LAWSON STATE COMMUNITY COLLEGE
(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

Warren Averett
CPAs AND ADVISORS

www.warrenaverett.com

The report accompanying this deliverable was issued by Warren Averett, LLC.

LAWSON STATE COMMUNITY COLLEGE
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Warren Averett
CPAs AND ADVISORS

3815 Interstate Court
Montgomery, AL 36109
334.271.2200
warrenaverett.com

INDEPENDENT AUDITORS' REPORT

To the Alabama Community College System Board of Trustees
and the President of Lawson State Community College

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the College, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 generally accepted auditing standards 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 on pages 4 through 11 and the supplementary information on pages 46 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2023, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Warren Averett, LLC

Montgomery, Alabama
February 13, 2023

LAWSON STATE COMMUNITY COLLEGE
Management's Discussion and Analysis
September 30, 2022
(Unaudited)

Introduction

Lawson State Community College (the College) is a comprehensive, public, two-year, multi-campus college, which seeks to provide affordable and accessible quality educational opportunities, promotes economic growth, and enhances the quality of life for the diverse communities it serves. Through varied instructional modes and lifelong learning opportunities, the College prepares students for gainful employment, career advancement, college transfer and workforce development.

The College, located in the southwestern section of Birmingham, is composed of two main divisions – an academic division and a career/technical division. The College is an institution with a rich history of academic achievement and an unmatched record of community leadership and service. The College is proud of its ability to provide seamless administrative processes and educational support services for students and other constituents. The College offers an affordable and flexible education that is comprehensive, innovative, technology rich and designed to meet the diverse education needs of constituents in Jefferson County.

During this fiscal year, the College continued to use the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA)/Higher Education Emergency Relief Fund (HEERF II) funds to manage the impact that COVID 19 had on the College; i.e. faculty, staff and students in terms of College operations. The funds were disbursed to students to support continuation in school, to purchase faculty technology for instructional deliveries and assist with off campus technology. The College used Institutional funds to support and maintain a clean, safe and secure environment for faculty, staff and students who were required to come to campus as well as to supplement lost revenue from low enrollment.

In the Spring of 2022, the College developed plans to upgrade HVAC equipment. These upgrades were undertaken with the remaining HEERF II-HBCU and American Rescue Plan (ARP) funds provided and evolved to include improvements to existing facilities. The College received approval from the Department of Education to undertake major renovations to four (4) instructional facilities that are over fifty (50) years old. These renovations have been approved by the Alabama State Community College System Board of Trustees, let for bid and are currently under construction.

The College continues to use its Title III funds provided by the U. S. Department of Education to support instructional facilities and deferred maintenance of instructional facilities. The College's focus is on the use of technology and acquisition of instructional and non-instructional equipment to enhance services and increase its ability to attract future students. The College has encouraged faculty and students to return to campus while maintaining COVID protocols in an environment of safety and security.

Overview of the Financial Statements and Financial Analysis

The purpose of the financial statements is to provide readers with financial information about the activities and financial condition of the College. There are three financial statements presented: the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. These statements should be read in conjunction with the notes to the financial statements. The following summary and management discussion of the results is intended to provide the readers with an overview of the financial statements.

Statement of Net Position

The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows and net position of the College as of the end of the fiscal year. The statement of net position is a point of time financial statement. The purpose of the statement of net position is to present to the readers of the financial statements a fiscal snapshot of the College. The College's net position (the difference between assets plus deferred outflows and liabilities plus deferred inflows) is one indicator of the College's financial health. Over time, increases or decreases in net position are an indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

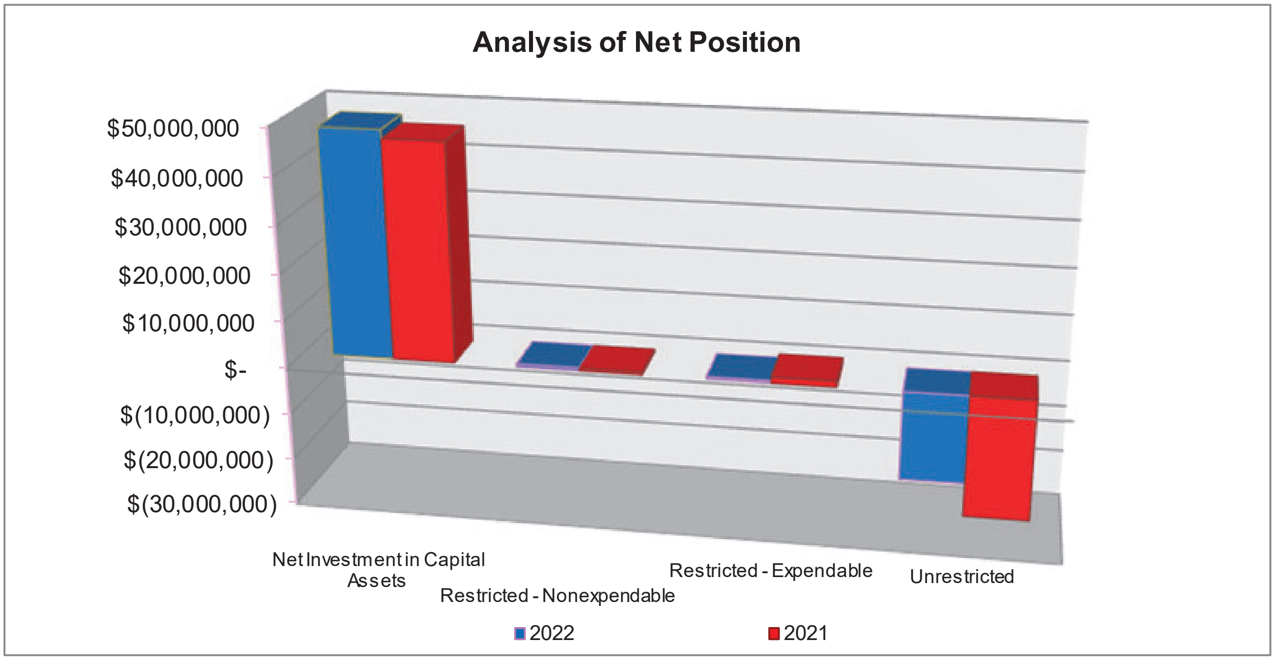
From the data presented, readers of the statement of net position can determine the assets available to continue the operations of the College. They are also able to determine how much the College owes vendors, bond holders and lending institutions. Finally, the statement of net position provides a picture of the net position and their availability for expenditure by the College.

Net position is divided into three major categories. The first category, net investment in capital assets, provides the College's equity in property, plant and equipment owned by the College. The next category is restricted net position, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. 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 final category is unrestricted net position which is available to the College for any appropriate purpose of the College.

Condensed Statements of Net Position

	2022	2021
ASSETS AND DEFERRED OUTFLOWS		
Current assets	$ 20,643,068	$ 16,128,805
Capital assets, net	51,762,215	50,295,778
Other assets	2,756,783	2,452,297
Deferred outflows	8,334,039	10,389,629
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 83,496,105	$ 79,266,509
LIABILITIES AND DEFERRED INFLOWS		
Current liabilities	$ 5,989,560	$ 5,150,552
Noncurrent liabilities	30,882,665	42,947,076
Deferred inflows	16,160,081	8,829,517
TOTAL LIABILITIES AND DEFERRED INFLOWS	53,032,306	56,927,145
NET POSITION		
Net investment in capital assets	48,188,062	46,335,873
Restricted – nonexpendable	597,500	585,000
Restricted – expendable	496,661	1,265,196
Unrestricted	(18,818,424)	(25,846,705)
TOTAL NET POSITION	$ 30,463,799	$ 22,339,364

The condensed statement of net position shows that total assets and deferred outflows increased by $4,229,596. This is a result of an increase in accounts receivable related to federal grants in the amount of $5,118,016. Noncurrent liabilities decreased $12,064,411. These were a result of changes from the actuarial calculations for Governmental Accounting Standard Board (GASB) Statements 68 and 75. These estimates affected the deferred outflows of resources, deferred inflows of resources and noncurrent liabilities.



The chart shows the changes in net position compared to the prior year. Total net position increased $8,124,435. Of this amount, unrestricted net position increased by $7,098,281.

Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position as presented on the statement of net position are based on the activity presented in the statement of revenues, expenses and changes in net position. The purpose of the statement is to present the revenues earned by the College, both operating and nonoperating, and the expenses incurred by the College, operating and nonoperating, and any other revenues, expenses, gains and losses earned or expended by the College.

Operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College.

