



DRAKE STATE
COMMUNITY & TECHNICAL COLLEGE



Annual Financial Report

FOR THE YEAR ENDED SEPTEMBER 30, 2025

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Independent Auditor’s Report

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

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of J.F. Drake State Community and Technical College (the “College”), a component unit of the State of Alabama, and its discretely presented component unit, Drake State Technical College Foundation, Inc. (“the Foundation”), as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the College’s basic financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of September 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibility for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of pension contributions, the schedule of proportionate share of the net OPEB liability, and the schedule of OPEB contributions, as listed in the table of contents, be presented to supplement the basic financial statements.



Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the report. The other information comprises the listing of College Officials, as listed in the table of contents, but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2026 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Athens, AL
January 15, 2026



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Management's Discussion and Analysis

ANNUAL FINANCIAL REPORT
DRAKE STATE COMMUNITY & TECHNICAL COLLEGE





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Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

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

Three financial statements are presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flow. The following financial statements and analysis provide an overview of the financial activities for the year ending September 30, 2025.

The fiscal philosophy of the administration is to use resources to continually improve in all areas in alignment with the mission of the college while providing for a reasonable reserve of funds. These financial statements reflect the realization of that philosophy for the 2025 fiscal year.

Statement of Net Position

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

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

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

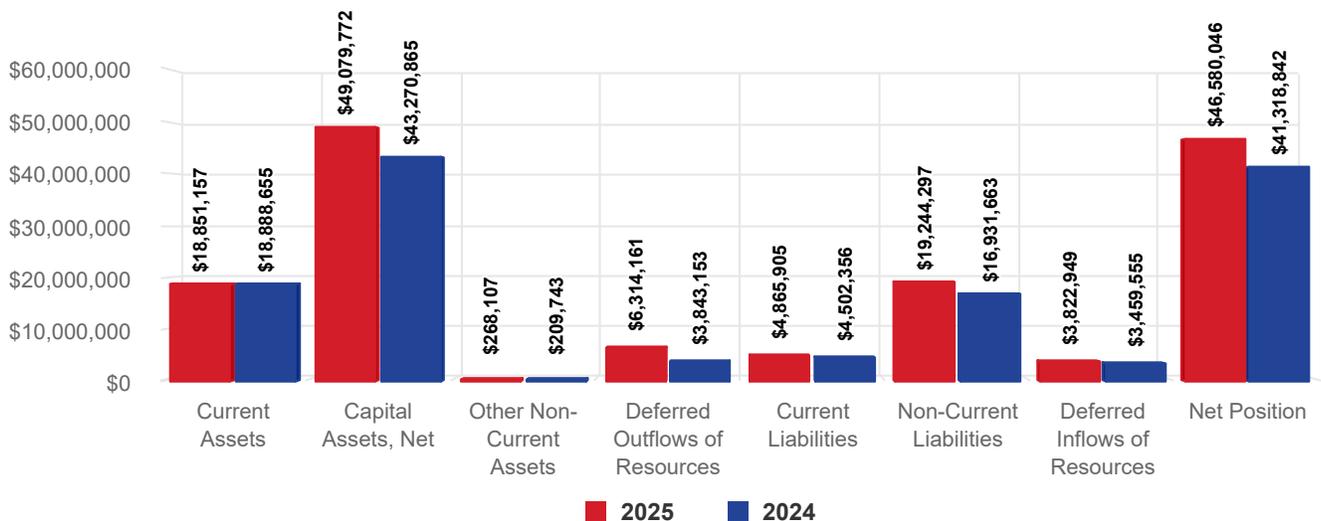
A condensed Statement of Net Position at September 30, 2025 and 2024, is presented below.

Statement of Net Position

	2025	2024
Assets		
Current Assets	\$ 18,851,157	\$ 18,888,655
Capital Assets, Net	49,079,772	43,270,865
Other Non-Current Assets	268,107	209,743
Total Assets	68,199,036	62,369,263
Deferred Outflows of Resources	6,314,161	3,843,153
Liabilities		
Current Liabilities	4,865,905	4,502,356
Non-Current Liabilities	19,244,297	16,931,663
Total Liabilities	24,110,202	21,434,019
Deferred Inflows of Resources	3,822,949	3,459,555
Net Position		
Net Investment in Capital Assets	44,092,356	37,106,907
Unrestricted	2,487,690	4,211,935
Total Net Position	\$ 46,580,046	\$ 41,318,842

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

Statement of Net Position



During fiscal year 2025, total assets increased \$5,829,773. This amount represents a 9.35% increase and is mainly due to an \$6 million increase in capital assets which will be depreciated over its useful life annually. Deposits with bond trustee decreased significantly by \$2,484,758 as the bond funds were used to fund the ongoing capital improvements projects on campus. This explains the change in net assets for the year ending September 30, 2025. In addition, as required by Governmental Accounting Standards Board (GASB) Statement Number 68, \$2,130,156 has been recorded for Pensions in the Deferred Outflow of Resources section. Also, as required by GASB Statement Number 75, \$4,184,005 has been recorded for Other Postemployment Benefits (OPEB) in the Deferred Outflow of Resources section. These combined to represent a \$2,471,008 increase for this section.

Total liabilities increased by \$2,676,183 for fiscal year 2025. This is mainly due to an increase in the Net OPEB Liability of \$3.6 million, offset by decrease in the Net Pension Liability of \$1.2 million. In addition, as required by GASB Statement Number 68, \$1,684,000 has been recorded for Pensions and \$2,138,949 has been recorded, as required by GASB Statement Number 75 for Other Postemployment Benefits (OPEB), both in the Deferred Inflow of Resources section. This represents a \$363,394 increase for Deferred Inflow of Resources. The combination of the increase in total assets of \$5,829,773; the increase in deferred outflow of resources of \$2,471,008; the increase in total liabilities of \$2,676,183, and the increase in deferred inflow of resources of \$363,394 yields an increase in total net position of \$5,261,204.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). The purpose of the statement is to present revenues, both operating and non-operating, and the expenses, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the institution. Operating revenues are received for providing instruction and other instructional services to the various constituencies of the College. Operating expenses are those expenses paid in return for the operating revenues and to carry out the College's mission. Non-operating revenues are revenues received for services that the College does not provide. For example, state appropriations are non-operating because they are provided by the Alabama State Legislature to the College without the legislature directly receiving commensurate services for those revenues.

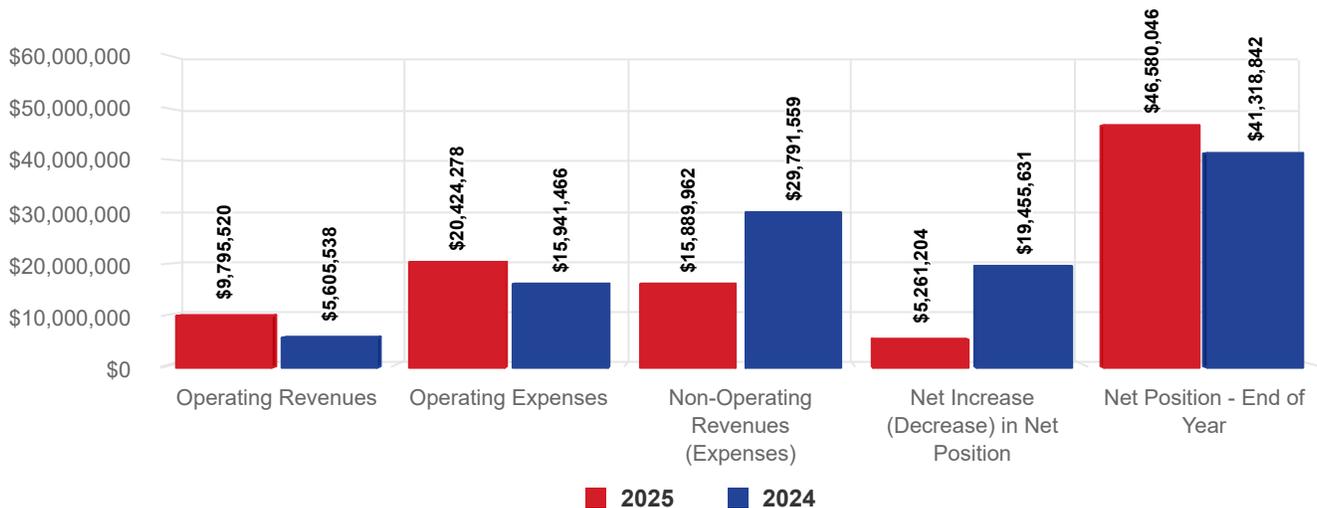
A condensed Statement of Revenues, Expenses and Changes in Net Position for the 2025 and 2024 fiscal years is presented below.

Statement of Revenues, Expenses, and Changes in Net Position

	2025	2024
Operating Revenues	\$ 9,795,520	\$ 5,605,538
Operating Expenses	20,424,278	15,941,466
Operating Income (Loss)	(10,628,758)	(10,335,928)
Non-Operating Revenues (Expenses)	15,889,962	29,791,559
Net Increase (Decrease) in Net Position	5,261,204	19,455,631
Net Position - Beginning of Year	41,318,842	21,863,211
Restatements	-	-
Net Position - End of Year	\$ 46,580,046	\$ 41,318,842

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



The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in net position of \$5,261,204. Operating revenue increased \$4.2 million and is mainly due to a \$3 million increase in State grants. Tuition and fees increased by \$345,000 due to an increase in fees and increased enrollment. Operating expenses increased \$4.5 million. This is due to an increase in functional expense categories of instructional and institutional. Depreciation also increased \$770,000 due to the new Workforce Center and

equipment purchased. Non-operating revenue remained pretty steady overall with only a .79% increase. Nonoperating expenses increased 11.45% mainly due to an increase in interest on debt payments. Capital grants and appropriations had a significant decrease. These funds are used for the construction of the new workforce center. Most of those expenses for this project were in FY 24 as it was completed in FY 25. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Position are shown in chart below.

