

**J.F. Drake State Community and Technical College
Financial Statements
September 30, 2022**

J.F. Drake State Community and Technical College

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September 30, 2022

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PART I

FINANCIAL STATEMENTS



Independent Auditor's Report

Jimmy Baker, Chancellor – Alabama Community College System
Dr. Patricia Sims – J.F. Drake State Community and Technical College
Huntsville, Alabama

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of J.F. Drake State Community and Technical College (the "College"), 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 College's basic financial statements, as listed in the table of contents.

In our opinion, based on our audit, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the College 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 States. 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 College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 College's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility 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 College'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 College'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, the schedule of proportionate share of the net pension liability, the schedule of pension contributions, the schedule of proportionate share of the net OPEB liability, and the schedule of 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the report. The other information comprises the listing of College Officials, as listed in the table of contents, 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 17, 2023 on our consideration of the College'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 College'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 College's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Athens, AL
January 17, 2023

J.F. Drake State Community and Technical College

Management's Discussion and Analysis

September 30, 2022

Overview of the Financial Statements and Financial Analysis

J. F. Drake State Community & Technical College has been committed to fulfill the diverse needs of its community by offering flexible and affordable university-transfer and technical degrees, certificates, adult and continuing education, and customized workforce training. Because of its location in the high-tech city of Huntsville, which is called the space and rocket capital of America, the College is dedicated to the teaching and advancement of the highest caliber of technical skills through state-of-the-art facilities and equipment. The College seeks to produce an effective participatory citizenship with economic potential as well as civic and social commitment. To this end, the College seeks to maintain a sound fiscal foundation in support of its mission in addition to providing responsible stewardship of public funds in compliance with state law.

Three financial statements are presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flow. The following financial statements and analysis provide an overview of the financial activities for the year ending September 30, 2022.

The fiscal philosophy of the administration is to use resources to continually improve in all areas in alignment with the mission of the college while providing for a reasonable reserve of funds. These financial statements reflect the realization of that philosophy for the 2022 fiscal year.

Statement of Net Position

The Statement of Net Position presents the total assets, deferred outflow of resources, liabilities, deferred inflow of resources, and net position of the College as of the end of the fiscal year. The Statement of Net Position presents data concerning Assets (current and noncurrent), Deferred Outflow of Resources, Liabilities (current and noncurrent), Deferred Inflow of Resources, and Net Position [(assets plus deferred outflow of resources) minus (liabilities plus deferred inflow of resources)]. The difference between current and noncurrent assets is detailed in the financial statement disclosures.

Net position is divided into three major categories: Net Investment in Capital Assets, Restricted and Unrestricted Assets.

- Net investment in capital assets include equity in property, plant, and equipment.
- Restricted net position is divided into two categories, expendable and nonexpendable. Restricted net position is available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The corpus of nonexpendable restricted resources is only available for investment purposes.
- Unrestricted net position is available to the college in fulfilling its mission to provide education and services to the community.

J.F. Drake State Community and Technical College
Management's Discussion and Analysis
September 30, 2022

A condensed Statement of Net Position at September 30, 2022, and 2021, is presented below.

Condensed Statement of Net Position

| | 2022 | 2021 | Increase (Decrease) | Percent Change |
|----------------------------------|--------------------|--------------------|------------------------|-------------------|
| Assets: | | | | |
| Current | \$9,468,026 | \$8,910,367 | \$557,659 | 6.0 |
| Noncurrent | 12,725,841 | 9,108,758 | 3,617,083 | 40.0 |
| Total Assets | <u>22,193,867</u> | <u>18,019,125</u> | <u>4,174,742</u> | <u>23.0</u> |
| Deferred Outflows of Resources | \$3,086,013 | 3,479,780 | (393,767) | -11.0 |
| Liabilities: | | | | |
| Current | 2,653,819 | 1,796,559 | 857,260 | 48.0 |
| Noncurrent | 9,018,112 | 11,731,685 | (2,713,573) | (23.0) |
| Total Liabilities | <u>11,671,931</u> | <u>13,528,244</u> | <u>(1,856,313)</u> | <u>(-14.0)</u> |
| Deferred Inflows of Resources | 4,779,522 | 3,413,224 | 1,366,298 | 40.0 |
| Net Position: | | | | |
| Net Investment in Capital Assets | 12,446,513 | 8,648,925 | 3,797,588 | 44.0 |
| Restricted | 49,912 | 0 | 49,912 | 100.0 |
| Unrestricted | (3,667,998) | (4,091,468) | 423,470 | (10.0) |
| Total Net Position | <u>\$8,828,427</u> | <u>\$4,557,457</u> | <u>\$4,270,970</u> | <u>94.0</u> |

During fiscal year 2022, total assets increased \$4,174,742. This amount represents a 23% increase and is mainly due to a \$4 million increase in capital assets which will be depreciated over its usefully life annually. In addition, as required by Governmental Accounting Standards Board (GASB) Statement Number 68, \$1,928,342 has been recorded for Pensions in the Deferred Outflow of Resources section. Also, as required by GASB Statement Number 75, \$1,157,671 has been recorded for Other Postemployment Benefits (OPEB) in the Deferred Outflow of Resources section. These combined to represent a \$393,767 reduction for this section.

Total liabilities decreased by \$1,856,313 for fiscal year 2022. This is mainly due to a reduction in both Net Pension Liability and Net OPEB Liability. In addition, as required by GASB Statement Number 68, \$2,193,000 has been recorded for Pensions and \$2,586,522 has been recorded, as required by GASB Statement Number 75 for Other Postemployment Benefits (OPEB), both in the Deferred Inflow of Resources section. This represents a \$1,366,298 increase for Deferred Inflow of Resources. The combination of the increase in total assets of \$4,174,742 the moderate decrease in deferred outflow of resources of \$393,787, the reduction in total liabilities of \$1,856,313, and the increase in deferred inflow of resources of \$1,366,298 yields an increase in total net position of \$4,270,970.

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 (SRECNP). The purpose of the statement is to present revenues, both operating and nonoperating, and the expenses, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution. Operating revenues are received for providing instruction and other instructional services to the various constituencies of the College. Operating expenses are those expenses paid in return for the operating revenues and to carry out the College's mission. Non-operating revenues are revenues

J.F. Drake State Community and Technical College
Management's Discussion and Analysis
September 30, 2022

received for services that the College does not provide. For example, state appropriations are non-operating because they are provided by the Alabama State Legislature to the College without the legislature directly receiving commensurate services for those revenues.

A condensed Statement of Revenues, Expenses and Changes in Net Position for the 2022 and 2021 fiscal years is presented below.