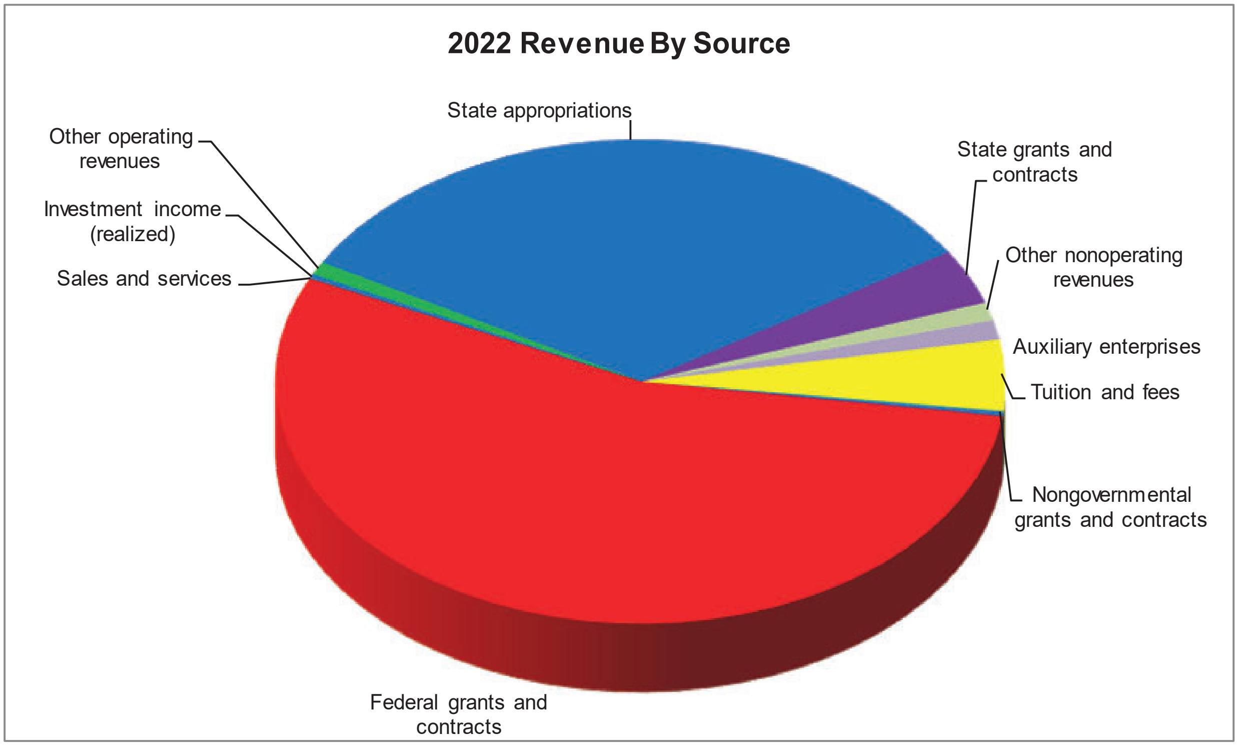
Non-operating revenues are revenues received for which goods and services are not provided. For example, state appropriations are non-operating because they are provided by the Legislature to the College without the Legislature directly receiving commensurate goods and services for those revenues. This will normally result in a public college showing an operating deficit because GASB 35 classifies state appropriations and gifts as nonoperating revenues.

The statement of revenues, expenses and changes in net position reflects an increase in net position of $8,124,435. This is due primarily to the HEERF funds that were received for fiscal years 2021 and 2022.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2022	2021
OPERATING REVENUES	$ 10,719,554	$ 11,179,542
OPERATING EXPENSES	41,885,988	51,335,646
Operating loss	(31,166,434)	(40,156,104)
NONOPERATING REVENUES (EXPENSES)	38,633,550	60,157,380
Change in net position	7,467,116	20,001,276
NET POSITION		
Net position at beginning of year	22,339,364	2,118,655
Prior period adjustments	657,319	219,433
Net position at beginning of year, restated	22,996,683	2,338,088
Net position at end of year	$ 30,463,799	$ 22,339,364

The following is a graphic illustration of revenue by source for fiscal year 2022:



The chart illustrates revenues by source and their relationship with one another. Federal grants and contracts represent the largest type of operating revenue, followed by student tuition and fees. Federal grants represent the largest type of nonoperating revenue, followed by state appropriations. All other types of revenue represent less than 8% of the total revenue.

LAWSON STATE COMMUNITY COLLEGE
Management's Discussion and Analysis
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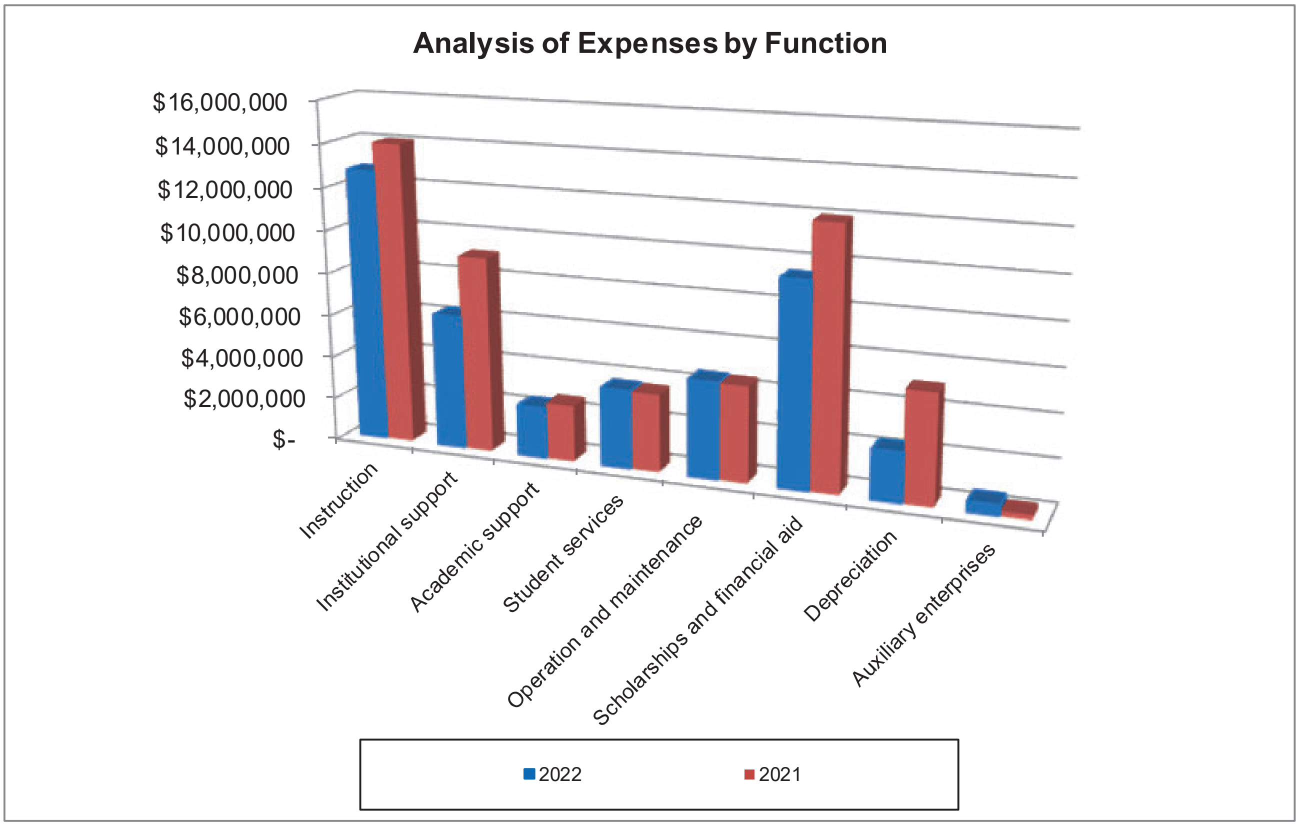
The following graph represents a comparison of fiscal years 2022 and 2021 operating expenses by function. Instructional expense represents about 30% of all operating expenses.



Statement of Cash Flows

The final statement presented by the College is the statement of cash flows which presents detailed information about the cash activity of the College during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the College. The second section shows cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting and noncapital financing purposes. The third section reflects cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fifth section reconciles the net cash used for the operating income or loss reflected on the statement of revenues, expenses and changes in net position. Cash and cash equivalents increased $515,603 during the current fiscal year.

	2022	2021
Cash and cash equivalents provided by (used in):		
Operating activities	$ (30,247,481)	$ (34,196,062)
Noncapital financing activities	34,035,357	39,663,943
Capital and related financing activities	(3,374,485)	(73,623)
Investing activities	102,212	151,955
Net increase in cash and cash equivalents	515,603	5,546,213
Cash and cash equivalents at beginning of year	8,110,571	2,564,358
Cash and cash equivalents at end of year	$ 8,626,174	$ 8,110,571

Economic Outlook

The College's overall financial position is strong. The College anticipates fiscal year 2023 will provide many opportunities and challenges as it recovers from the effects of the pandemic. The College continually positions itself to fulfill the in-demand occupations of our service area including office and administrative support, healthcare, food service industry, and construction and manufacturing. The College has made budget adjustments while preserving its commitment to use available resources to acquire and improve the College's ability to accomplish its missions of instruction and public service.

Sharon Crews
Vice President for Administrative and Fiscal Services

LAWSON STATE COMMUNITY COLLEGE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 8,626,174
Deposit with bond trustee	210,772
Short-term investments	790,470
Accounts receivable, net	10,878,163
Inventory	135,789
Prepaid expenses	1,700
Total current assets	20,643,068
NONCURRENT ASSETS	
Long-term investments	2,756,783
Capital assets:	
Land	2,628,595
Improvements	7,225,147
Buildings	72,317,256
Equipment and furniture	7,009,742
Library holdings	1,460,683
Construction in progress	1,875,790
Leased right of use assets	174,167
Less: accumulated depreciation	(40,929,165)
Total noncurrent assets	54,518,998
DEFERRED OUTFLOWS OF RESOURCES	
Pension related items	4,839,000
OPEB related items	3,479,927
Loss on bond refunding	15,112
Total deferred outflows of resources	8,334,039
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 83,496,105

See notes to the financial statements.

