

Report on the

Southern Union State Community College

Wadley, Alabama

October 1, 2020 through September 30, 2021

Filed: April 1, 2022



Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner



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Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

An audit was conducted on Southern Union State Community College, Wadley, Alabama, for the period October 1, 2020 through September 30, 2021, by Examiners Tom Tolley and Anica Bonner. I, Tom Tolley, served as Examiner-in-Charge on the engagement, and under the authority of the *Code of Alabama 1975*, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the audit.

Respectfully submitted,

Tom L. Tolley
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**Southern Union State Community College
October 1, 2020 through September 30, 2021**

Southern Union State Community College (the “College”) serves residents of an eight county area of East Central Alabama as well as neighboring Georgia counties from its campuses in Wadley, Valley and Opelika. A three-faceted educational emphasis is on academic programs for transferability, technical/vocational programs for specialized career competencies, and nursing and allied health programs for specialized training in health sciences. The College provides general education at the freshman and sophomore levels leading to the Associate in Science degree that is designed to facilitate transfer to a senior college or university. The College also provides technical, vocational and career education programs that prepare students for employment in an occupational field and leads to certificates and/or the Associate in Applied Science or Associate in Occupational Technologies degrees.

The College is a publicly supported institution in the Alabama Community College System. The College is under the direction and control of the Alabama Community College System Board of Trustees through the Chancellor of the Alabama Community College System Office.

This report presents the results of an audit, the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the College complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. The audit was conducted in accordance with 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, as well as, the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12.

An unmodified opinion was issued on the basic financial statements, which means the College’s financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2021.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state laws and regulations.

EXIT CONFERENCE

The following officials/employees were invited to an exit conference to discuss the results of this audit: Todd Shackett, President; Ben Jordan, Vice-President of Financial and Administrative Services; and Jimmy Baker, Chancellor of the Alabama Community College System. The following individuals attended the exit conference: Todd Shackett, President; Ben Jordan, Vice-President of Financial and Administrative Services; Sandra Hughley, Executive Director of Human Resources; and Marty Kirby, Director of Accounting. The following individuals from the Alabama Community College System attended virtually: Sara Calhoun, Chief Financial Officer; Julia Dennis, Financial Compliance Accountant; Erika Doody, Financial Compliance Accountant; Donna Boutwell, Director of Compliance; Cheryl Jarman, Fiscal Accountant; and Jackie Lewis, Fiscal Accountant. Representing the Department of Examiners of Public Accounts: Mistie Beam, Audit Manager and Tom Tolley, Examiner.

Independent Auditor's Report

Independent Auditor's Report

Jimmy Baker, Chancellor – Alabama Community College System
Todd Shackett, President – Southern Union State Community College
Wadley, Alabama 36276

Report on the Financial Statements

We have audited the accompanying financial statements of Southern Union State Community College, a component unit of the State of Alabama, as of and for the year ended September 30, 2021, and related notes to the financial statements which collectively comprise Southern Union State Community College's basic financial statements as listed in the table of contents as Exhibits 1 through 3.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Southern Union State Community College, a component unit of the State of Alabama, as of September 30, 2021, and its changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the College's Proportionate Share of the Collective Net Pension Liability, the Schedule of the College's Contributions – Pension, the Schedule of the College's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability and the Schedule of the College's Contributions – Other Postemployment Benefits (OPEB) 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 Southern Union State Community College's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 8), is presented for purposes of additional analysis, as required by Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)***, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards 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. Such 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 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 March 15, 2022, on our consideration of Southern Union State Community 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 Southern Union State Community 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 Southern Union State Community College's internal control over financial reporting and compliance.



Rachel Laurie Riddle
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

March 15, 2022

Management's Discussion and Analysis
(Required Supplementary Information)

Southern Union State Community College

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

In the accompanying documentation, Southern Union State Community College presents its financial statements for fiscal year 2020-2021, with comparative data for fiscal year 2019-2020. This report of the College's financial statements provides an overview of financial activities and emphasizes current year data. 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.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows, and net position of the College at September 30, 2021. The Statement of Net Position is a point in time financial statement which presents the readers of the financial statements a fiscal snapshot of Southern Union State Community College. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), deferred outflows and inflows of resources, and net position. From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. In summary, the Statement of Net Position provides a picture of the availability of assets for expenditure by the institution.

Net Position is divided into three major categories. The first category, net investment in capital assets, provides the institution's equity in property, plant, and equipment owned by the institution. The second asset category is restricted assets, which is divided into nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted assets are available for expenditure by the institution, 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 third category is unrestricted assets which are available to the institution for any appropriate purpose of the institution.

The following table shows the total net position of the institution, which increased \$3,004,978 from the prior year. Consumption of assets follows the institutional philosophy to use available resources to acquire and improve all areas of the institution to better serve the instruction and public service missions of the institution.