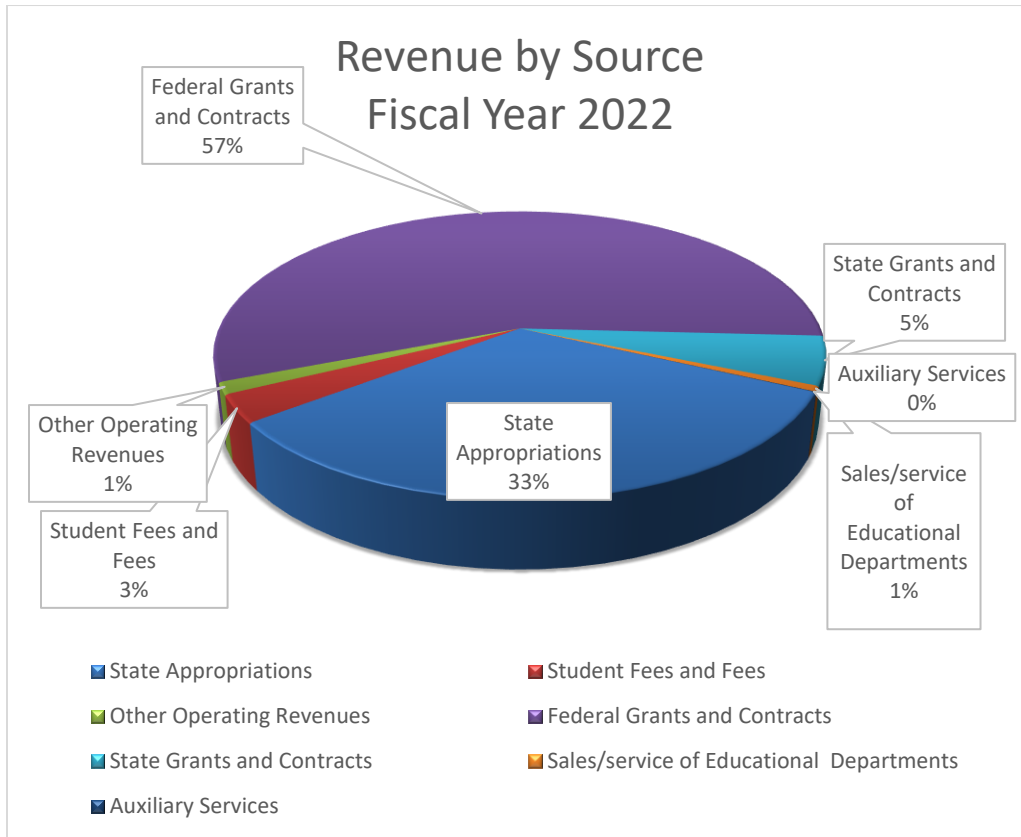
Condensed Statement of Revenues, Expenses, and Changes in Net Position

| | 2022 | 2021 | Increase (Decrease) | Percent Change |
|--|--------------------|--------------------|------------------------|-------------------|
| Operating Revenues | \$9,924,655 | \$7,185,077 | \$2,739,578 | 38.0 |
| Operating Expenses | 15,198,675 | 12,584,359 | 2,614,316 | 21.0 |
| Operating Loss | (5,274,020) | (5,399,282) | 125,262 | (2.0) |
| Non-operating Revenues and Expenses | 9,615,046 | 8,968,930 | 646,116 | 7.0 |
| Increase in Net Position | 4,341,026 | 3,569,648 | 771,378 | 22.0 |
| Net Position, Beginning of Year | 4,557,457 | 956,031 | 3,601,426 | 377.0 |
| Restatements | (70,056) | 31,778 | (101,834) | (320.0) |
| Net Position, End of Year | <u>\$8,828,427</u> | <u>\$4,557,457</u> | <u>\$4,270,970</u> | <u>94.0</u> |

The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in net position of \$4,270,970. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Position are shown in Exhibit 1.

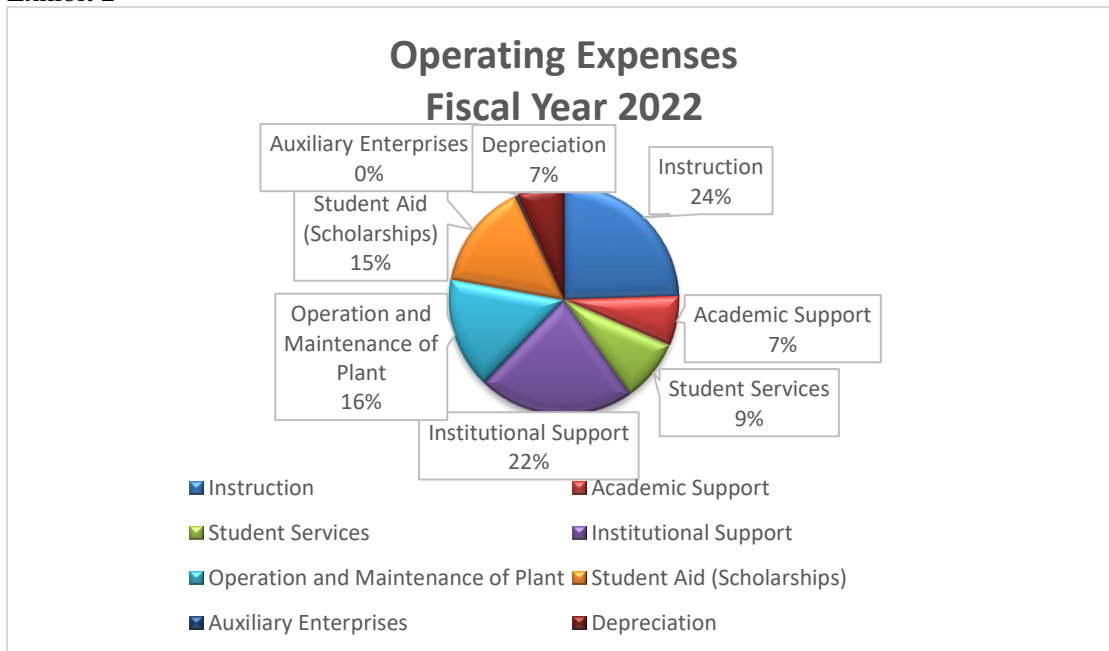
The chart in Exhibit 1 displays the operating revenue by type and the relationship of types of revenue with one another. Federal grants and contracts and state appropriations represent the largest types of operating revenue at fifty-seven percent (57%) and thirty-three percent (33%), respectively. All other types of revenue make up the remaining ten percent (10%) of total revenues.

Exhibit 1



The operating expenses by function are shown in Exhibit 2.

Exhibit 2



J.F. Drake State Community and Technical College
Management's Discussion and Analysis
September 30, 2022

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows which presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part presents operating cash flows and shows the net cash used by operating activities. The second section reflects cash flows from noncapital financing activities. Noncapital financing activities include the cash received and spent for non-operating, non-investing, and other noncapital financing purposes. The third section deals with cash used from capital and related financing activities. Capital and related activities are those in which cash is used for the acquisition and construction of capital assets and assets related to construction and renovation. The fourth section of the statement presents cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position to the net cash provided or used by operating activities. A condensed Statement of Cash Flows for the years ending September 30, 2022 and 2021 is presented below.

