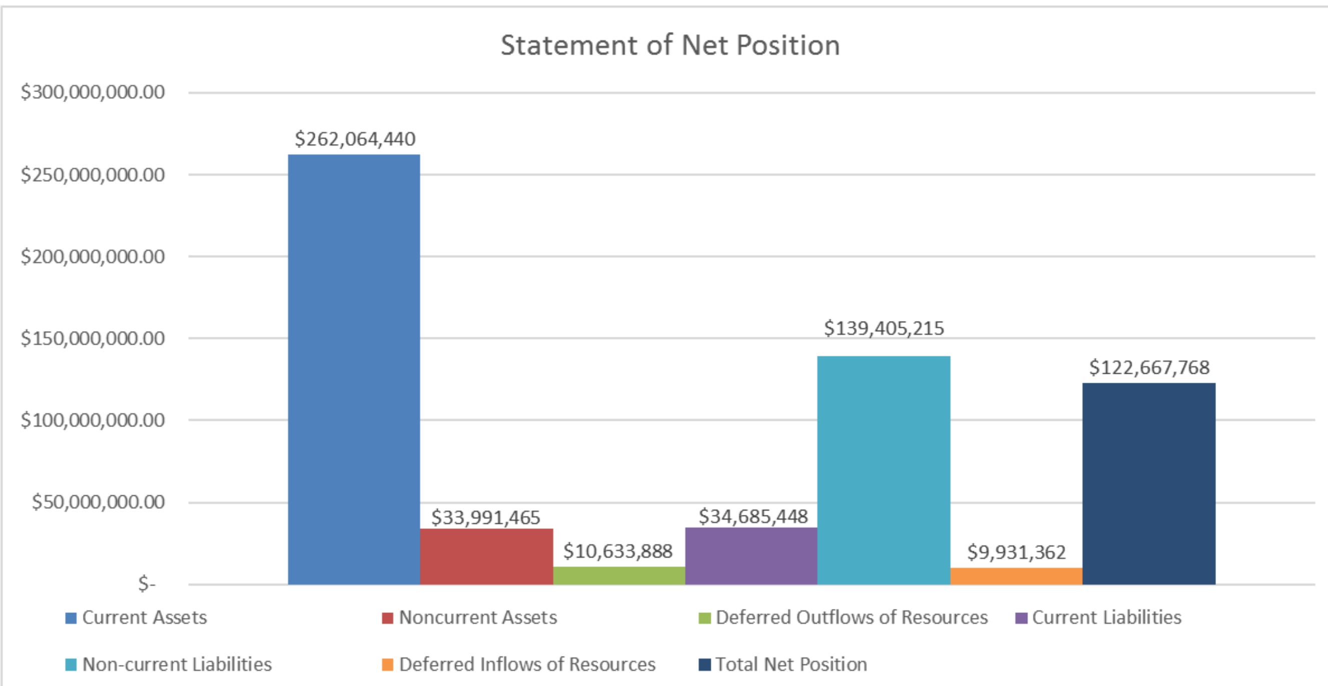
Condensed Statement of Net Position as of September 30, 2022 and 2021

Assets	2022	2021
Current Assets	$262,064,440	$246,727,019
Noncurrent Assets	637,044	646,544
Capital Assets	33,354,421	7,076,916
Total Assets	296,055,905	254,450,479
Deferred Outflow of Resources	10,633,888	15,697,901
Liabilities		
Current Liabilities	34,685,448	25,231,618
Noncurrent Liabilities	139,405,215	123,562,976
Total Liabilities	174,090,663	148,794,594
Deferred Inflow of Resources	9,931,362	11,383,430
Net Position		
Invested in Capital Assets, Net	10,042,523	7,076,916
Unrestricted	112,625,245	102,893,440
Total Net Position	$122,667,768	$109,970,356

It is important to note that as of September 30, 2022, the ACCS Office holds $22,536,084 of Reserve Fund deposits which causes Current Assets and Unrestricted Net Position (Board Designated) to increase. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 84 Fiduciary Activities, Reserve Fund deposits totaling $20,547,819 were reported as Assets for the year ended September 30, 2021. The purpose of the Fund is to guarantee Board-issued revenue bond debt service on behalf of the various Alabama Community College System Institutions. The Fund is managed by the ACCS Reserve Fund Advisory Council that includes the Chancellor of The Alabama Community College System (ACCS) and one president from each Board district. Additionally, prior to October 1, 2018, the fiduciary and financial reporting for the ACCS Office were the responsibilities of the State of Alabama Department of Finance. On October 1, 2018, the ACCS enacted the body corporate authority to manage the financial administration and reporting independent of the Department of Finance.

The ACCS Office's total Net Position increased by $12.7 million during the year ended September 30, 2022. The increase is attributable to unobligated cash held from tuition fees, construction activities in the Innovation Center in Decatur, Alabama, Reserve Fund holdings, and recognition of right of use lease assets per GASB 87 of $42.7 million. This is offset by an increase to accounts payables and accrued liabilities of $8 million, leases payable of $1.4 million and non-current leases payable of $22 million.

The following is a graphic presentation of the ACCS Office's Statement of Net Position as of September 30, 2022.



Statement of Revenues, Expenses and Changes in Net Position

Changes in total Net Position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the ACCS Office, both operating and non-operating, and the expenses paid by the agency, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the ACCS Office.

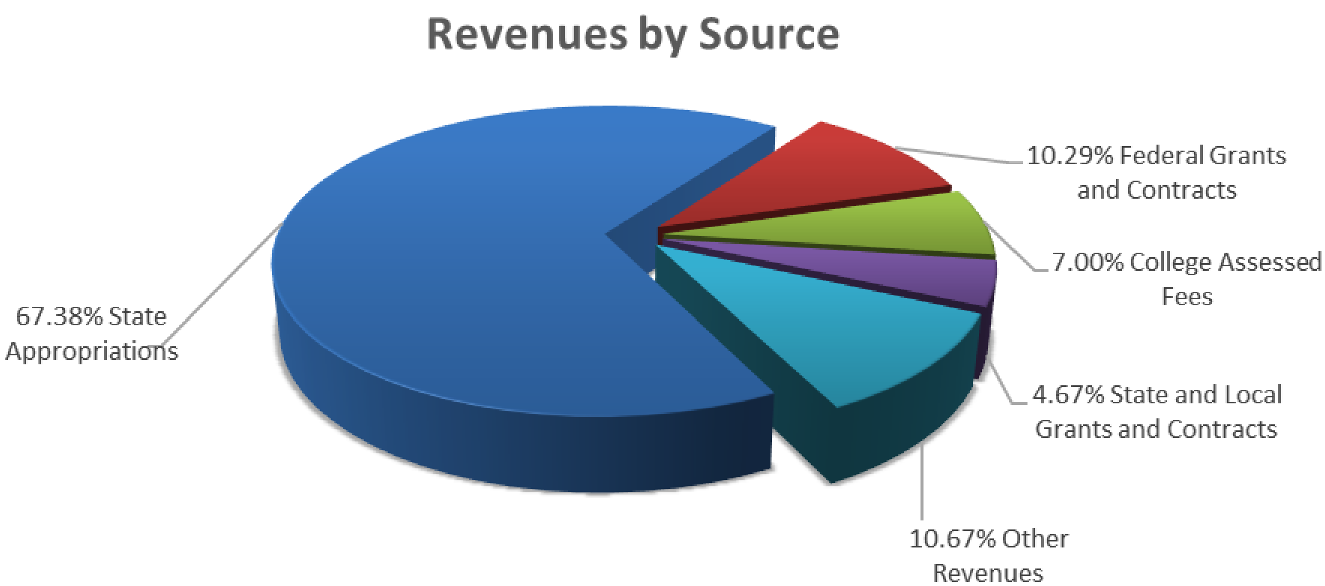
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the ACCS Office. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the ACCS Office. Non-operating revenues are revenues received for which specific goods and services are not provided. State appropriations are non-operating because they are provided by the Legislature to the ACCS without the Legislature directly designating how the funds can be used. A large portion of the state appropriation received is distributed to the ACCS member colleges. Readers of these financial statements should gain an understanding of the impact of the presentation of state appropriations as non-operating revenues as required by the Governmental Accounting Standards Board. The impact of the aforementioned presentation is that the ACCS Office continuously generates an operating loss. Typically, an operating loss suggests fiscal concerns which should be addressed by the ACCS Office's administration, the operating loss presented in these financial statements should be viewed in the appropriate context. The ACCS Office considers state appropriations to be an integral component of the fiscal viability of the ACCS Office. Without these appropriations, the ACCS Office would have severe difficulty in achieving its mission of providing guidance and support of accessible educational opportunities across the State. The Statement of Revenues, Expenses, and Changes in Net Position presents a net increase in the Net Position for the year ending September 30, 2022.