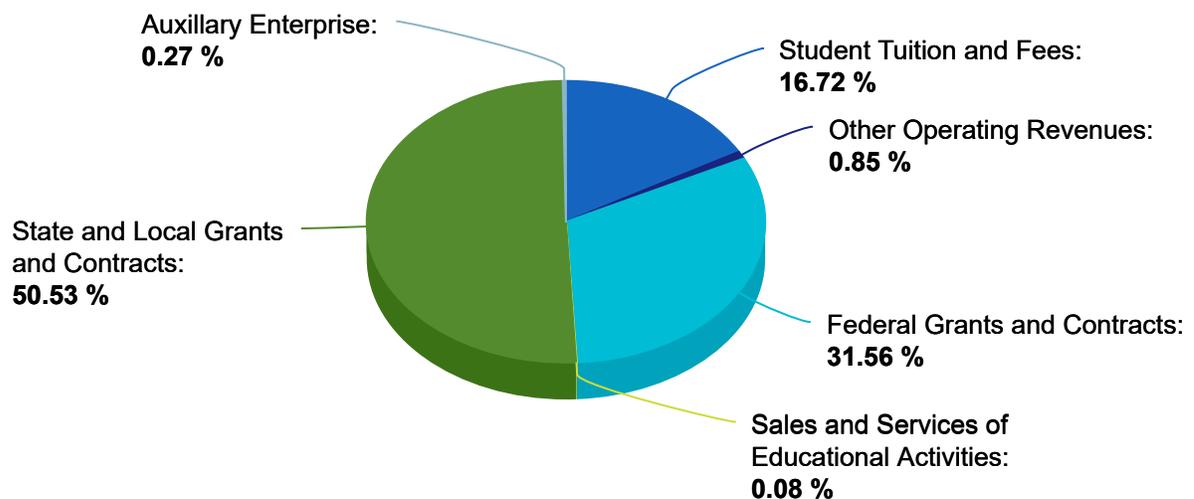
The chart displays the operating revenue by type and the relationship of types of revenue with one another. Federal grants and contracts and state appropriations represent the largest types of operating revenue at thirty-two percent (32%) and fifty-one percent (51%), respectively. All other types of revenue make up the remaining eighteen percent (18%) of total revenues.

Operating Revenues

	<u>2025</u>	<u>2024</u>
Operating Revenues		
Student Tuition and Fees	\$ 1,637,599	\$ 1,293,007
Other Operating Revenues	82,839	37,010
Federal Grants and Contracts	3,091,222	2,495,338
State and Local Grants and Contracts	4,950,083	1,581,903
Sales and Services of Educational Activities	7,474	161,248
Auxillary Enterprise	26,303	37,032
Total Operating Revenues	<u>\$ 9,795,520</u>	<u>\$ 5,605,538</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



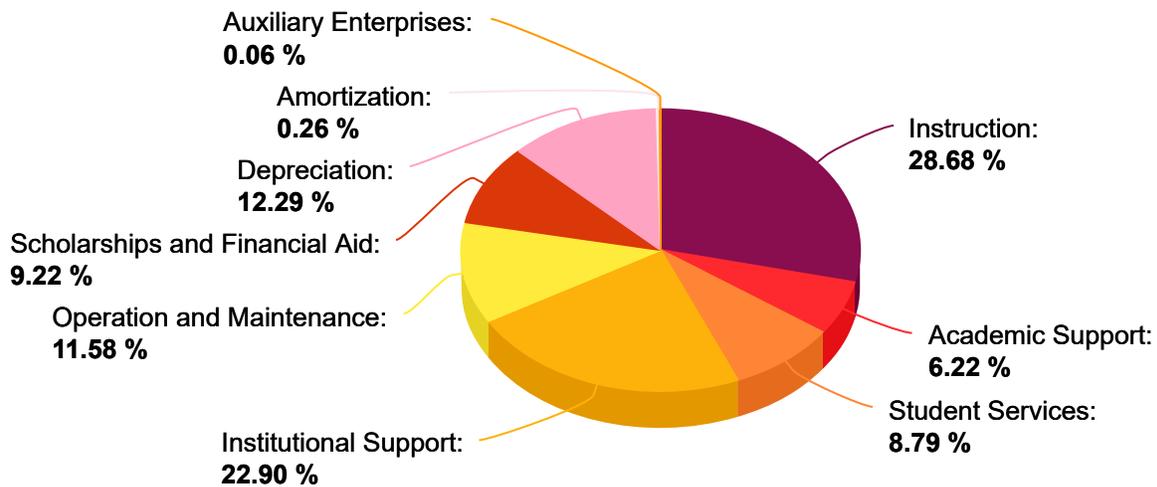
The operating expenses by function stated are displayed in the following exhibit.

Operating Expenses

	<u>2025</u>	<u>2024</u>
Operating Expenses		
Instruction	\$ 5,857,244	\$ 4,397,581
Academic Support	1,270,528	1,130,522
Student Services	1,794,531	1,522,478
Institutional Support	4,677,923	3,613,438
Operation and Maintenance	2,365,347	2,091,048
Scholarships and Financial Aid	1,882,120	1,388,766
Depreciation	2,510,984	1,747,933
Amortization	52,358	45,388
Auxiliary Enterprises	13,243	4,312
Total Operating Expense	<u>\$ 20,424,278</u>	<u>\$ 15,941,466</u>

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

Operating Expenses by Function

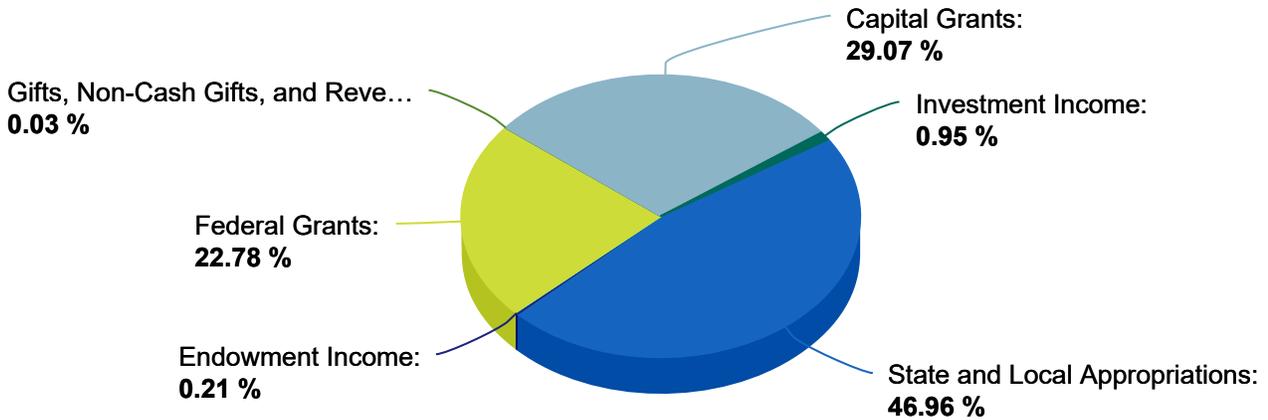


Comparison of Non-Operating Revenue

	<u>2025</u>	<u>2024</u>
Non-Operating Revenue		
State and Local Appropriations	\$ 7,615,498	\$ 7,027,475
Capital Appropriations	-	3,913,909
Federal Grants	3,694,448	4,072,077
Gifts, Non-Cash Gifts, and Revenue	4,665	47,748
Capital Grants	4,714,699	14,758,562
Investment Income	153,866	233,416
Endowment Income	34,582	32,486
Total Non-Operating Revenue	<u>\$ 16,217,758</u>	<u>\$ 30,085,673</u>

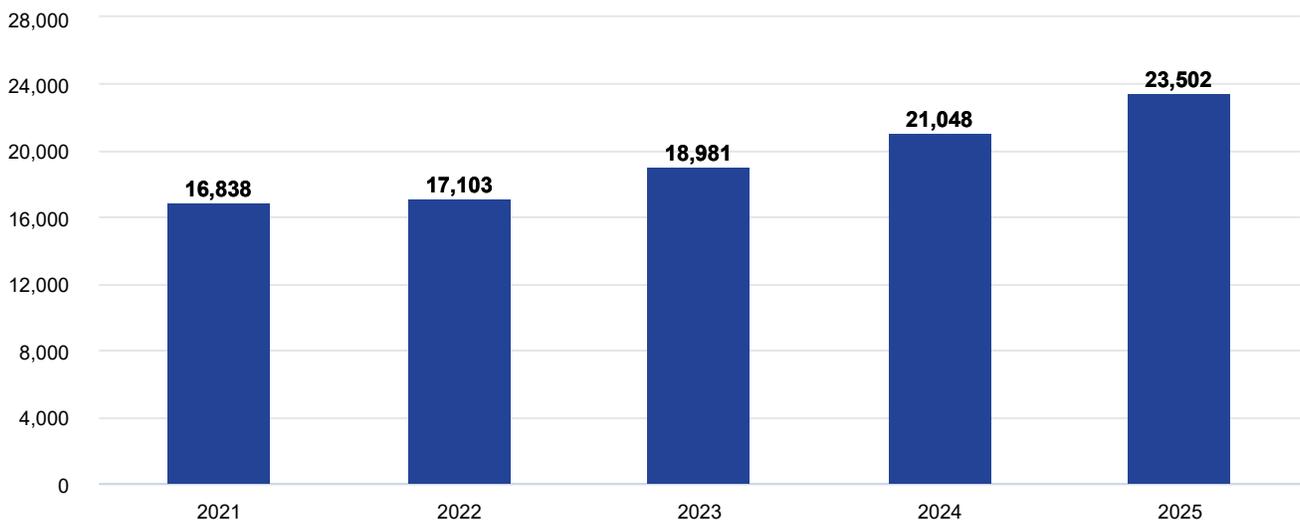
The following chart displays the non-operating revenues by type and their relationship with one another for the fiscal year ended September 30, 2025.