Statement of Net Position (thousands of dollars)

	<u>2020-2021</u>	<u>2019-2020</u>
Assets:		
Current Assets	\$ 23,160	\$ 21,410
Capital Assets, Net of Depreciation	<u>103,010</u>	<u>103,070</u>
Total Assets	<u>\$ 126,170</u>	<u>\$ 124,480</u>
 Deferred Outflow of Resources:		
Total Deferred Outflow of Resources	<u>\$ 11,392</u>	<u>\$ 6,001</u>
 Liabilities:		
Current Liabilities	\$ 9,346	\$ 9,236
Noncurrent Liabilities	<u>59,157</u>	<u>53,721</u>
Total Liabilities	<u>\$ 68,503</u>	<u>\$ 62,957</u>
 Deferred Inflow of Resources:		
Total Deferred Inflow of Resources	<u>\$ 7,618</u>	<u>\$ 9,088</u>
 Net Position:		
Net Investment in Capital Assets	\$ 78,331	\$ 76,497
Restricted – Expendable	941	680
Unrestricted	<u>(17,831)</u>	<u>(18,741)</u>
Total Net Position	<u>\$ 61,441</u>	<u>\$ 58,436</u>

Statement of Revenues, Expenses and Changes in Net Position

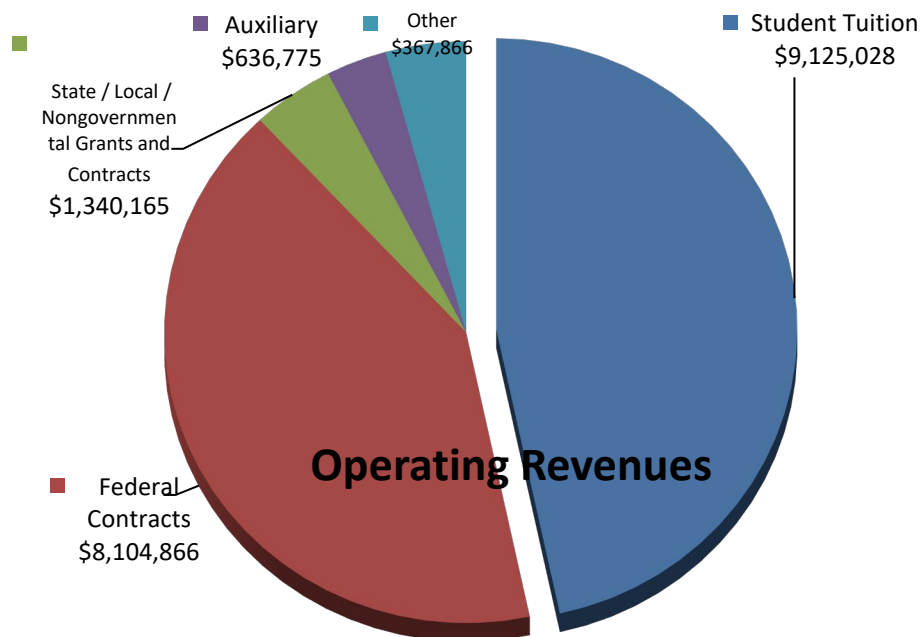
Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received by the institution, both operating and non-operating, and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

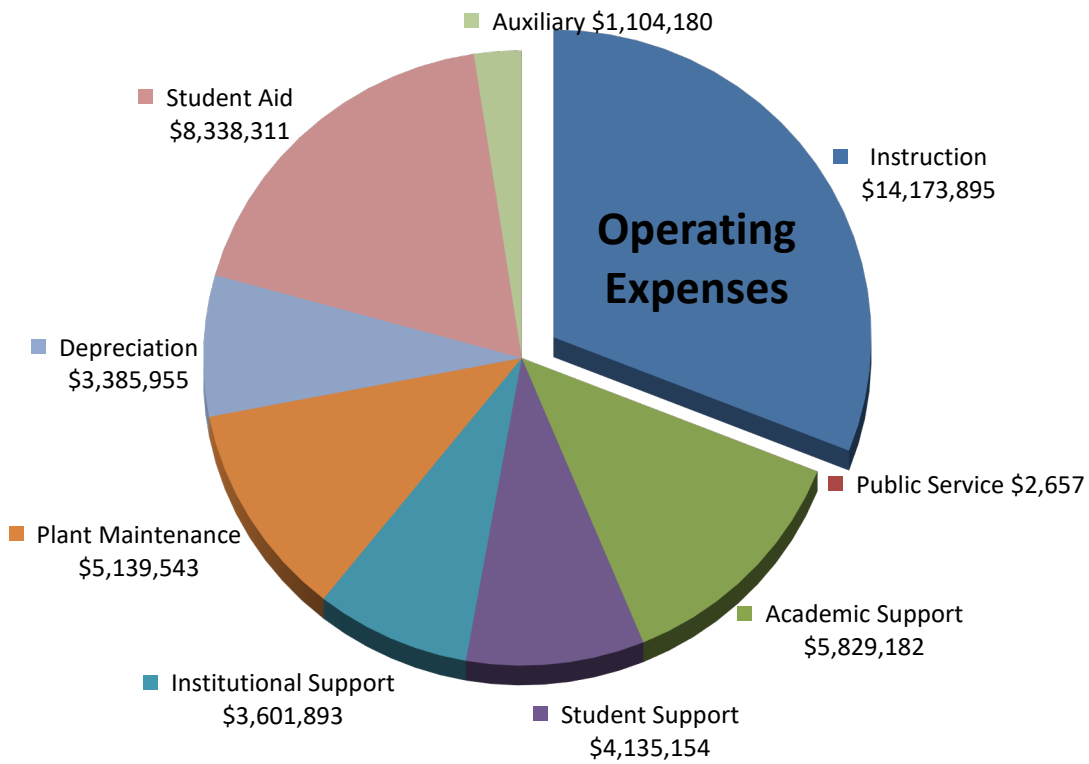
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the institution. 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 institution without the Legislature directly receiving commensurate goods and services for those revenues.