A Condensed Statement of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2022, and 2021 is presented below.

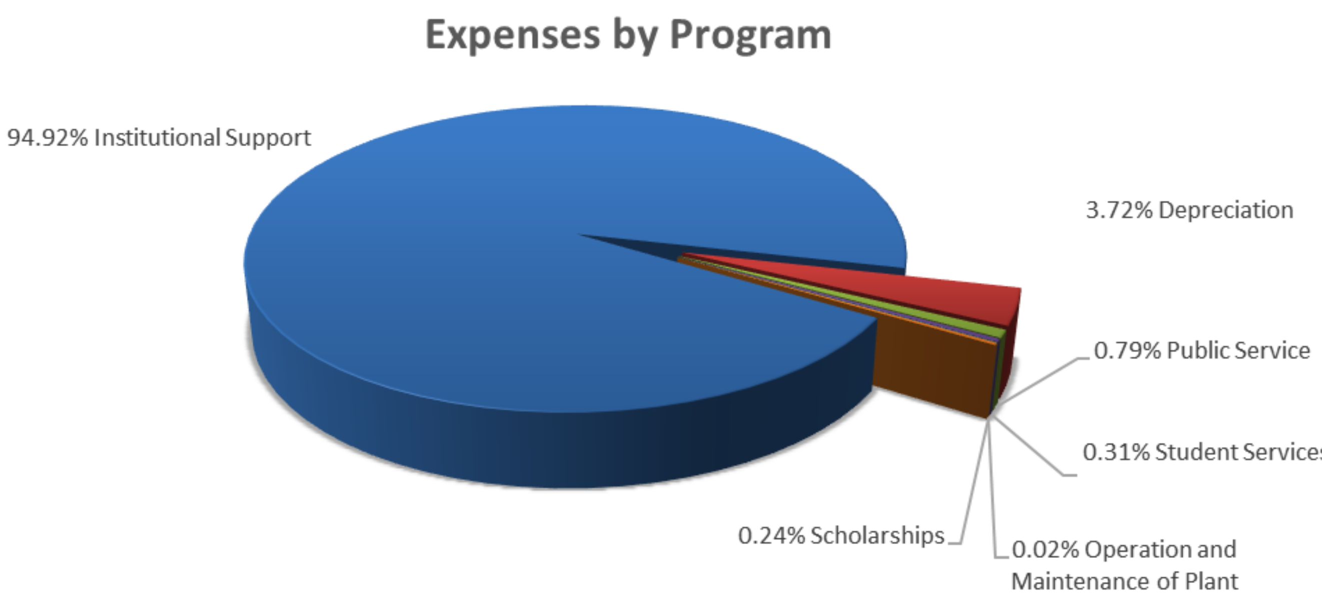
Statement of Revenues, Expenses, and Changes in Net Position	2022	2021
Operating Revenues	$41,395,955	$27,560,876
Operating Expenses	63,986,092	49,604,846
Operating Loss	(22,590,137)	(22,043,970)
Nonoperating Revenues	523,505,155	461,742,580
Nonoperating Expenses	488,217,606	434,292,195
Nonoperating Income	35,287,549	27,450,385
Net Increase	12,697,412	5,406,415
Net position—beginning of year	109,970,356	104,588,441
Restatements		(24,500)
Net Position - End of Year	$122,667,768	$109,970,356

Operating Revenues for the year ended September 30, 2022, increased approximately $13.8 million, with approximately $6 million from State awards and grants and $6.3 million attributable to collected revenues of assessment fees. Operating Expenses for the year ended September 30, 2022, increased by $13.2 million, with approximately $12.4 million due to a combination of increases in institutional support expenses and $150 thousand increase to student scholarships. Approximately ninety-five percent of expenses are attributed to institutional support and the remaining expenses distributed through public service, student services, operation and maintenance of plant, scholarships, and depreciation.

The following is a graphic presentation of the total revenues by source for the fiscal year ended September 30, 2022.



The following is a graphic presentation of operating expenditures by function for the fiscal year ended September 30, 2022.



Statement of Cash Flows

The final statement presented by the ACCS Office is the Statement of Cash Flows which presents detailed information about the cash activity of the Office during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the Office. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position. The increase of over $12.4 million over FY21 is attributable to unobligated cash held from tuition fees and unobligated Education Trust Fund Advanced Technology Funds. A condensed Statement of Cash Flows for the years ended September 30, 2022, and 2021 is presented below.

Condensed Statement of Cash Flows for the years ending September 30, 2022 and 2021:

	2022	2021
Cash Flow from Operating Activities	$(11,121,198)	$(23,519,861)
Cash Flow from Non-Capital Financing Activities	36,653,726	38,741,714
Cash Flow from Capital and Related Financing Activities	(6,883,752)	(6,287,124)
Cash Flow from Investing Activities	944,372	288,681
Net Change in Cash	19,593,148	9,223,410
Restated Cash, Beginning of Year	124,717,208	115,493,798
Cash, End of Year	$144,310,356	$124,717,208

Economic Outlook

The state budget estimates for fiscal years 2022 and 2023 and the general economic outlook remain stable with an increase to college Operations and Maintenance funds of $27 million and an additional $18 million for program specific funds, such as Dual Enrolment and Short-Term Career Credentialing. Enrollment numbers continue to surpass pre-coronavirus enrollment and continued efforts to reach more students earlier in their education career and retain students beyond single-year status in positively impacting the System's financial stability. Across the state enrollment increased more than five percent from Spring 2021. As the ACCS Office continues to grow with state-wide college supportive actions, operating costs will increase to meet the demand of growing enrollment and additional program offerings. The ACCS Office plans to utilize funds from the Education Trust Fund, tuition fees, and federal program funds to continue the expansion of services, statewide.

Since the System began the transition to the systemwide enterprise resource system in 2018, the goal of unifying the financial, student, financial aid, and human resource departments throughout all of the colleges and the System Office into one shared environment has had significant improvements on the reporting capabilities. While the transition has proven to be a challenge for many, the administration of the colleges continues to evaluate the skillsets of the employees, and provide on-going professional development training, so the employees can more effectively utilize the complex and comprehensive resource environment. Additionally, the implementation of a Customer Relations Management platform has enhanced student retention and communication efforts and heightened virtual and physical technology security protocols and resources to aid the colleges in their cyber security efforts. These measures have provided a significant impact to the standardization and access to real-time data across the system. While growth, training, and efficiencies will continue, this implementation is a true valued-added addition to our System.

Major Capital Improvement projects continue to improve the infrastructure and communities throughout the State. These projects are funded in part from an Alabama Public School & College Authority 2020 bond issuance that has made available a significant amount of capital improvement funding for the colleges. ACCS is ensuring this funding is used for projects that will best equip institutions to effectively serve students and communities well into the future. Funding is focused more heavily on projects that show the potential for the greatest impact on local communities and that will most strengthen the System as a whole. The projects are planned to meet the current and future needs of students and local communities.

The funding for the Capital Improvement projects will include a combination of Public School and College Authority Bond Issue, Advanced Technology Funds, ACCS System Level Bond Issue, and College Funds including, local funds, federal funds, reserve funds, and/or new college debt.

A phase-in plan began in late 2021 with 6 colleges and is expanding to include all ACCS colleges to align with needs, funding resources, and construction schedules over the next two years. The focus of these initial projects are specifically aligned to meet the growing needs of the State to fulfill workforce skills training needs in high wage, high demand industries. A unique aspect of this initial project is the replication of the building designs, which is projected to save more than a $1M in design fees for 5 buildings. The current construction market is a major consideration when evaluating the priority of projects, to ensure the available funds are utilized to best meet the needs of the System. The next several projects will run concurrently and include upgrades to roofing infrastructures, mechanical upgrades to outdated systems, and upgrading workforce training labs.