Comparison of Non-Operating Revenue



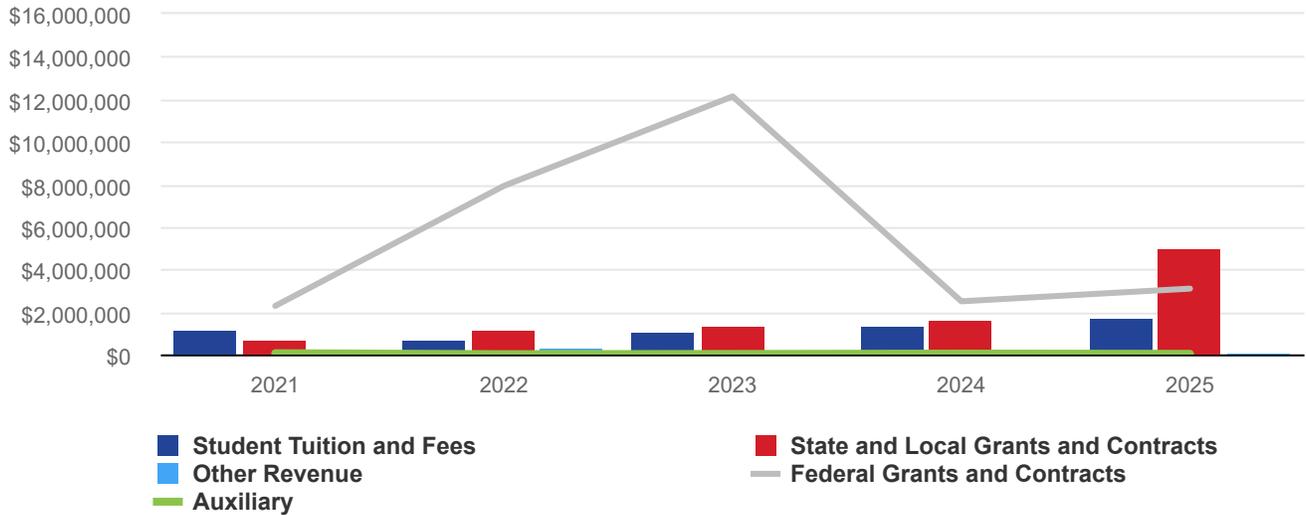
The following chart displays the 5 Year Comparison of Credit Hours for the fiscal year ended September 30, 2025.

5 Year Comparison of Credit Hours



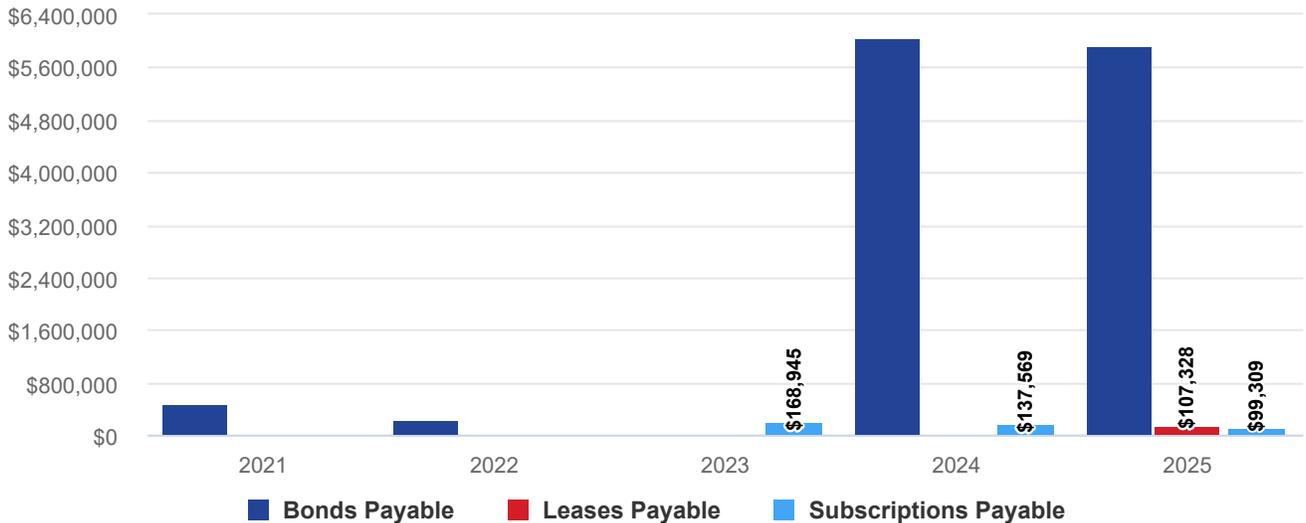
The following chart displays the 5 Year Comparison of Operating Revenue for the fiscal year ended September 30, 2025.

5 Year Comparison of Operating Revenue



The following chart displays 5 Year Comparison of Long-Term Debt Principal for the fiscal year ended September 30, 2025.

5 Year Comparison of Long-Term Debt Principal



Statement of Cash Flows

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

Operating Activities

Cash used for operating activities of \$8 million decreased \$1 million dollars due to a large increase in grants and contracts. Payments to suppliers, employees, benefit, and scholarships still increased but were off set by the grant increase.

Non-operating Activities

Cash used for non-operating activities decreased by \$882,660 mainly due to a \$1.4 million decrease in federal grant revenue classified as non-operating, which included a decrease in CARES Act funds. The increase in State appropriations of \$583,070 netted offset part of this decrease.

Capital and related Financing Activities

Cash used for capital and related financing activities increased by \$4.8 million mostly due to a \$12.5 decrease in Purchases of Capital Assets and \$8.6 million less received in Capital Grants. The construction was for the new Workforce Center and renovation of Building 500.

Investing Activities

Cash from Investing Activities increased by \$415,317, as investment income decreased by \$44,967 and investments purchased increased by \$172,619 and proceeds from maturing investments rose \$287,664.

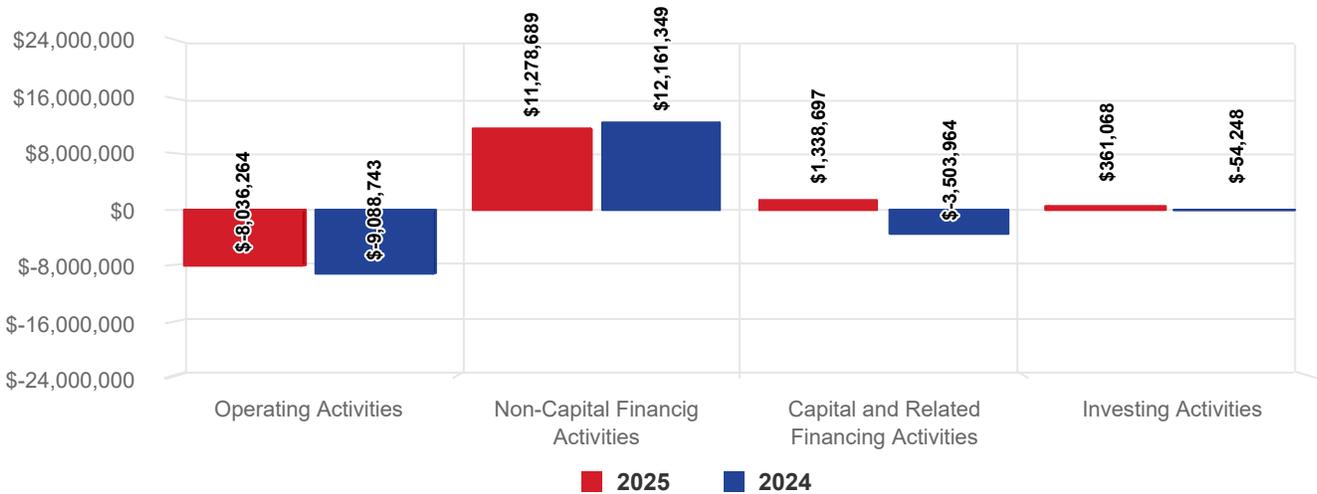
A condensed Statement of Cash Flows for the years ended September 30, 2025 and 2024 is presented below.

Statement of Cash Flows

	<u>2025</u>	<u>2024</u>
Cash Provided by (Used in):		
Operating Activities	\$ (8,036,264)	\$ (9,088,743)
Non-Capital Financing Activities	11,278,689	12,161,349
Capital and Related Financing Activities	1,338,697	(3,503,964)
Investing Activities	<u>361,068</u>	<u>(54,248)</u>
Net Change in Cash and Cash Equivalents	<u>4,942,190</u>	<u>(485,606)</u>
Cash and Cash Equivalents, Beginning of Year	<u>6,619,771</u>	<u>7,105,377</u>
Cash and Cash Equivalents, End of Year	<u>\$ 11,561,961</u>	<u>\$ 6,619,771</u>

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



Economic Outlook

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

The College anticipates continuing in the aforementioned upward trajectory of increased student enrollment coupled with maintenance of Federal and State awards granted. Additionally, the College plans to continue campus improvements to current infrastructure while adding new facilities to meet the demand for space needed to reach future enrollment goals. The upcoming fiscal year will be similar to the last with additional increases in student enrollment. Moreover, the College continues its strategic plan to providing general as well as technical education training to the community while maintaining strong fund balances and healthy budgets. Ultimately, the College remain poised and laser-focused as we continue to meet the needs of the Huntsville, AL community and State of Alabama education and workforce training demands.

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

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

Financial Statements

ANNUAL FINANCIAL REPORT

DRAKE STATE COMMUNITY & TECHNICAL COLLEGE





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COMMUNITY & TECHNICAL COLLEGE

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Statement of Net Position September 30, 2025

	<u>2025</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 11,561,961
Accounts Receivable (net of allowance for doubtful accounts of \$693,912)	4,918,866
Inventories	7,966
Deposits with Bond Trustee	2,337,525
Other Current Assets	24,839
Total Current Assets	<u>18,851,157</u>
Non-Current Assets	
Endowment Investments	268,107
Capital Assets, Net of Depreciation and Amortization	49,079,772
Total Non-Current Assets	<u>49,347,879</u>
Total Assets	<u>68,199,036</u>
Deferred Outflows of Resources	
Deferred Outflows of Resources Related to Pensions	2,130,156
Deferred Outflows of Resources Related to OPEB	4,184,005
Total Deferred Outflow of Resources	<u>6,314,161</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	
Deposits	\$ 127,488
Accounts Payable and Accrued Liabilities	1,921,587
Bond Surety Fee Payable	4,339
Unearned Revenue	2,532,889
Lease Payable	22,458
Subscription Liabilities	40,492
Compensated Absences	38,798
Bonds Payable	99,186
Other Current Liabilities	78,668
Total Current Liabilities	<u>4,865,905</u>
Non-Current Liabilities	
Compensated Absences	429,495
Lease Payable	84,870
Subscription Liabilities	58,817
Bonds Payable	5,828,016
Net Pension Liability	8,307,000
Net OPEB Liability	4,536,099
Total Non-Current Liabilities	<u>19,244,297</u>
Total Liabilities	<u>24,110,202</u>
Deferred Inflows of Resources	
Deferred Inflows of Resources Related to Pensions	1,684,000
Deferred Inflows of Resources Related to OPEB	2,138,949
Total Deferred Inflow of Resources	<u>3,822,949</u>
Net Position	
Net Investment in Capital Assets	44,092,356
Unrestricted	2,487,690
Total Net Position	<u><u>\$ 46,580,046</u></u>