LAWSON STATE COMMUNITY COLLEGE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$	2,547,854
Unearned revenue		2,412,832
Deposit liabilities		308,791
Compensated absences		125,000
Bonds payable		528,713
Lease payable		66,370
Total current liabilities		5,989,560
NONCURRENT LIABILITIES		
Compensated absences		1,161,897
Deposit liabilities		471,571
Bonds payable		2,940,988
Lease payable		53,194
Net pension liability		18,347,000
OPEB liability		7,908,015
Total noncurrent liabilities		30,882,665
Total liabilities		36,872,225
DEFERRED INFLOWS OF RESOURCES		
Pension related items		7,566,000
OPEB related items		8,594,081
Total deferred inflows of resources		16,160,081
Total liabilities and deferred inflows		53,032,306
NET POSITION		
Net investment in capital assets		48,188,062
Restricted:		
Nonexpendable:		
Scholarships and fellowships		597,500
Expendable:		
Loans		68,300
Debt service		383,692
Instructional department uses		44,669
Unrestricted		(18,818,424)
TOTAL NET POSITION	$	30,463,799

See notes to the financial statements.

LAWSON STATE COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2022

OPERATING REVENUES	
Student tuition and fees (net of scholarships of $9,032,398)	$ 2,354,292
Federal grants and contracts	5,264,073
State and local grants and contracts	1,840,850
Nongovernmental grants and contracts	161,640
Sales and services of educational departments	2,996
Auxiliary enterprises	653,922
Other operating revenue	441,781
Total operating revenues	10,719,554
OPERATING EXPENSES	
Educational and General:	
Instruction	12,747,685
Institutional support	6,277,960
Academic support	2,393,246
Student services	3,671,700
Operation and maintenance of plant	4,515,816
Scholarships and financial aid	9,440,195
Depreciation	2,321,565
Auxiliary enterprises	517,821
Total operating expenses	41,885,988
Operating loss	(31,166,434)
NONOPERATING REVENUES (EXPENSES)	
State appropriations	16,295,845
Federal grants	21,917,088
Investment income (net of investment expense)	90,718
Endowment income	62,500
Loss on investments	(211,164)
Interest on capital asset related debt	(75,193)
Bond surety fee expense	(54,774)
Other nonoperating revenue	608,530
Net nonoperating revenues (expenses)	38,633,550
CHANGE IN NET POSITION	
Change in net position	7,467,116
Net position at beginning of year	22,339,364
Prior period adjustments	657,319
Net position at beginning of year, restated	22,996,683
Net position at end of year	$ 30,463,799

See notes to the financial statements.

LAWSON STATE COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 2,622,368
Grants and contracts	6,510,321
Payments to suppliers	(6,290,220)
Payments for utilities	(1,661,689)
Payments for employees	(15,438,475)
Payments for employee benefits	(7,130,469)
Payments for scholarships	(9,440,195)
Auxiliary enterprises	136,101
Other receipts (payments)	444,777
Net cash used in operating activities	(30,247,481)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	16,295,845
Bond surety fee expenses	(73,958)
Federal grant revenue – nonoperating	11,556,455
Pell revenue	5,945,278
Other noncapital financing	311,737
Net cash provided by noncapital financing activities	34,035,357
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(2,868,088)
Principal paid on capital debt	(480,000)
Interest paid on capital debt	(90,878)
Deposits with trustees	64,481
Net cash used in capital and related financing activities	(3,374,485)

See notes to the financial statements.

LAWSON STATE COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	$ 2,321,069
Purchase of investments	(2,372,075)
Investment income	153,218
Net cash provided by investing activities	102,212
NET INCREASE IN CASH AND CASH EQUIVALENTS	515,603
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8,110,571
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 8,626,174
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	$ (31,166,434)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	2,321,565
Donated capital assets	(52,900)
Changes in assets and liabilities:	
Accounts receivable, net	(276,690)
Inventory	86,660
Prepaid expenses	42,072
Deferred outflows	2,042,194
Accounts payable and accrued liabilities	875,067
Unearned revenue	(158,576)
Compensated absences	96,159
Pension liability	(8,537,000)
OPEB liability	(2,850,162)
Deferred inflows	7,330,564
Net cash used in operating activities	$ (30,247,481)

See notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lawson State Community College (the College) 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 GASB in Statement Number 14, *The Financial Reporting Entity*, states that a primary government is financially accountable for a component unit if (1) it appoints a voting majority of an organization's governing body and 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.

Component Unit
Lawson State Community College Foundation, Inc. (Foundation) was incorporated as a non-profit corporation to promote scientific, literary, educational purposes, the advancement of the College, and for the encouragement and support of its students and faculty. This report contains no financial statements of the Foundation. Unaudited financial statements of the Foundation reported net assets of $1,006,091 at September 30, 2022.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the 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 resources are available.

The statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating 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. Nonoperating revenues arise from exchange transactions not associated with the College's principal activities, such as investment income and from all nonexchange transactions, such as state appropriations.

Subsequent Events

Management has evaluated subsequent events through February 13, 2023, which is the date the financial statements were issued.

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

Receivables

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

Capital assets, other than intangibles, with a unit cost of over $5,000 and an estimated useful life in excess of one year, and all library books, are recorded at historical cost or estimated historical cost if purchased or constructed. The capitalization threshold for intangible assets such as capitalized software and internally generated computer software is $1 million and $100,000 for easements and land use rights and patents, trademarks and copyrights. In addition, works of art and historical treasures and similar assets are recorded at their historical cost. Donated capital assets are recorded at acquisition value (an entry price). Land, construction in progress and intangible assets with indefinite lives are the only capital assets that are not depreciated. 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 operations.

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

Assets	Depreciation Method	Useful Lives
Buildings	Straight-line	50 years
Building alterations	Straight-line	25 years
Improvements other than buildings	Straight-line	25 years
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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Long-Term Obligations
Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bonds are carried net of applicable premiums and discounts. Bond premiums and discounts are amortized over the life of the applicable bonds.

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

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

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

Unearned Tuition and Fee Revenue
Tuition and fee revenues received for Fall Term but related to the portion of the term that occurs in the subsequent fiscal year have been disclosed as unearned revenue.

Pensions
Employees of the College are covered by a cost sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement System of Alabama (TRS or the Plan). The TRS financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with the requirements of the 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Postemployment Benefits Other Than Pensions (OPEB)
The Alabama Retired Education Employees' Health Care Trust (the Trust) financial statements are prepared 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 significant unspent related debt proceeds or inflows of resources at year-end related to capital assets are not included in this calculation.

- Restricted nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by the College. Such assets include the College's permanent endowment funds.

- 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.

- Unrestricted – Net position representing the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted resources may be designated for specific purposes by action of management or the Alabama Community College System Board of Trustees.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Federal Financial Assistance Programs

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

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 as prescribed by the National Association of College and University Business Officers (NACUBO) in their Advisory Report 2000-05 to determine the amount of scholarship allowances and discounts.

Leases

For the year ended September 30, 2022, the financial statements include the adoption of GASB Statement No. 87, *Leases*. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

Management Estimates and Assumptions

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. DEPOSITS AND INVESTMENTS

Deposits

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

2. DEPOSITS AND INVESTMENTS – CONTINUED

Deposits – Continued

The statement of net position classification “cash and cash equivalents” includes all readily available cash such as petty cash, demand deposits and certificates of deposit with maturities of three months or less.

Investments

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

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% of the College’s total investment portfolio. Maximum maturity of these securities shall be ten years. 2) U. S. Agency securities shall have limitations of 50% of the College’s total investment portfolio for each agency, with two exceptions: TVA and SLMA shall be limited to 10% 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% of the College’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% of the College’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.

2. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued
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 are 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.

The College's investments consisted of the following as of September 30, 2022:

U.S. Treasuries	$ 3,381,585
Certificates of deposit	20,000
Money market funds	145,668
Total	$ 3,547,253

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

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

The College's investments in U. S. Treasury Notes held a Moody's rating of "AAA" and a Standard & Poor's rating of "AA+."

2. DEPOSITS AND INVESTMENTS – CONTINUED

Interest Rate Risk

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

At September 30, 2022, the maturity dates of the College's debt instruments were as follows:

	Investment Maturities at Fair Value (in Years)			
Type of Investment	Less Than 1	1 - 5 Years	No Maturity	Totals
U.S. Treasuries	$ 624,802	$ 2,756,783	$ -	$ 3,381,585

The College's Endowment Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increased 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	Maximum Maturity
U.S. Treasury Bills, Notes, Bonds and Stripped Treasuries	10 years
U.S Agencies	10 years
Certificates of deposit	5 years
Mortgage-backed securities and mortgage-related	7 years (aggregate average life)
securities	10 years (average life maturity of any one security)

Custodial Credit Risk

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to cover the value of its investments or collateral securities that are in the possession of an outside party. The College has no formal policy limiting 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 which limits investment in any one issuer to less than 5%. However, the College's investments are in investment pools.