The System Office and the colleges continue to progress in the standardization of processes, deadlines and reporting. As these continue to evolve, it is expected that the areas of delayed reporting and inconsistent procedures will be positively impacted. This, of course, will also affect external services that are reliant upon timely reporting and consistent processes. The Presidents are sharing resources and growing areas of shared serves through the State including Finance, Information Technology, Faculty sharing, program development, and student support services. As these resources grow in efficiency and scope, the colleges will benefit with improved services and efficiencies.

The ACCS Office is not aware of any currently known acts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the current fiscal year. The ACCS Office anticipates the next two fiscal years will be challenging as we continue to improve the infrastructure of the colleges in the fluctuating post-pandemic construction market. However, the administration will maintain a close watch over resources to ensure the ACCS Office’s ability to respond proactively to internal and external issues, particularly related to funding.

Statement of Net Position as of September 30, 2022

Assets	
Current Assets	
Cash and Cash Equivalents	$144,310,356.34
Accounts Receivable (net of allowance for doubtful accounts)	19,613,329.75
Deposit with Bond Trustee	98,140,753.89
Total Current Assets	**262,064,439.98**
Noncurrent Assets	
Land	407,730.00
Improvements Other Than Buildings	380,177.55
Buildings & Building Alterations	1,679,620.80
Equipment & Furniture	8,000,049.92
Construction in Progress	2,522,933.81
Leased Right of Use Assets	24,389,220.00
Less: Accumulated Depreciation and Amortization	(4,025,311.74)
Other Noncurrent Assets	637,044.32
Total Noncurrent Assets	**33,991,464.66**
Total Assets	**296,055,904.64**
Deferred Outflows of Resources	
Pension	6,809,054.39
Other Postemployment Benefit (OPEB)	3,824,834.00
Total Deferred Outflow of Resources	**10,633,888.39**
Total Assets and Deferred Outflows of Resources	**$306,689,793.03**
Liabilities	
Current Liabilities	
Accounts payable and accrued liabilities	$ 31,492,489.39
Compensated Absences	128,481.32
Lease Payable	1,444,477.00
Bonds Payable	1,620,000.00
Total Current Liabilities	**34,685,447.71**
Noncurrent Liabilities	
Compensated Absences	2,092,282.66
Lease Payable	21,867,420.69
Bonds Payable	98,019,850.98
Net Pension Liability	14,096,000.00
Net OPEB Liability	3,329,661.00
Total Noncurrent Liabilities	**139,405,215.33**
Total Liabilities	**174,090,663.04**

(Continued)

Deferred Inflows of Resources	
Pensions	4,148,000.00
Other Postemployment Benefit (OPEB)	5,783,362.00
Total Deferred Inflow of Resources	**9,931,362.00**
Net Position	
Invested in Capital Assets, Net of Related Debt and Depreciation	10,042,522.65
Unrestricted	112,625,245.34
Total Net Position	**$122,667,767.99**
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$306,689,793.03**
	(Concluded)

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenses and Changes in Net Position for the Year Ended September 30, 2022

Operating Revenues	
System Assessed Fees	$9,080,236.20
Other operating revenues	12,898,395.48
State grants and contracts	6,062,255.73
Local grants and contracts	4,380.00
Federal grants and contracts	13,350,687.18
Total Operating Revenues	**41,395,954.59**
Operating Expenses	
Public Service	505,433.71
Student Services	201,224.01
Institutional Support	60,734,238.42
Operation and Maintenance of Plant	11,999.71
Student Aid (Scholarships)	153,750.00
Depreciation and Amortization	2,379,445.60
Total Operating Expenses	**63,986,091.45**
Operating Loss	**(22,590,136.86)**
Nonoperating Revenues	
State appropriations-O & M	12,923,154.00
State appropriations-Other	509,637,628.79
Investment income (net of investment expense)	944,372.01
Total Nonoperating Revenues	**523,505,154.80**
Nonoperating Expenses	
Interest expense	2,125,843.38
State appropriations transferred to colleges	486,091,762.27
Total Nonoperating Expenses	**488,217,605.65**
Change in Net Position	**12,697,412.29**
Net Position	
Net position—beginning of year	109,970,355.70
Net Position - End of Year	**$122,667,767.99**

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows for the Year Ended September 30, 2022

Cash Flows from Operating Activities	
System Assessed Fees	$9,885,222.25
Grants and Contracts	19,417,322.91
Payments to Suppliers	(36,879,048.29)
Payments for Employees	(12,377,273.63)
Payments for Benefits	(3,912,066.58)
Payments for Scholarships	(153,750.00)
Other Receipts	12,898,395.48
Net Cash Provided Used in Operating Activities	**(11,121,197.86)**
Cash Flows from Noncapital Financing Activities	
State Appropriations	522,560,782.79
State Appropriations Transferred to Colleges	(485,907,057.05)
Net Cash Provided by Noncapital Financing Activities	**36,653,725.74**
Cash Flows from Capital and Related Financing Activities	
Purchases of Capital Assets and Construction	(4,267,730.08)
Principal Paid on Capital Debt	(2,762,322.31)
Interest Paid on Capital Debt	(3,313,940.19)
Deposits with Trustees	3,450,741.80
Other Capital and Related Financing	9,499.71
Net Cash Provided Used in Capital and Related Financing Activities	**(6,883,751.07)**
Cash Flows from Investing Activities	
Investment Income	944,372.01
Net Cash Provided by Investing Activities	**944,372.01**
Net Increase in Cash and Cash Equivalents	**19,593,148.82**
Cash and Cash Equivalents-Beginning of the Year	124,717,207.52
Cash and Cash Equivalents - End of Year	**$144,310,356.34**
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Loss	**$ (22,590,136.86)**
Depreciation Expense	2,379,445.60
Receivables (Net)	804,986.05
Deferred Outflows	5,064,012.72
Accounts Payable	7,823,258.30
Compensated Absences	162,921.33
Pension Liability	(3,453,000.00)
OPEB Liability	139,383.00
Deferred Inflows	(1,452,068.00)
Net Cash Provided Used in Operating Activities	**$ (11,121,197.86)**

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

1 – Summary of Significant Accounting Policies

The financial statements of the Alabama Community College System Office (the "Office") are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Office are described below.

Reporting Entity

The Alabama Community College System Office is a component unit of the State of Alabama. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board (GASB) in Statement Number 14, "The Financial Reporting Entity," states that a primary government is financially accountable for a component unit if it appoints a voting majority of an organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. In this case, the primary government is the State of Alabama which through the Alabama Community College System Board of Trustees governs the Alabama Community College System Office. The Alabama Community College System through its Chancellor has the authority and responsibility for the operation, management, supervision and regulation of the Alabama Community College System Office. In addition, the Office receives a substantial portion of its funding from the State of Alabama (potential to impose a specific financial burden). Based on these criteria, the Office is considered, for financial reporting purposes, to be a component unit of the State of Alabama.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of Alabama Community College System Office have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

It is the policy of the Office to first apply restricted resources when an expense is incurred and then apply unrestricted resources when both restricted and unrestricted resources are available.

The Statement of Revenues, Expenses and Changes in Net Position distinguishes between operating and nonoperating revenues. Operating revenues, such as student fee assessments, result from exchange transactions associated with the principal activities of the Office. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. The Office has determined that all federal grants and contracts, state grants and contracts, local grants and contracts, and nongovernmental grants and contracts, which are not designated for the purchase of capital assets or nonoperating expenses, will be considered operating revenue. Nonoperating revenues arise from exchange transactions not associated with the Office's principal activities, such as investment income and from all nonexchange transactions, such as state appropriations and gifts.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Statutes authorize the Office to invest in the same type of instruments as allowed by Alabama law for domestic life insurance companies. This includes a wide range of investments, such as direct obligations of the United States of America, obligations issued or guaranteed by certain federal agencies, and bonds of any state, county, city, town, village, municipality, district or other political subdivision of any state or any instrumentality or board thereof or of the United States of America that meet specified criteria.

Investments are reported at fair value based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost.

Receivables

Accounts receivable relate to amounts due from federal grants, state grants, state appropriations, and tuition due from the colleges.