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

Drake State Technical College Foundation, Inc.
Statement of Financial Position
December 31, 2024

	<u>2024</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 1,249,204
Pledge Receivable - Current, net	50,000
Total Current Assets	<u>1,299,204</u>
Non-Current Assets	
Pledge Receivable - Non-Current, net	920,706
Communtiy Foundation Investments	271,734
Total Non-Current Assets	<u>1,192,440</u>
Total Assets	<u><u>\$ 2,491,644</u></u>
Liabilities	
Current Liabilities	
Accounts Payable	\$ 70,584
Total Current Liabilities	<u>70,584</u>
Net Assets	
Without Donor Restrictions	1,178,620
With Donor Restrictions	1,242,440
Total Net Assets	<u>2,421,060</u>
Total Liabilities and Net Assets	<u><u>\$ 2,491,644</u></u>

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

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

	<u>2025</u>
Operating Revenues	
Student Tuition and Fees (net of scholarship allowances of \$2,770,331)	\$ 1,637,599
Other Operating Revenues	82,839
Federal Grants and Contracts	3,091,222
State and Local Grants and Contracts	4,950,083
Sales and Services of Educational Activities	7,474
Auxillary Enterprise	
Bookstore	19,213
Vending	2,947
Other Auxiliary Enterprises	4,143
Total Operating Revenues	<u>9,795,520</u>
Operating Expenses	
Instruction	5,857,244
Academic Support	1,270,528
Student Services	1,794,531
Institutional Support	4,677,923
Operation and Maintenance	2,365,347
Scholarships and Financial Aid	1,882,120
Depreciation	2,510,984
Amortization	52,358
Auxiliary Enterprises	13,243
Total Operating Expenses	<u>20,424,278</u>
Operating Loss	<u>\$ (10,628,758)</u>

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

Statement of Revenues, Expenses and Changes in Net Position (Continued) For the Years Ended September 30, 2025

	<u>2025</u>
Non-Operating Revenues (Expenses)	
State and Local Appropriations	\$ 7,615,498
Federal Grants	3,694,448
Gifts, Non-Cash Gifts, and Revenue	4,665
Capital Grants	4,714,699
Investment Income	153,866
Endowment Income	34,582
Bond Surety Fee Expense	(13,558)
Other Non-Operating Expense	(1,774)
Interest on Debt	(312,464)
Total Non-Operating Revenues (Expenses)	<u>15,889,962</u>
Net Increase in Net Position	<u>5,261,204</u>
Net Position - Beginning of Year	41,318,842
Net Position - End of Year	<u><u>\$ 46,580,046</u></u>

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

**Drake State Technical College Foundation, Inc.
Statement of Activities and Changes in Net Position
For the Year Ended December 31, 2024**

	Without Donor	With Donor	Total
Operating Activities			
Revenue and Support:			
Contributions	\$ 709,661	\$ 1,262,657	\$ 1,972,318
Event Income	181,653	-	181,653
Net Assets Released from Restrictions	166,951	(166,951)	-
Total Support and Revenue	1,058,265	1,095,706	2,153,971
Expenses:			
Program Services	116,951	-	116,951
Management and General	57,830	-	57,830
Fundraising Expenses	47,462	-	47,462
Total Expenses	222,243	-	222,243
Change in Net Assets from Operating	836,022	1,095,706	1,931,728
Non-Operating Activities			
Interest and Dividend Income	2,424	3,625	6,049
Investment Return, Net of Fees	-	4,775	4,775
Change in Net Assets from Nonoperating	2,424	8,400	10,824
Change in Net Assets	838,446	1,104,106	1,942,552
Net Assets at Beginning of Year	340,174	138,334	478,508
Net Assets at End of Year	\$ 1,178,620	\$ 1,242,440	\$ 2,421,060

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

Statement of Cash Flows

For the Years Ended September 30, 2025

	<u>2025</u>
Cash Flows from Operating Activities	
Tuition and Fees	\$ 1,835,255
Grants and Contracts	7,386,448
Payments to Suppliers	(6,324,067)
Payments for Utilities	(367,307)
Payments for Employees	(6,802,134)
Payments for Benefits	(2,058,263)
Payments for Scholarships	(1,825,685)
Sales and Service of Educational Services	7,474
Other Receipts (Payments)	82,837
Auxiliary Enterprises	29,178
Net Cash Used in Operating Activities	<u>(8,036,264)</u>
Cash Flows from Non-Capital Financing Activities	
State and Local Appropriations	7,602,253
Gifts and Grants for Other than Capital Purposes	4,665
Federal Grants	3,693,253
Other Non-Capital Financing	(21,482)
Net Cash Provided by Non-Capital Financing Activities	<u>11,278,689</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of Capital Assets and Construction	(8,719,658)
Principal Paid on Capital Debt and Leases	(189,858)
Interest Paid on Capital Debt and Leases	(316,925)
Capital Grants & Gifts	8,080,380
Deposits W/ Trustee	2,484,758
Net Cash Provided in Capital and Related Financing Activities	<u>1,338,697</u>
Cash Flows from Investing Activities	
Proceeds from Sale of Investments	440,726
Purchase of Investments	(268,107)
Investment Income	188,449
Net Cash Provided in Investing Activities	<u>361,068</u>
Net Increase in Cash and Cash Equivalents	<u>4,942,190</u>
Cash and Cash Equivalents - Beginning of the Year	<u>6,619,771</u>
Cash and Cash Equivalents - End of Year	<u>\$ 11,561,961</u>

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

Statement of Cash Flows (Continued)

For the Years Ended September 30, 2025

	<u>2025</u>
Reconciliation of Net Operating Income to Net Cash Used in Operating Activities	
Operating Loss	\$ (10,628,758)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	2,510,984
Amortization Expense	52,358
Changes in Assets, Deferred Outflows and Inflows of Resources, and Liabilities:	
Increase/Decrease in Receivables	(1,142,062)
Increase/Decrease in Inventory	(180)
Increase/Decrease in Other Assets	54,947
Increase/Decrease in Deferred Outflows	(2,471,008)
Increase/Decrease in Pension Liabilities	(1,281,000)
Increase/Decrease in OPEB Liability	3,613,543
Increase/Decrease in Deferred Inflows	363,394
Increase/Decrease in Accounts Payable and Accrued Expenses	161,758
Increase/Decrease in Compensated Absences	42,604
Increase/Decrease in Unearned Revenue	687,156
Net Cash Used in Operating Activities	<u>\$ (8,036,264)</u>

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

Notes to the Financial Statements

ANNUAL FINANCIAL REPORT

DRAKE STATE COMMUNITY & TECHNICAL COLLEGE





DRAKE STATE
COMMUNITY & TECHNICAL COLLEGE

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Note 1. Summary of Significant Accounting Policies

Nature of Operations

The financial statements of J.F. Drake State Community and Technical College (the “College” or “DSCTC”) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the College are described below.

Reporting Entity

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Accounting Estimates

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

Cash, Cash Equivalents, and Investments

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

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

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

Receivables

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

Capital Assets

Capital assets, which include property, collections, and equipment other than intangible assets, 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, and all library books, are recorded at historical cost or estimated historical cost if purchased or constructed. Right-to-use assets are defined as assets resulting from a lease or subscription-based information technology arrangement. The capitalization threshold for intangible assets such as capitalized software and internally generated computer software is \$1 million and \$100,000 for easements and land use rights and patents, trademarks, and copyrights. In addition, works of art and historical treasures and similar assets are recorded at their historical cost. Donated capital assets are recorded at fair market value at the date of donation. Land, construction in progress, and intangible assets with indefinite lives are the only capital assets that are not depreciated. Depreciation is not allocated to a functional expense category. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

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

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
Collections	Not depreciated	
Improvements other than Buildings and Infrastructure	Straight Line	25 years
Construction in Progress	Not depreciated	
Furniture and Equipment	Straight Line	5-10 years
Right-to-Use Leased Equipment	Straight Line	5-10 Years
Library Materials	Composite	20 years
Capitalized Software	Straight Line	10 years
Internally Generated Computer Software	Straight Line	10 years
Easement and Land Use Rights	Straight Line	20 years
Patents, Trademarks, and Copyrights	Straight Line	20 years
Capitalized Collections	Straight Line	20 years
Right to Use Assets	Straight Line	2-5 years
Subscription Based IT Arrangements	Straight Line	2-5 years

Deferred Outflows of Resources

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

Long-Term Obligations

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

Unearned Tuition and Fee Revenue

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

Compensated Absences

The College records liabilities for compensated absences in accordance with GASB Statement No. 101, Compensated Absences. A liability is recognized when leave is (1) attributable to services already rendered, (2) accumulates, and (3) is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Substantially all employees of the College earn 12 days of sick leave each year, with unlimited accumulation. In accordance with Alabama law, sick leave balances generally convert to service credit in the Teachers' Retirement System of Alabama (TRS) upon retirement. Because

those balances are more likely than not to be settled through conversion to TRS service credit rather than paid or otherwise settled, no liability is recorded for sick leave. All non-instructional employees earn annual leave at a rate that varies from 12 to 24 days per year depending on length of service, with accumulation limited to 60 days. Instructional employees do not earn annual leave. Payment is made to employees for unused annual leave at termination or retirement. Accordingly, the College records a liability for accrued but unused vacation leave, including salary-related payments directly and incrementally associated with that leave.

Deferred Inflow of Resources

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

Pensions

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 as revenues when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made.

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

Postemployment Benefits Other than Pensions (OPEB)

The Alabama Retired Education 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, reduced by accumulated depreciation and by outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows

of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Any unspent related debt proceeds or inflows of resources at year-end related to capital assets are not included in this calculation.

- **Restricted:**
 - *Expendable* – Net position whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. These include funds held in federal loan programs.
 - *Non-expendable* – Net position subject to externally imposed stipulations that it be maintained permanently by the College. Such assets would include permanent endowment funds.
- **Unrestricted** – Net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted resources may be designated for specific purposes by action of management or the Alabama Community College System Board of Trustees.