2. DEPOSITS AND INVESTMENTS – CONTINUED

Deposits with Trustees
At September 30, 2022, the College had $210,772 in accounts administered by its bond trustees. The funds were invested in a Fidelity Money Market Fund which is rated “Aaa-mf” by Moody’s and “AAAm” by Standard and Poor’s.

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

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

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

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

Investments by Fair Value Level	At 9/30/2022	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Debt Securities				
U.S. Government Guaranteed	$ 3,381,585	$ 3,381,585	$ -	$ -
Certificates of deposit	20,000			
Money market account	145,668			
Total	$ 3,547,253			

3. RECEIVABLES

Receivables are reported net of uncollectible amounts and are summarized as follows:

Federal	$ 7,982,485
Student	5,359,869
State	446,392
Third-party	1,305,988
Other	102,845
	15,197,579
Allowance for doubtful accounts	(4,319,416)
Total	$ 10,878,163

4. CAPITAL ASSETS

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

	Balance 10/1/21	Prior Period Adjustments	Balance 10/1/21 as Restated	Additions	Reductions/ Transfers	Balance 9/30/22
Capital assets, not being depreciated:						
Land	$ 2,628,595	$ -	$ 2,628,595	$ -	$ -	$ 2,628,595
Construction in progress	-	-	-	1,875,790	-	1,875,790
Total capital assets, not being depreciated	2,628,595	-	2,628,595	1,875,790	-	4,504,385
Capital assets, being depreciated:						
Improvements other than buildings	7,225,147	-	7,225,147	-	-	7,225,147
Buildings and building alterations	72,317,256	-	72,317,256	-	-	72,317,256
Equipment and furniture	6,052,998	-	6,052,998	1,045,198	(88,454)	7,009,742
Library holdings	1,460,683	-	1,460,683	-	-	1,460,683
Leased right to use assets	-	-	-	174,167	-	174,167
Total capital assets, being depreciated	87,056,084	-	87,056,084	1,219,365	(88,454)	88,186,995
Less accumulated depreciation for:						
Improvements other than buildings	5,681,255	-	5,681,255	189,171	-	5,870,426
Buildings and building alterations	27,495,625	(692,847)	26,802,778	1,587,930	-	28,390,708
Equipment and furniture	4,896,941	-	4,896,941	454,503	(88,454)	5,262,990
Library holdings	1,315,080	-	1,315,080	34,368	-	1,349,448
Leased right to use assets	-	-	-	55,593	-	55,593
Total accumulated depreciation	39,388,901	(692,847)	38,696,054	2,321,565	(88,454)	40,929,165
Total capital assets, being depreciated, net	47,667,183	692,847	48,360,030	(1,102,200)	-	47,257,830
Total capital assets, net	$ 50,295,778	$ 692,847	$ 50,988,625	$ 773,590	$ -	$ 51,762,215

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at September 30, 2022:

Payroll expense	$ 876,155
Interest payable	36,683
Bond surety fee payable	23,303
Trade payables	1,562,205
Other accrued expenses	49,508
Total	$ 2,547,854

6. LONG-TERM LIABILITIES

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

	Balance 10/1/21	Additions	Reductions	Balance 9/30/22	Current Portion
Bonds payable:					
2012 Series Revenue Bonds	$ 970,000	$ -	$ 480,000	$ 490,000	$ 490,000
2021 Series Revenue Bonds	2,670,000	-	-	2,670,000	-
Bond premium	348,413	-	38,712	309,701	38,713
Total bonds	3,988,413	-	518,712	3,469,701	528,713
Other liabilities					
Compensated absences	1,190,738	323,014	226,855	1,286,897	125,000
Leases	-	174,168	54,604	119,564	66,370
Total long-term liabilities	$ 5,179,151	$ 497,182	$ 800,171	$ 4,876,162	$ 720,083

On November 1, 2012, the State Board of Education issued the 2012 Series Revenue Bonds in the amount of $5,690,000. The 2012 Series Revenue Bonds are payable over 10 years with an interest rate of 2.0% to 2.625%. The proceeds were used to advance refund the 2003A Series Revenue Bonds and the 1998A Series Revenue Bonds.

On July 21, 2021, the College issued the 2021 Series Revenue Bonds in the amount of $2,670,000. The 2021 Series Revenue Bonds are payable over 10 years with an interest rate of 3.0% to 4.0%. The proceeds were used to refund the 2007 Series Bonds. The 2007 Series Bonds were issued to provide funding to finance a portion of the costs of acquiring, constructing, and equipping various capital improvements to facilities of the College and paying the expenses of issuing the bonds.

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 is pledged to secure the bonds.

6. LONG-TERM LIABILITIES – CONTINUED

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

	2012 Series Revenue Bonds		2021 Series Revenue Bonds		
	Principal	Interest	Principal	Interest	Total
2023	$ 490,000	$ 6,431	$ -	$ 92,250	$ 588,681
2024	-	-	345,000	92,250	437,250
2025	-	-	360,000	81,900	441,900
2026	-	-	370,000	71,100	441,100
2027	-	-	380,000	60,000	440,000
2028-2032	-	-	1,215,000	98,400	1,313,400
Total	$ 490,000	$ 6,431	$ 2,670,000	$ 495,900	$ 3,662,331

Pledged Revenues
The College has pledged tuition and fees, excluding technology fees, for the payment of debt service on the 2012 Series Revenue Bonds. The principal and interest payments made during the period were $504,863. Therefore, of the $1,509,837 in tuition and fee revenue pledged by the College during fiscal year 2022, 33.44% was needed for debt service on the 2012 Series Revenue Bonds.

The College has pledged tuition, facility renewal, and building fees for the payment of debt service on the 2021 Series Revenue Bonds. The principal and interest payments made during the period were $104,301. Therefore, of the $1,451,064 in tuition and fee revenue pledged by the College during fiscal year 2022, 7.19% was needed for debt service on the 2021 Series Revenue Bonds.

Lease Liability
The College leases office equipment from external parties for various terms under long-term non-cancelable lease agreements. The leases expire at various dates through 2026. In accordance with GASB Statement No. 87, the College records right-to-use assets and lease liabilities based on the present value of expected payments over the lease term of the respective leases. The expected payments are discounted using the interest rate charged on the lease, if available, or are otherwise discounted using the College's incremental borrowing rate. The interest rates range from 0.47% percent to 2.54%.

6. LONG-TERM LIABILITIES – CONTINUED

Lease Liability – Continued
Future minimum payments under the lease agreements and the present value of the minimum payments as of September 30, 2022, are as follows:

	Lease Liability		
	Principal	Interest	Total
2023	$ 66,370	$ 1,947	$ 68,317
2024	49,072	1,244	50,316
2025	4,122	590	4,712
Total	$ 119,564	$ 3,781	$ 123,345

7. DEFINED BENEFIT PENSION PLAN

Plan Description
The TRS, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of 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. The TRS Board of Control consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). Title 16-Chapter 25 of the Code of Alabama 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 are eligible for retirement after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, 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.

7. DEFINED BENEFIT PENSION PLAN – CONTINUED

Benefits Provided – Continued

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service up to 80% of their average final compensation. Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

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.

Participating employers' contractually required contribution rate for the fiscal year ended September 30, 2022, was 12.36% of annual pay for Tier 1 members and 11.22% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were $1,732,000 for the year ended September 30, 2022.

7. DEFINED BENEFIT PENSION PLAN – CONTINUED

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

At September 30, 2022, the College reported a liability of $18,347,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of September 30, 2020. The College's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2021, the College's proportion was 0.19476%, which was an increase of 0.00488% from its proportion measured as of September 30, 2020.

For the year ended September 30, 2022, the College recognized pension expense of $1,715,000. At September 30, 2022, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 849,000	$ 1,069,000
Net difference between projected and actual earnings on pension plan investments	-	4,331,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	332,000	2,166,000
Change of assumptions	1,926,000	-
Employer contributions subsequent to measurement date	1,732,000	-
	$ 4,839,000	$ 7,566,000

7. DEFINED BENEFIT PENSION PLAN – CONTINUED

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

The $1,732,000 reported as deferred outflows of resources related to pensions resulting from the College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year ending September 30,	
2023	$ (809,000)
2024	(791,000)
2025	(1,184,000)
2026	(1,675,000)
2027	-
Thereafter	-
	$ (4,459,000)

Actuarial Assumptions

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

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

*Net of pension plan investment expense

The actuarial assumptions used in the September 30, 2020, valuation were based on the results of an actuarial experience study for the period October 1, 2015 through September 30, 2020.

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% ages > 74; Phasing down 69-74
Beneficiaries	Contingent Survivor – Below Median	Male: +2, Female: None	None
Disabled Retirees	Teacher Disability	Male: +8, Female: +3	None

7. DEFINED BENEFIT PENSION PLAN – CONTINUED

Actuarial Assumptions – Continued

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:

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

* Includes assumed rate of inflation of 2.0%

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.

