

Alabama's *Largest* Training Network



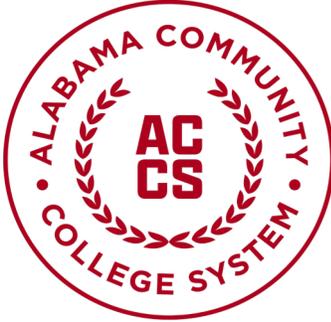
Alabama Community College System Office Annual Financial Report

FOR THE YEAR ENDED SEPTEMBER 30, 2025

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Independent Auditor's Report

Board of Trustees
Alabama Community College System Office
Montgomery, Alabama

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Alabama Community College System Office (the "Office"), a component unit of the State of Alabama, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the Office's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Office, as of September 30, 2025, 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 (*Government Auditing Standards*). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Office 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 these financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Office's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards*

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will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Office's basic financial statements. The schedule of expenditures of federal awards and related notes is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements. This information is the responsibility of management and is derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying

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Alabama Community College System Office

accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and related notes, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual financial report. The other information comprises the schedule of officials 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.

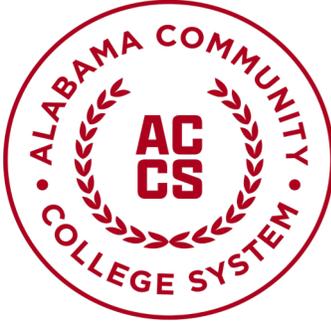
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2026, on our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Office's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

Forvis Mazars, LLP

Memphis, Tennessee

January 14, 2026, except for the schedule of expenditures of federal awards as to which the date is January 16, 2026



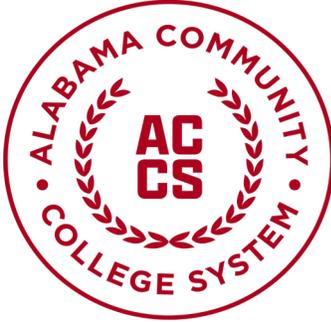
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Management's Discussion and Analysis

ANNUAL FINANCIAL REPORT
ALABAMA COMMUNITY COLLEGE SYSTEM OFFICE





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Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") of The Alabama Community College System Office (the "Office" or "ACCS Office") annual financial report presents a discussion and analysis of the financial performance of the Office during the fiscal year ended September 30, 2025. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, required supplementary information, and this discussion are the responsibility of management.

History, Mission, and Governance

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

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

Overview of the Financial Statements and Financial Analysis

The accompanying narrative presents the ACCS Office's financial statements for fiscal year 2024-2025. The Office's financial statements include the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows. Together, these statements offer a comprehensive view of the Office's assets, liabilities, revenues, expenses, and cash flows, forming the

foundation for this discussion and analysis which provides an overview of financial activities for the year ended September 30, 2025.

Financial Highlights and Analysis

During fiscal year 2025, the ACCS Office experienced notable growth in its financial position. Total net position increased by \$81.5 million, reaching \$699.1 million at year-end. This improvement was driven primarily by supplemental appropriations and changes in capital project funding activity, which contributed to both asset growth and reductions in certain liabilities. Total assets increased by \$66.6 million, primarily due to higher cash balances, investment activity, and accounts receivable associated with funding timing. Operating revenues increased by \$5.2 million, totaling \$31 million for the year. Operating expenses decreased by \$95.0 million, primarily due to a reduction in capital grant expenditures awarded to System colleges from Operating funds during the year. Net non-operating revenues in excess of non-operating expenses increased by \$9.2 million, driven primarily by increases in state appropriations, providing continued support for the Office's mission and operations.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the ACCS Office at September 30, 2025. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the ACCS Office. The Statement of Net Position presents end-of-year data concerning assets (current and non-current), deferred outflows of resources, liabilities (current and non-current), deferred inflows of resources, and net position (Assets and Deferred Outflows minus Liabilities and Deferred Inflows). The difference between current and non-current assets will be discussed in the financial statement disclosures.

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

Net Position is divided into two categories. The first category, Net Investment in Capital Assets, provides the ACCS Office's equity in property, plant, and equipment. The second category is Unrestricted Net Position, which is available to the ACCS Office for any appropriate purpose.

A condensed Statement of Net Position on September 30, 2025 and 2024 is presented below.

Statement of Net Position

	2025	2024
Assets		
Current Assets	\$ 548,344,653	\$ 820,957,267
Capital Assets, Net	62,456,695	76,482,878
Other Non-Current Assets	353,460,982	255,701
Total Assets	964,262,330	897,695,846
Deferred Outflows of Resources	14,106,970	15,305,269
Liabilities		
Current Liabilities	117,657,100	120,575,686
Non-Current Liabilities	152,595,100	171,645,179
Total Liabilities	270,252,200	292,220,865
Deferred Inflows of Resources	9,016,802	3,139,017
Net Position		
Invested in Capital Assets, Net of Related Debt and Depreciation	19,569,871	21,089,001
Unrestricted	679,530,427	596,552,232
Total Net Position	\$ 699,100,298	\$ 617,641,233

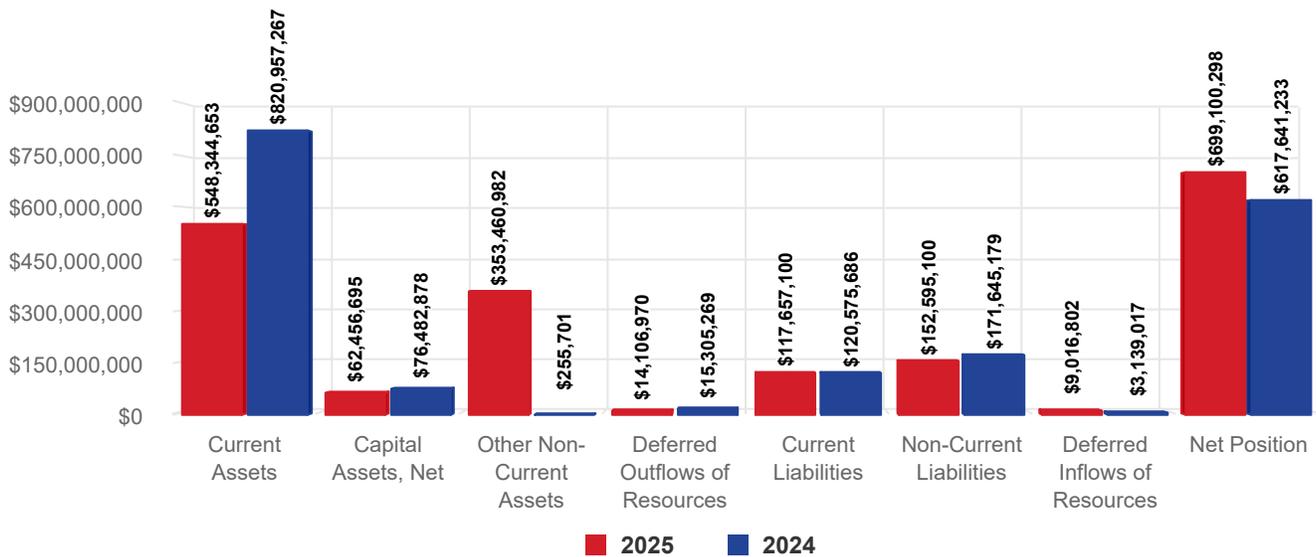
As of September 30, 2025, the Office reported current assets of \$548.3 million and non-current assets of \$415.9 million, including \$62.5 million in capital assets, net of depreciation. Deferred outflows of resources totaled \$14.1 million, primarily related to pension and OPEB adjustments. Current liabilities stood at \$117.7 million, while non-current liabilities were \$152.6 million, reflecting reductions in subscriptions payable, leases payable, and bonds payable as debt service payments made. Further driving the reduction in liabilities was a decrease of \$2.1 million in proportionate share of pension liability and a decrease of \$2 million in the proportionate share of OPEB liability. Deferred inflows of resources increased to \$9.0 million, driven by pension and OPEB activity. The Office's total Net Position increased by \$81.5 million during the year ended September 30, 2025. The Office's net position consists of \$19.6 million invested in capital assets, net of related debt and depreciation, and \$679.5 million in unrestricted net position. Operating expenses decreased by \$95.0 million, primarily due to a reduction in capital grant awards to System colleges that were funded through operating revenues during the year.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 84 Fiduciary Activities, the Office presents approximately \$30 million in the Reserve Fund, \$1,288,968 in cash deposits, \$194,884 in money market investments, \$5,747,860 in short-term U.S. Treasury investments, and \$23,551,458 in long-term U.S. Treasury investments as of September 30, 2025. Reserve Fund cash deposits totaling \$27,658,696 were reported as Assets for the year ended September 30, 2024. The Reserve Fund fuels increases to Current Assets, Non-current Assets and Unrestricted Net Position (Board Designated). The purpose of the Fund is to guarantee Board-issued revenue bond debt service on behalf of the various Alabama Community College System Institutions. The Fund is managed by the ACCS Reserve Fund Advisory Council that includes the Chancellor of The Alabama Community College System

(ACCS) and one college president from each Board district. The ACCS Reserve Fund Advisory Council recommended investing funds in another vehicle as the depository account interest rates became less favorable.

The following is a graphic presentation of the ACCS Office’s Statements of Net Position as of September 30, 2025 and 2024:

Statement of Net Position



Statement of Revenues, Expenses and Changes in Net Position

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

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the ACCS Office. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the ACCS Office. Non-operating revenues are revenues received for which specific goods and services are not provided. State appropriations are non-operating because they are provided by the Legislature to the ACCS without the Legislature directly designating how the funds can be used. A large portion of the state appropriation received is distributed to the ACCS member colleges. Readers of these financial statements should gain an understanding of the impact of the presentation of state appropriations as non-operating revenues as required by the Governmental Accounting Standards Board. In accordance with GASB requirements, state appropriations are classified as non-operating revenues. As a result, the ACCS Office reports an operating loss that reflects required financial statement presentation rather than operational performance. Typically, an operating loss suggests fiscal concerns which should be addressed

by the ACCS Office’s administration; the operating loss presented in these financial statements should be viewed in the appropriate context. The ACCS Office considers state appropriations to be an integral component of the fiscal viability of the ACCS Office. State appropriations are an integral component of the ACCS Office’s financial structure and support its mission of providing guidance and statewide educational support. The Statement of Revenues, Expenses, and Changes in Net Position presents a net increase in the Net Position for the year ending September 30, 2025.