Condensed Statement of Cash Flows for the Year ended September 30, 2022

| | 2022 | 2021 | Increase (Decrease) | Percent Change |
|---|---------------|---------------|------------------------|-------------------|
| Cash Flows from Operating Activities | \$(4,649,196) | \$(5,876,264) | 1,227,068 | 20.9 |
| Cash Flows from Non-Capital Financing Activities | 9,715,189 | 8,926,657 | 788,532 | 8.8 |
| Cash Flows from Capital and Related Financing Activities | (4,875,485) | (2,372,218) | (2,503,267) | (105.5) |
| Cash Flows from Investing Activities | (22,383) | 2,259 | (24,642) | (1090.8) |
| Net Increase (Decrease) in Cash | \$168,125 | \$680,434 | (512,309) | (75.3) |

Economic Outlook

The College is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the upcoming fiscal year beyond those unknown variations having a global effect on virtually all types of business operations. The College has been able to achieve slight increases in enrollment throughout the COVID-19 pandemic period while being infused with a significant amount of federal funds to boost college operations. The College's overall financial position remains stable.

The College anticipates the upcoming fiscal year will be similar to the last with additional increases in student enrollment. The College remains steadfast in maintaining resources needed to react to unknown internal and external issues. Moreover, the College anticipates maintaining its strong fund balances and healthy budgets as we remain flexible to meeting the often-changing environment and keep our laser-focus upon accomplishing strategic goals of servicing students first.

Contacting J.F. Drake Community and Technical College Financial Management

This financial report is designed to provide our stakeholders with a general overview of the College's finances and to show the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the J.F. Drake Community and Technical College Business Office, at 3421 Meridian St N, Huntsville, AL 35811.

J.F. Drake State Community and Technical College
Statement of Net Position
September 30, 2022

ASSETS

Current Assets

| | |
|---|---------------|
| Cash and Cash Equivalents | \$ 7,444,795 |
| Accounts Receivable, Net of Allowance for Doubtful Accounts of \$589,732 | 1,939,714 |
| Inventories | 2,452 |
| Other Current Assets | <u>81,065</u> |

Total Current Assets 9,468,026

Non-Current Assets

| | |
|---|--------------------|
| Endowment Investments | 49,912 |
| Capital Assets: | |
| Land | 548,964 |
| Improvements Other Than Buildings | 1,155,309 |
| Buildings & Building Alterations | 11,241,631 |
| Equipment and Furniture | 6,540,121 |
| Library Holdings | 609,374 |
| Construction in Progress | 2,417,072 |
| Less: Accumulated Depreciation | <u>(9,841,958)</u> |
| Total Capital Assets, Net of Depreciation | <u>12,670,513</u> |

Other Non-Current Assets 5,416

Total Non-Current Assets 12,725,841

Total Assets 22,193,867

DEFERRED OUTFLOWS OF RESOURCES

| | |
|--|------------------|
| Deferred Outflows of Resources Related to Pensions | 1,928,342 |
| Deferred Outflows of Resources Related to OPEB | <u>1,157,671</u> |
| Total Deferred Outflows of Resources | <u>3,086,013</u> |

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

J.F. Drake State Community and Technical College
Statement of Net Position
September 30, 2022

LIABILITIES

Current Liabilities

| | |
|--|----------------|
| Deposits | \$ 218,617 |
| Accounts Payable and Accrued Liabilities | 1,243,437 |
| Bond Surety Fee Payable | 2,994 |
| Unearned Revenue | 927,245 |
| Compensated Absences | 37,526 |
| Bonds Payable | <u>224,000</u> |

| | |
|---------------------------|------------------|
| Total Current Liabilities | <u>2,653,819</u> |
|---------------------------|------------------|

Non-Current Liabilities

| | |
|-----------------------|------------------|
| Compensated Absences | 364,854 |
| Net Pension Liability | 6,076,000 |
| Net OPEB Liability | <u>2,577,258</u> |

| | |
|-------------------------------|------------------|
| Total Non-Current Liabilities | <u>9,018,112</u> |
|-------------------------------|------------------|

| | |
|-------------------|-------------------|
| Total Liabilities | <u>11,671,931</u> |
|-------------------|-------------------|

DEFERRED INFLOWS OF RESOURCES

| | |
|---|------------------|
| Deferred Inflows of Resources Related to Pensions | 2,193,000 |
| Deferred Inflows of Resources Related to OPEB | <u>2,586,522</u> |

| | |
|------------------------------------|------------------|
| Total Deferred Inflow of Resources | <u>4,779,522</u> |
|------------------------------------|------------------|

NET POSITION

Net Position

| | |
|---|--------------------|
| Net Investment in Capital Assets | 12,446,513 |
| Restricted – Nonexpendable Scholarships | 49,912 |
| Unrestricted | <u>(3,667,998)</u> |

| | |
|--------------------|---------------------|
| Total Net Position | <u>\$ 8,828,427</u> |
|--------------------|---------------------|

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

J.F. Drake State Community and Technical College
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended September 30, 2022

OPERATING REVENUES

| | |
|---|------------------|
| Student Tuition and Fees (Net of Scholarship Allowances of \$1,990,092) | \$ 612,407 |
| Other Operating Revenues | 137,674 |
| Federal Grants and Contracts | 7,922,651 |
| State and Local Grants and Contracts | 1,123,642 |
| Sales and Services of Educational Activities | 118,437 |
| Bookstore | 7,175 |
| Vending | 2,669 |
| Total Operating Revenues | <u>9,924,655</u> |

OPERATING EXPENSES

| | |
|--------------------------------|-------------------|
| Instruction | 3,722,778 |
| Academic Support | 1,057,973 |
| Student Services | 1,333,418 |
| Institutional Support | 3,342,601 |
| Operation and Maintenance | 2,383,104 |
| Scholarships and Financial Aid | 2,307,262 |
| Depreciation | 1,004,441 |
| Auxiliary Enterprises | 47,098 |
| Total Operating Expenses | <u>15,198,675</u> |

Operating Loss (5,274,020)

NONOPERATING REVENUES (EXPENSES)

| | |
|-----------------------------------|------------------|
| State and Local Appropriations | 6,415,166 |
| Federal Grants | 3,185,496 |
| Gifts, Noncash Gifts, and Revenue | 43,600 |
| Investment Income | 2,476 |
| Endowment Income | 25,053 |
| Bond Surety Fee Expense | (44,204) |
| Other Nonoperating Expense | (5,416) |
| Interest on Debt | (7,125) |
| Net Nonoperating Revenues | <u>9,615,046</u> |

Change in Net Position 4,341,026

| | |
|--|---------------------|
| Total Net Position - Beginning of Year | 4,557,457 |
| Restatements | (70,056) |
| Total Net Position - End of Year | <u>\$ 8,828,427</u> |