7. DEFINED BENEFIT PENSION PLAN – CONTINUED

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

The following table presents the College's proportionate share of the collective net pension liability calculated using the discount rate of 7.45%, as well as what the College's proportionate share of the collective 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 Rate (7.45%)	1% Increase (8.45%)
College's proportionate share of collective net pension liability	$ 27,005,000	$ 18,347,000	$ 11,055,000

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Annual Comprehensive Report for the fiscal year ended September 30, 2021. The supporting actuarial information is included in the GASB Statement Number 68 Report for the TRS prepared as of September 30, 2021. The auditor's report dated January 31, 2022, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2021, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The 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 (PEEHIB) 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 (the State) and is included in the State's Annual Comprehensive Financial Report.

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

Plan Description – Continued

The PEEHIP was established in 1983 pursuant to the provisions of the *Code of Alabama 1975*, Section 16-25A-4, (Act Number 83-455, Acts of Alabama) 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 PEEHIB. The PEEHIB is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the PEEHIP are held in trust for the payment of health insurance benefits. The 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.

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

Benefits Provided – Continued

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. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents covered on a retiree contract were enrolled in the United Healthcare (UHC) Group Medicare Advantage plan for PEEHIP retirees. Effective January 1, 2020, Humana replaced the UHC contract. The plan is fully insured by Humana 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 MAPDP 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 PEEHIB 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 PEEHIB 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 PEEHIB for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% for each year of service over 25 subject to adjustment by the PEEHIB 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.

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

Contributions – Continued

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the PEEHIB 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 PEEHIB 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 PEEHIB 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 PEEHIB. This reduction in the employer contribution ceases upon notification to the PEEHIB of the attainment of Medicare coverage.

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

At September 30, 2022, the College reported a liability of $7,908,015 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2021. The College's proportion of the collective net OPEB liability was based on a projection of the College's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2021, the College's proportion was 0.015305% which was an decrease of 0.012715% from its proportion measured as of September 30, 2020.

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

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

For the year ended September 30, 2022, the College recognized OPEB expense of ($7,908,015) with no special funding situations. At September 30, 2022, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 187,104	$ 2,751,213
Changes of assumptions	2,816,363	3,065,214
Net difference between projected and actual earnings on OPEB plan investments	-	246,679
Changes in proportion and differences between Employer contributions and proportionate share of contributions	163,145	2,530,975
Employer contributions subsequent to the measurement date	313,315	-
	$ 3,479,927	$ 8,594,081

The $313,315 reported as deferred outflows of resources related to OPEB resulting from the College's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2023.

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

Year ending September 30,	
2023	$ (1,628,183)
2024	(1,347,301)
2025	(1,363,732)
2026	(443,841)
2027	(309,764)
Thereafter	(334,648)
	$ (5,427,469)

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

Actuarial Assumptions

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

Inflation	2.50%
Projected Salary Increases[1]	3.25% - 5.00%
Long-Term Investment Rate of Return[2]	7.00%
Municipal Bond Index Rate at the Measurement Date	2.29%
Municipal Bond Index Rate at the Prior Measurement Date	2.25%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2051
Single Equivalent Interest Rate at the Measurement Date	3.97%
Single Equivalent Interest Rate at the Prior Measurement Date	3.05%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	6.50%
Medicare Eligible	**
Ultimate Trend Rate	
Pre-Medicare Eligible	4.50% in 2028
Medicare Eligible	4.50% in 2025

[1]Includes 2.75% wage inflation.
[2]Compounded annually, net of investment expense, and includes inflation.
** Initial Medicare claims are set based on scheduled increases through plan year 2022.

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
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

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

Actuarial Assumptions – Continued

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 actuarial valuation as of September 30, 2020.

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in conjunction with similar analysis for the Teachers' Retirement System of Alabama. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed for each major asset class. These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption or a fundamental change in the market that alters expected returns in future years.

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

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

	Target Allocation	Long-Term Expected 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%
	100.00%	

* Geometric mean, includes 2.5% inflation

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

Discount Rate

The discount rate, also known as the Single Equivalent Interest Rate (SEIR), as described by GASB Statement Number 74, used to measure the total OPEB liability at September 30, 2021, was 3.97%. The discount rate used to measure the total OPEB liability at the prior measurement date was 3.05%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately 12.990% of the employer contributions were used to assist in funding retiree benefit payments in 2021, and it is assumed that the amount will increase at the same rate as expected benefit payments for the closed group reaching 20.00%. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Therefore, the projected future benefit payments for all current plan members were projected through 2119. The long-term rate of return is used until the assets are expected to be depleted in 2051, after which the municipal bond rate is used.

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

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

	1% Decrease (5.50% decreasing to 3.50% for Pre-Medicare, Known decreasing to 3.50% for Medicare Eligible)	Current Healthcare Trend Rate (6.50% decreasing to 4.50% for Pre-Medicare, Known decreasing to 4.50% for Medicare Eligible)	1% Increase (7.50% decreasing to 5.50% for Pre-Medicare, Known decreasing to 5.50% for Medicare Eligible)
College's proportionate share of collective net OPEB liability	$ 6,205,203	$ 7,908,015	$ 10,101,923

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) – CONTINUED

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

The following table presents the College's proportionate share of the collective net OPEB liability of the Trust calculated using the discount rate of 3.97%, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (2.97%)	Current Discount Rate Rate (3.97%)	1% Increase (4.97%)
College's proportionate share of collective net OPEB liability	$ 9,727,208	$ 7,908,015	$ 6,448,821

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is located in the Trust's financial statements for the fiscal year ended September 30, 2021. The supporting actuarial information is included in the GASB Statement Number 75 Report for PEEHIP prepared as of September 30, 2021. Additional financial and actuarial information is available at www.rsa-al.gov.

9. SIGNIFICANT COMMITMENTS

As of September 30, 2022, the College had been awarded approximately $34,500,000 in contracts and grants on which performance had not been accomplished and funds had not been received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

10. PRIOR PERIOD ADJUSTMENTS

The beginning net position was adjusted for the following errors related to the prior period.

Overstatement of accounts receivable	$ (35,528)
Understatement of capital assets	692,847
	$ 657,319

11. RISK MANAGEMENT AND CONTINGENCIES

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 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's President, Vice-President, Director of Accounting and Finance and Financial Aid Director as well as other College personnel who handle funds.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF) administered by the 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.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. This amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the College expects such amounts, if any, to be immaterial.

12. EFFECT OF NEW PRONOUNCEMENTS

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the College.

GASB 96, *Subscription-Based Information Technology Arrangements*. This Statement provides accounting and financial reporting guidance for subscription-based information technology arrangements. Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2022.

GASB 100, *Accounting Changes and Error Corrections*. This Statement prescribes accounting and financial reporting for each category of accounting changes and error corrections. Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2023.

GASB 101, *Compensated Absences*. This Statement aligns recognition and measurement guidance for all types of compensated absences under a unified model which will result in governments recognizing a liability that more appropriately reflects when they incur an obligation for compensated absences. Requirements for this Statement are effective for financial statements whose fiscal year begins after December 15, 2023.

REQUIRED SUPPLEMENTARY INFORMATION

LAWSON STATE COMMUNITY COLLEGE
SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE COLLECTIVE NET PENSION LIABILITY (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	2015	2016	2017	2018	2019	2020	2021	2022
College's proportion of the net pension liability	0.20835%	0.20820%	0.21382%	0.21698%	0.21747%	0.21246%	0.21734%	0.19476%
College's proportionate share of the collective net pension liability	$ 18,927,000	$ 21,789,000	$ 23,148,000	$ 21,326,000	$ 21,622,000	$ 23,491,000	$ 26,884,000	$18,347,000
College's covered payroll during the measurement period	$ 13,215,000	$ 13,177,000	$ 13,627,000	$ 14,375,000	$ 14,358,000	$ 14,955,000	$ 15,314,000	$14,405,000
College's proportionate share of the net pension liability as a percentage of its covered payroll	143.22%	165.36%	169.87%	148.35%	150.59%	157.08%	175.55%	127.37%
Plan fiduciary net position as a percentage of the total collective pension liability	71.01%	67.51%	67.93%	71.50%	72.29%	69.85%	67.72%	76.44%

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

Note to Schedule

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 Required Supplementary Information Schedule (GASB 68 paragraph 81b) is for the most recent fiscal year end, which for the 9/30/2022 year is 10/1/2020 - 9/30/2021.

LAWSON STATE COMMUNITY COLLEGE
SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS – PENSION (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	2015	2016	2017	2018	2019	2020	2021	2022
Contractually required contribution	$ 1,408,000	$ 1,607,000	$ 1,699,000	$ 1,728,000	$ 1,826,000	$ 1,847,000	$ 1,708,000	$ 1,732,000
Contributions in relation to the contractually required contribution	$ 1,408,000	$ 1,607,000	$ 1,699,000	$ 1,728,000	$ 1,826,000	$ 1,847,000	$ 1,708,000	$ 1,732,000
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 15,221,000	$ 15,892,000	$ 14,375,000	$ 14,357,000	$ 15,836,000	$ 14,955,000	$ 14,094,000	$14,252,000
Contributions as a percentage of covered payroll	9.25%	10.11%	11.82%	12.04%	11.53%	12.35%	12.12%	12.15%

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

Notes to Schedule

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 Required Supplementary Information Schedule (GASB 68 paragraph 81b) is for the most recent fiscal year end, which for the 9/30/2022 year is 10/1/2021 - 9/30/2022.

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.