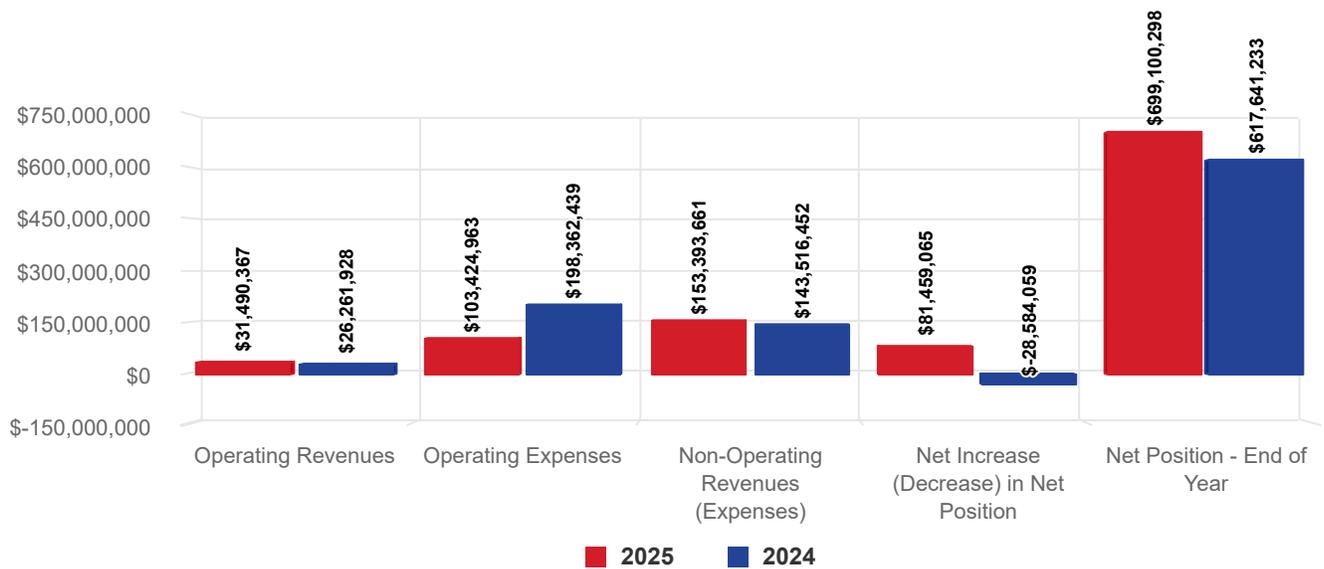
A condensed Statement of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2025 and 2024 is presented below.

Statement of Revenues, Expenses, and Changes in Net Position

	2025	2024
Operating Revenues	\$ 31,490,367	\$ 26,261,928
Operating Expenses	103,424,963	198,362,439
Operating Income	<u>(71,934,596)</u>	<u>(172,100,511)</u>
Non-Operating Revenues (Expenses)	<u>153,393,661</u>	<u>143,516,452</u>
Net Increase (Decrease) in Net Position	<u>81,459,065</u>	<u>(28,584,059)</u>
Net Position - Beginning of Year	<u>617,641,233</u>	<u>646,225,292</u>
Net Position - End of Year	<u>\$ 699,100,298</u>	<u>\$ 617,641,233</u>

The following is a graphic presentation of the College’s Statement of Revenues, Expenses & Changes in Net Position for the years ended September 30, 2025 and 2024:

Statement of Revenues, Expenses, and Changes in Net Position



In the fiscal year ending September 30, 2025, Operating Revenues experienced increased by approximately \$5.2 million, driven primarily by higher federal and state grant activity as well as increased system assessed fees. The Office revised its administrative fee collection processes to more effectively support System-wide initiatives. These initiatives aim to enhance services and support for the Colleges and their students, focusing on shared systems such as the enterprise resource planning system, learning management system, customer relationship management system, and student proctoring system.

Concurrently, Operating Expenses for the same period decreased by \$94.9 million. A substantial portion of this reduction is attributed to a reduction in capital project funding being awarded to the System’s colleges from operating funds.

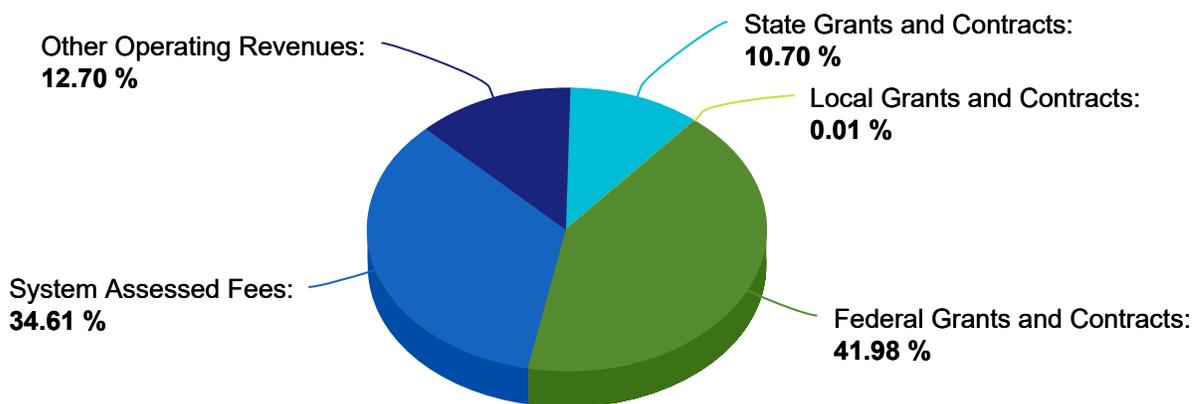
Analysis of operating expenses reveals that institutional support accounted for more than 80% of total expenses. Depreciation and amortization represented 17%, with the remainder allocated to public service, student services, and plant operations.

Operating Revenues

	<u>2025</u>	<u>2024</u>
Operating Revenues		
System Assessed Fees	\$ 10,901,309	\$ 10,201,863
Other Operating Revenues	3,998,143	3,277,434
State Grants and Contracts	3,369,225	1,912,077
Local Grants and Contracts	1,626	50,000
Federal Grants and Contracts	13,220,064	10,820,554
Total Operating Revenues	<u>\$ 31,490,367</u>	<u>\$ 26,261,928</u>

The following is a graphic presentation of the total revenues by source for the fiscal year ended September 30, 2025.

Operating Revenues by Source



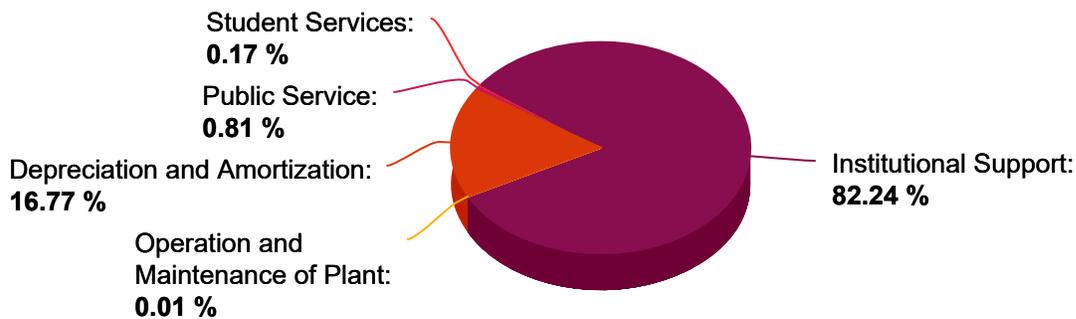
The operating expenses by function stated are displayed in the following exhibit.

Operating Expenses

	<u>2025</u>	<u>2024</u>
Operating Expenses		
Public Service	\$ 825,640	\$ 803,322
Student Services	179,766	219,338
Institutional Support	85,061,613	184,027,206
Operation and Maintenance of Plant	9,500	14,250
Depreciation and Amortization	17,348,444	13,298,323
Total Operating Expenses	<u>\$ 103,424,963</u>	<u>\$ 198,362,439</u>

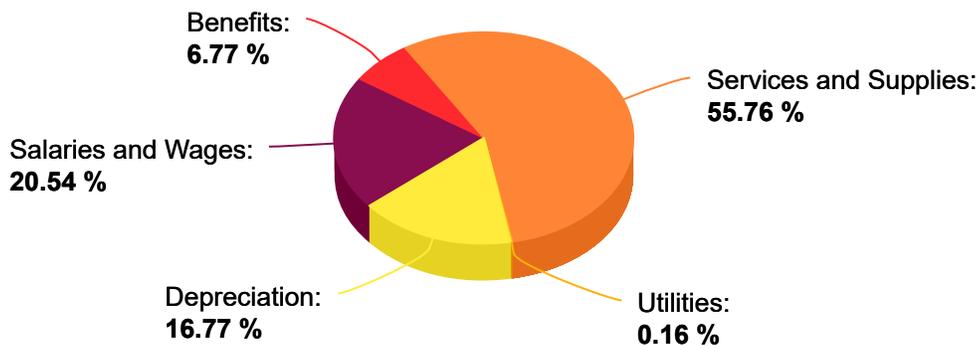
The following is a graphic presentation of operating expenses by function for the fiscal year ended September 30, 2025.

Operating Expenses by Function



Operating expenses are summarized here by natural classification.

Operating Expenses by Natural Classification

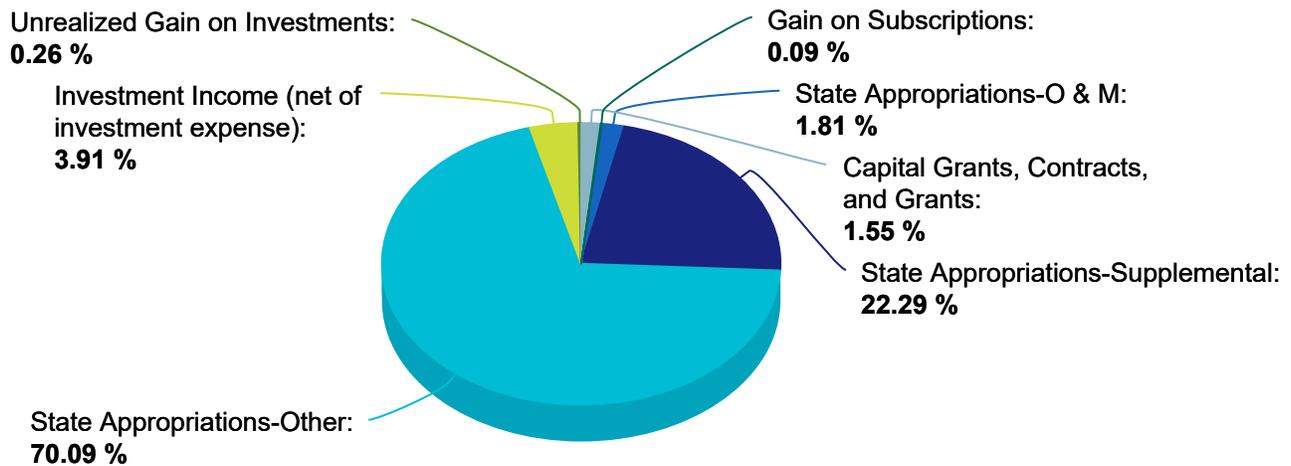


Comparison of Non-Operating Revenue

	2025	2024
Non-Operating Revenue		
State Appropriations-O & M	\$ 14,738,866	\$ 14,060,405
State Appropriations-Supplemental	182,342,242	112,390,057
State Appropriations-Other	573,365,556	634,740,355
Investment Income (net of investment expense)	32,005,399	37,743,691
Unrealized Gain on Investments	2,150,449	-
Capital Grants, Contracts, and Grants	12,711,428	66,891,787
Gain on Subscriptions	723,563	-
Total Non-Operating Revenue	\$ 818,037,503	\$ 865,826,295

The following chart displays the non-operating revenues by type and their relationship with one another for the fiscal year ended September 30, 2025.

Comparison of Non-Operating Revenue



Statement of Cash Flows

The final statement presented by the ACCS Office is the Statement of Cash Flows which presents detailed information about the cash activity of the Office during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the Office. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss

reflected on the Statement of Revenues, Expenses, and Changes in Net Position. The decrease in cash and cash equivalents of over \$414.4 million over Fiscal year 2024 is attributable to the investment of excess cash into longer-term investment vehicles to maximize earnings and support future system initiatives, consistent with sound stewardship of public funds.