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

J.F. Drake State Community and Technical College
Statement of Cash Flows
For the Year Ended September 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|--------------------|
| Tuition and Fees | \$ 459,901 |
| Grants and Contracts | 8,675,264 |
| Payments to Suppliers | (4,089,283) |
| Payments for Utilities | (321,751) |
| Payments for Employees | (5,360,386) |
| Payments for Benefits | (1,854,636) |
| Payments for Scholarships | (2,238,160) |
| Sales and Service of Educational Services | 118,437 |
| Other Receipts (Payments) | (48,426) |
| Auxiliary Enterprises | 9,844 |
| Net Cash Used in Operating Activities | <u>(4,649,196)</u> |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|------------------|
| State and Local Appropriations | 6,415,166 |
| Gifts and Grants for Other than Capital Purposes | 43,600 |
| Federal Grants | 3,185,496 |
| Other Noncapital Financing | 70,927 |
| Net Cash Provided by Noncapital Financing Activities | <u>9,715,189</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|--------------------|
| Purchase of Capital Assets and Construction | (4,645,360) |
| Principal Paid on Capital Debt and Leases | (223,000) |
| Interest Paid on Capital Debt and Leases | (7,125) |
| Net Cash Used in Capital and Related Financing Activities | <u>(4,875,485)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|-----------------|
| Purchase of Investments | (49,912) |
| Investment Income | 27,529 |
| Net Cash Used in Investing Activities | <u>(22,383)</u> |

Net Increase in Cash and Cash Equivalents 168,125

| | |
|---|---------------------|
| Cash and Cash Equivalents - Beginning of Year | <u>7,276,670</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 7,444,795</u> |

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

J.F. Drake State Community and Technical College
Statement of Cash Flows
For the Year Ended September 30, 2022

Reconciliation of Net Operating Loss to Net

Cash Used in Operating Activities

Operating Loss \$ (5,274,020)

Adjustments to Reconcile Net Operating Loss to Net

Cash Used in Operating Activities

Depreciation Expense 1,004,441

Changes in Assets, Deferred Outflows and Inflows of

Resources, and Liabilities:

(Increase)/Decrease in Receivables (508,703)

(Increase)/Decrease in Inventory 9,480

(Increase)/Decrease in Other Assets 77,085

(Increase)/Decrease in Deferred Outflows 393,787

Increase/(Decrease) in Pension Liabilities (1,966,000)

Increase/(Decrease) in OPEB Liability (583,564)

Increase in Deferred Inflows 1,366,298

Increase/(Decrease) in Accounts Payable and Accrued Expenses 918,315

Increase/(Decrease) in Compensated Absences 66,191

Increase/(Decrease) in Unearned Revenue (152,506)

Net Cash Used in Operating Activities \$ (4,649,196)

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

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of J.F. Drake State Community and Technical College (the “College” or “DSCTC”) 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 College are described below.

A. Reporting Entity

The College 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. The Alabama Community College System through its Chancellor has the authority and responsibility for the operation, management, supervision, and regulation of the College. In addition, the College receives a substantial portion of its funding from the State of Alabama (potential to impose a specific financial burden). Based on these criteria, the College is considered for financial reporting purposes to be a component unit of the State of Alabama.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

J.F. Drake State Community and Technical College follows all applicable GASB pronouncements. The financial statements of J.F. Drake State Community and Technical College 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 College to first apply restricted resources when an expense is incurred and then apply unrestricted resources when both restricted and unrestricted net position are available.

The Statement of Revenues, Expenses and Changes in Net Position distinguishes between operating and non-operating revenues. Operating revenues, such as tuition and fees, result from exchange transactions associated with the principal activities of the College. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. Non-operating revenues arise from exchange transactions not associated with the College's principal activities, such as investment income and from all non-exchange transactions, such as state appropriations.

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

C. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

1. 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 College 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 measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the Statement of Net Position at the end of each reporting period.

2. Receivables

Accounts receivable relate to amounts due from students, federal grants, state grants, third party tuition, and auxiliary enterprise sales, such as food service, bookstore, and residence halls. The receivables are shown net of allowance for doubtful accounts.

3. Capital Assets

Capital assets, other than intangible assets, with a unit cost of over \$5,000 and an estimated useful life in excess of one year, and all library books, 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 fair market value 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.

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

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.

The method of depreciation and useful lives of the capital assets and right-to-use leased assets are as follows:

| <u>Assets</u> | <u>Depreciation Method</u> | <u>Useful Lives</u> |
|-------------------------------------|-----------------------------------|----------------------------|
| Buildings | Straight-Line | 50 years |
| Building Alterations | Straight-Line | 25 years |
| Improvements other than Buildings | Straight-Line | 25 years |
| Equipment > \$25,000 | Straight-Line | 10 years |
| Equipment < \$25,000 | Straight-Line | 5 years |
| Right-to-Use Leased Equipment | Straight-Line | 5-10 Years |
| Library Materials | Composite | 20 years |
| Capitalized Software | Straight-Line | 10 years |
| Easement and Land Use Rights | Straight-Line | 20 years |
| Patents, Trademarks, and Copyrights | Straight-Line | 20 years |

4. Deferred Outflow 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.

5. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond/Warrant premiums and discounts are deferred and amortized over the life of the bonds. Bond/Warrants payable are reported net of the applicable bond/warrant premium or discount.

6. Compensated Absences

No liability is recorded for sick leave. Substantially all employees of the College earn 12 days of sick leave each year with unlimited accumulation. Payment is not made to employees for unpaid sick leave at termination or retirement.

All non-instructional employees earn annual leave at a rate which varies from 12 to 24 days per year depending on duration of employment, with accumulation limited to 60 days. Instructional employees do not earn annual leave. Payment is made to employees for unused leave at termination or retirement.

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

7. Deferred Inflow 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.

8. Unearned Revenue

Unearned revenue consists primarily of amounts received for fall student tuition and fees that are not earned until the next fiscal year. Unearned revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

9. Pensions

The Teachers' Retirement System of Alabama ("TRS" or "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 as revenues 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.

10. Postemployment Benefits Other Than Pensions (OPEB)

The Alabama Retired Education Employees' Health Care Trust (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.

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

11. 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, 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 unspent related debt proceeds or inflows of resources at year-end related to capital assets are not included in this calculation.

Restricted:

Nonexpendable - Net position subject to externally imposed stipulations that it be maintained permanently by the College. Such assets would include permanent endowment funds.

Expendable - Net position whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. These include funds held in federal loan programs.

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 Board of Trustees.

12. Federal Financial Assistance Programs

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

13. Scholarship Allowances and Student Aid

Student tuition and fees are reported net of scholarship allowances and discounts. The amount for scholarship allowances and discounts is the difference between the stated charge for goods and services provided by the College and the amount that is paid by the student and/or third parties making payments on behalf of the student. The College uses the alternate method as prescribed by the National Association of College and College Business Officers (NACUBO) in their Advisory Report (2000-05) to determine the amount of scholarship allowances and discounts.

14. Prepaid Expenses and Unearned Scholarships

Prepaid expenses are composed predominantly of prepaid insurance. Unearned scholarship expense results from the Fall academic term spanning across the fiscal year end. The College prorates scholarship expense to recognize only the amounts incurred in each fiscal year.

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

15. New Accounting Pronouncement

During the current Fiscal Year, the College implemented the following new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 87, Leases
- GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- GASB Statement No. 92, Omnibus 2020
- GASB Statement No. 93, Replacement of Interbank Offered Rates

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

The College 's deposits in banks 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.