Capital Assets

Capital assets, other than intangibles, with a unit cost of over $5,000 and an estimated useful life in excess of one year are recorded at historical cost or estimated historical cost if purchased or constructed. The capitalization threshold for intangible assets such as capitalized software and internally generated computer software is $1 million and $100,000 for easements and land use rights and patents, trademarks, and copyrights. In addition, works of art and historical treasures and similar assets are recorded at their historical cost. Donated capital assets are recorded at acquisition value (an entry price) at the date of donation. Land, Construction in Progress, and intangible assets with indefinite lives are the only capital assets that are not depreciated. Depreciation is not allocated to a functional expense category. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon the sale or retirement of fixed assets being depreciated using the straight-line method, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operation.

Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings - 50 years

- Building Alterations - 25 years
- Improvements Other Than Buildings - 25 years
- Equipment & Furniture - 5 to 10 years
- Capitalized Software - 10 years
- Right-to-Use Leased Equipment - 3 to 10 years or the term of the lease, whichever is shorter
- Right-to-Use Leased Space - 10 to 40 years or the term of the lease, whichever is shorter

Leases

The Office determines if an arrangement is a lease at inception. Lessee arrangements are included in lease assets and lease liabilities in the statements of net position. Lease assets represent the Office’s control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. Lease liabilities represent the Office’s obligation to make lease payments arising from the lessee arrangement. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term. The lease term may include options to extend or terminate the lease when it is reasonably certain that the Office will exercise that option. Payments for short-term leases with a lease term of 12 months or less are recognized as expenses as incurred. The Office has a materiality threshold of $3,000 of payments in a year for leases. Short-term leases and leases under the materiality threshold are not included as lease liabilities or right-to-use lease assets on the statement of net position.

Deferred Outflows of Resources

Deferred outflows of resources are reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bonds are carried net of applicable premiums and discounts. Bond premiums and discounts are amortized over the life of the bonds.

Compensated Absences

Full-time employees earn 4 hours and 20 minutes of sick leave semi-monthly or 13 days per year with accumulation limited to a maximum of 150 days. Employees may be compensated for one- half of accrued sick leave (maximum of 600 hours) upon retirement from state service or death of the employee. Tier 1 employees have the additional option to apply sick leave to retirement service.

Employees in permanent positions accrue annual leave at a rate of 4 hours and 20 minutes to 9 hours and 45 minutes semi-monthly, depending on length of service. Accumulation is limited to a maximum of 60 days per year. Upon separation from service, an eligible employee is paid for unused leave at the daily pay rate at time of separation.

Deferred Inflows of Resources

Deferred inflows of resources are reported in the Statement of Net Position. Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position, similar to liabilities.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, the Teachers' Retirement System of Alabama (the "Plan") 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 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 Governmental Accounting Standards Board (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.

Postemployment Benefits Other Than Pensions (OPEB)

The Alabama Retired State Employees' Health Care Trust (the "Trust") financial statements are prepared by 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. Subsequent events were evaluated by management through the date the financial statements were issued.

Net Position

Net position is required to be classified for accounting and reporting purposes into the following categories:

- *Net Investment in Capital Assets* – Capital assets, including restricted capital assets and right of use assets, reduced by accumulated depreciation and by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Any significant unspent related debt proceeds or inflows of resources at year-end related to capital assets are not included in this calculation.
- *Unrestricted* – Net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net

investment in capital assets or the restricted component of net position. Unrestricted resources may be designated for specific purposes by action of management or the Alabama Community College System Office Board of Trustees. The Board of Trustees designated $22,536,084.98 of net position as Alabama Community College System Reserve Fund. The purpose of the Fund is to guarantee Board-issued revenue bond debt service on behalf of the various System institutions.

Federal Financial Assistance Programs

The Office participates in various federal programs. Federal programs are audited in accordance with Title 2 U.S. C*ode of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (*Uniform Guidance*).

New Accounting Pronouncements

The Office implemented GASB Statement No. 87, Leases, which changes the accounting and financial reporting for leases. Under previous guidance, leases were classified as either capital or operating depending on whether the lease met any of four tests. GASB Statement No. 87 defines a lease as a contract that conveys the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Under GASB Statement No. 87, leases other than short-term leases, defined as having a maximum possible term of 12 month or less, are required to be recognized on the statement of net position. A lessee should recognize a lease liability and an intangible right-to-use leased asset, while a lessor should recognize a lease receivable and a deferred inflow of resources. Contract that transfer ownership should be accounted for as financed purchases by the lessee or sales by the lessor. At implementation on October 1, 2021, the Office, as lessee, recognized a lease liability of $24,389,220 along with corresponding right-to-use leased equipment of $10,307 and right-to-use leased space of $24,378,913.

2 – Deposits and Investments

Deposits

The Office's deposits at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the ***Code of Alabama 1975***, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

The Statement of Net Position classification "cash and cash equivalents" includes all readily available cash such as petty cash, demand deposits, and certificates of deposits with maturities of three months or less.

Investments

The Alabama Community College System Office may invest its funds in a manner consistent with all applicable state and federal regulations. All monies shall be placed in interest-bearing accounts unless legally restricted by an external agency. Investments in debt securities are limited to the two highest quality credit rating as described by nationally recognized statistical rating organizations (NRSROs). Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are excluded from this requirement. Permissible investments include: 1) U.S. Treasury bills, notes, bonds, and stripped Treasuries; 2) U.S. Agency notes, bonds, debentures, discount notes, and certificates; 3) certificates of deposit (CDs), checking and money market accounts of savings and loan associations, mutual savings banks, or commercial banks whose accounts are insured by FDIC/FSLIC, and who are designated a Qualified Public Depository (QPD) under the SAFE Program; 4) mortgage backed securities (MBSs); 5) mortgage-related securities including collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMIC) securities, 6) repurchase agreements; and 7) stocks and bonds which have been donated to the institution.

The Office's portfolio shall consist primarily of bank CDs and interest-bearing accounts, U.S. Treasury securities, debentures of a U.S. Government Sponsored Entity (GSE) and securities backed by collateral issued by GSEs. In order to diversify the portfolio's exposure to concentration risk, the portfolio's maximum allocation to specific product sectors is as follows: 1) U.S. Treasury bills, notes, and bonds can be held without limitation as to amount. Stripped Treasuries shall never exceed 50 percent of the institution's total investment portfolio. Maximum maturity of these securities shall be ten years. 2) U.S. Agency securities shall have limitations of 50 percent of the Office's total investment portfolio for each Agency, with two exceptions: TVA and SLMA shall be limited to ten percent of total investments. Maximum maturity of these securities shall be ten years. 3) CDs with savings and loan associations, mutual savings banks, or commercial banks may be held without limit provided the depository is a QPD under the SAFE Program. CD maturity shall not exceed five years. 4) The aggregate total of all MBSs may not exceed 50 percent of the institution's total investment portfolio. The aggregate average life maturity for all holdings of MBS shall not exceed seven years, while the maximum average life maturity of any one security shall not exceed ten years. 5) The total portfolio of mortgage related securities shall not exceed 50 percent of the institution's total investment portfolio. The aggregate average life maturity for all holdings shall not exceed seven years while the average life maturity of one security shall not exceed ten years. 6) The Office may enter into a repurchase agreement so long as: (a) the repurchase securities are legal investments under state law for colleges; (b) the Office receives a daily assessment of the market value of the repurchase securities, including accrued interest, and maintains an adequate margin that reflects a risk assessment of the repurchase securities and the term of the transaction; and (c) the Office has entered into signed contracts with all approved counterparties. 7) The Office has discretion to determine if it should hold or sell other investments that it may receive as a donation.

The Office shall not invest in stripped mortgage-backed securities, residual interest in CMOs, mortgage servicing rights or commercial mortgage related securities.

Investment of debt proceeds and deposits with trustees is governed by the provisions of the debt agreement. Funds may be invested in any legally permissible document.

Endowment donations shall be invested in accordance with the procedures and policies developed by the Office and approved by the Chancellor in accordance with the "*Alabama Uniform Prudent Management of Institutional Funds Act*", ***Code of Alabama 1975***, Section 19-3C-1 and following.