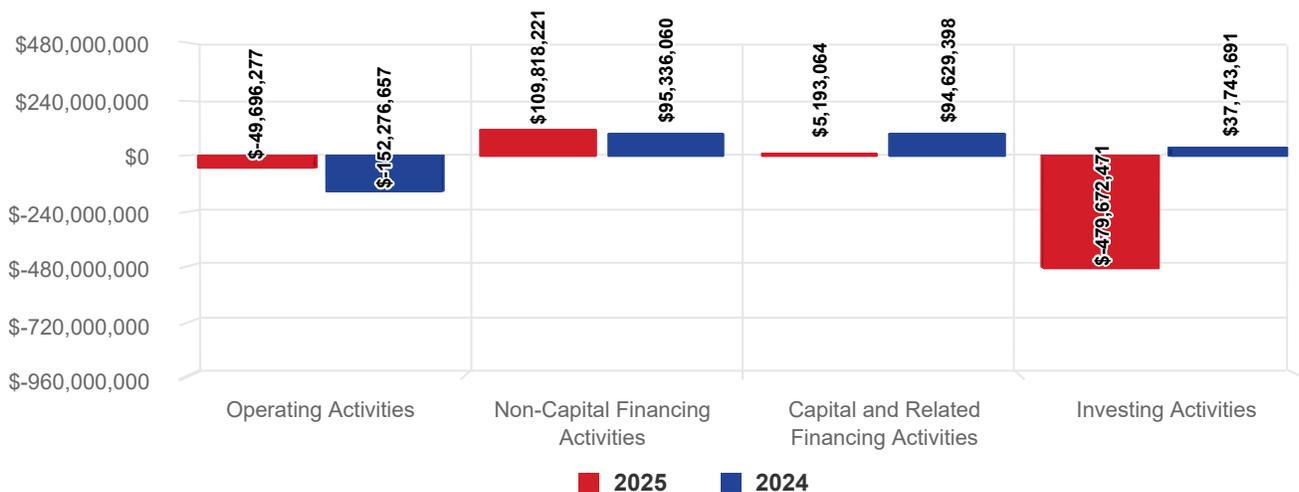
A condensed Statement of Cash Flows for the years ended September 30, 2025 and 2024 is presented below.

Statement of Cash Flows

	2025	2024
Cash Provided by (Used in):		
Operating Activities	\$ (49,696,277)	\$ (152,276,657)
Non-Capital Financing Activities	109,818,221	95,336,060
Capital and Related Financing Activities	5,193,064	94,629,398
Investing Activities	(479,672,471)	37,743,691
Net Change in Cash and Cash Equivalents	(414,357,463)	75,432,492
Cash and Cash Equivalents, Beginning of Year	733,479,395	658,046,903
Cash and Cash Equivalents, End of Year	\$ 319,121,932	\$ 733,479,395

The following chart visually depicts the cash flow figures used to generate the net change in cash for the year 2025-2024.

Statement of Cash Flows



Capital Assets and Debt Administration

At September 30, 2025, the System Office reported net capital assets of \$62.5 million, a decrease of approximately \$14.0 million compared to fiscal year 2024. This change was primarily attributable to SBITA expirations and non-routine transactions rather than a reduction in operational capacity.

During the year, the System Office transferred land and a building to a College, resulting in a reduction in reported land and building balances. In addition, the System Office implemented a revised capitalization threshold of \$10,000, consistent with updated internal policy. As a result of this change, fully depreciated assets below the new threshold were written off, contributing to reductions in both historical cost and accumulated depreciation.

Additions during the year were primarily related to intangible assets, including copyrights, trademarks, and software subscription right-to-use assets, reflecting continued investment in systemwide programs and technology. Software subscription activity was also impacted by normal contract terminations and amortization, resulting in net decreases in right-to-use assets associated with subscriptions. Excluding the asset transfers and capitalization policy change, capital asset activity during the year was consistent with normal business operations, consisting primarily of routine additions, amortization, and depreciation.

Additional information regarding capital asset activity, including additions, disposals, transfers, and accumulated depreciation and amortization, is presented in Note # 4 to the financial statements.

Debt administration remains conservative, with reductions in bonds, subscriptions payable, and leases payable being the predominant changes in debt. The Office entered into fifteen new agreements during the year resulting in an increase of \$2.8 million to subscriptions payable. No additional bonds or lease debt was incurred during the fiscal year.

Economic Outlook

The state budget estimates for fiscal years 2025 and 2026 and the general economic outlook remain stable with an increase from FY25 appropriations to college Operations and Maintenance funds of \$23 million and an additional \$12.2 million for program specific funds, such as Dual Enrollment, LPN Programs, and Short-Term Career Credentialing. Enrollment numbers continue to surpass pre-coronavirus enrollment and continued efforts to reach more students earlier in their education career and retain students beyond single-year status in positively impacting the System's financial stability. Across the state, enrollment has increased approximately eight percent over fiscal year 2024. As the ACCS Office continues to grow with state-wide college supportive actions, operating costs will increase to meet the demand of growing enrollment and additional program offerings. The ACCS Office plans to utilize funds from the Education Trust Fund, tuition fees, and federal program funds to continue the expansion of services statewide.

Since the ACCS began the transition to the systemwide enterprise resource platform in 2018, the goal of unified financial, student, financial aid, and human resource departments throughout the colleges and the System Office has meant significant improvements with student experiences, data analysis, forecasting, and reporting capabilities. These advancements have allowed for streamlined teaching, learning, and work environments across the state. With the additional tools and analytical resources available as a result of the systemwide enterprise resource system, the administration of the colleges is better able to respond to industry specific skills training, community services impact, and state economic needs. Additionally,

the implementation of a Customer Relations Management platform has enhanced student retention and communication efforts and heightened virtual and physical technology security protocols and resources to aid the colleges in their cyber security efforts. These measures have provided a significant impact to the standardization and access to real-time data across the system.

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

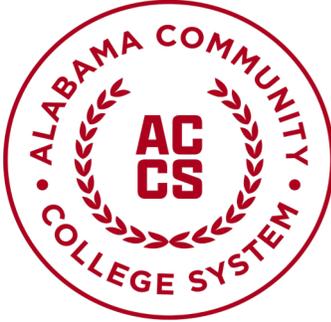
The funding for the capital improvement projects includes a combination of Public School and College Authority Bond Issue, Advanced Technology Funds, ACCS System Level Bond Issue, State Supplemental Appropriations, and College Funds including, local funds, federal funds, reserve funds, and/or new college debt.

A phase-in plan began in late 2021 with 6 colleges and has expanded to include all 24 ACCS colleges to align with needs, funding resources, and construction schedules over the next several years. The focus of these projects is specifically aligned to meet the growing needs of the State, to fulfill workforce skills training needs in high wage, high demand industries, and to help improve the labor participation rate of the State. The ongoing post-covid construction market remains a major consideration when evaluating the priority of projects, to ensure the available funds are utilized to best meet the needs of the System.

The System Office and the colleges continue to progress in the standardization and enhancing of processes across all functional areas. As these efforts continue to evolve, it is expected that the entire System will be positively impacted by the sharing of best-practices identified during our journey. This, of course, will also enhance external services that are reliant upon reporting and consistent processes. The Presidents are sharing resources and growing areas of shared services through the State including Finance, Information Technology, Faculty sharing, program development, and student support services. As these resources grow in efficiency and scope, the colleges will benefit with improved services and efficiencies.

Funding resources through the Education Trust Fund and tuition and fees are expected to see increases into the FY26 period. However, conservative assessments predict a leveling of resources as tax revenues are slowing from post-pandemic highs. With these estimations, the System has begun implementing planning strategies to account for a non-growth environment while still completing the priority capital improvement projects and program expansion services that are critical to the stability of the System. Such plans include a heightened focus on improving the labor participation rate throughout the State. Through the expansion and delivery of education platforms for high-wage, high demand careers and a wider reach for educational access in both rural and metro communities, the System is laser focused on not only making education available for all Alabamians, but also developing pathways to bring valuable educational opportunities to all our communities.

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



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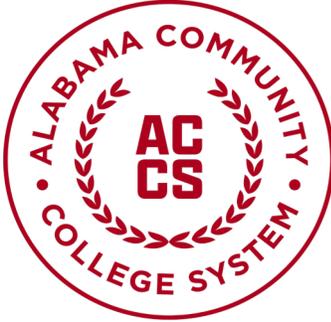
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Financial Statements

ANNUAL FINANCIAL REPORT

ALABAMA COMMUNITY COLLEGE SYSTEM OFFICE





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Statement of Net Position September 30, 2025

	<u>2025</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 319,121,932
Short-Term Investments	157,812,889
Accounts Receivable (net of allowance for doubtful accounts of \$1,167,316)	22,753,480
Prepaid Assets	3,061,313
Deposit with Bond Trustee	45,595,039
Total Current Assets	<u>548,344,653</u>
Non-Current Assets	
Long-Term Investments	353,214,777
Capital Assets, Net of Depreciation and Amortization	62,456,695
Other Non-Current Assets	246,205
Total Non-Current Assets	<u>415,917,677</u>
Total Assets	<u>964,262,330</u>
Deferred Outflows of Resources	
Pension	10,859,618
Other Postemployment Benefit (OPEB)	3,247,352
Total Deferred Outflows of Resources	<u>\$ 14,106,970</u>

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

Statement of Net Position (Continued)

September 30, 2025

	<u>2025</u>
Liabilities	
Current Liabilities	
Accounts Payable and Accrued Liabilities	\$ 103,312,986
Compensated Absences	75,330
Leases Payable	1,177,923
Bonds Payable	2,783,876
Subscriptions Payable	10,306,985
Total Current Liabilities	<u>117,657,100</u>
Non-Current Liabilities	
Leases Payable	18,806,429
Subscriptions Payable	12,595,487
Bonds Payable	88,557,980
Compensated Absences	2,472,657
Net Pension Liability	27,349,000
Net OPEB Liability	2,813,547
Total Non-Current Liabilities	<u>152,595,100</u>
Total Liabilities	<u>270,252,200</u>
Deferred Inflows of Resources	
Pensions	4,682,000
Other Postemployment Benefit (OPEB)	4,334,802
Total Deferred Inflows of Resources	<u>9,016,802</u>
Net Position	
Net Investment in Capital Assets	19,569,871
Unrestricted	679,530,427
Total Net Position	<u>\$ 699,100,298</u>

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

Statement of Revenues, Expenses, and Changes in Net Position For the Year Ended September 30, 2025

	<u>2025</u>
Operating Revenues	
System Assessed Fees	\$ 10,901,309
Other Operating Revenues	3,998,143
State Grants and Contracts	3,369,225
Local Grants and Contracts	1,626
Federal Grants and Contracts	13,220,064
Total Operating Revenues	<u>31,490,367</u>
Operating Expenses	
Public Service	825,640
Student Services	179,766
Institutional Support	85,061,613
Operation and Maintenance of Plant	9,500
Depreciation and Amortization	17,348,444
Total Operating Expenses	<u>103,424,963</u>
Operating Loss	<u>(71,934,596)</u>
Non-Operating Revenues (Expenses)	
State Appropriations-O & M	14,738,866
State Appropriations-Supplemental	182,342,242
State Appropriations-Other	573,365,556
Investment Income (net of investment expense)	32,005,399
Unrealized Gain on Investments	2,150,449
Capital Grants, Contracts, and Grants	12,711,428
Loss on Sale and Disposal of Capital Assets	(192,675)
Gain on Subscriptions	723,563
State Appropriations Transferred to Colleges	(660,701,288)
Other Non-Operating Expense	(5,500)
Interest Expense	(3,744,379)
Total Non-Operating Revenues (Expenses)	<u>153,393,661</u>
Net Increase in Net Position	<u>81,459,065</u>
Net Position - Beginning of Year	617,641,233
Net Position - End of Year	<u><u>\$ 699,100,298</u></u>