LAWSON STATE COMMUNITY COLLEGE
SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE COLLECTIVE NET OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	2018	2019	2020	2021	2022
College's proportion of collective net OPEB liability	0.19044%	0.18985%	0.19358%	0.16577%	0.15305%
College's proportionate share of the collective net OPEB liability	$ 14,144,944	$ 15,603,416	$ 7,303,475	$ 10,758,177	$ 7,908,015
College's covered payroll during the measurement period	$ 14,238,277	$ 14,185,103	$ 14,362,757	$ 14,740,780	$ 14,274,709
College's proportionate share of the collective net OPEB liability as a percentage of its covered payroll	99.34%	110.00%	50.85%	72.98%	55.40%
Plan fiduciary net position as a percentage of the total collective net OPEB liability	15.37%	14.84%	28.14%	19.80%	27.11%

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

Note to Schedule

Per GASB 75, covered payroll is defined as the payroll of employees that are provided with OPEB through the OPEB plan. The covered payroll for this Required Supplementary Information Schedule (GASB 75 paragraph 97) is for the most recent fiscal year end, which for the 9/30/2022 year is 10/1/2020 - 9/30/2021.

LAWSON STATE COMMUNITY COLLEGE
SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS – OPEB (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	2018	2019	2020	2021	2022
Contractually required contribution	$ 466,069	$ 550,574	$ 323,007	$ 260,943	$ 313,315
Contributions in relation to the contractually required contribution	$ 466,069	$ 550,574	$ 323,007	$ 260,943	$ 313,315
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Employer's covered payroll	$ 14,185,103	$ 14,362,757	$ 14,740,780	$ 14,274,709	$ 14,701,935
Contributions as a percentage of covered payroll	3.29%	3.83%	2.19%	1.83%	2.13%

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

1. CHANGES IN ACTUARIAL ASSUMPTIONS

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

Price Inflation	2.50%
Investment Return	7.45%
Wage Inflation	3.25-5.00%
Mortality Rates (Pre-Retirement, Post-Retirement, Healthy and Disabled)	Update to Pub-2010 Public Mortality Plans Mortality Tables. For future mortality improvement, generational mortality improvement with mortality improvement scale MP-2020, with an adjustment of 66 2/3% to the table beginning in year 2019.
Retirement Rates	Deceased rates of retirement at most ages and extended retirement rates at age 80.
Withdrawal Rates	Changed from age-based table broken down by service bands to a pure service-based table. Used a liability weighted methodology in analyzing rates.
Disability Rates	Lowered rates of disability retirement at most ages.
Salary increases	No change to total assumption rates of salary increases, but increased merit salary by 0.25% to offset the recommended decrease in wage inflation assumption by 0.25%.

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

2. RECENT PLAN CHANGES

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

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

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

3. METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated as of September 30, 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, 2021, is determined based on the actuarial valuation as of September 30, 2018. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	23 years, closed
Asset Valuation Method	Market value of assets
Inflation	2.75%
Health Care Cost Trend Rate:	
Pre-Medicare Eligible	6.75%
Medicare Eligible*	5.00%
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75%
Medicare Eligible	4.75%
Year of Ultimate Trend Rate	2026 for Pre-Medicare Eligible 2024 for Medicare Eligible
Optional Plans Trend Rate	2.00%
Investment Rate of Return	5.00%, including inflation

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

SUPPLEMENTARY INFORMATION

SINGLE AUDIT REPORT

LAWSON STATE COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Federal Grantor/Program or Cluster Title/ Pass-Through Grantor/ Grant Name	Federal Assistance Listing Number	Pass-Through/ Grant Number	Federal Expenditures	Passed through to Subrecipients
Department of Education				
Student Financial Aid Cluster				
Federal Pell Grant Program	84.063	P063P211058	$ 8,474,324	$ -
Federal Work Study Program	84.033	P033A210045	95,135	-
Federal Supplemental Educational Opportunity Grants	84.007	P007A210045	461,942	-
Total Student Financial Aid Cluster			9,031,401	-
Trio Cluster				
TRIO-Student Support Services	84.042	P042A200958/ P042A200821	701,880	-
TRIO-Upward Bound	84.047	P047A171051	462,349	-
Total Trio Cluster			1,164,229	-
Other Direct Programs:				
Higher Education Institutional Aid	84.031	P031B170021	3,243,952	
COVID-19 HEERF Institutional Aid Portion	84.425F	P425F204104	3,779,492	-
COVID-19 HEERF Historically Black Colleges and Universities (HBCUs)	84.425J	P425J200089	9,299,136	-
Pass-through Alabama Community College System:				
Adult Education-Basic Grants to States	84.002	V002A210001/ V002A220001	261,006	-
Pass-through Alabama Department of Education:				
Career and Technical Education-Basic Grants to States	84.048	V048A210001	244,746	
Total Pass-through Programs			505,752	-
Total Department of Education			27,023,962	-
Department of Labor				
Pass-through Central Alabama Partnership for Training and Employment				
WIOA Adult Program	17.258	0-1-40-24-22	82,313	-
Pass-through Alabama Department of Commerce				
WIOA Adult Program	17.258		6,246	
WIOA Youth Activities	17.259		4,564	-
Total Department of Labor			93,123	-
Department of Transportation				
Pass-through Birmingham-Jefferson County Transit Authority				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	AL-2018-006	52,900	-
Research and Development Cluster				
National Science Foundation				
Direct:				
STEM Education	47.076	1719329	298,987	-
Pass-through Clark Atlanta University				
STEM Education	47.076	RSP-2018-215051-004	75,432	-
Total National Science Foundation			374,419	-
Department of Health and Human Services				
Pass-through University of Alabama at Birmingham				
Biomedical Research and Research Training	93.859	000518088-SC001	24,506	
NASA Glen Research Center				
Pass-through Paragon TEC				
Technology and Communication Education	43.unknown	80GRC019 D001	265	
Total Research and Development Cluster			399,190	
Department of Veteran Affairs				
Post-9/11 Veterans Education Assistance	64.027		325	-
Department of Health and Human Services				
Temporary Assistance for Needy Families	93.558		19,854	-
Total Federal Expenditures			$ 27,589,354	$ -

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Lawson State Community College (the College) and is presented on the accrual basis of accounting. 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* (the Uniform Guidance).

2. INDIRECT COST RATES

The College did not elect to charge a de minimis rate of 10% for all federal awards.

Warren Averett
CPAs AND ADVISORS

3815 Interstate Court
Montgomery, AL 36109
334.271.2200
warrenaverett.com

INDEPENDENT AUDITORS' 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*

To the Alabama Community College System Board of Trustees
and the President of Lawson State Community College

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 Lawson State Community College (the College), as of and for the year ended September 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated February 13, 2023.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2022-001 through 2022-007 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2022-008 and 2022-009 to be significant deficiencies.

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*.

The College's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Warren Averett, LLC

Montgomery, Alabama
February 13, 2023

Warren Averett
CPAs AND ADVISORS

3815 Interstate Court
Montgomery, AL 36109
334.271.2200
warrenaverett.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Alabama Community College System Board of Trustees
and the President of Lawson State Community College

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Lawson State Community 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, 2022. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the College complied, in all material respects, with the 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, 2022.

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; 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 Auditors' 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.

Auditors' 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 generally accepted auditing standards, *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 an 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 item 2022-010. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the College's response to the noncompliance findings 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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-010 to be a material weakness.

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.

Government Auditing Standards requires the auditor to perform limited procedures on the College's response to the internal control over compliance findings 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.

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.

Warren Averett, LLC

Montgomery, Alabama
February 13, 2023

LAWSON STATE COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	x Yes ______ No
Significant deficiency(ies) identified?	x Yes ______ None reported
Noncompliance material to the financial Statements noted?	______ Yes x No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	x Yes ______ No
Significant deficiency(ies) identified?	______ Yes x None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	x Yes ______ No

Identification of major programs:

Assistance Listing Number(s)	**Name of Federal Program Cluster**
84.007, 84.033, 84.063	Student Financial Aid Cluster
84.425	COVID-19 Education Stabilization Fund – Higher Education Emergency Relief Fund

Dollar threshold used to distinguish between type A and type B programs:	$827,681
Auditee qualified as low-risk auditee?	______ Yes x No

Section II – Financial Statement Findings

Finding 2022-001- Prior Period Adjustment (Material Weakness)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual II. Internal Controls, requires the College to, "Maintain reliable financial and management data." The beginning net position of the College was not accurate.

Cause/Effect: A correction to prior year accumulated depreciation was posted in duplicate causing the inaccuracy in the prior year financial statements.

Recommendation: Management has addressed all matters and circumstances related to the prior period adjustment.

Views of Responsible Officials: See Management's View and Corrective Action Plan included at the end of the report.

Finding 2022-002- Cash (Material Weakness)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual V. Revenue Management Procedures, XII. Cash Handling, notes, "Balance the total monthly receipts to the monthly bank account statements and accounting system monthly reports and resolve all discrepancies." Bank reconciliations contained reconciling items which were not accurate.

Cause/Effect: Bank reconciliations contained several discrepancies and reconciling items which were not accurate. In addition, there were variances between the bank reconciliations and the Banner account balances.

Recommendation: We recommend the College examine information included in the bank reconciliations for accuracy and update Banner monthly to ensure its accuracy.