At September 30, 2022, the Office had $98,139,361.42 in a construction fund account administered by its bond trustee. The balance of the deposit with trustee for the Series 2021 Special Fee Revenue Bonds are invested in Goldman Sachs Financial Square℠ Funds which is a Money Market Fund. These funds invest primarily in a portfolio of short-term U.S. Treasury securities. These funds are rated AAAm by Standard & Poor's and Aaa[3] by Moody's.

3 – Receivables

Accounts receivable represent amounts for contract and grant reimbursements due from third parties, various services provided to third parties, and interest accrued on investments. As of September 30, 2022, the Office reported the following amounts as accounts receivable:

Description	Amount
Federal	$ 8,022,450
State	1,299,504
Other	10,291,375
Total Accounts Receivable	$ 19,613,329

4 – Capital Assets

Capital asset activity for the year ended September 30, 2022, was as follows:

Description	Beginning Balance	Additions	Deductions	Ending Balance
Land	$339,800.00	$67,930.00		$407,730.00
Buildings	861,888.80	817,732.00		1,679,620.80
Improvements other than Buildings	349,369.63	30,807.92		380,177.55
Construction in progress	158,562.50	2,364,371.31		2,522,933.81
Furniture and Equip. greater than $25,000	5,222,871.64	849,606.73		6,072,478.37
Furniture and Equip. $25,000 or less	1,814,162.43	137,282.12	(23,873.00)	1,927,571.55
Right to Use Assets-Buildings	24,378,913.30			24,378,913.30
Right to Use Assets-Equip.	10,306.70			10,306.70
Total at Historical Cost	$33,135,875.00	$4,267,730.08	$(23,873.00)	$37,379,732.08
Less Accumulated Depreciation/Amortization				
Buildings	$ 34,475.56	$ 33,592.42		$ 68,067.98
Improvements other than Buildings	69,873.93	71,106.24		140,980.17
Furniture and Equip. greater than $25,000	667,424.32	607,248.13		1,274,672.45
Furniture and Equip. $25,000 or less	897,965.33	307,747.91	(23,873.00)	1,181,840.24
Right to Use Assets-Buildings		1,354,384.08		1,354,384.08
Right to Use Assets-Equip.		5,366.82		5,366.82
Total Accumulated Depreciation/Amortization	1,669,739.14	2,379,445.60	(23,873.00)	4,025,311.74
Capital Assets, Net	$31,466,135.86	$1,888,284.48	$ -	$33,354,420.34

5 – Defined Benefit Pension Plan

Plan Description

The Teachers' Retirement System of Alabama (TRS), a cost-sharing multiple-employer public employee retirement plan (the "Plan"), was established as of September 15, 1939, under the provisions of Act Number 419, Acts of Alabama 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). The ***Code of Alabama 1975***, Section 16-25-2, 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.

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 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (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 a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a formula method. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service up to 80% of their average final compensation. Members are eligible for disability retirement if they have 10 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 equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

Contributions

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

Effective 10/1/2021, the covered Tier 2 members contribution rate increased from 6.0% to 6.2% of earnable compensation to the TRS as required by statute. Effective 10/1/2021, the covered Tier 2 certified law enforcement, correctional officers, and firefighters contribution rate increased from 7.0% to 7.2% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rate for the year ended September 30, 2022 was 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 percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. For the year ended September 30, 2022, total employer contributions to the pension plan from ACCS were $1,486,000.00.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2022, the Office reported a liability of $14,096,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net collective pension liability was determined by an actuarial valuation as of September 30, 2020. The Office's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2021, the Office's proportion was 0.149632%, which was an increase of 0.007762% from its proportion measured as of September 30, 2020.

For the year ended September 30, 2022, the Office recognized pension expense of $2,590,120.11. At September 30, 2022, the Office reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$653,000	$821,000
Changes of assumptions	1,480,000	
Net difference between projected and actual earnings on pension plan investments		3,327,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,190,000	
Employer contributions subsequent to the measurement date	1,486,000	
Total	$6,809,000	$4,148,000

The $1,486,000.00 reported as deferred outflows of resources related to pensions resulting from Office contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year ended September 30	Amount
2023	$1,023,000
2024	872,000
2025	107,000
2026	(827,000)
2027	-
Thereafter	-

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2020 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment rate of return*	7.45%
Projected salary increases	3.25% - 5.00%

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2020, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2020. The Board of Control accepted and approved these changes in September 2021 which became effective at the beginning of fiscal year 2021.

Mortality rates were based on the Pub-2010 Teacher tables with the following adjustments, projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2019:

Group	Membership Table	Set Forward(+) / Setback (-)	Adjustment to Rates
Service Retirees	Teacher Retiree - Below Median	Male:+2, Female: +2	Male: 108% ages < 63, 96% ages > 67, Phasing down 63 -67 Female: 112% ages < 69, 98% > age 74, Phasing down 69-74
Beneficiaries	Contingent Survivor Below Median	Male: +2, Female: None	None
Disabled Retirees	Teacher Disability	Male: +8, Female: +3	None

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:

Asset Class	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	15.00%	2.80%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	9.00%
Real Estate	10.00%	6.50%
Cash	5.00%	2.50%
	100.00%	

*Includes assumed rate of inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability 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, components of the pension plan's fiduciary net position were 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.

Sensitivity of the Office's Proportionate Share of the Collective Net Pension Liability to Changes in the Discount Rate

The following table presents the System's proportionate share of the net pension liability calculated using the discount rate of 7.45%, as well as what the System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.45%) or 1-percentage-point higher (8.45%) than the current rate (dollar amounts in thousands):

	1% Decrease (6.45%)	Current Rate (7.45%)	1% Increases (8.45%)
ACCS' proportionate share of collective net pension liability	$20,748,000	$14,096,000	$8,493,000

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Annual Comprehensive Financial Report for the fiscal year ended September 30, 2021. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2021. The auditor's report on the Schedule of Employer Allocations and Pension Amounts by Employer and accompanying notes detail by employer and in aggregate information needed to comply with GASB 68. The additional financial and actuarial information is available at http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/.

6 – Other Postemployment Benefits (OPEB)

Plan Description

The Office contributes to the Alabama Retired State Employees' Health Care Trust (the "Trust"), a single-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retired state employees. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the State Employees' Insurance Board (the "Board") to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in SEHIP. Active and retiree health insurance benefits are paid through the State Employees' Health Insurance Plan (SEHIP). In accordance with GASB, the Trust is considered a component unit of the State of Alabama (the "State") and is included in the State's Annual Comprehensive Financial Report.

The State Employees' Insurance Board (SEIB) serves as the Plan Administrator for the SEHIP. This is a self-insured comprehensive health benefit plan serving active and retired State employees and their dependents. As Plan Administrator, the SEIB is primarily responsible for the control and supervision for the SEHIP. The SEIB is also responsible for designing benefits and setting premiums.

Benefits Provided

Retiree medical eligibility is attained when a retired employee with at least ten years of service to the State retires, and is immediately eligible to draw a retirement annuity from the Alabama Employees' Retirement System, the Alabama Judicial Retirement System, and for a small group of employers, the Teachers' Retirement System of Alabama.

The Trust provides basic coverage for up to 365 days of care during each hospital confinement, outpatient care, physicians' benefits, radiation therapy, and major medical benefits with no lifetime maximum. A group dental contract provides dental maintenance coverage with a maximum benefit amount of $1,500 during each year for each eligible participant who elects coverage. Plan members include State Employees, State Police, and Judges.

The SEHIP remains the primary insurer for medical coverage until the retiree is entitled to Medicare. Health benefits will be modified when the retiree or dependent becomes entitled to Medicare. A Medicare retiree and/or spouse should have both Medicare Parts A and B to have adequate coverage with the State of Alabama. A retiree cannot have SEHIP prescription drug coverage if enrolled for Medicare Part D prescription drug coverage. The SEHIP prescription drug benefit for Medicare retirees and/or spouses is provided through the SEHIP Employer Group Waiver Plan (EGWP).