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

Statement of Cash Flows

For the Year Ended September 30, 2025

	<u>2025</u>
Cash Flows from Operating Activities	
System Assessed Fees	\$ 10,703,284
Grants and Contracts	19,332,262
Payments to Suppliers	(56,268,935)
Payments for Employees	(21,238,643)
Payments for Benefits	(6,222,388)
Other Receipts	3,998,143
Net Cash Used in Operating Activities	<u>(49,696,277)</u>
Cash Flows from Non-Capital Financing Activities	
State Appropriations	588,104,422
State Appropriations - Supplemental	182,342,242
State Appropriations Transferred to Colleges	(660,628,443)
Net Cash Provided by Non-Capital Financing Activities	<u>109,818,221</u>
Cash Flows from Capital and Related Financing Activities	
Capital Grants and Gifts	9,159,548
Purchases of Capital Assets and Construction	(4,825,078)
Principal Paid on Capital Debt	(1,735,000)
Principal Paid on Leases	(1,142,708)
Principal Paid on Subscription Assets	(10,099,309)
Interest Paid on Capital Debt, Leases, and Subscription Assets	(4,782,520)
Deposits with Trustees	18,614,131
Other Capital and Related Financing	4,000
Net Cash Provided by Capital and Related Financing Activities	<u>5,193,064</u>
Cash Flows from Investing Activities	
Proceeds from Sales and Maturities of Investments	92,208,000
Purchase of Investments	(598,844,864)
Investment Income	26,964,393
Net Cash Used in Investing Activities	<u>(479,672,471)</u>
Net Decrease in Cash and Cash Equivalents	<u>(414,357,463)</u>
Cash and Cash Equivalents - Beginning of Year	<u>733,479,395</u>
Cash and Cash Equivalents - End of Year	<u>\$ 319,121,932</u>

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

Statement of Cash Flows (Continued)

For the Year Ended September 30, 2025

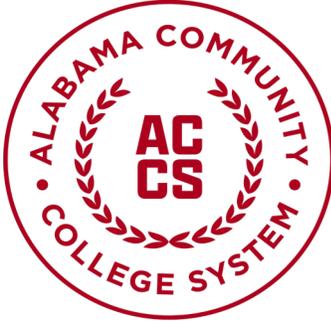
	<u>2025</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating Loss	\$ (71,934,596)
Changes in Assets and Liabilities:	
Depreciation Expense	17,348,444
Receivables, Net	2,543,323
Prepaid Assets	1,263,116
Deferred Outflows	1,198,299
Accounts Payable	339,762
Compensated Absences	(2,196,763)
Pension Liability	(2,133,000)
OPEB Liability	(2,002,647)
Deferred Inflows	5,877,785
Net Cash Used in Operating Activities	<u>\$ (49,696,277)</u>

Non-Cash Capital and Related Financing Activities

Increase in subscription-based IT arrangements (SBITA) and leased right of use assets of \$3,032,788

Increase in investments due to changes in fair value \$2,150,449

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



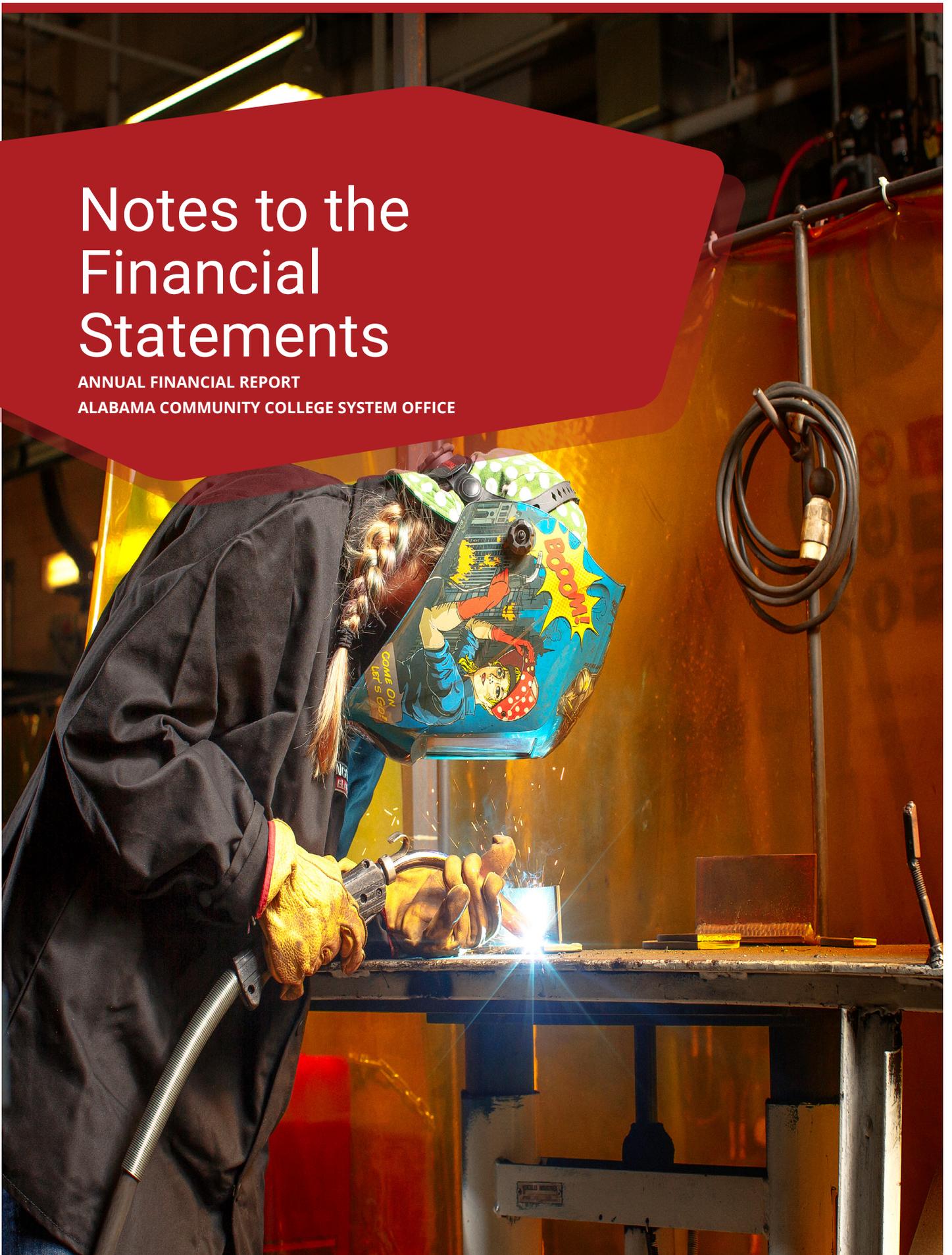
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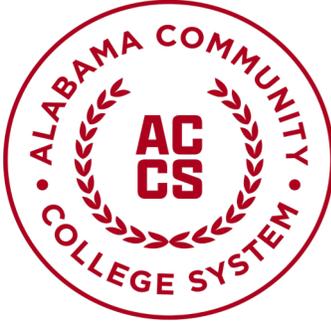
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Notes to the Financial Statements

ANNUAL FINANCIAL REPORT

ALABAMA COMMUNITY COLLEGE SYSTEM OFFICE





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Note 1. Summary of Significant Accounting Policies

Nature of Operations

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

Reporting Entity

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Cash, Cash Equivalents, and Investments

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

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

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

Receivables

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

Capital Assets

Capital assets, other than intangibles, with a unit cost of over \$10,000 (increased from \$5,000, effective October 1, 2024) and an estimated useful life in excess of one year are recorded at historical cost or estimated historical cost if purchased or constructed. The capitalization threshold for intangible assets such as capitalized software and internally generated computer software is \$1 million, \$100,000 for easements and land use rights, and \$5,000 patents, trademarks, and copyrights. In addition, works of art and historical treasures and similar assets are recorded at their historical cost. Donated capital assets are recorded at acquisition value (an entry price) at the date of donation. Land, Construction in Progress, and intangible assets with indefinite lives are the only capital assets that are not depreciated. Depreciation is not allocated to a functional expense category. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

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

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

The method of depreciation and useful lives of the capital assets are as follows:

Assets	Depreciation Method	Useful Lives
Buildings	Straight Line	50 years
Building Alterations	Straight Line	25 years
Improvements other than Buildings and Infrastructure	Straight Line	25 years
Equipment & Furniture	Straight Line	5-10 years
Right-to-Use Leased Equipment	Straight Line	Lease term
Right-to-Use Leased Space	Straight Line	Lease term
Patents, Trademarks, and Copyrights	Straight Line	5 years
Subscription Based IT Arrangements	Straight Line	Contract term

Leases

The Office determines if an arrangement is a lease at inception. Lessee arrangements are included in lease assets and lease liabilities in the statements of net position. Lease assets represent the Office's control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. Lease liabilities represent the Office's obligation to make lease payments arising from the lessee arrangement. Lease liabilities are recognized at the commencement date based on the present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term. The lease term may include options to extend or terminate the lease when it is reasonably certain that the Office will exercise that option. Payments for short-term leases with a lease term of 12 months or less are recognized as expenses as incurred. The Office has a materiality threshold of \$10,000 of payments in a year for leases. Short-term leases and leases under the materiality threshold are not included as lease liabilities or right-to-use lease assets on the statement of net position.

Subscription-Based Information Technology Arrangements (SBITA)

The Office determines if an arrangement is a SBITA at inception. SBITA arrangements are included in SBITA assets and SBITA liabilities in the statement of net position. SBITA assets represent the Office's control of the right to use an underlying asset for the SBITA term, as specified in the contract, in an exchange or exchange-like transaction. SBITA assets are recognized at the commencement date based on the initial measurement of the SBITA liability, plus any payments made at or before the commencement of the SBITA term and certain direct costs. SBITA assets are amortized in a systematic and rational manner over the shorter of the SBITA term or the useful life of the underlying asset. SBITA liabilities represent the Office's obligation to make SBITA payments arising from the arrangement. SBITA liabilities are recognized at the commencement date based on the present value of expected SBITA payments over the term of the arrangement, less any incentives. Interest expense is recognized ratably over the contract term. The SBITA term may include options to extend or terminate the SBITA when it is reasonably certain that the Office will exercise that option. Payments for short-term SBITAs with a subscription term of 12 months or less

are recognized as expenses as incurred. The Office has a materiality threshold of \$5,000 of payments in a year for SBITAs. Short-term SBITAs and SBITAs under the materiality threshold are not included as SBITA liabilities or SBITA assets on the statement of net position.

Deferred Outflows of Resources

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

Long-Term Obligations

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

Compensated Absences

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

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

Deferred Inflows of Resources

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, the Teachers' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made.

Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Annual Comprehensive Financial Report.

Postemployment Benefits Other than Pensions (OPEB)

The Alabama Retired State Employees' Health Care Trust (the "Trust") financial statements are prepared by using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan. Subsequent events were evaluated by management through the date the financial statements were issued.