Views of Responsible Officials: See Management's View and Corrective Action Plan included at the end of the report.

Finding 2022-003- Accounts Receivable (Material Weakness)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual V. Revenue Management Procedures, I. Accounts Receivable, notes, "Reconciling the accounts receivable balance shown in the general ledger to the subsidiary ledgers periodically" is required. Several receivable accounts were not reconciled and adjusted to the related support or activity.

Cause/Effect: Receivable accounts were not reconciled accurately. There were several receivable accounts where the balance had not changed in several years. Many of these remained from the Banner conversion. One payment from the Alabama Community College System (ACCS) was not properly accrued, resulting in a corresponding understatement of revenue. Receipts for student receivables were posted to unapplied payments in accounts payable.

Section II – Financial Statement Findings – Continued

Finding 2022-003- Accounts Receivable (Material Weakness)– Continued

Recommendation: We recommend the College examine the receivable balances and write off any inaccurate or uncollectible receivables. We also recommend there be a monthly reconciliation of all revenue postings to related receivables. Once completed, reconciliations should be reviewed and approved by someone other than the preparer. This will help ensure that errors and/or adjustments are identified and corrected.

Views of Responsible Officials: See Management's View and Corrective Action Plan included at the end of the report.

Finding 2022-004 Fixed Assets (Material Weakness)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual III. Financial Management, Reporting, and Year End Closing, K. Suggested Accounting Control Check List 2, notes, "Reconciliation of General Ledger Accounts" is required. Several discrepancies were noted with respect to fixed assets.

Cause/Effect: The College does not utilize the Banner fixed asset module to track fixed assets and calculate depreciation. This is due to significant variances between the Banner fixed asset module and the Banner trial balance. As a result, the College is maintaining the fixed asset register and calculating depreciation expense manually. Banner beginning balances did not agree to prior year issued financial statements with respect to equipment and accumulated depreciation. Construction in progress items were incorrectly included in equipment. These projects had not been placed in service at the time.

Recommendation: We recommend the College convert to the Banner fixed asset module to track fixed assets and calculate depreciation. Automation of the fixed asset register and depreciation schedule will reduce the potential for error in calculating depreciation and will also create an audit trail for examination. We also recommend the College track assets individually and maintain all original acquisition costs and dates. Fixed assets should be reconciled on at least a quarterly basis. These reconciliations should include all additions and disposals, as well as depreciation. Once completed, reconciliations should be reviewed and approved by someone other than the preparer. This will help ensure that errors and/or adjustments are identified and corrected.

Views of Responsible Officials: See Management's View and Corrective Action Plan included at the end of the report.

Section II – Financial Statement Findings – Continued

Finding 2022-005 Accounts Payable (Material Weakness)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual III. Financial Management, Reporting, and Year End Closing, K. Suggested Accounting Control Check List 2, notes, "Reconciliation of General Ledger Accounts" is required. Several discrepancies were noted with respect to accounts payable.

Cause/Effect: Several payable accounts were not reconciled and adjusted to the related support or activity. There were several payable accounts where the balance had not changed in several years. Many of these remained from the Banner conversion. One invoice paid after year-end was not properly accrued, resulting in a corresponding understatement of expense. Receipts for student receivables were being posted to unapplied payments in accounts payable.

Recommendation: We recommend the College examine the payable balances and write off any items that are not actual liabilities. We also recommend there be a monthly reconciliation of all disbursement postings to related payables. Once completed, reconciliations should be reviewed and approved by someone other than the preparer. This will help ensure that errors and/or adjustments are identified and corrected.

Views of Responsible Officials: See Management's View and Corrective Action Plan included at the end of the report.

Finding 2022-006 Deferred inflows (Material Weakness)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual III. Financial Management, Reporting, and Year End Closing, K. Suggested Accounting Control Check List 2, notes, "Reconciliation of General Ledger Accounts" is required. The gain on forgiveness of debt, included in the prior year financial statements, was incorrectly classified as a deferred inflow in the current year Banner balance.

Cause/Effect: Deferred inflows was incorrectly classified in Banner. The College's accounting system contained inaccurate information.

Recommendation: We recommend the College examine all deferred inflow balances and ensure they agree to the supporting documentation and are correctly classified in Banner.

Views of Responsible Officials: See Management's View and Corrective Action Plan included at the end of the report.

Section II – Financial Statement Findings – Continued

Finding 2022-007 Financial Reporting (Material Weakness)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual III. Financial Management, Reporting, and Year End Closing, K. Suggested Accounting Control Check List 2, notes, "Reconciliation of General Ledger Accounts" is required. Several discrepancies were noted with respect to financial statement classifications.

Cause/Effect: There were several reclassification entries on the College's financial statement workbook which were incorrect. This was communicated to and subsequently corrected by the College.

Recommendation: We recommend the College ensure that all items requiring reclassification are properly calculated and included in the financial statement workbook.

Views of Responsible Officials: See Management's View and Corrective Action Plan included at the end of the report.

Finding 2022-008 Other Liabilities (Significant Deficiency)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual III. Financial Management, Reporting, and Year End Closing, K. Suggested Accounting Control Check List 2, notes, "Reconciliation of General Ledger Accounts" is required. Several discrepancies were noted with respect to other liabilities.

Cause/Effect: Several other liability accounts were not reconciled and adjusted to the related support or activity. Current year accrued payroll did not include the College's portion of payroll tax expense. Adjunct faculty payroll was not included in the prior year's calculation of accrued payroll. This resulted in an overstatement of payroll expense in the current year.

Recommendation: We recommend the College examine all other liability balances and ensure they agree to the supporting documentation. We also recommend there be a quarterly reconciliation of accrued payroll to Banner. Once completed, reconciliations should be reviewed and approved by someone other than the preparer. This will help ensure that errors and/or adjustments are identified and corrected.

Views of Responsible Officials: See Management's View and Corrective Action Plan included at the end of the report.

Section II – Financial Statement Findings – Continued

Finding 2022-009 Net Position (Significant Deficiency)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual III. Financial Management, Reporting, and Year End Closing, K. Suggested Accounting Control Check List 2, notes, "Reconciliation of General Ledger Accounts" is required. Several discrepancies were noted with respect to net position balances.

Cause/Effect: Net position balances are only reconciled annually at the financial statement level. Misclassified items are not corrected in a timely manner.

Recommendation: We recommend the College reconcile net position balances at least quarterly to ensure classifications are accurate. Once completed, reconciliations should be reviewed and approved by someone other than the preparer. This will help ensure that errors and/or adjustments are identified and corrected.

Views of Responsible Officials: See Management's View and Corrective Action Plan included at the end of the report.

Section III – Federal Award Findings and Questioned Costs

Finding 2022-010 – Special Tests and Provisions: Withdrawal Testing (Material Weakness and Noncompliance) – Repeat Finding

Information on the federal program: U.S. Department of Education Student Financial Aid Cluster

Criteria: 34 CFR part 668 establishes rules governing the student withdrawal process including the determination of the amount of unearned financial aid, calculation of earned Title IV assistance and return of unearned Title IV aid within 45 days.

Condition: We selected a sample of 10 students who withdrew and were receiving financial aid. Of the 10 students tested, there were seven students with exceptions related to the return of Title IV process.

Cause: The College did not return the correct amount of aid earned and/or did not return the aid within 45 days, as required.

Effect: The College returned the incorrect amount of financial aid and/or did not return financial aid timely.

Questioned Costs: None reported

Recommendation: We recommend the College strengthen its policies and procedures surrounding the withdrawal process, especially the return of Title IV process, to accurately to ensure compliance with withdrawal requirements.

Views of Responsible Officials: See Management's View and Corrective Action Plan included at the end of the report.

Summary Schedule of Prior Audit Findings

Finding 2021-003 – Special Tests and Provisions

Information on the federal program: U.S. Department of Education Student Financial Aid Cluster

Criteria: Title 34 of the ***Code of Federal Regulations*** (CFR) 668 Subpart K – *Cash Management* and the Financial Student Aid (FSA) Handbook establishes the disbursement procedures for Title IV, HEA program funds. 34 CFR 668.164(h)(1) states "A title IV, HEA credit balance occurs whenever the amount of title IV, HEA program funds credited to a student's ledger account for a payment period exceeds the amount assessed the student for allowable charges associated with that payment period as provided under paragraph (c) of this section". 34 CFR 668.164 (h)(2) states "A title IV, HEA credit balance must be paid directly to the student or parent as soon as possible, but no later than - (i) Fourteen (14) days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or (ii) Fourteen (14) days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period."

Condition: Due to a lack of properly designed and implemented internal controls, the College did not disburse all Title IV, HEA credit balances within the required timeframe. Forty students with a total of 82 disbursements were tested and it was determined that ten of the disbursements were not made within the 14-day requirement.

Status: Corrective action taken

Finding 2021-004 – Special Tests and Provisions

Information on the federal program: U.S. Department of Education Student Financial Aid Cluster

Criteria: According to 34 CFR 668.22, when a Title IV grant recipient withdraws from an institution during a period in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV grant assistance that the student earned is less than the amount of Title IV grant assistance that was disbursed to the student, the difference must be returned to the Title IV programs.