B. Investments

The College invests its funds in securities and investments in accordance with the *Code of Alabama 1975*, Section 16-13-2, Sections 27-1-8 and 27-1-9, and Sections 27-41-1 through 27-41-41. These laws provide that the College may 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 of the United States of America that meet specified criteria. The College 's investment policy permits investments in the following: 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

J.F. Drake State Community and Technical College
Notes to the Financial Statements
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investment conduits (REMIC) securities; 6) repurchase agreements; and 7) stocks and bonds which have been donated to the institution.

The College'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 College'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 College may enter into a repurchase agreement so long as: (a) the repurchase securities are legal investments under state law for colleges; (b) the College 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 College has entered into signed contracts with all approved counterparties. 7) The College has discretion to determine if it should hold or sell other investments that it may receive as a donation.

The College 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 College 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.

To the extent available, the College's investments are recorded at fair value as of September 30, 2022. GASB Statement Number 72 – Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

Level 2 – Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset either directly or indirectly.

Level 3 – Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgement.

Investments’ fair value measurements are as follows at September 30, 2022:

| <u>Investments</u> | <u>Fair Value</u> | <u>Fair Value Measurements Using</u> | | |
|------------------------------|-------------------|--------------------------------------|---------------------------------|---------------------------------|
| | | <u>Level 1</u> <u>Inputs</u> | <u>Level 2</u> <u>Inputs</u> | <u>Level 3</u> <u>Inputs</u> |
| <u>Money Market Accounts</u> | \$ 49,912 | \$ 49,912 | \$ - | \$ - |

Interest Rate Risk – This risk pertains to changes in interest rates that adversely affect the fair value of an investment. While there is an active market for the below investments, generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the College’s investment policy limits its investment maturities as follows:

| <u>Investment Type</u> | <u>Maximum Maturity</u> |
|--|-------------------------|
| U.S. Treasury Bills, Notes, Bonds and Stripped Treasuries | 10 years |
| U.S. Agencies | 10 years |
| Certificates of Deposit | 5 years |
| Mortgage-Backed Securities and Mortgage Related Securities | 7 years*/10 years** |

*Aggregate life

**Average life maturity of any one security

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

At year end, the College had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities (in Years)</u> | | |
|------------------------|-------------------|---|-------------|-------------------|
| | | <u>1-5</u> | <u>6-10</u> | <u>Thereafter</u> |
| Money Market Accounts | \$ 49,912 | \$ 49,912 | \$ - | \$ - |

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The College does not have a formal investment policy that specifically addresses its investment choices related to this risk. The College’s investments in Federal National Mortgage Association and Federal Home Loan Banks are rated Aaa by Moody’s Investor Services and AA+ by Standard and Poor’s Fitch Ratings.

Custodial Credit Risk – For an investment, this is the risk that, in the event of the failure of a counterparty, the government will not be able to cover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have an investment policy that limits the amount of securities that can be held by counterparties.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The College does not have a formal investment policy that places limits on the amount the College may invest in any one issuer to less than 5%. Instead, the College’s policy was to limit investments by type to the percentages shown below:

| <u>Investment Type</u> | <u>% of Investment</u> |
|--|------------------------|
| Stripped Treasuries | 50% |
| U.S. Agencies (except for TVA and SLMA) | 50% |
| TVA and SLMA | 10% |
| Certificates of Deposit | No Limit |
| Mortgage-Backed Securities and Mortgage Related Securities | 50% |

NOTE 3 - RECEIVABLES

Receivables are summarized as follows:

| <u>Accounts Receivable:</u> | |
|---------------------------------------|---------------------|
| Federal | \$ 1,530,279 |
| State and Local | 236,057 |
| Third Party | 122,387 |
| Student | 565,135 |
| Other | 75,588 |
| Less: Allowance for Doubtful Accounts | <u>(589,732)</u> |
| Total Accounts Receivables, Net | <u>\$ 1,939,714</u> |

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

NOTE 4 - CAPITAL ASSETS

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

| | Beginning Balance | Additions | Deductions & Adjustments | Transfers | Ending Balance |
|---|----------------------|--------------|-----------------------------|-----------|-------------------|
| Capital Assets Not Being Depreciated: | | | | | |
| Land | \$ 172,921 | \$ 376,043 | \$ - | \$ - | \$ 548,964 |
| Construction in Progress | 189,416 | 2,417,072 | - | (189,416) | 2,417,072 |
| Total Capital Assets Not Being Depreciated: | 362,337 | 2,793,115 | - | (189,416) | 2,966,036 |
| Capital Assets Being Depreciated: | | | | | |
| Buildings | 8,647,468 | - | - | (290,710) | 8,356,758 |
| Building Alterations | 2,369,803 | 34,944 | - | 480,126 | 2,884,873 |
| Improvements Other than Buildings | 1,155,309 | - | - | - | 1,155,309 |
| Equipment > \$25,000 | 2,354,871 | 1,055,635 | (64,100) | - | 3,346,406 |
| Equipment < \$25,000 | 2,472,415 | 756,278 | (34,978) | - | 3,193,715 |
| Library Holdings | 662,698 | 5,388 | (58,712) | - | 609,374 |
| Total Capital Assets Being Depreciated | 17,662,564 | 1,852,245 | (157,790) | 189,416 | 19,546,435 |
| Less Accumulated Depreciation: | | | | | |
| Buildings | 4,361,262 | 140,215 | - | - | 4,501,477 |
| Building Alterations | 507,494 | 149,468 | - | - | 656,962 |
| Improvements Other than Buildings | 806,604 | 22,215 | - | - | 828,819 |
| Equipment > \$25,000 | 1,504,538 | 254,698 | (64,100) | (105,741) | 1,589,395 |
| Equipment < \$25,000 | 1,452,044 | 403,349 | (34,978) | 105,741 | 1,926,156 |
| Library Holdings | 363,365 | 34,496 | (58,712) | - | 339,149 |
| Total Accumulated Depreciation | 8,995,307 | 1,004,441 | (157,790) | - | 9,841,958 |
| Total Capital Assets, Net | \$ 9,029,594 | \$ 3,640,919 | \$ - | \$ - | \$ 12,670,513 |

NOTE 5 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

The Teachers' Retirement Systems of Alabama (TRS), a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, pursuant to the *Code of Alabama 1975, Title 16, Chapter 25* (Act 419 of the Legislature of 1939) for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control which consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 16, Chapter 25* 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.

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

B. Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 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 guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service.

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 are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

C. 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 October 1, 2021 the covered Tier 2 members of the TRS contribution rate increased from 6% to 6.2% of earnable compensation to the TRS as required by statute. Effective October 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 12.36% of annual pay for Tier 1 members and 11.22% 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

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

liability. Total employer contributions to the pension plan from the College were \$584,342 for the year ended September 30, 2022.

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

At September 30, 2022 the College reported a liability of \$6,076,000 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 pension liability was determined by an actuarial valuation as of September 30, 2020. The College'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 College's proportion was 0.064504%, which was a decrease of 0.000513% from its proportion measured as of September 30, 2020.