Federal Financial Assistance Programs

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

Scholarship Allowances and Student Aid

Student tuition and fees are reported net of scholarship allowances and discounts. The amount for scholarship allowances and discounts is the difference between the stated charge for goods and services provided by the College and the amount that is paid by the student and/or third parties making payments on behalf of the student. The College uses the case-by-case method to determine the amount of scholarship allowances and discounts.

Change in Accounting Estimate: Capitalization Threshold

On October 1, 2024, the College 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.

Prepaid Expenses and Unearned Scholarships

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

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 instead requires recognizing a liability only when leave is *more likely than not* to be used, paid in cash, or otherwise settled. The College adopted this Statement for the fiscal year ended September 30, 2025. The adoption had no impact on the previously reported beginning net position, as liabilities for vacation leave were already recognized and sick leave converts to service credit in the Teachers' Retirement System of Alabama rather than being paid or otherwise settled.

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 College 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 College invests its funds in securities and investments in accordance with the **Code of Alabama 1975, Section 16-13-2, Sections 27-1-8 and 27-1-9, and Sections 27-41-1 through 27-41-41**. These laws provide that the College may invest in the same type of instruments as allowed by Alabama law for domestic life insurance companies. This includes a wide range of investments, such as direct obligations of the United States of America, obligations issued or guaranteed by certain federal agencies, and bonds of any state, county, city, town, village, municipality, district or other political subdivision of any state or any instrumentality or board thereof of the United States of America that meet specified criteria.

Permissible investments include:

1. U.S. Treasury bills, notes, bonds, and stripped Treasuries;
2. U.S. Agency notes, bonds, debentures, discount notes and certificates;
3. Certificates of Deposit (CDs), checking and money market accounts of savings and loan associations, mutual savings banks, or commercial banks whose accounts are insured by FDIC/FSLIC, and who are designated a Qualified Public Depository (QPD) under the SAFE Program;
4. Mortgage Backed Securities (MBSs);
5. Mortgage related securities 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 College's portfolio shall consist primarily of bank CDs and interest bearing accounts, U.S. Treasury securities, debentures of a U.S. Government Sponsored Entity (GSE) and securities backed by collateral issued by GSEs. In order to diversify the portfolio's exposure to concentration risk, the portfolio's maximum allocation to specific product sectors is as follows:

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

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

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

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

To the extent available, the College's investments are recorded at fair value as of September 30, 2025. GASB Statement Number 72 – *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying

the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

- Level 1 – Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 – Investments with inputs, other than quoted prices included within Level 1, that are observable for an asset either directly or indirectly.
- Level 3 – Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

Investments' fair value measurements are as follows at September 30, 2025:

Investment Type	Fair Value Measurements Using			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. Treasuries	\$ 2,605,632	\$ 2,605,632		\$ -
Total	\$ 2,605,632	\$ 2,605,632	\$ -	\$ -

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

Investment Type	Maximum Maturity
Stripped Treasuries	10 years
U.S. Agencies (except for TVA and SLMA)	10 years
TVA and SLMA	10 years
Mortgage-Backed Securities and Mortgage Related Securities	7 years* 10 years**

* Aggregate life

** Average life maturity of any one security

Investments’ fair value measurements are as follows at September 30, 2025:

Investment Type	Investment Maturities				
	Fair Value	Less Than 1	1-5 years	6-10 years	No maturity
U.S. Treasuries	\$ 2,605,632	\$ 2,605,632		\$ -	\$ -
Total	\$ 2,605,632	\$ 2,605,632	\$ -	\$ -	\$ -

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

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

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The College does not have a formal investment policy that places limits on the amount the College may invest in any one issuer to less than 5%.

Instead, the College’s policy was to limit investments by type to the percentages shown below:

Investment Type	% of Investment
Stripped Treasuries	50%
U.S. Agencies (except for TVA and SLMA)	50%
TVA and SLMA	10%
Certificate of Deposit	No Limit
Mortgage Backed Securities and Mortgage Related Securities	50%

Note 3. Receivables

Receivables are reported and summarized as follows:

Description	Amount
Federal	\$ 584,883
Student	946,171
State and Local	3,772,628
Third-Party	301,373
Other	7,723
Less: Allowance for Doubtful Accounts	(693,912)
Total Accounts Receivable	<u>\$ 4,918,866</u>

Note 4. Capital Assets

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

Description	Beginning Balance	Additions	Deductions & Adjustments	Transfers	Ending Balance
Nondepreciable Capital Assets					
Land	\$ 548,964	\$ -	\$ -	\$ -	\$ 548,964
Construction in Progress	18,067,821	6,251,882		(24,095,758)	\$ 223,945
Total Capital Assets Not Being Depreciated:	18,616,785	6,251,882	-	(24,095,758)	772,909
Other Capital Assets					
Buildings	8,006,822	-	-	20,682,255	28,689,077
Building Alterations	18,817,600	-	-	3,413,503	22,231,103
Improvements other than Buildings	1,659,466	-	-	-	1,659,466
Equipment > \$25,000	4,679,283	1,225,251	-	-	5,904,534
Equipment < \$25,000	3,511,649	735,377	(633,473)	-	3,613,553
Library Holdings	619,584	-	-	-	619,584
Intangible Right-to-Use Lease	-	116,540	-	-	116,540
Intangible Right-to-Use Software Agreements	184,816	43,199	-	-	228,015
Total Capital Assets Being Depreciated	37,479,220	2,120,367	(633,473)	24,095,758	63,061,872
Less Accumulated Depreciation/Amortization					
Buildings	4,440,680	538,804	-	-	4,979,484
Building Alterations	2,023,675	889,244	-	-	2,912,919
Improvements other than Buildings	891,822	41,036	-	-	932,858
Equipment > \$25,000	2,318,828	483,233	-	-	2,802,061
Equipment < \$25,000	2,696,828	527,688	(633,473)	-	2,591,043
Library Holdings	391,656	30,979	-	-	422,635
Intangible Right-to-Use Lease	-	10,230	-	-	10,230
Intangible Right-to-Use Software Agreements	61,651	42,128	-	-	103,779
Total Accumulated Depreciation	12,825,140	2,563,342	(633,473)	-	14,755,009
Total Capital Assets, Net	\$ 43,270,865	\$ 5,808,907	\$ -	\$ -	\$ 49,079,772

The College follows GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The primary objective of this statement is to enhance the relevance and consistency of information about governments' subscription activities. This statement establishes a single model for subscription accounting based on the principle that subscriptions are financings of the right to use an underlying asset. Under this Statement, an organization is required to recognize a subscription liability and an intangible right-to-use subscription asset. For additional information, refer to the disclosures below.

As of September 30, 2025, J. F. Drake State Community And Technical College, AL had one active lease. The lease has payments of \$10,293 and interest rate of 2.312%. As of September 30, 2025, the value of the lease liability is \$107,328, and the total value of the short-term lease liability is \$22,458. The value of the right to use asset, as of September 30, 2025, is \$116,540 with accumulated amortization of \$10,230 and

is included with the Lease Class activities table found below. The lease had no variable payments or other payments, not included in the lease liability, within the year.

The College follows GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The primary objective of this statement is to enhance the relevance and consistency of information about governments' subscription activities. This statement establishes a single model for subscription accounting based on the principle that subscriptions are financings of the right to use an underlying asset. Under this Statement, an organization is required to recognize a subscription liability and an intangible right-to-use subscription asset. For additional information, refer to the disclosures below.

As of 09/30/2025, J. F. Drake State Community And Technical College, AL had 3 active subscriptions. The subscriptions have payments that range from \$14,400 to \$43,292 and interest rates that range from 2.5630% to 3.4087%. As of 09/30/2025, the total combined value of the subscription liability is \$99,309, and the total combined value of the short-term subscription liability is \$40,492. The combined value of the right to use asset, as of 09/30/2025 of \$228,015 with accumulated amortization of \$103,779 is included within the Subscription Class activities table found below. The subscriptions had \$0 of Variable Payments and \$0 of Other Payments, not included in the Subscription Liability, within the Fiscal Year.

Note 5. Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description

The 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 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.

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.

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, 2025 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 College were \$781,156 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 College reported a liability of \$8,307,000 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 College's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2024, the College's proportion was 0.063863%, which was an increase of 0.003782% from its proportion measured as of September 30, 2023.

For the year ended September 30, 2025, the College recognized pension expense of \$1,172,329. At September 30, 2025 the College 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	\$ 826,000	\$ 60,000
Changes of Assumptions	127,000	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments		1,362,000
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	396,000	262,000
Employer Contributions Subsequent to the Measurement Date	781,156	-
Total	\$ 2,130,156	\$ 1,684,000

\$781,156 reported as deferred outflows of resources related to pensions resulting from College ontributions 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	\$ (23,000)
2027	407,000
2028	(378,000)
2029	(341,000)
2030	-
Thereafter	-
	<u>\$ (335,000)</u>

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, including inflation

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 College’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
College’s Proportionate Share of the Collective Net Pension Liability	\$ 11,551,000	\$ 8,307,000	\$ 5,577,000

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)

Summary of Significant Accounting Policies

General Information about the OPEB Plan

Plan Description

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

The PEEHIP was established in 1983 pursuant to the provisions of the **Code of Alabama 1975, Title 16, Chapter 25A (Act 83-455)** to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan.

The four-year universities participate in the plan with respect to their retired employees and are eligible and may elect to participate in the plan with respect to their active employees. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the Board. The Board is a corporate body for purposes of management of the health insurance plan. The **Code of Alabama 1975, Section 16-25A-4** provides the Board with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the Alabama Retired Education Employees' Health Care Trust are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIP and, consequently, serves as the administrator of the Trust.

Benefits Provided

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

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

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

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retired members and covered dependents are eligible to enroll in the PEEHIP Supplemental Medical Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. Members who are enrolled in the PEEHIP Hospital Medical Plan, VIVA Health Plan (offered through the Public Education Employees' Health Insurance Fund (PEEHIF), Marketplace (Exchange) Plans, Alabama State Employees Insurance Board, Local Government Health Insurance Board, Medicaid, ALL Kids, Tricare, or Champus, as their primary coverage, or are enrolled in a Health Savings Account (HSA) or Health Reimbursement Arrangement (HRA), are not eligible to enroll in the PEEHIP Supplemental Plan. The plan cannot be used as a supplement to Medicare. Retired members who become eligible for Medicare are eligible to enroll in the PEEHIP Group Medicare Advantage (PPO) Plan or the Optional Coverage Plans.