Net Position

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

- **Net Investment in Capital Assets** – Capital assets, including restricted capital assets, right of use assets, and subscription assets reduced by accumulated depreciation and amortization and by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Any significant unspent related debt proceeds or inflows of resources at year-end related to capital assets are not included in this calculation.
- **Unrestricted** – Net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted resources may be designated for specific purposes by action of management or the Alabama Community College System Office Board of Trustees. The Board of Trustees has designated \$31,153,520 of unrestricted net position as the Alabama Community College System Reserve Fund, comprised of \$30,783,170 in cash and investments and \$370,350 in accounts receivable. The purpose of the Reserve Fund is to guarantee Board-issued revenue bond debt service on behalf of various System institutions.

Federal Financial Assistance Programs

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

Change in Accounting Estimate: Capitalization Threshold

On October 1, 2024, the Office increased its capitalization threshold for tangible capital assets from \$5,000 to \$10,000. This change was implemented to align with federal regulations and enhance administrative efficiency. It is accounted for as a change in accounting estimate, applied prospectively in accordance with GASB Statement No. 100, which mandates that changes in estimates be recognized in the current and future periods only, without restating prior-period financial statements.

Under the revised threshold, assets previously capitalized with historical costs between \$5,000 and \$9,999.99 that remain undepreciated as of October 1, 2024, will continue to record depreciation expense

and associated accumulated depreciation according to their remaining useful lives. Assets within that cost range which are already fully depreciated have been removed from the Property, Plant & Equipment (PP&E) ledger. Going forward, effective October 1, 2024, only assets with acquisition costs of at least \$10,000 will be capitalized. There has been no restatement of prior-period financial statements as a result of this change, which is consistent with the prospective treatment required by GASB Statement No. 100.

Management has evaluated the financial impact of this change and considers it to be material, given the likely influence on reported depreciation trends and the PP&E balance over time. This disclosure is provided to ensure transparency and comparability for users of the financial statements.

New Accounting Pronouncements

In June 2022, GASB issued Statement No. 101, Compensated Absences, effective for fiscal years beginning after December 15, 2023. This Statement supersedes prior guidance based on vesting and requires governments to recognize a liability only when leave is more likely than not to be used, paid in cash, or otherwise settled. The Office adopted this Statement for the fiscal year ended September 30, 2025.

The adoption did not result in a restatement of beginning net position. Under prior guidance (GASB Statement No. 16), the Office recognized a liability for accrued sick leave based on vesting provisions. Under GASB 101, sick leave does not meet the “more likely than not” threshold, as balances are historically accumulated and converted to service credit in the Teachers’ Retirement System of Alabama rather than being paid or otherwise settled. Accordingly, the change was recognized in the current period as a change in accounting principle pursuant to GASB Statement No. 100.

In December 2023, GASB issued Statement No. 102, Certain Risk Disclosures, which is effective for fiscal years beginning after June 15, 2024. This Statement requires governments to disclose potential risks arising from vulnerabilities due to certain concentrations or constraints when those conditions make the government vulnerable to a substantial impact, and when associated events have occurred, are in process, or are more likely than not to occur within 12 months of the issuance of the financial statements. The Office adopted this Statement for the fiscal year ended September 30, 2025. The adoption did not impact amounts previously reported in net position, and no new disclosures were required, as management was not aware of any concentrations or constraints with related events that met all of the disclosure criteria as of the issuance of these financial statements.

Note 2. Deposits and Investments

Deposits

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

Investments

The Alabama Community College System Office may invest its funds in a manner consistent with all applicable state and federal regulations. All monies shall be placed in interest-bearing accounts unless legally restricted by an external agency. Investments in debt securities are limited to the two highest quality credit ratings as described by nationally recognized statistical rating organizations (NRSROs). Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are excluded from this requirement.

Permissible investments include:

1. U.S. Treasury bills, notes, bonds, and stripped Treasuries;
2. U.S. Agency notes, bonds, debentures, discount notes and certificates;
3. Certificates of Deposits (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 to include Collateralized Mortgage Obligations (CMOs) and Real Estate Mortgage Investment Conduits (REMIC) securities;
6. Repurchase agreements; and
7. Stocks and Bonds which have been donated to the institution.

The Office’s portfolio shall consist primarily of bank CDs and interest bearing accounts, U.S. Treasury securities, debentures of a U.S. Government Sponsored Entity (GSE) and securities backed by collateral issued by GSEs. In order to diversify the portfolio’s exposure to concentration risk, the portfolio’s maximum allocation to specific product sectors is as follows:

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

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

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

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

The Office’s investments consisted of the following as of September 30, 2025:

<u>Investment Type</u>	<u>Amount</u>
U.S. Treasuries	\$ 511,027,666
Money market funds	141,488,650
Total	<u>\$ 652,516,316</u>

Investment Risk Factors – Many factors can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk, may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit Risk – Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer’s ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain fixed income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have significant credit risk.

U.S. Treasury securities are explicitly backed by the full faith and credit of the U.S. government and are not considered to have significant credit risk.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

At September 30, 2025, the maturity dates of the Office’s debt instruments were as follows:

Investment Type	Investment Maturities				Totals
	Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasuries	\$ 157,812,889	\$ 353,214,777	\$ -	\$ -	\$ 511,027,666
Total	\$ 157,812,889	\$ 353,214,777	\$ -	\$ -	\$ 511,027,666

Custodial Credit Risk – For an investment, this is the risk that, in the event of the failure of the 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 Office’s investment policy does not specifically address custodial credit risk for investments.

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. Although the Office’s investment policy does not impose a formal percentage limitation by issuer, concentration risk is not considered significant because substantially all investments are in U.S. Treasury securities.

Deposits with Trustees

At September 30, 2025, the Office had \$45,590,001 in a construction fund account administered by its bond trustee. The balance of the deposit with trustee for the Series 2021 Special Fee Revenue Bonds is invested in the Goldman Sachs Financial Square Government Fund and State and Local Government Series (SLGS) securities with investment values of \$146,468 and \$45,443,533 respectively. The Goldman Sachs Financial Square Government Fund is a money market fund that invests primarily in a portfolio of short-term U.S. Treasury securities. These funds are rated AAAM by Standard & Poor’s and Aaa-mf by Moody’s. State and Local Government Series (SLGS) securities are special purpose securities that

Treasury issues to state and local governments to assist with compliance of federal tax laws and IRS regulations governing the investment of cash proceeds generated from a tax-exempt bond issuance.

Fair Value Measurements

GASB Statement No. 72, Fair Value Measurement and Application, establishes the framework for measuring fair value, including a hierarchy that prioritizes inputs used in valuation techniques. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under GASB 72 are described as follows:

- 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 judgment.

Money market funds, including the Invesco Treasury Portfolio (TRPXX) and the Goldman Sachs Financial Square Government Fund, and State and Local Government Series (SLGS) securities are reported at amortized cost. SLGS securities are nonmarketable U.S. Treasury securities and, along with money market funds that qualify under GASB Statement No. 79, are not included in the fair value hierarchy.

Investments by Fair Value Level	Fair Value	Assets at Fair Value as of September 30, 2025		
		Quoted Prices in Active Markets Identical for Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
U.S. Government Guaranteed	\$ 511,027,666	\$ 511,027,666	\$ -	\$ -
Total	\$ 511,027,666			

Note 3. Receivables

Accounts receivable represent amounts for contract and grant reimbursements due from third parties, various services provided to third parties, and interest accrued on investments. As of September 30, 2025, the Office reported the following amounts as accounts receivable:

Description	Amount
Federal	\$ 3,460,248
State	10,866,609
Third-Party	5,597,333
Other	3,996,606
Less: Allowance for Doubtful Accounts	(1,167,316)
Total Accounts Receivable	\$ 22,753,480

Note 4. Capital Assets

Capital asset activity for the year ended September 30, 2025, was as follows:

Description	Beginning Balance	Additions	Deductions	Adjustments	Ending Balance
Nondepreciable Capital Assets					
Land	\$ 407,730	\$ -	\$ (67,930)	\$ -	\$ 339,800
Copyright and Trademark Works in Progress	2,296,615	1,366,587	(575,635)	-	3,087,567
Subscriptions in Progress	196,365	-	(196,365)	-	-
Total Nondepreciable Capital Assets	2,900,710	1,366,587	(839,930)	-	3,427,367
Other Capital Assets					
Buildings	1,679,621	-	(817,732)	-	861,889
Building Alterations	3,703,404	-	-	-	3,703,404
Improvements other than Buildings and Infrastructure	380,178	-	-	-	380,178
Furniture and Equipment greater than \$25,000	6,575,175	203,634	-	-	6,778,809
Furniture and Equipment \$25,000 or less	2,581,434	302,594	(140,443)	-	2,743,585
Patents, Trademarks, and Copyrights	436,945	566,731	-	-	1,003,676
Right to Use Assets - Buildings and Equipment	24,378,913	-	-	-	24,378,913
Right to Use Assets - Software Subscriptions	56,498,674	3,032,787	(8,188,452)	-	51,343,009
Total Other Capital Assets	96,234,344	4,105,746	(9,146,627)	-	91,193,463
Less Accumulated Depreciation/Amortization					
Buildings	135,252	17,239	(49,064)	-	103,427
Building Alterations	292,853	148,135	-	-	440,988
Improvements other than Buildings and Infrastructure	283,193	71,106	-	-	354,299
Furniture and Equipment greater than \$25,000	2,539,438	677,882	-	-	3,217,320
Furniture and Equipment \$25,000 or less	1,920,682	405,113	(140,443)	-	2,185,352
Patents, Trademarks, and Copyrights	87,389	200,735	-	-	288,124
Right to Use Assets - Buildings and Equipment	4,063,152	1,354,384	-	-	5,417,536
Right to Use Assets - Software Subscriptions	13,330,217	14,473,851	(7,646,979)	-	20,157,089
Total Accumulated Depreciation/Amortization	22,652,176	17,348,445	(7,836,486)	-	32,164,135
Total Capital Assets, Net	\$ 76,482,878	\$(11,876,112)	\$(2,150,071)	\$ -	\$ 62,456,695

Note 5. Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description

The Teachers' Retirement System (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.

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a formula method. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service up to 80% of their average final compensation.

Act 316 of the Legislature of 2019 established the Partial Lump Sum Option Plan (PLOP) in addition to the annual service retirement benefit payable for life for Tier 1 and Tier 2 members of the TRS. A member can elect to receive a one-time lump sum distribution at the time that they receive their first monthly retirement benefit payment. The member's annual retirement benefit is then actuarially reduced based on the amount of the PLOP distribution which is not to exceed the sum of 24 months of the maximum monthly retirement benefit that the member could receive. Members are eligible to receive a PLOP distribution if they are eligible for a service retirement benefit as defined above from the TRS on or after October 1, 2019. A TRS member who receives an annual disability retirement benefit or who has participated in the Deferred Retirement Option Plan (DROP) is not eligible to receive a PLOP distribution.

Act 2022 of the Legislature of 2022 for TRSA provides that any Tier 2 member who withdraws from service after the completion of at least 30 years of creditable service is entitled to an annual retirement benefit.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

Contributions

Covered Tier 1 members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Effective October 1, 2021, the covered Tier 2 members contribution rate increased from 6.0% to 6.2% of earnable compensation to the TRS as required by statute. Effective 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. These Tier 2 member contribution rate increases were a result of Act 537 of the Legislature of 2021 which allows sick leave conversion for Tier 2 members.

Participating employers' contractually required contribution rate for the fiscal year ended September 30, 2024 was 13.57% of annual pay for Tier 1 members and 12.60% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$2,760,618 for the year ended September 30, 2025.

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

At September 30, 2025, the System reported a liability of \$27,349,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2023. The System'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, 2024, the System's proportion was 0.210247%, which was an increase of 0.025496% from its proportion measured as of September 30, 2023.