For the year ended September 30, 2022, the College recognized pension expense of \$267,000. At September 30, 2022 the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 281,000 | \$ 354,000 |
| Changes of assumptions | 638,000 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 1,434,000 |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 425,000 | 405,000 |
| Employer contributions subsequent to the measurement date | 584,342 | - |
| | <u>\$ 1,928,342</u> | <u>\$ 2,193,000</u> |

\$584,342 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2023.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30:

| | |
|-------|---------------------|
| 2023 | \$ (210,000) |
| 2024 | (81,000) |
| 2025 | (129,000) |
| 2026 | (429,000) |
| Total | <u>\$ (849,000)</u> |

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

E. Actuarial Assumptions

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

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

*Net of pension plan investment expense

The actuarial assumptions used in the 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:

| <u>Group</u> | <u>Membership Table</u> | <u>Set Forward(+)/ Setback (-)</u> | <u>Adjustment to Rates</u> |
|---------------------|-------------------------------------|---|---|
| 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.

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

| | Target Allocation | Long-Term Expected Rate of Return* |
|---------------------------------------|----------------------|--|
| Fixed Income | 15.00% | 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% |
| Total | <u>100.00%</u> | |

*Includes assumed rate of inflation of 2.00%.

F. 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.

G. Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the College's proportionate share of the net pension liability calculated using the discount rate of 7.45%, as well as what the College'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:

| | 1% Decrease <u>(6.45%)</u> | Current Rate <u>(7.45%)</u> | 1% Increase <u>(8.45%)</u> |
|---|-------------------------------|--------------------------------|-------------------------------|
| College's proportionate share of collective net pension liability | \$ 8,944,000 | \$ 6,076,000 | \$ 3,661,000 |

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Annual Comprehensive Report for the fiscal year ended September 30, 2020. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2020. The auditor's report dated April 16, 2021, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2020, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan description

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

The PEEHIP was established in 1983 pursuant to the provisions of the *Code of Alabama 1975, Title 16, Chapter 25A (Act 83-455)* to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their retired employees, and are eligible and may elect to participate in the plan with respect to their active employees. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the Board. The Board is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975, Section 16-25A-4* provides the Board with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the PEEHIP are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIP and, consequently, serves as the administrator of the Trust.

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

B. Benefits provided

PEEHIP offers a basic hospital medical plan to active members and non-Medicare eligible retirees. Benefits include inpatient hospitalization for a maximum of 365 days without a dollar limit, inpatient rehabilitation, outpatient care, physician services, and prescription drugs.

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits, and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes a per-day benefit for each hospital confinement related to cancer. The Dental Plan covers diagnostic and preventative services, as well as basic and major dental services. Diagnostic and preventative services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of \$1,250 per year for individual coverage and \$1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eye glasses, and contact lens prescriptions.

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retiree members and dependents are eligible for the PEEHIP Supplemental Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

Effective January 2017, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. Effective January 1, 2020, Humana Insurance Company replaced United Healthcare as the administrator of the PEEHIP Group Medicare Advantage (PPO) Plan. The plan is fully insured and members are able to have all of their Medicare Part A (hospital insurance), Part B (medical insurance), and Part D (prescription drug coverage) in one convenient plan. Retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Members have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

C. Contributions

The *Code of Alabama 1975, Section 16-25A-8* and the *Code of Alabama 1975, Section, 16-25A-8.1* 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 employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the Board for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% percent for each year of service over 25 subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the Board. This reduction in the employer contribution ceases upon notification to the Board of the attainment of Medicare coverage.

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

At September 30, 2022, the J.F. Drake State Community and Technical College reported a liability of \$2,577,258 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2021 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020. The J.F. Drake State Community and Technical College proportion of the net OPEB liability was based on a projection of the J.F. Drake State Community and Technical College 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 J.F. Drake State Community and Technical College proportion was 0.049881% percent, which was an increase of 0.001177% from its proportion measured as of September 30, 2020.

For the year ended September 30, 2022, the College recognized an OPEB benefit of \$369,798, with no special funding situations.

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

At September 30, 2022, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 60,978 | \$ 896,633 |
| Changes of assumptions | 917,866 | 998,967 |
| Net difference between projected and actual earnings on OPEB plan investments | - | 80,394 |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 76,178 | 610,528 |
| Employer contributions subsequent to the measurement date | 102,649 | - |
| | <u>\$ 1,157,671</u> | <u>\$ 2,586,522</u> |

\$102,649 reported as deferred outflows of resources related to OPEB resulting from the J.F. Drake State Community and Technical College 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 Ending September 30:

| | |
|------------|-----------------------|
| 2023 | \$ (586,342) |
| 2024 | (442,411) |
| 2025 | (387,351) |
| 2026 | (38,782) |
| 2027 | (11,388) |
| Thereafter | (65,226) |
| Total | <u>\$ (1,531,500)</u> |

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

E. 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:

| | |
|--|---------------|
| Inflation | 2.50% |
| Salary Increase ¹ | 3.25% -5.00% |
| Long-term Investment rate of return ² | 7.00% |
| 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 | 2051 |
| Single Equivalent Interest Rate at Measurement Date | 3.97% |
| Single Equivalent Interest Rate at Prior Measurement Date | 3.05% |
| Healthcare cost trend rates | |
| <i>Pre-Medicare Eligible</i> | 6.50% |
| <i>Medicare Eligible</i> | ** |
| Ultimate Trend Rate | |
| <i>Pre-Medicare Eligible</i> | 4.50% in 2028 |
| <i>Medicare Eligible</i> | 4.50% in 2025 |

¹ Includes 2.75% wage inflation

² Compounded annually, net of investment expense, and includes inflation.

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

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 rates are adjusted forward and/or back depending on the plan and group covered, as shown in the table below.

| Group | Membership Table | Set Forward (+) / Set Back (-) | Adjustment to Rates |
|-------------------|--|-----------------------------------|---|
| Active Members | Teacher Employee Below Median | None | 65% |
| Service Retirees | 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 |
| Disabled Retirees | Teacher Disability | Male: +8 Female: +3 | None |
| Beneficiaries | Teacher Contingent Survivor Below Median | Male: +2 Female: None | None |

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2020, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2021.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) were based on the September 30, 2020 valuation.

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in conjunction with similar analysis for the Teachers' Retirement System of Alabama. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed for each major asset class.

These ranges should be 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 then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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. The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below:

| | Target Allocation | Long-Term Expected Rate of Return* |
|---------------------------------------|----------------------|--|
| Fixed Income | 30.00% | 4.40% |
| U.S. Large Stocks | 38.00% | 8.00% |
| U.S. Mid Stocks | 8.00% | 10.00% |
| U.S. Small Stocks | 4.00% | 11.00% |
| International Developed Market Stocks | 15.00% | 9.50% |
| Cash | 5.00% | 1.50% |
| Total | 100.00% | |

**Includes assumed rate of inflation of 2.50%.*

F. Discount Rate

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability is 3.97%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 12.990% of the employer contributions were

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

used to assist in funding retiree benefit payments in 2021 and it is assumed that the amount will increase at the same rate as expected benefit payments. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid.

Therefore, the projected future benefit payments for all current plan members were projected through 2119. The long-term rate of return is used until the assets are expected to be depleted in 2051, after which the municipal bond rate is used.