Contributions

The ***Code of Alabama 1975***, Section 36-29-19.7, provide the Board with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the Board is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

For retirees who retired prior to October 1, 2005, the State pays 100 percent of the premium for a retiree who is over 65 and eligible for Medicare. The State pays a portion of the premium for a retiree who is under 65. Under the SEHIP statute, the State contribution per month per retiree is funded on a pay-as-you-go basis through the active employee premiums each agency pays for its active employees. COBRA insurance is also available to state employees who terminate state service, but the employee is liable for the premiums. For retirees who retire other than for disability after October 1, 2005, the employer contribution is less for each year under twenty-five years of creditable coverage and more for each year over 25. For retirees on or after January 1, 2012, the employer contribution is also less for each year under the Medicare age. The retiree is responsible for the amount of contribution not covered by the State. The State may make additional contributions; however, no additional funds were contributed during the fiscal year. Retiree contributions vary based on the type of contract, dependent coverage, Medicare eligibility, and election, wellness participation, spousal surcharge, and tobacco usage.

A sliding scale premium is applied after September 30, 2005, to all employees retiring after September 30, 2005, based on their years of service. The premium for retiree coverage is broken down into the employer share (what SEHIP pays) and the retiree share. Under the sliding scale, the retiree will still be responsible for the retiree share; however, the employer share will increase or decrease based upon a retiree's years of service. For those employees retiring with 25 years of service, the employer would pay 100% of the employer share of the premium. For each year less than 25, the employer share would be reduced by 2% and the retiree share will be increased accordingly. For each year over 25, the employer share would be increased by 2% and the retiree share reduced accordingly.

For members retiring on or after January 1, 2012, the 2% reduction in the employer share of the premium for each year of service less than 25 will be increased to 4%. In addition, an 1% reduction in the employer share of the premium will be added for each year of age less than the Medicare entitlement age. This additional age premium component will be removed upon attaining Medicare entitlement.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2022, the Office reported a liability of $3,329,661 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020. The Office's proportion of the collective net OPEB liability was based on a projection of the Office’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2021, the Office’s proportion was 0.390513%, which was an increase of 0.069259% from its proportion measured as of September 30, 2020.

For the year ended September 30, 2022, the Office recognized OPEB expense of $444,120 with no special funding situations. At September 30, 2021, the System Office reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		$3,175,227
Changes of assumptions	$270,404	2,188,616
Net difference between projected and actual earnings on pension plan investments		70,816
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,324,443	348,703
Employer contributions subsequent to the measurement date	229,987	
Total	$3,824,834	$5,783,362

The $229,987 reported as deferred outflows of resources related to OPEB resulting from the System Office’s contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30	Amount
2023	$(913,025)
2024	(818,210)
2025	(588,437)
2026	(18,704)
2027	149,861
Thereafter	-

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement using the following actuarial assumptions, applied to all periods included in the measurement date of September 30, 2021:

Inflation	2.50%
Salary Increase	3.25% - 6.00%
Long-term Investment rate of return	7.25%
Municipal Bond Index Rate at Measurement Date	2.29%
Municipal Bond Index Rate at Prior Measurement Date	2.25%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	N/A
Single Equivalent Interest Rate at Measurement Date	7.25%
Single Equivalent Interest Rate at Prior Measurement Date	7.50%
Healthcare cost trend rates	
Pre-Medicare Eligible	6.50%
Medicare Eligible	**
Ultimate Trend Rate	
Pre-Medicare Eligible	4.50% in 2028
Medicare Eligible	4.5% in 2025
Dental Trend Rate	4.50%

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

Mortality

The rates of mortality are based on the Pub-2010 Public Mortality Plans Mortality Tables, adjusted generationally based on scale MP-2020, with an adjustment of 66-2/3% to the table beginning in year 2019. The mortality tables are adjusted forward and/or back depending on the plan and group covered, as shown in the table below. Note that the Judicial Retirement Fund uses the same mortality tables as the Teachers' Retirement System of Alabama.

Active Group	Membership Table	Set Forward (+)/ Set Back (-)	Adjustment to Rates
Judges and Teachers	Teacher Employee Below Median	None	65%
Non-FLC	General Employee Below Medical	Male: -1 Female: -1	None
FLC/State Police	Public Safety Employee Below Median	Male: -1 Female: -1	None

Retiree Group	Membership Table	Set Forward (+) / Set Back (-)	Adjustment to Rates
Judges and Teachers	Teacher Below Median	Male: +2 Female: +2	Male: 108% ages < 63, 96%ages > 67; Phasing down 63 –67 Female: 112% ages < 69, 98% ages > 74; Phasing down 69 – 74
Non-FLC	General Below Median	Male: +2 Female: +2	Male: 90% ages < 65, 96% ages >= 65 Female: 96% all ages
FLC/State Police	Public Safety Below Median	Male: +1 Female: None	None

Disabled Group	Membership Table	Set Forward (+) / Set Back (-)	Adjustment to Rates
Judges and Teachers	Teacher Disability	Male: +8 Female: +3	None
Non-FLC	General Disability	Male: +7 Female: +3	None
FLC/State Police	Public Safety Disability	Male: +7 Female: None	None

The decremental assumptions and methods used in the valuation were selected based on the actuarial experience studies prepared as of September 30, 2020, submitted to, and adopted by the Board on September 13, 2021, and September 14, 2021.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2020, valuation were based on a review of recent plan experience done concurrently with the September 30, 2020, valuation.

Long-Term Rate of Return

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

Municipal Bond Rate

The discount bond rate uses a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used for this purpose is a 20-year Municipal Bond (rating AA/Aa or higher) rate (Municipal Bond Index Rate). The Municipal Bond Index Rate used, if necessary, for this purpose is the average of the Bond Buyer General Obligation 20-year Municipal Bond Index, the Fidelity General Obligation AA 20-year Municipal Bond Index, and the S&P High Grade 20-year Municipal Bond Index.

Periods of Projected Benefit Payments

Projected future benefit payments for all current plan members were projected through 2119. The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Fixed Income	28.20%	4.40%
U.S. Domestic Stocks	55.20%	8.70%
International Developed Market Stocks	10.80%	9.80%
Cash	5.80%	1.50%
Total	100.00%	

*Geometric mean includes inflation of 2.50%.

Discount Rate

The Single Equivalent Discount Rate (SEIR) is used in calculating the TOL. The SEIR is determined by calculating the rate that will generate the present value of benefit payments equal to the sum of the present value determined by discounting all projected benefit payments through the depletion date using the long-term expected rate of return and the present value determined by discounting benefit payments after the date of depletion date by using the 20-year municipal bond (rating AA/Aa or higher) rate.

Sensitivity of the System Office's Proportionate Share of the Collective Net OPEB Liability to Changes in Healthcare Cost Trend Rates

The following table presents the Office's proportionate share of the collective net OPEB liability of the Trust calculated using the current healthcare trend rate, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (5.50% decreasing to 3.50% for pre-Medicare, Known decreasing to 3.50% for Medicare Eligible)	Current Rate (6.50% decreasing to 4.50% for pre-Medicare, Known decreasing to 4.50% for Medicare Eligible)	1% Increase (7.50% decreasing to 5.50% for pre-Medicare, Known decreasing to 5.50% for Medicare Eligible)
Office's net OPEB liability	$2,653,410	$3,329,661	$4,151,761

Sensitivity of the System's Proportionate Share of the Collective Net OPEB Liability to Changes in the Discount Rate

The following table presents the Office's proportionate share of the Net OPEB liability of the Trust calculated using the discount rate of 7.25%, as well as what the Net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Office's net OPEB liability	$3,871,648	$3,329,661	$2,876,640

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's Fiduciary Net Position is in the Trust's financial statements for the fiscal year ended September 30, 2021. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2021. Additional financial and actuarial information is available at www.rsa-al.gov.

7 – Other Significant Commitments

As of September 30, 2022, Alabama Community College System Office had been awarded approximately $4,964,863 in contracts and grants on which performance had not been accomplished and funds had not been received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

8 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at September 30, 2022 for goods and services received prior to the end of the fiscal year.