For the year ended September 30, 2025, the System recognized pension expense of \$5,603,323. At September 30, 2025, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 2,720,000	\$ 197,000
Changes of Assumptions	419,000	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	4,485,000
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	4,960,000	-
Employer Contributions Subsequent to the Measurement Date	2,760,618	-
Total	\$ 10,859,618	\$ 4,682,000

\$2,760,618 reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2026.

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 Ended September 30	Amount
2026	\$ 1,640,000
2027	2,837,000
2028	(227,000)
2029	(833,000)
2030	-
Thereafter	-

Actuarial Assumptions

The total pension liability as of September 30, 2024 was determined by an actuarial valuation as of September 30, 2023, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Projected Salary Increases	3.25% - 5.00%
Investment Rate of Return *	7.45%

* Net of pension plan investment expense.

The actuarial assumptions used in the actuarial valuation as of September 30, 2023, 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 Rate

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

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

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

Asset Class	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	15.00%	2.80%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
Int'l Developed Mkt Stocks	12.00%	9.50%
Int'l Emerging Mkt Stocks	3.00%	11.00%
Alternatives	10.00%	9.00%
Real Estate	10.00%	6.50%
Cash Equivalents	5.00%	1.50%
Total	100.00%	

* Includes assumed rate of inflation of 2.00%.

Discount Rate

The discount rate used to measure the total pension liability was 7.45%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between

actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan’s fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Office’s Proportionate Share of the 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 (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Office’s Proportionate Share of the Collective Net Pension Liability	\$ 38,027,000	\$ 27,349,000	\$ 18,362,000

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Annual Comprehensive Financial Report for the fiscal year ended September 30, 2024. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2024. The auditor’s report on the Schedule of Employer Allocations and Pension Amounts by Employer and accompanying notes detail by employer and in aggregate information needed to comply with GASB 68. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

Note 6. Other Postemployment Benefits (OPEB)

General Information about the OPEB Plan

Plan Description

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

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

Benefits Provided

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

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

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

Contributions

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

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

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

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

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

At September 30, 2025, the Office reported a liability of \$2,813,547 for its proportionate share of the Net OPEB liability. The Net OPEB liability was measured as of September 30, 2024, and the total OPEB liability used to calculate the Net OPEB liability was determined by an actuarial valuation as of September 30, 2023. The Office's proportion of the Net OPEB liability was based on Office's share of contributions to the OPEB plan relative to the total employer contributions of all participating employers. At September 30, 2024, the Office's proportion was 0.143827%, which was a decrease of 0.370351% from its proportion measured as of September 30, 2023.

For the year ended September 30, 2025, the Office recognized OPEB expense of \$2,099,663 with no special funding situations. At September 30, 2025, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 630,387	\$ 220,706
Changes of Assumptions	681,886	64,743
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	-	38,348
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	1,853,711	4,011,005
Employer Contributions Subsequent to the Measurement Date	81,368	-
Total	\$ 3,247,352	\$ 4,334,802

The \$81,368 reported as deferred outflows of resources related to OPEB resulting from the System Office's contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB liability in the year ended September 30, 2026.

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

Year Ended September 30	Amount
2026	\$ (45,810)
2027	(32,567)
2028	(310,818)
2029	(550,548)
2030	(229,075)
Thereafter	-

Actuarial Assumptions

The Total OPEB Liability as of September 30, 2024, was determined based on an actuarial valuation prepared as of September 30, 2023, using the following actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of September 30, 2024:

Inflation	2.50%
Salary Increases	6.00 - 3.25%, including 2.75% wage inflation
Long-term Investment Rate of Return	7.25% compounded annually, net of investment expense, and including inflation
Municipal Bond Index Rate at the Measurement Date	3.89%
Municipal Bond Index Rate at the Prior Measurement Date	4.53%
Year Fiduciary Net Position (FNP) is Projected to be Depleted	2043
Single Equivalent Interest Rate at Measurement Date	4.52%
Single Equivalent Interest Rate at Prior Measurement Date	7.25%
Healthcare Cost Trend Rates*:	
Initial Trend Rate	
Pre-Medicare Eligible	6.75%
Medicare Eligible	**
Ultimate Trend Rate	
Pre-Medicare Eligible	4.50% in 2033 FYE
Medicare Eligible	4.50% in 2028 FYE
Dental Trend Rate	4.50%

* Includes price inflation at 2.50%.

** Initial Medicare trend rates are set based on renewal premium rates through calendar year 2025 with an assumed 0% increase for the upcoming 2026 – 2028 contract negotiation period..

Mortality Rate

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

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

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

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

Beneficiaries Group	Membership Table	Set Forward (+) / Set Back (-)	Adjustment to Rates
Judges and Teachers	Teacher Contingent Survivor Below Median	Male: +2, Female: None	None
Non-FLC/FLC/State Police	Contingent Survivor Below Median	Male: +2, Female: +2	None

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2023, valuation were based on a review of recent plan experience done concurrently with the September 30, 2023 valuation.

Long-Term Expected Rate of Return

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 Alabama Teachers’ Retirement System. 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:

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

* Geometric mean, includes 2.50% inflation.

Municipal Bond Rate

The discount bond rate uses a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid.

Periods of Projected Benefit Payments

Projected future benefit payments for all current plan members were projected through 2123.

Discount Rate

The Single Equivalent Interest Rate (SEIR) is the discount rate used in calculating the Total OPEB Liability (TOL). The SEIR is determined by calculating the rate that will generate the present value of benefit payments equal to the sum of the present value determined by discounting all projected benefit payments through the depletion date using the long-term expected rate of return and the present value determined by discounting benefit payments after the date of depletion date by using the 20-year municipal bond (rating AA/Aa or higher) rate. For the purpose of this report, SEHIP has determined that a discount rate of 4.52% as of September 30, 2024, meets the requirements of GASB 74.

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

The following table presents the Office’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:

	1% Decrease (5.75% decreasing to 3.50% for pre-Medicare, Known decreasing to 3.50% for Medicare eligible)	Current Healthcare Trend Rate (6.75% decreasing to 4.50% for pre-Medicare, Known decreasing to 4.50% for Medicare eligible)	1% Increase (7.75% decreasing to 5.50% for pre-Medicare, Known decreasing to 5.50% for Medicare eligible)
Net OPEB Liability	\$ 2,223,788	\$ 2,813,547	\$ 3,560,216

The following table presents the Office’s proportionate share of the Net OPEB liability of the Trust calculated using the discount rate of 4.52%, as well as what the Net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (3.52%)	Current Rate (4.52%)	1% Increase (5.52%)
Net OPEB Liability	\$ 3,352,864	\$ 2,813,547	\$ 2,380,135

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s Fiduciary Net Position is in the Trust’s financial statements for the fiscal year ended September 30, 2024. The supporting actuarial information is included in the GASB Statement No. 74 Report for SEHIP prepared as of September 30, 2024. Additional financial and actuarial information is available at www.alseib.org.

Note 7. Other Significant Commitments

As of September 30, 2025, Alabama Community College System Office had been awarded approximately \$37,762,654 in contracts and grants on which performance had not been accomplished and funds had not been received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

Note 8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at September 30, 2025 for goods and services received prior to the end of the fiscal year.

Description	Amount
Supplies and Vendors	\$ 102,244,580
Employee Benefits	38,400
Interest	1,030,006
Total	<u>\$ 103,312,986</u>

Note 9. Long-Term Liabilities

Long-term liabilities of the Office as of September 30, 2025, include revenue bonds payable, right-to-use leases payable, and compensated absences payable. Long-term liabilities activity for the year ended September 30, 2025, shown in the following table:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable					
Revenue Bonds	\$ 81,650,000	\$ -	\$ 1,735,000	\$ 79,915,000	\$ 1,805,000
Bond Premium	12,464,995	-	1,038,139	11,426,856	978,876
Total Bonds Payable	94,114,995	-	2,773,139	91,341,856	2,783,876
Leases Payable	21,127,060	-	1,142,708	19,984,352	1,177,923
Subscriptions Payable	34,266,817	2,836,423	14,200,768	22,902,472	10,306,985
Compensated Absences	4,744,750	-	2,196,763	2,547,987	75,330
Total Long-Term Liabilities	<u>\$ 154,253,622</u>	<u>\$ 2,836,423</u>	<u>\$ 20,313,378</u>	<u>\$ 136,776,667</u>	<u>\$ 14,344,114</u>

Right-to-Use Leases

The Office leases office space and real property from external parties for various terms under long-term non-cancelable lease agreements. The lease expires in 2039. In accordance with GASB Statement No. 87, the Office records right-to-use assets and lease liabilities based on the present value of expected payments over the lease term of the respective leases. The expected payments are discounted using the interest rate charged on the lease, if available, or are otherwise discounted using the Office's incremental borrowing rate. The leases have an interest rate of 1.6080%. Variable payments are excluded from the valuations unless they are fixed in substance. Certain office space leases call for additional payments for the Office's share of operating costs, which are the total of all costs incurred by the lessor relating to the ownership, operation, and maintenance of the building and services provided tenants in the building and may include items such as taxes, insurance, utilities, maintenance, janitorial services, waste disposal, and common area expenses. The lessor reasonably estimates the operating costs that will be payable for the year, and the Office pays one twelfth of its share of the estimated operating costs monthly in advance with the payment of base rent. After the end of the year, the estimated costs are compared to the actual costs, and any adjustment payments are made. The operating cost payments are recognized as expenses

as incurred and not included as lease liabilities or right-to-use assets on the statement of net position. During the 2024-25 fiscal year, the Office recognized \$284,531 for operating cost payments related to leases. The Office does not have any leases subject to a residual value guarantee. See Note 4 - Capital Assets, for information on right-to-use assets and associated accumulated amortization.

Lease Debt

Future minimum payments under right-to-use lease agreements and the present value of the minimum payments as of September 30, 2025, are as follows:

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	1,177,923	312,692	\$ 1,490,615
2027	1,213,709	293,488	1,507,197
2028	1,250,074	273,705	1,523,779
2029	1,287,028	253,332	1,540,360
2030	1,325,673	232,352	1,558,025
2031-2035	7,213,569	825,281	8,038,850
2036-2040	6,516,376	217,509	6,733,885
Total	\$ 19,984,352	\$ 2,408,359	\$ 22,392,711

Subscriptions Payable

The Office enters into SBITAs for various purposes including academic services, business and information security. The SBITAs expire at various dates through 2029. In accordance with GASB Statement No. 96, the Office records SBITA assets and SBITA liabilities based on the present value of expected payments over the agreement term of the respective SBITA. The expected payments are discounted using the interest rate charged on the agreement, if available, or are otherwise discounted using the Office's incremental borrowing rate. The interest rates range from 2.45 percent to 3.76 percent. The Office has a variety of variable payments based upon usage of the asset or the number of software licenses. Such amounts are recognized as expense in the period in which the obligation for those payments is incurred. During the 2024-25 fiscal year, the Office recorded \$219,039 for variable payments related to SBITAs. See Note 4 - Capital Assets, for information on right-to-use assets and associated accumulated amortization.

Future minimum payments under SBITA agreements and the present value of the minimum payments as of September 30, 2025, are as follows:

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 10,306,985	\$ 708,814	\$ 11,015,799
2027	8,854,815	393,135	\$ 9,247,950
2028	2,685,092	122,962	\$ 2,808,054
2029	1,055,580	38,919	\$ 1,094,499
Total	\$ 22,902,472	\$ 1,263,830	\$ 24,166,302

Bonds Payable

On September 14, 2021, the Board of Trustees of the Alabama Community College System issued \$86,620,000 in Special Fee Revenue Bonds, Series 2021, to finance capital improvements on the campuses of its colleges, pay municipal bond insurance and expenses related to the Bonds.