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

Contributions

The **Code of Alabama 1975, Section 16-25A-8** and the **Code of Alabama 1975, Section, 16-25A-8.1** provide the Board with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the Board is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

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

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

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

At September 30, 2025, the College reported a liability of \$4,536,099 for its proportionate share of the Net OPEB liability. The Net OPEB liability was measured as of September 30, 2023 and the total OPEB liability used to calculate the Net OPEB liability was determined by an actuarial valuation as of September 30, 2023. The College's proportion of the Net OPEB liability was based on the College's share of contributions to the OPEB plan relative to the total employer contributions of all participating PEEHIP employers. At September 30, 2024, the College's proportion was 0.049340%, which was an increase of 0.001344% from its proportion measured as of September 30, 2023.

For the year ended September 30, 2025, the College recognized an OPEB benefit of \$665,424, with no special funding situations. At September 30, 2025, the College 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	\$ 2,115,451	\$ 979,015
Changes of Assumptions	1,562,200	641,785
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	-	111,913
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	322,261	406,236
Employer Contributions Subsequent to the Measurement Date	184,093	-
Total	<u>\$ 4,184,005</u>	<u>\$ 2,138,949</u>

The \$184,093 reported as deferred outflows of resources related to OPEB resulting from the J.F. Drake State Community and Technical College contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB liability in the year ended September 30, 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	\$ 267,046
2027	294,469
2028	199,402
2029	326,840
2030	581,941
Thereafter	191,265
	<u>\$ 1,860,963</u>

Actuarial Assumptions

The Total OPEB liability 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%
Salary Increases	5.00 - 3.25%, including 2.75% wage inflation
Long-term Investment Rate of Return	7.00% 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	2040
Single Equivalent Interest Rate at Measurement Date	4.32%
Single Equivalent Interest Rate at Prior Measurement Date	7.00%
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 2033 FYE

** Initial Medicare claims are set based on renewal premium rates through calendar year 2025 with an assumed 0% increase for the upcoming 2026-2028 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 rates are adjusted forward and/or back depending on the plan and group covered, as shown in the table below.

Group	Membership Table	Set Forward (+) / Set Back (-)	Adjustment to Rates
Active Members	Teacher Employee Below Median	None	65%
Service Retirees	Teacher Below Median	Male: +2, Female: +2	Male: 108% ages < 63, 96% ages > 67; Phasing down 63 - 67 Female: 112% ages < 69, 98% ages > 74; Phasing down 69 - 74
Disabled Retirees	Teacher Disability	Male: +8, Female: +3	None
Beneficiaries	Teacher Contingent Survivor Below Median	Male: +2, Female: None	None

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) were based on the September 30, 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	30.00%	4.40%
U.S. Large Stocks	38.00%	8.00%
U.S. Mid Stocks	8.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash	5.00%	1.50%
Total	100.00%	

* Geometric mean, includes 2.50% inflation.

Discount Rate

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability was 4.32%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly

employer rate that participating school systems must contribute for each active employee. Currently, the monthly employer rate is \$800 per non-university active member. Approximately, 9.751% of the employer contributions were used to assist in funding retiree benefit payments in 2024 and it is assumed that the 9.751% will increase or decrease at the same rate as expected benefit payments for the closed group with a cap of 20.00%. It is assumed the \$800 rate will remain flat until, based on budget projections, it increases to \$904 in fiscal year 2026, \$1,114 in fiscal year 2027 and then will increase with inflation at 2.50% starting in 2028. Retiree benefit payments for university members are paid by the Universities and are not included in the cash flow projections. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Therefore, the projected future benefit payments for all current plan members are projected through 2122.

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

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

	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	\$ 3,648,908	\$ 4,536,099	\$ 5,680,133

The following table presents the College’s proportionate share of the Net OPEB liability of the Trust calculated using the discount rate of 4.32%, 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 (3.32%)	Current Rate (4.32%)	1% Increase (5.32%)
Net OPEB Liability	\$ 5,510,314	\$ 4,536,099	\$ 3,757,595

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 PEEHIP prepared as of September 30, 2024. Additional financial and actuarial information is available at www.rsa-al.gov.

Note 7. Construction and Other Significant Commitments

As of September 30, 2025, the College has awarded 2 contracts in the amount of \$697,138 in projects related to building renovations. These contracts are being funded by state grants, Title III federal grants, and college facility renewal funds.

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
Salaries and Wages	\$ 260,359
Payroll Withholding	41,803
Supplies and Other Payables	1,619,425
Total	<u>\$ 1,921,587</u>

Note 9. Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2025, was as follows:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable					
2023 Series Bonds	\$ 6,050,000		\$ (100,000)	\$ 5,950,000	\$ 100,000
Bond Premium	(23,612)		814	(22,798)	(814)
Total Bonds Payable	<u>6,026,388</u>	<u>-</u>	<u>(99,186)</u>	<u>5,927,202</u>	<u>99,186</u>
Subscription Payables	137,569	43,199	(81,459)	99,309	40,492
Lease Payables	-	116,540	(9,212)	107,328	22,458
Compensated Absences	425,688	42,605	-	468,293	38,798
Total Long-Term Liabilities	<u>\$ 6,589,645</u>	<u>\$ 202,344</u>	<u>\$ (189,857)</u>	<u>\$ 6,602,132</u>	<u>\$ 200,934</u>

On November 14, 2023, the Board of Trustees of the Alabama Community College System issued \$6,165,000 in limited obligation revenue bonds payable over 30 years with interest rates ranging from 5.00% to 5.25%, maturing in 2053. The bonds were issued to provide funding for certain improvements at the College's campus in Huntsville, Alabama, including construction of a 50,000 square foot facility for workforce and career technical programs, construction of a new entrance to campus for improved traffic flow, renovations of existing buildings and of existing buildings to modernize existing classrooms and administrative offices, and to repurpose current space for an expanded Health Sciences and student engagement service center.

Lease Payable

See Note 4 for further information on the Lease Liabilities. The College follows GASB Statement No. 87, Leases, which resulted in the College recording leases. These assets will be amortized over the lease term of the lease since it is shorter than the useful life and the College is not taking ownership of the assets. There is no residual value guarantees in the lease provisions. The leases will end in 2030. A summary of the principal and interest amounts for the remaining lease is as follows:

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 22,458	\$ 2,244	\$ 24,702
2027	22,982	1,720	24,702
2028	23,519	1,183	24,702
2029	24,069	633	24,702
2030	14,300	110	14,410
Total	\$ 107,328	\$ 5,890	\$ 113,218

Subscriptions Payable

See Note 4 for further information on the Subscription Liabilities. The future subscription payments under these SBITA agreements are as follows:

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 40,492	\$ 3,332	\$ 43,824
2027	28,430	1,968	30,398
2028	30,387	1,017	31,404
Total	\$ 99,309	\$ 6,317	\$ 105,626

A trustee holds sinking fund deposits, including earnings on investments of these deposits. Revenue from student tuition and fees sufficient to pay the annual debt service are pledged to secure the bonds. Principal and interest maturity requirements on bond debt are as follows:

Principal and Interest Maturity Requirements on Bond Debt

Fiscal Year(s)	Publicly Sold Bonds		Total
	Principal	Interest	
2026	\$ 100,000	\$ 303,544	\$ 403,544
2027	105,000	298,544	403,544
2028	110,000	293,294	403,294
2029	120,000	287,794	407,794
2030	125,000	281,794	406,794
2031-2035	720,000	1,309,469	2,029,469
2036-2040	915,000	1,110,469	2,025,469
2041-2046	1,160,000	858,412	2,018,412
2046-2050	1,500,000	529,387	2,029,387
2051-2053	1,095,000	117,075	1,212,075
Total	\$ 5,950,000	\$ 5,389,782	\$ 11,339,782

Pledged Revenues

The College has pledged tuition, facility renewal fee, and building fee revenues for the payment of debt service on the Series 2023 Bonds. The debt was issued, for the purpose of providing funding to make certain improvements at the College's campus, including construction of a 50,000 sq ft facility for workforce and career technical programs, and construction of a new entrance to campus for improved traffic flow. Future revenues in the amount of \$11,339,782 are pledged to repay principal and interest on the bonds at September 30, 2025. Pledged revenues in the amount of \$3,065,346 were received during the fiscal year ended September 30, 2025, with \$407,693 or 13.30 % of pledged revenues being used to pay principal and interest during the fiscal year. These bonds are scheduled to mature in fiscal year 2053.

Note 10. Risk Management

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

the College has fidelity bonds on the College president and business officer as well as on all other college personnel who handle funds.

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

Settled claims resulting from these risks have not exceeded the College's coverage in any of the past three fiscal years. Claims which occur as a result of employee job-related injuries may be brought before the State of Alabama Board of Adjustment. The Board of Adjustment serves as an arbitrator and its decision is binding. If the Board of Adjustment determines that a claim is valid, it decides the proper amount of compensation (subject to statutory limitations) and the funds are paid by the College.

Note 11. Drake State Technical College Foundation, Inc.

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Drake State Technical College Foundation, Inc. (the “Foundation”) was established for the purpose of stimulating and providing support for the private fundraising efforts of the J.F. Drake State Community & Technical College (the “College”) and to manage privately donated funds. The Foundation is a nonprofit corporation organized in accordance with the laws of the State of Alabama and governed by a volunteer Board of Directors (the “Board”). The Foundation is a component unit of the College.

The private fundraising efforts of the Foundation result in the Foundation receiving contributions for the benefit of the College and its students. Contributions are either available to be used currently or restricted as an endowment to be invested in perpetuity and provide support from investment returns for student scholarships, faculty and research support, other operational support, and for facilities and equipment. The Foundation also receives unrestricted contributions that can be used for Foundation activities.

The Foundation exists to raise and manage private resources supporting the mission and priorities of the College and to provide opportunities for students and a margin of institutional excellence not achievable with institutional funds alone. The Foundation is dedicated to assisting the College in the building of an endowment, and in addressing, through financial support, the long-term academic and other priorities of the College.