Supplies and Vendors	$31,010,443.07
Employee Benefits	170,089.40
Interest	311,956.92
Total	$31,492,489.39

9 – Leases Payable

The Office leases office equipment from external parties as well as office space and real property from external parties for various terms under long-term non-cancelable lease agreements. The leases expire at various dates through 2039. In accordance with GASB Statement No. 87, the Office records right-to-use assets and lease liabilities based on the present value of expected payments over the lease term of the respective leases. The expected payments are discounted using the interest rate charged on the lease, if available, or are otherwise discounted using the Office's incremental borrowing rate. The interest rates range from 0.25 percent to 1.61 percent. Variable payments are excluded from the valuations unless they are fixed in substance. Certain office space leases call for additional payments for the Office's share of operating costs, which are the total of all costs incurred by the lessor relating to the ownership, operation, and maintenance of the building and services provided tenants in the building and may include items such as taxes, insurance, utilities, maintenance, janitorial services, waste disposal, and common area expenses. The lessor reasonably estimates the operating costs that will be payable for the year, and the Office pays one twelfth of its share of the estimated operating costs monthly in advance with the payment of base rent. After the end of the year, the estimated costs are compared to the actual costs, and any adjustment payments are made. The operating cost payments are recognized as expenses as incurred and not included as lease liabilities or right-to-use assets on the statement of net position. During the 2021-22 fiscal year, the Office recognized $106,177 for operating cost payments related to leases. The Office does not have any leases subject to a residual value guarantee. See Note 4 - Capital Assets, for information on right-to-use assets and associated accumulated amortization. See Note 10 - Long-Term Liabilities, for the future payments schedule.

10 – Long-Term Liabilities

Long-term liabilities of the Office at September 30, 2022 include revenue bonds payable, right-to-use leases payable, and compensated absences payable. Long-term liabilities activity for the year ended September 30, 2022, shown in the following table:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Leases Payable:					
Leases Payable-Buildings	$24,378,913.30		$1,071,978.55	$23,306,934.75	$1,072,895.46
Leases Payable-Equipment	10,306.70		5,343.76	4,962.94	4,683.93
Total Leases Payable	24,389,220.00		1,077,322.31	23,311,897.69	1,077,579.39
Bonds Payable:					
Revenue Bonds	86,620,000.00		1,685,000.00	84,935,000.00	1,620,000.00
Bond Premium	15,892,947.79		1,188,096.81	14,704,850.98	
Total Bonds	102,512,947.79		2,873,096.81	99,639,850.98	1,620,000.00
Other Liabilities:					
Compensated Absences	2,383,685.31		162,921.33	2,220,763.98	
Total Long-Term Liabilities	$129,285,853.10		$4,113,340.45	$125,172,512.65	$2,697,579.39

Right-to-Use Leases Payable

Future minimum payments under right-to-use lease agreements and the present value of the minimum payments as of September 30, 2022, are as follows:

Fiscal Year(s)	Principal	Interest	Total
2023	$1,077,579.39	$366,897.61	$ 1,444,477.00
2024	1,107,258.56	349,388.63	1,456,647.19
2025	1,142,708.13	331,325.79	1,474,033.92
2026	1,177,923.11	312,692.29	1,490,615.40
2027	1,213,708.61	293,488.27	1,507,196.88
2028 - 2032	6,629,276.40	1,158,683.28	7,787,959.68
2033 - 2037	7,619,765.86	587,068.10	8,206,833.96
2038 - 2040	3,343,677.79	56,427.29	3,400,105.08
Total	$23,311,897.85	$3,455,971.26	26,767,869.11

Bonds Payable

On September 14, 2021, the Board of Trustees of the Alabama Community College System issued $86,620,000.00 in Special Fee Revenue Bonds, Series 2021, to finance capital improvements on the campuses of its colleges, pay municipal bond insurance and expenses related to the Bonds.

The Alabama Community College System has pledged revenues derived from the ACCS Enhancements Fee to repay $86,620,000.00 in Revenue Bonds Series 2021 issued in September 2021 for the purpose of financing capital improvements on the campuses of its colleges, paying municipal bond insurance and expenses related to the Bonds. Future revenues in the approximate amount of $145,002,600 are pledged to repay the principal and interest on the bonds. During the 2022 fiscal year, pledged ACCS Enhancements Fee in the amount of $7,739,411 was received. Principal and interest payments in the current year totaled $4,992,826 in fiscal year 2022. These bonds are scheduled to mature in fiscal year 2051.

Revenue from the ACCS Enhancements fee sufficient to pay the annual debt service are pledged to secure the bonds. Principal and interest maturity requirements on bond debt are as follows:

2022 Special Fee Revenue Bonds

Fiscal Year	Principal	Interest	Total
2022-2023	$1,620,000.00	$3,381,200.00	$5,001,200.00
2023-2024	1,665,000.00	3,332,600.00	4,997,600.00
2024-2025	1,735,000.00	3,266,000.00	5,001,000.00
2025-2026	1,805,000.00	3,196,600.00	5,001,600.00
2026-2027	1,875,000.00	3,124,400.00	4,999,400.00
2027-2028	1,950,000.00	3,049,400.00	4,999,400.00
2028-2029	2,030,000.00	2,971,400.00	5,001,400.00
2029-2030	2,110,000.00	2,890,200.00	5,000,200.00
2030-2031	2,190,000.00	2,805,800.00	4,995,800.00
2031-2032	2,285,000.00	2,718,200.00	5,003,200.00
2032-2033	2,370,000.00	2,626,800.00	4,996,800.00
2033-2034	2,470,000.00	2,532,000.00	5,002,000.00
2034-2035	2,565,000.00	2,433,200.00	4,998,200.00
2035-2036	2,670,000.00	2,330,600.00	5,000,600.00
2036-2037	2,780,000.00	2,223,800.00	5,003,800.00
2037-2038	2,885,000.00	2,112,600.00	4,997,600.00
2038-2039	3,005,000.00	1,997,200.00	5,002,200.00
2039-2040	3,120,000.00	1,877,000.00	4,997,000.00
2040-2041	3,250,000.00	1,752,200.00	5,002,200.00
2041-2042	3,375,000.00	1,622,200.00	4,997,200.00
2042-2043	3,515,000.00	1,487,200.00	5,002,200.00
2043-2044	3,655,000.00	1,346,600.00	5,001,600.00
2044-2045	3,795,000.00	1,200,400.00	4,995,400.00
2045-2046	3,955,000.00	1,048,600.00	5,003,600.00
2046-2047	4,110,000.00	890,400.00	5,000,400.00
2047-2048	4,270,000.00	726,000.00	4,996,000.00
2048-2049	4,445,000.00	555,200.00	5,000,200.00
2049-2050	4,625,000.00	377,400.00	5,002,400.00
2050-2051	4,810,000.00	192,400.00	5,002,400.00
Total	$84,935,000.00	$60,067,600.00	$145,002,600.00

Bond Premium

The Office has a bond premium in connection with the issuance of its 2021 Series Special Fee Revenue Bonds. The bond premium is being amortized using the straight-line method over life of the bonds.

Compensated Absences

The Office reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the Office expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At September 30, 2022, the estimated liability for compensated absences, which includes the Office's share of FICA contributions, totaled $2,220,763.98. The current portion of the compensated absences liability, $128,481.32, is the amount expected to be paid in the coming fiscal year and represents a historical percentage of leave used applied to total accrued leave liability.

11 – Risk Management

The Office is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Office has insurance for its buildings and contents through the State Insurance Fund (SIF), part of the State of Alabama Department of Finance, Division of Risk Management, a public entity risk pool, which operates as a common risk management and insurance program for state owned properties. The Office pays an annual premium based on the amount of coverage requested. The SIF provides coverage up to $2 million per occurrence and is self-insured up to a maximum of $6 million in aggregate claims. The SIF purchases commercial insurance for claims which in the aggregate exceed $6 million. The Office purchases commercial insurance for its automobile coverage, general liability, and professional legal liability coverage. In addition, the Office has fidelity bonds on the Chancellor and Fiscal Services personnel as well as all other Office personnel who handle funds.

Health Insurance

Employee health insurance is provided through the State Employees' Health Insurance Fund (SEHIF) administered by the State Employees' Health Insurance Board (SEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state agencies and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Office contributes a specified amount monthly to the SEHIF for each employee and this amount is applied against the employee's premiums for the coverage selected and the employee pays any remaining premium.

Settled claims resulting from these risks have not exceeded the Office's coverage in any of the past three fiscal years.

Claims which occur as a result of employee job-related injuries may be brought before the State of Alabama Board of Adjustment. The Board of Adjustment serves as an arbitrator and its decision is binding. If the Board of Adjustment determines that a claim is valid, it decides the proper amount of compensation (subject to statutory limitations) and the funds are paid by ACCS.