The Alabama Community College System has pledged revenues derived from the ACCS Enhancements Fee to repay \$86,620,000 in Revenue Bonds Series 2021 issued in September 2021 for the purpose of financing capital improvements on the campuses of its colleges, paying municipal bond insurance and expenses related to the Bonds. Future revenues in the approximate amount of \$130,098,800 are pledged to repay the principal and interest on the bonds. During the 2025 fiscal year, pledged ACCS Enhancements Fees in the amount of \$9,084,424 were received. Principal and interest payments in the current year totaled \$5,001,000 in fiscal year 2025. These bonds are scheduled to mature in fiscal year 2051.

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

2021 Special Fee Revenue Bonds

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	1,805,000	3,196,600	\$ 5,001,600
2027	1,875,000	3,124,400	4,999,400
2028	1,950,000	3,049,400	4,999,400
2029	2,030,000	2,971,400	5,001,400
2030	2,110,000	2,890,200	5,000,200
2031-2035	11,880,000	13,116,000	24,996,000
2036-2040	14,460,000	10,541,200	25,001,200
2041-2045	17,590,000	7,408,600	24,998,600
2046-2050	21,405,000	3,597,600	25,002,600
2051	4,810,000	192,400	5,002,400
Total	<u>\$ 79,915,000</u>	<u>\$ 50,087,800</u>	<u>\$130,002,800</u>

Bond Premium

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

Compensated Absences

The Office reports a liability for the accrued leave; however, State appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the Office expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At September 30, 2025, the estimated liability for compensated absences, which includes the Office's share of FICA contributions, totaled \$2,547,987. The current portion of the compensated absences liability, \$75,330, is the amount expected

to be paid in the coming fiscal year and represents a historical percentage of leave used applied to total accrued leave liability.

Note 10. Risk Management

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

Note 11. Health Insurance

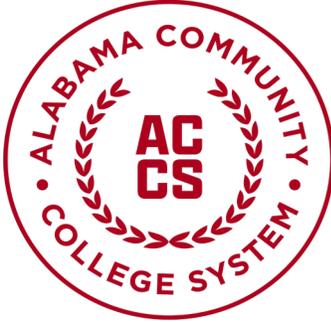
Employee health insurance is provided through the State Employees' Health Insurance Fund (SEHIF) administered by the State Employees' Health Insurance Board (SEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state agencies and is self-sustaining.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

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

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

Note 12. Related Party Transactions

The Office conducts business with the Paths for Success Foundation (the "Foundation"), an affiliated organization. The Chancellor of the Alabama Community College System serves on the Foundation's Board of Directors, and the Foundation's President provides contracted professional services to the Office. During the fiscal year ended September 30, 2025, the Office made payments to the Foundation totaling approximately \$1 million for professional development services, student credentialing program fees, and conference registration costs, all of which were conducted in the normal course of business.



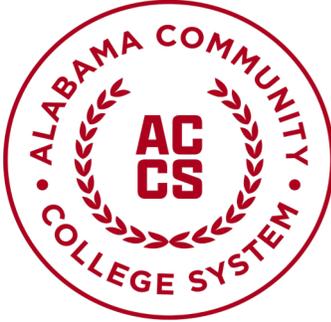
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Required Supplementary Information

ANNUAL FINANCIAL REPORT
ALABAMA COMMUNITY COLLEGE SYSTEM OFFICE



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Schedule of the Proportionate Share of the Net Pension Liability Teachers' Retirement Plan of Alabama For the Year Ended September 30*

(Dollar Amounts in Thousands)	2025	2024	2023	2022	2021	2020	2019	2018	2017
ACCS's Proportion of the Net Pension Liability	0.210247%	0.184751%	0.159208%	0.149632%	0.141870%	0.119316%	0.099373%	0.090735%	0.078088%
ACCS's Proportionate Share of the Net Pension Liability	\$ 27,349	\$ 29,482	\$ 24,742	\$ 14,096	\$ 17,549	\$ 13,193	\$ 9,880	\$ 8,918	\$ 8,454
ACCS's Covered Payroll	\$ 18,323	\$ 15,275	\$ 12,310	\$ 10,879	\$ 10,115	\$ 8,594	\$ 7,138	\$ 5,928	\$ 4,524
ACCS's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	149.26%	193.01%	200.99%	129.57%	173.49%	153.51%	138.41%	150.44%	186.87%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.57%	63.57%	62.21%	76.44%	67.72%	69.85%	72.29%	71.50%	67.93%

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

Notes to schedule:

Note 1: Per GASB 82, which amends GASB 68, covered payroll is defined as the payroll on which contributions to a pension plan are based. The covered payroll for this RSI Schedule (GASB 68 paragraph 81a) is for the measurement period, which for the September 30, 2025 year is October 1, 2023 through September 30, 2024.

Schedule of the Contributions Pension Teachers' Retirement Plan of Alabama For the Year Ended September 30*

(Dollar Amounts in Thousands)	2025	2024	2023	2022	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 2,760	\$ 2,242	\$ 1,863	\$ 1,486	\$ 1,309	\$ 1,224	\$ 1,037	\$ 841	\$ 688
Contributions In Relation to the Contractually Required Contribution	\$ 2,760	\$ 2,242	\$ 1,863	\$ 1,486	\$ 1,309	\$ 1,224	\$ 1,037	\$ 841	\$ 688
ACCS's Covered Payroll	\$ 20,864	\$ 18,323	\$ 15,275	\$ 12,310	\$ 10,879	\$ 10,155	\$ 8,594	\$ 7,138	\$ 5,928
Contributions as a Percentage of Covered Payroll	13.23%	12.24%	12.20%	12.07%	12.03%	12.10%	12.07%	11.78%	11.61%

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

Notes to Schedule

Note 1: Per GASB 82, which amends GASB 68, covered payroll is defined as the payroll on which contributions to a pension plan are based, also known as pensionable payroll. The covered payroll for this RSI Schedule (GASB 68 paragraph 81b) is for the most recent fiscal year end, which for the September 30, 2025 year is October 1, 2024 through September 30, 2025.

Note 2: The amount of contractually required contributions is equal to the amount that would be recognized as additions from the employer's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the employer's fiscal year. For participants in TRS, this includes amounts paid for Accrued Liability, Normal Cost, Term Life Insurance, Pre-Retirement Death Benefit and Administrative Expenses.

Notes to Required Supplementary Information for Pension Benefits

Note 1. Changes of Benefit Terms

In 2022, the plan was amended to allow Tier II members to retire with 30 years of creditable service regardless of age with an early retirement reduction of 2% for each year that the member is less than age 62 at retirement (age 56 for police officers, firefighters, and correctional officers).

In 2022, the plan was amended to allow surviving spouses of retirement-eligible members who die in active service to receive an Option 2 monthly allowance.

In 2021 the plan was amended to allow sick leave conversion for Tier II members and to increase the member contribution rates for Tier II members to 6.20% for regular members and 7.20% for police officers, firefighters, and correctional officers effective on October 1, 2021.

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

- 1) A service retirement allowance is payable upon the request of any member who has attained age 62 and completed at least 10 years of creditable service (age 56 with 10 years of creditable service for a full-time certified firefighter, police officer or correctional officer).
- 2) Upon service or disability retirement a member receives a retirement allowance equal to 1.65% of the member's average final compensation multiplied by the number of years of creditable service. The benefit is capped at 80% of the member's average final compensation (the 5 highest years in the last 10 years of Creditable Service).
- 3) Regular members contribute 6% of salary and full-time certified firefighters, police officers and correctional officers contribute 7% of salary.

Note 2. Changes of Assumptions

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

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

In 2016, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 and later, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females.

Note 3. Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the schedule of employer contributions are calculated three years prior to the end of the fiscal year in which contributions are reported (September 30, 2021 for the fiscal year 2024 amounts). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	26.9 years
Asset Valuation Method	5-year smoothed market
Inflation	2.50 percent
Salary Increase	3.25 percent to 5.00 percent, including inflation
Investment Rate of Return	7.45 percent, net of pension plan investment expense, including inflation

Schedule of the Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability Alabama Retired Employees' Health Care Trust For the Year Ended September 30*

(Dollar Amounts in Thousands)	2025	2024	2023	2022	2021	2020	2019	2018
Office's Proportion of the Net OPEB Liability (Asset)	0.143827%	0.514178%	0.423588%	0.390513%	0.321254%	0.338889%	0.239897%	0.219227%
Office's Proportionate Share of the Net OPEB Liability (Asset)	\$ 2,813,547	\$ 4,816,194	\$ 4,157,602	\$ 3,329,661	\$ 3,190,278	\$ 5,861,951	\$ 6,970,537	\$ 6,936,000
Office's Covered Payroll	\$ 18,418,730	\$ 15,431,030	\$ 12,591,465	\$ 11,110,376	\$ 10,370,991	\$ 9,045,082	\$ 7,380,384	\$ 5,986,000
Office's Proportionate Share of the Net OPEB Liability (Asset) as A Percentage of its Covered Payroll	15.28%	31.21%	33.02%	29.97%	30.76%	64.81%	94.45%	115.87%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.52%	20.64%	17.75%	22.49%	17.16%	9.94%	5.96%	5.05%

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

** The Schedule of Proportionate Share of the Net OPEB Liability, reported as of the fiscal year-end, is based on the measurement date of the OPEB Liability. The measurement date represents the end of the measurement period, which is the prior fiscal year. The measurement period for the fiscal year ended 09/30/2023 is 10/1/2021 to 9/30/2022.

**Schedule of the Contribution Other Postemployment Benefits (OPEB)
Alabama Retired Employees' Health Care Trust
For the Year Ended September 30***

(Dollar Amounts in Thousands)	2025	2024	2023	2022	2021	2020	2019	2018
Contractually Required Contribution	\$ 81,368	\$ 275,823	\$ 235,071	\$ 229,987	\$ 230,375	\$ 175,019	\$ 252,945	\$ 193,000
Contributions in Relation to the Contractually Required Contribution	\$ 81,368	\$ 275,823	\$ 235,071	\$ 229,987	\$ 230,375	\$ 175,019	\$ 252,945	\$ 193,000
Office's Covered Payroll	\$ 21,045,006	\$ 18,418,730	\$ 15,431,030	\$ 12,591,465	\$ 11,110,376	\$ 10,370,991	\$ 9,045,082	\$ 7,380,384
Contributions as a Percentage of Covered Payroll	0.39%	1.50%	1.52%	1.83%	2.07%	1.69%	2.80%	2.62%

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

Notes to Required Supplementary Information For Other Postemployment Benefits (OPEB)

Note 1. Changes in Actuarial Assumptions

In 2024, assumptions regarding aging factors were adjusted to reflect actual and anticipated experience more closely. Additionally, future healthcare trend rates for the Medicare Advantage Plan with prescription Drugs (MAPD) were updated.

In 2023, the following assumptions were adjusted to reflect actual and anticipated experience more closely:

- Assumed rates of medical and dental plan participation for future retirees with less than 15 years of service, current retirees waiving coverage, and current eligible deferred vested members were adjusted in order to reflect recent experience and the impact of the sliding scale legislation.
- Assumed rates of coverage for spouses of female retirees were increased from 25% to 30%.
- Assumed rates of Medicare eligible participants subject to the Spousal Surcharge were decreased from 10% to 0%.