G. Sensitivity of the College’s proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.

The following table presents the J.F. Drake State Community and Technical College’s proportionate share of the net OPEB liability of the Trust calculated using the current healthcare trend rate, 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:

| | <u>1% Decrease</u> (5.50% decreasing to 3.50% for pre-Medicare and known decreasing to 3.50% for Medicare Eligible) | <u>Current Healthcare Trend Rate</u> (6.50% decreasing to 4.50% for pre-Medicare and known decreasing to 4.50% for Medicare Eligible) | <u>1% Increase</u> (7.50% decreasing to 5.50% for pre-Medicare and known decreasing to 5.50% for Medicare Eligible) |
|--------------------|--|--|--|
| Net OPEB Liability | \$2,022,304 | \$2,577,258 | \$3,292,263 |

The following table presents the College’s proportionate share of the net OPEB liability of the Trust calculated using the discount rate of 3.97%, 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:

| | <u>1% Decrease</u> (2.97%) | <u>Current Discount Rate</u> (3.97%) | <u>1% Increase</u> (4.97%) |
|--------------------|-------------------------------|---|-------------------------------|
| Net OPEB Liability | \$3,170,142 | \$2,577,258 | \$2,101,700 |

H. OPEB plan fiduciary net position

Detailed information about the OPEB plan’s fiduciary net position is located 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.

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

NOTE 7 - ACCOUNTS PAYABLE

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.

| | | |
|-----------------------------|----|------------------|
| Salaries and Wages | \$ | 258,192 |
| Payroll Withholding | | 327,335 |
| Supplies and Other Payables | | 656,908 |
| Total | \$ | <u>1,242,435</u> |

NOTE 8 - LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended September 30, 2022, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---------------------------------------|----------------------|-----------|------------|-------------------|--------------------|
| <u>Bonds Payable:</u> | | | | | |
| 2015 Revenue Bonds – Direct Placement | \$ 447,000 | \$ - | \$ 223,000 | \$ 224,000 | \$ 224,000 |
| <u>Other Liabilities:</u> | | | | | |
| Compensated Absences | 336,189 | 82,019 | 15,828 | 402,380 | 37,526 |
| Total Long-Term Liabilities | \$ 783,189 | \$ 82,019 | \$ 238,828 | \$ 626,380 | \$ 261,526 |

The Revenue Bonds were issued in December 2015 by the Board of Trustees to finance the costs of refunding the Board’s J. F. Drake State Technical College Revenue Bonds, Series 2003 and accrue interest at 1.79% per annum.

Revenue from student tuition and fees sufficient to pay the annual debt service are pledged to secure the bonds.

Principal and interest maturity requirements on bond debt are as follows:

| Fiscal Year | <u>Revenue Bond</u> | | Totals |
|-------------|---------------------|----------|------------|
| | Principal | Interest | |
| 2022-2023 | \$ 224,000 | \$ 4,010 | \$ 228,010 |

Pledged Revenues

The College has pledged student tuition and fee revenue to repay the \$1,712,000 in Revenue Bond Series 2015 issued in December 2015. Future revenues in the approximate amount of \$228,010 are pledged to repay principal and interest. During the 2022 fiscal year, pledged tuition and fee revenue in the amount of \$612,407 were received with \$231,001 or 37.72% of pledged revenues, being used to pay principal and interest. These bonds are scheduled to mature in fiscal year 2023.

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

The College's outstanding 2015 bonds from direct placement related to governmental activities contain a provision that in an event of default, the Bondholder shall have the right by mandamus or other lawful remedy in any court of competent jurisdiction to enforce his or its rights against the Issuer to fix and collect the Pledged Revenues, in amounts sufficient to meet the provisions of the Bond Resolution and carry out any other covenants contained in the resolution and to perform its duties under the resolution and Section 16-3-28, Code of Alabama 1975, as amended.

NOTE 9 - RISK MANAGEMENT

The College 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 College 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 College 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 College purchases commercial insurance for its automobile coverage, general liability, and professional legal liability coverage. In addition, the College has fidelity bonds on the College president and business officer as well as on all other college personnel who handle funds.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF) administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions 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 College contributes a specified amount monthly to the PEEHIF 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 College's coverage in any of the past three fiscal years.

J.F. Drake State Community and Technical College
Notes to the Financial Statements
For the Year Ended September 30, 2022

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 the College.

NOTE 10 –NET POSITION RESTATEMENT

Prior period adjustments have been made as outlined below:

| | |
|---|-------------------------------|
| Net Position – September 30, 2021 | <u>Ending</u> \$ 4,557,457 |
| To Record Additional Depreciation Expense | (68,332) |
| To Post Unrecorded Expenses | <u>(1,724)</u> |
| Total Prior Period Adjustments | (70,056) |
| Net Position – October 1, 2021, as Restated | <u>\$ 4,487,401</u> |

NOTE 11 – SUBSEQUENT EVENTS

In preparing these financial statements, the College has evaluated events and transactions for potential recognition or disclosure through the date of the auditor’s report, which was the date the financial statements were available to be issued.

Required Supplementary Information

J.F. Drake State Community and Technical College
Schedule of Proportionate Share of the Net Pension Liability
Teachers' Retirement Plan of Alabama (in thousands)

| | For the measurement period ended September 30, | | | | | | | |
|--|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| College's proportion of the net pension liability | 0.645040% | 0.065017% | 0.058299% | 0.062776% | 0.069142% | 0.071344% | 0.078133% | 0.076619% |
| College's proportionate share of the net pension liability | \$ 6,076 | \$ 8,042 | \$ 6,446 | \$ 6,242 | \$ 6,796 | \$ 7,951 | \$ 8,177 | \$ 6,961 |
| College's covered payroll | \$ 4,721 | \$ 4,634 | \$ 4,157 | \$ 4,167 | \$ 4,582 | \$ 4,692 | \$ 4,961 | \$ 4,884 |
| College's proportionate share of the net pension liability as a percentage of its covered payroll | 128.70% | 173.54% | 155.06% | 149.80% | 148.32% | 169.46% | 164.83% | 142.53% |
| Plan fiduciary net position as a percentage of the total pension liability | 76.44% | 67.72% | 69.85% | 72.29% | 71.50% | 67.93% | 67.51% | 71.01% |

Notes to the Schedule of College's Proportionate Share of the Net Pension Liability

This schedule presents only eight years of information, rather than ten years, as only eight years of trend information is available at September 30, 2022.

J.F. Drake State Community and Technical College
Schedule of Pension Contributions
Teachers' Retirement Plan of Alabama (in thousands)

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|
| Contractually Required Contribution | \$ 584 | \$ 564 | \$ 562 | \$ 507 | \$ 506 | \$ 541 | \$ 552 | \$ 558 |
| Contributions in relation to the contractually required contribution | \$ (584) | \$ (564) | \$ (562) | \$ (507) | \$ (506) | \$ (541) | \$ (552) | \$ (558) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| College's covered payroll | \$ 4,902 | \$ 4,721 | \$ 4,634 | \$ 4,157 | \$ 4,167 | \$ 4,582 | \$ 4,692 | \$ 4,961 |
| Contributions as a percentage of covered payroll | 11.91% | 11.95% | 12.13% | 12.20% | 12.14% | 11.81% | 11.76% | 11.25% |

Notes to the Schedule of College's Pension Contributions

This schedule presents only eight years of information, rather than ten years, as only eight years of trend information is available at September 30, 2022.