Required Supplementary Information

Schedule of the Alabama Community College System (ACCS) Office's
Proportionate Share of the Collective Net Pension Liability
Teachers' Retirement Plan of Alabama
For the Year Ended September 30,

(Dollar amounts in thousands)

	2022	2021	2020	2019	2018	2017
ACCS's proportion of the net pension liability	0.149632%	0.141870%	0.119316%	0.099373%	0.090735%	0.078088%
ACCS's proportionate share of the net pension liability	$14,096	$17,549	$13,193	$9,880	$8,918	$8,454
ACCS's covered payroll	$10,879	$10,115	$8,594	$7,138	$5,928	$4,524
ACCS's proportionate share of the net pension liability as a percentage of its covered payroll	129.57%	173.49%	153.51%	138.41%	150.44%	186.87%
Plan fiduciary net position as a percentage of the total pension liability	76.44%	67.72%	69.85%	72.29%	71.50%	67.93%

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

Schedule of the Alabama Community College System (ACCS) Office's Contributions Pension - Teachers' Retirement Plan of Alabama For the Year Ended September 30,

(Dollar amounts in thousands)

	2022	2021	2020	2019	2018	2017
Contractually required contribution	$1,486	$1,309	$1,224	$1,037	$841	$688
Contributions in relation to the contractually required contribution	$1,486	$1,309	$1,224	$1,037	$841	$688
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
ACCS's covered payroll	$12,310	$10,879	$10,155	$8,594	$7,138	$5,928
Contributions as a percentage of covered payroll	12.07%	12.03%	12.10%	12.07%	11.78%	11.61%

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

Notes to Required Supplementary Information for Pension Benefits For the Year Ended September 30, 2022

Changes of benefit terms
The member contribution rates were increased from 5.00% (6.00% for certified law enforcement, correctional officers, and firefighters) of earnable compensation to 7.25% (8.25%) of earnable compensation effective October 1, 2011, and to 7.50% (8.50%) of earnable compensation effective October 1, 2012. Members hired on or after January 1, 2013 are covered under a new benefit structure.

Changes of 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 withdrawal, retirement, disability 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 and later, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females.

In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2010.

In 2010, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience.

In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

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

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28.3 years
Asset valuation method	5-year smoothed market
Inflation	2.75 percent
Salary increase	3.25 percent to 5.00 percent, including inflation
Investment rate of return	7.70 percent, net of pension plan investment expense, including inflation

Schedule of the Alabama Community College System (ACCS) Office's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability
Alabama Retired State Employees' Health Care Trust
For the Year Ended September 30,

	2022	2021	2020	2019	2018
Office's proportion of the net OPEB liability (asset)	0.390513%	0.321254%	0.338889%	0.239897%	0.219227%
Office's proportionate share of the net OPEB liability (asset)	$3,329,661	$3,190,278	$5,861,951	$6,970,537	$6,936,000
Office's covered payroll	$11,110,376	$10,370,991	$9,045,082	$7,380,384	$5,986,000
Office's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	29.97%	30.76%	64.81%	94.45%	115.87%
Plan fiduciary net position as a percentage of the total OPEB liability	22.49%	17.16%	9.94%	5.96%	5.05%

* The amounts presented for each fiscal year were determined as of 9/30.

Schedule of the Alabama Community College System (ACCS) Office's Contribution Other Postemployment Benefits (OPEB) Alabama Retired State Employees' Health Care Trust For the Year Ended September 30,

	2022	2021	2020	2019	2018
Contractually required contribution	$229,987	$230,375	$175,019	$252,945	$193,000
Contributions in relation to the contractually required contribution	$229,987	$230,375	$175,019	$252,945	$193,000
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Office's covered payroll	$12,591,465	$11,110,376	$10,370,991	$9,045,082	$7,380,384
Contributions as a percentage of covered payroll	1.83%	2.07%	1.69%	2.80%	2.62%

Notes to schedule:

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

Notes to Required Supplementary Information for Other Postemployment Benefits (OPEB) For the Year Ended September 30, 2022

Changes in Actuarial Assumptions

Changes to the actuarial assumptions as a result of the experience study for the five-year period ending June 30, 2020 are summarized below.

Assumption	Description
Price Inflation	Lowered from 2.75% to 2.50%
Investment Return (Net of Investment Expense)	Lowered from 7.50% to 7.25%
Wage Inflation	Lowered from 3.00% to 2.75%
Mortality Rates (Pre-Retirement, Post- Retirement Healthy and Disabled)	Update to Pub-2010 Public Mortality Plans Mortality Tables. For future mortality improvement, generational mortality improvement with mortality improvement scale MP-2020, with an adjustment of 66-2/3% to the table beginning in year 2019.
Retirement Rates	Judges: ● Revised to more closely reflect experience. State and Local Regular Members: ● Decreased rates of retirement for members at most ages. State and Local FLC Members: ● Decreased rates of retirement for members at ages 56 and younger ● Increased rates of retirement slightly for members ages 57 and older State Police: ● Increased rates of retirement in some age categories ● Decreased rates of retirement in some age categories Teachers: ● Decreased rates of retirement at most ages and extended retirement rates to age 80.
Withdrawal Rates	Judges: ● Changed from an age-based table broken down by service bands to a pure service-based table. Increased rates of withdrawal for members with less than 10 years of service and decreased rates of withdrawal for members with 10 or more years of service. Non-Judges: ● Changed from an age-based table broken down by service bands to a pure service-based table. Used a liability weighted methodology in analyzing rates. ● Decreased rates of withdrawal at most service categories for non-Teachers.
Disability Rates	Lowered rates of disability retirement at most ages for State, Teachers, and Local Members. No change for Judges.
Salary Increases	No change to total assumed rates of salary increases for Judges and Teachers. Increased merit salary scale by 0.25% to offset the recommended decrease in the wage inflation assumption by 0.25%.

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

Recent Plan Changes

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

Effective January 1, 2020, the MAPD plan moved from self-insured to fully-insured.

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through a (MAPD) plan.

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

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

Actuarial Cost Method	Entry Age Normal
Amortizing Method	Level percent of pay, open
Remaining Amortization Period	30 years
Asset Valuation Method	Fair Value of Assets
Inflation	2.75%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	6.75%
Medicare Eligible (*)	(*)
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75% in 2027
Medicare Eligible	4.75% in 2024
Dental Trend Rate	4.5%
Investment Rate of Return	5.00%, including inflation

(*) Initial Medicare claims are set based on scheduled increases through plan year 2022.

Additional Information

Members of the Board of Trustees and Officials
October 1, 2021, through September 30, 2022

Board Members	District	Term Expires	Additional Details
Hon. Kay Ivey, Governor-President			
Hon. Blake McAnally-Chairman	Member-At-Large	2023	Beginning May 11, 2022
			Vice-Chairman (Until May 10, 2022)
Hon. Llevelyn Rhone-Vice-Chariman	District 7	2025	Beginning May 11, 2022
Hon. Milton A. Davis	District 6	2023	Chairman (Until May 10, 2022)
Hon. J.E.B. Shell	District 1	2025	
Hon. John Mitchell	District 2	2023	
Hon. Valerie Gray	District 3	2025	
Hon. Matthew Woods	District 4	2023	Until October 12, 2022
Hon. Goodrich "Dus" Rogers	District 5	2025	
Hon. Yvette Richardson	Ex-Officio		

Officials

Jimmy H. Baker, Chancellor	
Susan Price, Vice-Chancellor System Development and ACCS Chief of Staff	
Bryan Helms, Vice-Chancellor Administrative and Financial Services	Until December, 2021
Sara Calhoun, Chief Financial Officer	

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

Independent Auditor's Report

Board of Trustees
Alabama Community College System Office
Montgomery, AL 36130

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States the financial statements of the Alabama Community College System Office (the "Office"), a component unit of the State of Alabama, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements, and have issued our report thereon dated January 16, 2023, which contained an emphasis of matter paragraph regarding a chance in accounting principle.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Office's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

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

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

FORVIS

Report on Compliance and Other Matters

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

Purpose of this Report

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

FORVIS, LLP

Memphis, Tennessee
January 16, 2023