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”). (ASC) 958-205 was effective January 1, 2018. Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, the net assets of the Foundation and changes therein are classified as follows:

- *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation.
- *Net assets with donor restrictions* – Amounts received that are restricted for future periods or donor restricted for specific purposes are reported as net assets with donor restrictions. When a donor-imposed restriction ends or a purpose restriction is accomplished, the net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

If the donor restricted contribution is received in the same period as its restriction is met, the contribution is considered to be without donor restrictions. Of the restricted balances at December 31, 2024, \$970,706 are pledge receivables, restricted for time purposes and \$271,734 are endowments, restricted for use.

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

Net assets were released from donor-imposed restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The composition of net assets released from restrictions for the years ended December 31, 2024 is as follows:

	With Donor Restrictions
Program Services	\$ 50,000
Scholarships	\$ 116,951
Total	<u>\$ 166,951</u>

Use of Estimates in the Preparation of Financial Statements

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Contributions to be received after one year are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), collectively ASC 606, which affects contracts with customers to transfer goods or services and contracts for the transfer of non-financial assets (unless those contracts are within the scope of other standards). In June 2020, FASB issued ASU 2020-05, Revenue from Contract with Customers (Topic 606) and Leases (Topic 842), permitting the deferral of the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2019. The Foundation adopted Topic 606 effective January 1, 2023, using the modified retrospective method. Adoption of this standard did not result in an adjustment to net assets.

Income Taxes

The Foundation is exempt from paying tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal or state income taxes.

Uncertain Tax Positions

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Foundation had no unrelated business activities that are subject to taxes. The Foundation's federal Exempt Organization Business Income Tax Returns for 2021, 2022 and 2023 are subject to examination by the IRS, generally for three years after they were filed.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. Volunteers also provided fund-raising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met. There was no donated service revenue included in revenues and expenses for the year ended December 31, 2024.

NOTE B – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

At December 31, 2024, the Foundation had \$1,299,204 of financial assets available within one year of the statement of financial position date to meet cash needs for general operating expenditures, consisting of cash of \$1,249,204 and pledges receivable of \$50,000.

NOTE C – CASH AND CERTIFICATES OF DEPOSITS

The Foundation considers all time deposits, certificates of deposit and highly liquid instruments with an initial maturity of three months or less to be cash equivalents, except for investments purchased with endowment assets, which are classified as long-term investments. The Foundation maintains its cash balances with one financial institution. At December 31, 2024, the Foundation's cash balance exceeds FDIC insurable limits by \$95,916.

NOTE D – INVESTMENTS

The Foundation's endowment consists of one fund established for the purposes of scholarships and overall support of the College, including grants and administrative fees. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment and, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance

with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions is classified as net assets without donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Investment Reporting

Security transactions are recorded on a trade date basis. Interest is recorded as earned and dividends are recorded as of the ex-dividend date. Interest income includes interest and dividends; realized/unrealized gains and losses are reported as investment return. Investment income attributable to amounts held for the benefit of the College is reported in net assets with donor restrictions. When the activities occur, the amounts are transferred from net assets with donor restrictions to net assets without donor restrictions and the disbursements are reported as decreases in net assets without donor restrictions. Investment income attributable to amounts held for the benefit of the Foundation is reported in net assets without donor restrictions.

Investment Return Objective Risk Parameters and Strategies

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

Spending Policy

It is the responsibility of the Foundation's Board of Directors to periodically review the spending policy against actual returns. Income available for spending is determined by a total return on investments. The amount to be spent in the coming year is calculated and is reviewed and approved by the Foundation's Board of Directors. The income that may be spent, as determined in this paragraph, may be drawn from both ordinary income earned (i.e. dividends, interest, etc.) and appreciation, both earned and unearned. All income and appreciation not needed to meet spending needs is reinvested.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration due to unfavorable market fluctuations. When this is the case, any such deficiencies are monitored for future results. At December 31, 2024, there were no deficiencies included in net assets

with donor restrictions related to investment losses on endowments. Changes in endowment net assets as of December 31, 2024 are as follows:

	With Donor Restrictions
Endowment net assets at December 31, 2023	\$ 38,334
Contributions	225,000
Interest and Dividends	3,625
Investment return	5,259
Administrative fees	(484)
Endowment net assets at December 31, 2024	<u>\$ 271,734</u>
	General Investment Pool
Investment by Group	
Cash and Money Market Funds	\$ 8,267
Marketable Securities	208,235
Fixed Income Securities	55,232
Total Investments at December 31, 2024	<u>\$ 271,734</u>

NOTE E – FAIR VALUE MEASUREMENTS

Investment Valuation

Investments are reported at estimated fair value as determined by the Foundation, based upon a fair value hierarchy that prioritizes the input techniques used to measure fair value in accordance with Accounting Standards Update (ASU) No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent). The ASU removed the requirement to categorize by level within the fair value hierarchy all investments with fair value measured using net asset value as a practical expedient and removed all other disclosure requirements.

The hierarchy gives the highest priority to level 1 measurements and the lowest priority to level 3 measurements:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not considered active; observable inputs other than observable quoted prices for the asset or liability; or inputs derived principally from or corroborated by observable market data;
- Level 3: Significant unobservable inputs for assets or liabilities.

A financial instrument's level within this fair value hierarchy is based on the lowest level of any input that is significant to its fair value measurement. All transfers between fair value hierarchy levels are recognized at the beginning of each reporting period. The fair value hierarchy does not correspond to a financial instrument's relative liquidity in the market or to its level of risk.

In determining the reasonableness of the fair value measurement methodology, management, with the oversight of the Board of Directors, evaluates a variety of factors including review of existing contracts, economic conditions, and industry and market developments. Certain unobservable inputs are evaluated and adjusted, as necessary, based on current market conditions and other third-party information.

Level 1 investments are typically investments in debt and equity marketable securities but may also include money market funds, certificates of deposit, and other highly liquid investments with maturities of 90 days or less with high credit quality entities. All level 1 investments are reported at fair value.

For any level 3 investments, fair value would be determined by the Foundation to be best estimated by giving consideration to any factors which might necessitate an adjustment such as initial and ongoing due diligence monitoring, significant market or portfolio changes, and assumptions of a new hypothetical market participant. The Foundation does not have any level 3 investments.

The following table set forth by level, within the fair value hierarchy, the Foundation's investments measured at fair value on a recurring basis as of December 31, 2024:

	Level 1	Level 2	Level 3	Total
Cash and Money Market Funds	\$ 8,267	-\$	-\$	8,267
Marketable Securities:				
Domestic Securities	148,567	-	-	148,567
International Securities	59,668	-	-	59,668
Total Marketable Securities	208,235	-	-	208,235
Fixed Income Securities				
Intermediate	27,777	-	-	27,777
Short Term	27,455	-	-	27,455
Total Fixed Income Securities	55,232	-	-	55,232
Total Investments	\$ 271,734	-\$	-\$	271,734

NOTE F – PLEDGE RECEIVABLES

Pledge receivables, which are unconditional promises to give, are recorded as receivables and revenue when received. The Foundation distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows. For pledges, the discount rates used to determine present values are based on the incremental borrowing rate, which is approximately 4.50%. Management's determination of the adequacy of the allowance for doubtful accounts is based on an evaluation of the outstanding pledges, historical loss experience, current economic conditions, and other relevant factors. No allowance was considered necessary at December 31, 2024.

Total pledge receivables, net of an allowance for uncollectible pledges, at December 31, 2024, are as follows:

	Less Than One Year	One to Five Years	Total
Pledges			
Gross	\$ 50,000	\$ 1,050,000	\$ 1,100,000
Allowance	-	(129,294)	(129,294)
Total Pledges at December 31, 2024	<u>\$ 50,000</u>	<u>\$ 920,706</u>	<u>\$ 970,706</u>

NOTE G - RELATED PARTY

University Support

The Drake State Technical College Foundation, Inc. exists to assist the College. Due to the nature of this relationship, there is potential for numerous transactions between the two entities and their representatives for program services and scholarship purposes. Furthermore, the Foundation reimburses the College for a portion of employee salaries. The salaries and benefits for the year ending December 31, 2024 were \$32,078. The Foundation also provided \$116,951 in student assistance during the year.

NOTE H – FUNCTIONAL EXPENSES

Certain costs have been allocated among the programs and supporting services benefited based on estimates of time and effort, and usage of assets. For 2024 natural expense accounts were allocated as follows:

	For the year ended December 31, 2024			
	Program Services	Support Services		
	Programs	General & Administrative	Fundraising	Total
Student Assistance	\$ 116,951	\$ -	\$ -	\$ 116,951
Event Expenses	-	-	47,462	47,462
Payroll	-	32,078	-	32,078
Computer and Software Expenses	-	1,226	-	1,226
Professional Expenses	-	12,750	-	12,750
Bank and Merchant Fees	-	389	-	389
Members and Subscriptions	-	5,900	-	5,900
Miscellaneous	-	5,487	-	5,487
Total	<u>\$ 116,951</u>	<u>\$ 57,830</u>	<u>\$ 47,462</u>	<u>\$ 222,243</u>

Note 12. Subsequent Events

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



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Required Supplementary Information

ANNUAL FINANCIAL REPORT
DRAKE STATE COMMUNITY & TECHNICAL COLLEGE



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COMMUNITY & TECHNICAL COLLEGE

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

(Dollar Amounts in Thousands)	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
College's Proportion of the Net Pension Liability	0.063863%	0.060081%	0.626010%	0.645040%	0.065017%	0.058299%	0.062776%	0.069142%	0.071344%	0.078133%
College's Proportionate Share of the Net Pension Liability	\$ 8,307	\$ 9,588	\$ 9,729	\$ 6,076	\$ 8,042	\$ 6,446	\$ 6,242	\$ 6,796	\$ 7,951	\$ 8,177
College's Covered Payroll	\$ 5,650	\$ 5,070	\$ 4,902	\$ 4,721	\$ 4,634	\$ 4,157	\$ 4,167	\$ 4,582	\$ 4,692	\$ 4,961
College's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	147.03%	189.11%	198.47%	128.70%	173.54%	155.06%	149.80%	148.32%	169.46%	164.83%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.41%	63.57%	62.21%	76.44%	67.72%	69.85%	72.29%	71.50%	67.93%	67.51%