J.F. Drake State Community and Technical College
Schedule of Proportionate Share of the Net OPEB Liability
Alabama Retired Education Employees' Health Care Trust (in thousands)

| | For the measurement period ended September 30, | | | | |
|---|--|-----------|-----------|-----------|-----------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| College's proportionate share of the net OPEB liability | 0.049881% | 0.048704% | 0.053330% | 0.055455% | 0.059800% |
| College's proportionate share of the net OPEB liability | \$ 2,577 | \$ 3,161 | \$ 2,012 | \$ 4,558 | \$ 4,442 |
| College's covered payroll | \$ 4,437 | \$ 4,124 | \$ 4,051 | \$ 4,269 | \$ 4,617 |
| College's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll | 58.08% | 76.65% | 49.67% | 106.77% | 96.21% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 27.11% | 19.80% | 28.14% | 14.81% | 15.37% |

Notes to the Schedule of College 's Proportionate Share of the Net OPEB Liability

This schedule presents only five years of information, rather than ten years, as only five years of trend information is available at September 30, 2022.

J.F. Drake State Community and Technical College
Schedule of OPEB Contributions
Alabama Retired Education Employees' Health Care Trust (in thousands)

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|--|-------------|-------------|-------------|-------------|-------------|
| Contractually required contribution | \$ 102 | \$ 86 | \$ 88 | \$ 151 | \$ 134 |
| Contributions in relation to the contractually required contribution | (102) | (86) | (88) | (151) | (134) |
| Contribution deficiency (excess) | - | - | - | - | - |
| College's covered payroll | \$ 4,416 | \$ 4,437 | \$ 4,124 | \$ 4,051 | \$ 4,269 |
| Contributions as a percentage of covered payroll | 2.31% | 1.94% | 2.13% | 3.73% | 3.14% |

Notes to the Schedule of College's OPEB Contributions

This schedule presents only five years of information, rather than ten years, as only five years of trend information is available at September 30, 2022.

J.F. Drake State Community and Technical College
Schedule of J.F. Drake State Community and Technical College 's Contributions
Notes to Required Supplementary Information

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 | 2.50% |
| Investment Return | 7.00% |
| Wage Inflation | 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 | Decreased rates of retirement at most ages and extended retirement rates at age 80. |
| Withdrawal Rates | 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. |
| Disability Rates | Lowered rates of disability retirement at most ages. |
| Salary Increases | No change to total assumed rates of salary increases, but increased merit salary scale by 0.25% to offset the recommended decrease in the wage inflation assumption by 0.25%. |

In 2019, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to more closely reflect actual 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, 2017, Medicare eligible medical and prescription drug benefits are provided through the MAPD plan.

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

J.F. Drake State Community and Technical College
Schedule of J.F. Drake State Community and Technical College 's Contributions
Notes to Required Supplementary Information

Method and assumptions used in calculations of actuarially determined contributions

The actuarially determined contribution rates in the Schedule of OPEB Contributions were calculated as of September 30, 2018, which is 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 Normal |
| Amortization Method | Level percent of pay |
| Remaining Amortization Period | 23 years, closed |
| Asset Valuation Method | Market Value of Assets |
| Inflation | 2.75% |
| Healthcare Cost Trend Rate: | |
| Pre-Medicare Eligible | 6.75% |
| Medicare Eligible* | 5.00% |
| Ultimate Trend Rate: | |
| Pre-Medicare Eligible | 4.75% |
| Medicare Eligible | 4.75% |
| Year of Ultimate Trend Rate | 2026 for Pre-Medicare Eligible 2024 for Medicare Eligible |
| Optional Plans Trend Rate | 2.00% |
| Investment Rate of Return | 5.00%, including inflation |

* Initial Medicare claims are set based on scheduled increases through plan year 2019.

Additional Information

J.F. Drake State Community and Technical College
Listing of College Officials

| <u>Officials</u> | <u>Position</u> |
|-------------------|--|
| Jimmy Baker | Chancellor Alabama Community College System |
| Dr. Patricia Sims | President |
| Akeem Alexander | Executive Director of Fiscal Affairs & Administrative Services |



**INDEPENDENT AUDITOR’S 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***

Jimmy Baker, Chancellor – Alabama Community College System
Dr. Patricia Sims – J.F. Drake State Community and Technical College
Huntsville, Alabama

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 J.F. Drake State Community and Technical College (the “College”), 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 College’s basic financial statements, and have issued our report thereon dated January 17, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College’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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College’s internal control. Accordingly, we do not express an opinion on the effectiveness of the College’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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001. that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College'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*.

J.F. Drake State Community and Technical College's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the College's response to the findings identified in our audit and described in the accompanying schedule of findings and response. The College's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Athens, AL
January 17, 2023

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified? x yes _____ no

Noncompliance material to financial statements noted? _____ yes x no

Section II – Financial Statement Findings

REFERENCE

2022-001 - Financial Statement Finding

CRITERIA

Timeliness of Adjustments - 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.

CONDITION

During the year, management restated the prior year’s net position related to previously unrecorded depreciation amounts and unrecorded liabilities. The amounts not recorded in the prior year overstated Net Capital Assets and understated the Accrued Liabilities.

CAUSE/EFFECT

While management had detective controls that indicated the needed adjustment, the controls were not in place to prevent, or detected and corrected, on a timely basis as the entries were not recorded until the subsequent year. The net effect of these entries in aggregate were significant to the overall financial statements.

RECOMMENDATION

The auditor recommends that management review these accounts and implement controls to ensure that timely adjustments are made to the financial statements.

VIEW OF RESONSIBLE OFFICIALS

Management concurs with this finding and will reassess controls, review these accounts and implement controls to ensure that timely adjustments are made to the financial statements.

Corrective Action Plan
Year Ending September 30, 2022

Finding 2022-001

Condition:

During the year, management restated the prior year's net position related to previously unrecorded depreciation amounts and unrecorded liabilities. The amounts not recorded in the prior year overstated Net Capital Assets and understated the Accrued Liabilities

Management's Response:

We concur with this finding.

Views of Responsible Officials and Corrective Action:

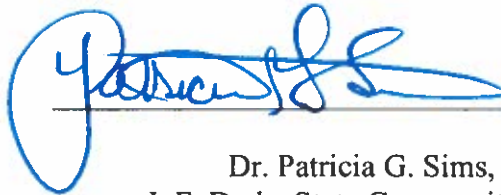
We will reassess controls, review these accounts and implement controls to ensure that timely adjustments are made to the financial statements.

Name of Responsible Person:

Akeem Alexander, CFO

Implementation Date:

Immediately



Dr. Patricia G. Sims, Ed.D., President
J. F. Drake State Community & Technical College