34 CFR 668.22 (j) describes the Timeframe for the Return of Title IV Funds: "An institution must return the amount of title IV funds for which it is responsible as soon as possible but no later than 45 days after the date of the institution's determination that the student withdrew... For an institution that is not required to take attendance, an institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of (i) Payment period or period of enrollment, (ii) Academic year in which the student withdrew, or (iii) Education program for which the student withdrew."

Condition: Twenty-five return of Title IV calculations were selected for testing. Four returns were completed incorrectly which resulted in a 25% error rate. One of the returns was miscalculated and the College returned $1,135.36 more than required. For the remaining three returns, the College performed a proper calculation for each, but failed to return the Title IV funds resulting in the College returning $1,745.00 less than required. This resulted in known questioned costs of none. In addition, ten errors were noted where the College did not return funds within the 45-day limit which resulted in a 63% error rate.

Status: Repeat finding 2022-010

Finding 2021-005 – Eligibility

Information on the federal program: U.S. Department of Education Student Financial Aid Cluster

Criteria: Title 34 of the ***Code of Federal Regulations*** (CFR) Part 690.80 requires the recalculation of a Federal Pell Grant award to account for changes to the student's cost of attendance, expected family contribution (EFC), or enrollment status. For a change in the student's enrollment status from one academic term to another term within the same award year, the institution shall recalculate the Federal Pell Grant award for the new payment period. If a student's projected enrollment status changes during a payment period before the student begins attendance in all of his or her classes for that payment period, the institution shall recalculate the student's enrollment status to reflect only those classes for which the student actually began attendance.

Condition: Forty student records were selected from the population of 2,257 Federal Pell Grant student records for the financial aid award year for testing compliance with Title IV student eligibility requirements. Audit tests performed determined the College failed to properly calculate or recalculate the Federal Pell Grant award based on enrollment or change in enrollment status, as required, for three students. One student was awarded Pell Grant for full-time enrollment but should have only been ¾ time enrollment. The remaining two student's enrollment status changed during the registration period from ¾ time or half-time enrollment to less than half-time however, the Pell Grant award was not recalculated based on the change in enrollment status. It appears the enrollment status change was due to attendance not being verified for the two students in the System. The College could not provide other documentation indicating that the students attended class. This resulted in a Federal Pell Grant over award of $3,174.50.

Status: Corrective action taken

Response/Corrective Action Plan
For the year Ended September 30, 2022

Contact:
Sharon Crews, Vice President of Administrative and Fiscal Services
screws@lawsonstate.edu
205.929.6307

Section II – Financial Statement Findings

Finding 2022-001- Prior Period Adjustment (Material Weakness)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual II. Internal Controls, requires the College to, "Maintain reliable financial and management data." The beginning net position of the College was not accurate.

Management's Response: The College has properly adjusted the financial statements and the general ledger to reflect the prior period correction. To prevent future occurrences, the College has established procedures for timely recording of general ledger adjustments.

Anticipated Completion Date: January 2023

Finding 2022-002- Cash (Material Weakness)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual V. Revenue Management Procedures, XII. Cash Handling, notes, "Balance the total monthly receipts to the monthly bank account statements and accounting system monthly reports and resolve all discrepancies." Bank reconciliations contained reconciling items which were not accurate.

Management's Response: The College has instituted a daily review process of bank activity as part of its monthly reconciliation procedure, with the aim of ensuring that all bank transactions are recorded in a timely and accurate manner in the general ledger. The monthly reconciliations shall be subjected to a thorough review by management monthly to ensure verification of the accuracy and completeness.

Anticipated Completion Date: September 2023

Finding 2022-003- Accounts Receivable (Material Weakness)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual V. Revenue Management Procedures, I. Accounts Receivable, notes, "Reconciling the accounts receivable balance shown in the general ledger to the subsidiary ledgers periodically" is required. Several receivable accounts were not reconciled and adjusted to the related support or activity.

Management's Response: The College will undertake a comprehensive examination of all accounts receivable to establish their proper classification and collectability. The College shall adhere to procedures for writing off account receivables determined to be uncollectible. The College will conduct a monthly review of the student accounts receivable reconciliation report. The College shall ensure that payments from external sources are accurately classified in the appropriate accounting period. Unapplied payments represent payments that have been posted to the correct student's account; however, these payments were not applied correctly on the general ledger. The College will ensure that they are applied correctly on the general ledger and reconciled monthly. Management will review and approve the reconciliations.

Anticipated Completion Date: September 2023

Finding 2022-004 Fixed Assets (Material Weakness)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual III. Financial Management, Reporting, and Year End Closing, K. Suggested Accounting Control Check List 2, notes, "Reconciliation of General Ledger Accounts" is required. Several discrepancies were noted with respect to fixed assets.

Management's Response: The College has initiated efforts to complete the implementation of the Banner Fixed Asset Module with the support of the Alabama Community College System. The project is expected to be finished by spring 2023. The college will conduct quarterly fixed asset reconciliations to track all additions and disposals. The management will review and approve the reconciliations.

Anticipated Completion Date: May 2023

Finding 2022-005 Accounts Payable (Material Weakness)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual III. Financial Management, Reporting, and Year End Closing, K. Suggested Accounting Control Check List 2, notes, "Reconciliation of General Ledger Accounts" is required. Several discrepancies were noted with respect to accounts payable.

Management's Response: The College will review liability accounts monthly to determine the proper classification and validity of these balances. This reconciliation will be reviewed by the management for the type of payable. The College will review all transactions that occur after year end to ensure proper classification of payments from external sources in the correct accounting period. Unapplied payments represent payments that have been posted to the correct student's account; however, these payments were not applied correctly on the general ledger. The College will ensure that they are applied correctly on the general ledger and reconciled monthly. Management will review and approve the reconciliations.

Anticipated Completion Date: September 2023

Finding 2022-006 Deferred inflows (Material Weakness)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual III. Financial Management, Reporting, and Year End Closing, K. Suggested Accounting Control Check List 2, notes, "Reconciliation of General Ledger Accounts" is required. The gain on forgiveness of debt, included in the prior year financial statements, was incorrectly classified as a deferred inflow in the current year Banner balance.

Management's Response: The gain on forgiveness of debt was properly reflected on the financial statements and has been corrected in the accounting system during this year's audit. Moving forward the College will review all deferred inflows entries to ensure the correct account codes have been affected.

Anticipated Completion Date: January 2023

Finding 2022-007 Financial Reporting (Material Weakness)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual III. Financial Management, Reporting, and Year End Closing, K. Suggested Accounting Control Check List 2, notes, "Reconciliation of General Ledger Accounts" is required. Several discrepancies were noted with respect to financial statement classifications.

Management's Response: The College will enhance processes to ensure all reclassification entries are properly calculated and accurately presented in the financial statements. Management will conduct a more comprehensive review of the financial statement workbook to include reclassification entries.

Anticipated Completion Date: September 2023

Finding 2022-008 Other Liabilities (Significant Deficiency)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual III. Financial Management, Reporting, and Year End Closing, K. Suggested Accounting Control Check List 2, notes, "Reconciliation of General Ledger Accounts" is required. Several discrepancies were noted with respect to other liabilities.

Management's Response: The College will ensure the accrued payroll calculation includes the College's portion of payroll tax expense. Adjunct faculty were correctly included in the current year calculation of accrued payroll. This will result in the accurate reporting of payroll expense in future years. Management will review these accrued liabilities to verify completeness and accuracy of the adjustments.

Anticipated Completion Date: September 2023

Finding 2022-009 Net Position (Significant Deficiency)

Criteria/Condition: The Alabama Community College Fiscal Procedures Manual III. Financial Management, Reporting, and Year End Closing, K. Suggested Accounting Control Check List 2, notes, "Reconciliation of General Ledger Accounts" is required. Several discrepancies were noted with respect to net position balances.

Management's Response: The College will implement quarterly reconciliations of net position account balances. These reconciliations will be reviewed and approved by management.

Anticipated Completion Date: March 2023

Section III – Federal Award Findings and Questioned Costs

Finding 2022-010 – Special Tests and Provisions: Withdrawal Testing (Material Weakness and Noncompliance) – Repeat Finding

Information on the federal program: U.S. Department of Education Student Financial Aid Cluster

Criteria: 34 CFR part 668 establishes rules governing the student withdrawal process including the determination of the amount of unearned financial aid, calculation of earned Title IV assistance and return of unearned Title IV aid within 45 days.

Condition: We selected a sample of 10 students who withdrew and were receiving financial aid. Of the 10 students tested, there were seven students with exceptions related to the return of Title IV process.

Management's View: The College's term calendar did not properly reflect all semester breaks and holidays resulting in improper return calculations. Moving forward, the College will include all semester breaks and holidays in the calculation. Further, administrative withdrawal procedures were not concise which caused discrepancies in student registration status. The student registration status is key to the calculation of the Title IV funds to be returned to the Department of Education. The discrepancy resolution was outside of the 45-day requirement causing the returns of Title IV funds to be untimely.

Corrective Action Plan: The Director Student Financial Services, the Registrar and the Vice President of Instruction will work together to ensure communication and compliance with Faculty regarding administrative withdrawal policy and procedures.

Anticipated Completion Date: September 2023

Contact:
Sharon S. Crews, CPA
Vice President of Administrative
& Fiscal Services
(205) 929-6307
screws@lawsonstate.edu