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	2016
Contractually Required Contribution	\$ 781	\$ 680	\$ 610	\$ 584	\$ 564	\$ 562	\$ 507	\$ 506	\$ 541	\$ 552
Contributions in Relation to the Contractually Required Contribution	\$ (781)	\$ (680)	\$ (610)	\$ (584)	\$ (564)	\$ (562)	\$ (507)	\$ (506)	\$ (541)	\$ (552)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
College's Covered Payroll	\$ 5,988	\$ 5,650	\$ 5,070	\$ 4,902	\$ 4,721	\$ 4,634	\$ 4,157	\$ 4,167	\$ 4,582	\$ 4,692
Contributions as a Percentage of Covered Payroll	13.04%	12.04%	12.03%	11.91%	11.95%	12.13%	12.20%	12.14%	11.81%	11.76%

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. Method 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 Measurement Period Ended September 30***

(Dollar Amounts in Thousands)	2024	2023	2022	2021	2020	2019	2018	2017
College's Proportion of the Net OPEB Liability	0.049340%	0.047996%	0.055582%	0.049881%	0.048704%	0.053330%	0.055455%	0.059800%
College's Proportionate Share of the Net OPEB Liability	\$ 4,536	\$ 923	\$ 968	\$ 2,577	\$ 3,161	\$ 2,012	\$ 4,558	\$ 4,442
College's Covered Payroll	\$ 5,311	\$ 4,665	\$ 4,416	\$ 4,437	\$ 4,124	\$ 4,051	\$ 4,269	\$ 4,617
College's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	85.41%	19.79%	21.93%	58.08%	76.65%	49.67%	106.77%	96.21%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	20.41%	49.42%	48.39%	27.11%	19.80%	28.14%	14.81%	15.37%

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

**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	\$ 184	\$ 70	\$ 75	\$ 102	\$ 86	\$ 88	\$ 151	\$ 134
Contributions in Relation to the Contractually Required Contribution	\$ (184)	\$ (70)	\$ (75)	\$ (102)	\$ (86)	\$ (88)	\$ (151)	\$ (134)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
College's Covered Payroll	\$ 5,815	\$ 5,311	\$ 4,665	\$ 4,416	\$ 4,437	\$ 4,124	\$ 4,051	\$ 4,269
Contributions as a Percentage of Covered Payroll	3.16%	1.32%	1.61%	2.31%	1.94%	2.13%	3.73%	3.14%

* 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 were updated.

In 2022, rates of plan participation and tobacco usage assumptions were adjusted to reflect actual 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, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to reflect actual experience more closely.

Note 2. Recent Plan Changes

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

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

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

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

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

The actuarially determined contribution rates in the Schedule of employer contributions were calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Therefore, the actuarially determined employer contribution for fiscal year ending September 30, 2024 is determined based on the actuarial valuation as of September 30, 2021. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	20 years, Closed
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%
Medicare Eligible	4.50%
Year of Ultimate Trend Rate	2031 for Pre-Medicare Eligible 2027 for Medicare Eligible
Optional Plans Trend Rate	2.00%
Investment Rate of Return	5.00%, including inflation

* Initial Medicare claims are set based on scheduled increases through plan year 2025.



Supplementary Information

ANNUAL FINANCIAL REPORT
DRAKE STATE COMMUNITY & TECHNICAL COLLEGE



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

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass Through Grantor's Number	Passed Through to Subrecipients	Total Federal Expenditures
Research and Development Cluster				
U.S. Department of Education Direct Programs				
Higher Education Institutional Aid	84.031	N.A.	\$ -	\$ 1,576,585
Total Research and Development Cluster				1,576,585
Student Financial Assistance Cluster				
U.S. Department of Education Direct Programs				
Federal Supplemental Educational Opportunity Grants	84.007	N.A.	-	73,800
Federal Work-Study Program	84.033	N.A.	-	56,166
Federal Pell Grant Program	84.063	N.A.	-	3,561,021
Total Student Financial Assistance Cluster				3,690,987
U.S. Department of Labor Direct Programs				
Employment Training and Administration				
Workforce Data Quality Initiative	17.261	N.A.	-	40,010
U.S Department of Commerce National Telecommunications Information Administration Direct Program				
Connecting Minority Communities Program	11.028	01-09-C13007	-	969,943
U.S Department of the Treasury National Aeronautics & Space Administration Direct Program				
Office of STEM Engagement - Addictive Construction	43.008	80NSSC21M0303	-	160,277

**Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended September 30, 2025**

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Assistance Listing Number</u>	<u>Pass Through Grantor's Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Department of Education - Passed Through Alabama Community College System				
Adult Education - Basic Grants to States	84.002	0920AE110	-	111,109
U.S. Department of Education - Passed Through Alabama Department of Education				
Career and Technical Education - Basic Grants to States	84.048	V048A190001	-	167,850
National Science Foundation - Passed Through the Clark Atlanta University				
Education and Human Resources	47.076	N.A.	-	50,277
Department of Defense - Office of Economic Adjustment - Passed Through University of Alabama in Huntsville				
Alabama Defense of Advanced Manufacturing & Community	12.6	2020-1283	-	15,172
Total Federal Awards			\$ -	\$ <u>6,782,210</u>

N.A = Not Available

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

Notes to the 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 J.F. Drake State Community and Technical College (the "College") 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 College, it is not intended to and does not present the financial position, changes in net position or cash flows of the College.

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. The College has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the College and agencies and departments of the federal government and all subawards to the College by nonfederal organizations pursuant to federal grants, contracts and similar agreements. The awards are classified into Type A and Type B categories in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Program classified as Type A is as follows:

- Student Financial Aid Cluster
- Higher Education Emergency Relief Fund

Assistance Listing Numbers

Assistance Listing numbers are assigned to contracts and grants on the basis of program type. Assistance Listing numbers and pass-through numbers are provided when available.



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Additional Information

ANNUAL FINANCIAL REPORT
DRAKE STATE COMMUNITY & TECHNICAL COLLEGE





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Officials

Jimmy H. Baker

Chancellor

Dr. Patricia Sims

President

Katrina Harris

Chief Accountant



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Independent Auditor Reports

ANNUAL FINANCIAL REPORT
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**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of J.F. Drake State Community and Technical College (the “College”), a component unit of the State of Alabama, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the College’s basic financial statements, and have issued our report thereon dated January 15, 2026. The financial statements of Drake State Technical College Foundation, Inc. (the “Foundation”), a discretely presented component unit of the College, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College’s internal control over financial reporting (internal control) to determine the 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 College’s internal control. Accordingly, we do not express an opinion on the effectiveness of the College’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Report on Compliance and Other Matters

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

Purpose of this Report

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

Mauldin & Jenkins, LLC

Athens, AL
January 15, 2026





INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited J.F. Drake State Community and Technical College’s (the “College”) 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 College’s major federal programs for the year ended September 30, 2025. The College’s 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 College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2025.

Basis for Opinion on Each 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; 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 College 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 College’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 College’s federal programs.

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 College'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 generally accepted auditing standards, *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 College's compliance with the requirements of each 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 College'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 College'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 College'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.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2025-001. Our opinion on each major federal program is not modified with respect to these matters.

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

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.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the College, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the College's basic financial statements. We issued our report thereon dated January 15, 2026, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Mauldin & Jenkins, LLC

Athens, Alabama
January 15, 2026



Schedule of Findings and Questioned Costs (Continued) For the Year Ended September 30, 2025

Section III – Federal Award Findings and Questioned Costs

REFERENCE

2025-001 - Student Financial Assistance - Enrollment Reporting

Federal Agency:	U.S. Department of Education
Program:	Student Financial Assistance Cluster
Award(s):	Federal Pell Grant
Assistance Listing Number(s):	84.063
Award Year:	July 2024 through June 30, 2025

CRITERIA: 34 CFR part 690 establishes rules governing the accuracy and timeliness of enrollment reporting to the National Student Loan Data System (“NSLDS”). Schools are required to confirm and report to the National Student Loan Data System (“NSLDS”) the enrollment status of students who receive federal funds. Enrollment information is used to determine the borrower’s eligibility for in-school status, deferment, interest subsidy, and grace period. Enrollment changes, such as a change from full-time to half-time status, graduation, withdrawal, or an approved leave of absence, are changes that need to be reported. The enrollment information is merged into the NSLDS database and reported to guarantors, lenders, and servicers of student loans.

CONDITION: Through our Enrollment Reporting testing, we noted 1 out of 40 selections for which the students had a change in enrollment status but were not included in the enrollment reporting to NSLDS within 60 days of the change in enrollment.

QUESTIONED COSTS: None.

CAUSE/EFFECT: The student’s degree was awarded retroactively in Banner after the Spring degree verification file had been submitted to the National Student Clearinghouse. The College did not identify and report degrees posted after the standard reporting cycle concluded. Additionally, staff turnover in the Registrar’s office contributed to the oversight. The student’s “Graduated” status was not reported to NSLDS within the required 60-day timeframe, therefore the College was not in compliance with the Enrollment Reporting timeline requirements for this student.

RECOMMENDATION: The auditor recommends the College enhance its process and incorporate multiple individuals in the process to ensure that student enrollment changes are captured and reported timely.

VIEW OF RESONSIBLE OFFICIALS: Management concurs with this finding and has taken steps towards the reassessment of controls, review these accounts and implement controls to ensure that timely reporting to NSC is performed.



CORRECTIVE ACTION PLAN - YEAR ENDING SEPTEMBER 30, 2025

1) *Finding 2025-001 – Student Financial Assistance – Enrollment Reporting*

Management’s Response:

Management understands the importance of ensuring information is reported accurately and timely and the requirement to report to the NSLDS the enrollment status of students who receive federal funds. The College will review its policies and procedures to ensure that not only are status changes reported to the Clearinghouse, but also that the enrollment changes are reported appropriately from the National Student Clearinghouse to NSLDS.

Views of Responsible Officials and Corrective Action:

We will reassess controls, review these processes and implement controls, including multiple layers of review, to ensure that timely and accurate enrollment reporting is made. Furthermore, the reporting data was appropriately updated subsequent to the required timeframe.

Name of Responsible Person:

Jennifer O’Linger, Director of Student Financial Aid

Implementation Date:

Immediately

**Schedule of Prior Year Findings and Questioned Costs
For the Year Ended September 30, 2025**

No matters were reported



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