In 2022, rates of participation were adjusted to reflect actual and anticipated experience more closely.

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

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

Note 2. Recent Plan Changes

Beginning in plan year 2022, the valuation reflects the provisions of the following legislative Acts:

- Act 2022-222 which allows TRS Tier II members to retire with 30 years of creditable service regardless of age with an early pension benefit retirement reduction of 2% for each year that the member is less than age 62 at retirement (age 56 for FLC),
- Act 2022-351 which allows ERS State and Police Tier II members to retire with 30 years of creditable service regardless of age with an early pension benefit retirement reduction of 2% for each year that the member is less than age 62 at retirement (age 56 for FLC).

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

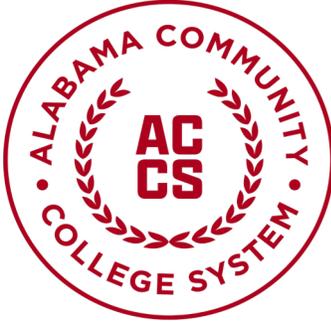
Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through a MAPD plan.

Note 3. Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported (September 30, 2022, for the fiscal year 2024 amounts). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule.

Actuarial Cost Method	Entry Age Normal
Amortizing Method	Level percent of pay, open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value of Assets
Inflation	2.50%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	6.50%
Medicare Eligible *	**
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.50% in 2033
Medicare Eligible	4.50% in 2033
Dental Trend Rate	4.50%
Investment Rate of Return	7.25%, including inflation

** Initial Medicare claims are set based on scheduled increases through plan year 2024.



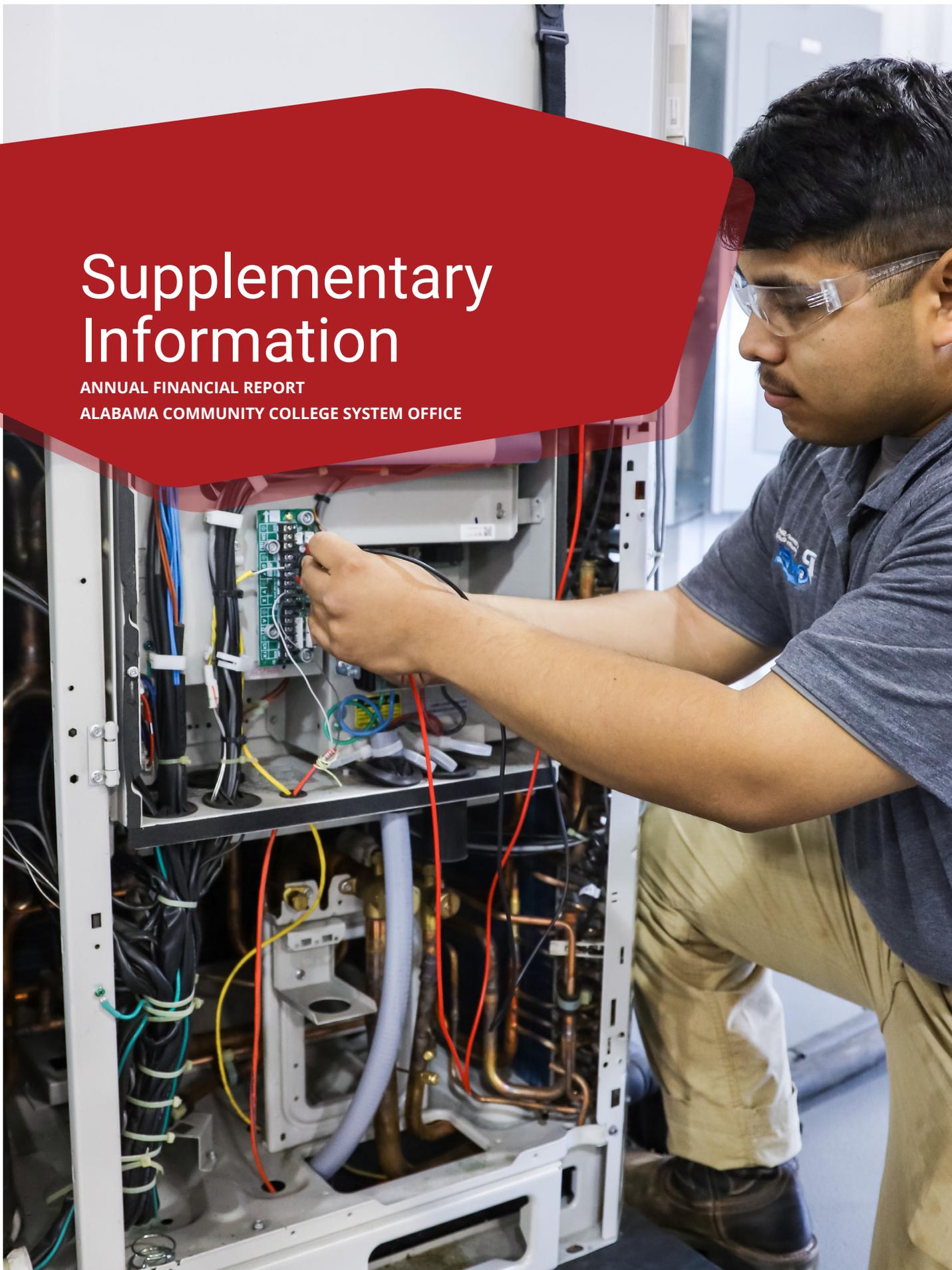
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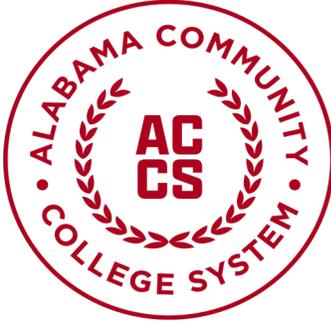
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Supplementary Information

ANNUAL FINANCIAL REPORT

ALABAMA COMMUNITY COLLEGE SYSTEM OFFICE





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Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2025

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing Number	Pass Through Grantor's Number	Passed Through to Subrecipients	Total Federal Expenditures
Other Federal Awards				
U.S. Department of Education Direct Programs				
Adult Education - Basic Grants to States (M)	84.002	V002A230001 / V002A240001	9,056,966	9,956,261
Alabama Department of Education				
Career and Technical Education - Basic Grants to States (X200096)	84.048	U250422	-	478,705
Total Expenditures of Federal Awards			\$ 9,056,966	\$ 10,434,966

(M) = Major Program

* The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Alabama Community College System Office, under programs of the federal government for the year ended September 30, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Alabama Community College System Office, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Alabama Community College System Office.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

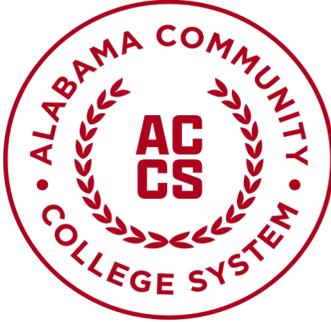
The Alabama Community College System Office has elected not to use the 15-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Additional Information

ANNUAL FINANCIAL REPORT

ALABAMA COMMUNITY COLLEGE SYSTEM OFFICE





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**Members of the Board of Trustees and Officials
October 1, 2024, through September 30, 2025**

Board Members	District	Term Expires	Additional Details
Hon. Kay Ivey, Governor-President			
Hon. Goodrich “Dus” Rogers-Chairman	District 5	2025	Chairman until May 14, 2025.
Hon. Llevelyn Rhone-Chairman	District 7	2025	
Hon. Ron Houston	District 6	2027	
Hon. J.E.B. Shell	District 1	2025	Vice-chairman beginning May 14, 2025.
Hon. John Mitchell	District 2	2027	
Hon. Valerie Gray-Vice-Chair	District 3	2025	Vice-chairman beginning June 8, 2024.Chairman beginning May 14, 2025.
Hon. Britton Lightsey	District 4	2027	
Hon. Tim McCartney	Member-At-Large	2027	
Hon. Yvette Richardson	Ex-Officio		

Officials

Jimmy H. Baker

Chancellor

Susan Price

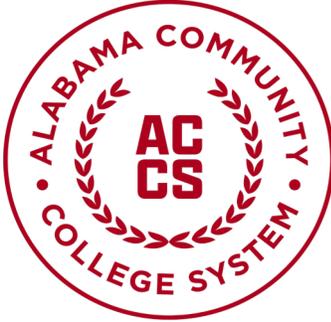
Vice-Chancellor System
Development and ACCS Chief of Staff

Ed Lawrence

Sr. Vice Chancellor-IT, Fiscal, and
Administrative Services

Sara Calhoun

Chief Financial Officer



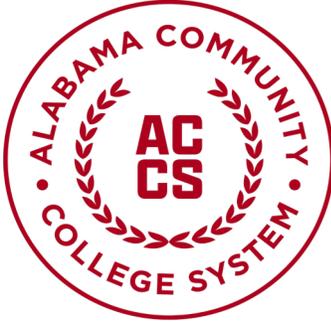
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Independent Auditor Reports

ANNUAL FINANCIAL REPORT
ALABAMA COMMUNITY COLLEGE SYSTEM OFFICE



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

Independent Auditor’s Report

Board of Trustees
 Alabama Community College System Office
 Montgomery, 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 the Alabama Community College System Office (the “Office”), a component unit of the State of Alabama, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the Office’s basic financial statements, and have issued our report thereon dated January 14, 2026.

Report on Internal Control Over Financial Reporting

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

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

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

Forvis Mazars, LLP is an independent member of Forvis Mazars Global Limited

Board of Trustees
Alabama Community College System Office

Report on Compliance and Other Matters

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

Purpose of this Report

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

Forvis Mazars, LLP

**Memphis, Tennessee
January 14, 2026**

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Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor’s Report

Board of Trustees
 Alabama Community College System Office
 Montgomery, Alabama

Report on Compliance for Each Major Federal Program

Opinion on the Major Federal Program

We have audited the Alabama Community College System Office (the “Office”) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Office’s major federal program for the year ended September 30, 2025. The Offices’ major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Office complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2025.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (Government Auditing Standards); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Office and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Office’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Office’s federal programs.

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Board of Trustees
Alabama Community College System Office

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Office's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Office's compliance with the requirements of the major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Office's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Office's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Board of Trustees
Alabama Community College System Office

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Forvis Mazars, LLP

**Memphis, Tennessee
January 16, 2026**

**Alabama Community College System Office
Schedule of Findings and Questioned Costs
September 30, 2025**

Section I – Summary of Auditor’s Results

Financial Statements

Type of Auditor’s report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified not considered to be material weaknesses? Yes None reported

Type of Auditor’s report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) Yes No

Identification of Major Programs

<u>ALN</u>	<u>Name of Federal Program or Cluster</u>
84.002	Adult Education - Basic Grants to States

Dollar threshold used to distinguish between Type A and Type B programs: \$1,000,000

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

Current Year Finding

None reported

Prior Year Findings

None reported

**Alabama Community College System Office
Schedule of Findings and Questioned Costs
September 30, 2025**

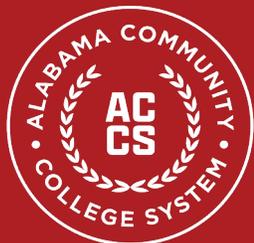
Section III - Federal Award Findings And Questioned Costs

Current Year Findings

None reported

Prior Year Findings

None reported



The Alabama Community College System Office
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Montgomery, AL 36104-4340
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