Statement of Revenues, Expenses, and Changes in Net Position (thousands of dollars)

	<u>2020-2021</u>	<u>2019-2020</u>
Operating Revenues	\$ 19,575	\$ 14,653
Operating Expenses	(45,711)	(39,283)
Operating Loss	(26,136)	(24,630)
Nonoperating Revenues	30,119	27,458
Nonoperating Expenses	<u>(978)</u>	<u>(1,095)</u>
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	3,005	1,733
Other Revenues, Expenses, Gains or Losses	<u>0</u>	<u>0</u>
Increase (Decrease) in Net Position	3,005	1,733
Net Position at Beginning of Year	<u>58,436</u>	<u>56,703</u>
Restatements		
Net Position at End of Year	<u><u>\$ 61,441</u></u>	<u><u>\$ 58,436</u></u>

Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Position are included in the exhibits on the following page. The largest operating revenue is student tuition, and the largest operating expense is instruction. The auxiliary services of dining hall, residence hall, and print shop are self-supporting.





Statement of Cash Flows

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

Statement of Cash Flows (thousands of dollars)

	<u>2020-2021</u>	<u>2019-2020</u>
Cash provided (used) by		
Operating Activities	\$ (25,262)	\$ (21,588)
Noncapital Financing Activities	29,765	26,741
Capital and Related Financing Activities	(7,013)	(4,142)
Investing Activities	<u>9</u>	<u>1,221</u>
Net Change in Cash	(2,501)	2,232
Cash, Beginning of Year	13,732	11,500
Cash, End of Year	<u>\$ 11,231</u>	<u>\$ 13,732</u>

Economic Outlook

The Covid-19 pandemic negatively affected College enrollment for the 2020-2021 fiscal year. Enrollment is improving but expected to be down for the current fiscal year compared to prior years. The pandemic has had a global effect on virtually all types of business operations and is expected to impact the college's financial position during fiscal year 2021-2022. The College will minimize these negative financial effects with funds received from the Federal Higher Education Emergency Relief (HEERF) I, II, and III grants. These grants are authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA), and the American Rescue Plan (ARP).

The College's overall financial position is strong. The College expects enrollment growth to continue to increase at a steady rate and hopefully return to pre Covid-19 levels during the 2022-2023 fiscal year. The College will maintain a close watch over resources to assure the College's ability to react to unexpected internal and external issues.

Basic Financial Statements

Statement of Net Position
September 30, 2021

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 11,230,912.93
Short-Term Investments	3,663,781.14
Accounts Receivable, Net	7,370,850.65
Inventories	11,146.34
Deposit with Bond Trustee	882,208.83
Prepaid Expense	1,050.00
Total Current Assets	<u>23,159,949.89</u>

Noncurrent Assets

Capital Assets:	
Land	1,159,258.08
Buildings	124,602,514.90
Improvements Other Than Buildings	7,179,599.37
Equipment and Furniture	10,105,386.40
Library Holdings	832,105.15
Construction in Progress	4,031,115.80
Less: Accumulated Depreciation	<u>(44,900,298.52)</u>
Total Capital Assets, Net of Depreciation	<u>103,009,681.18</u>
Total Noncurrent Assets	<u>103,009,681.18</u>
Total Assets	<u>126,169,631.07</u>

Deferred Outflow of Resources

Loss on Bond Refunding	93,919.00
Pension	6,442,390.59
OPEB	4,856,154.14
Total Deferred Outflow of Resources	<u>\$ 11,392,463.73</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

LIABILITIES**Current Liabilities**

Accounts Payable and Accrued Liabilities	\$ 3,214,007.22
Bond Surety Fee Payable	36,387.31
Deposit Liabilities	10.00
Unearned Revenue	4,002,108.25
Bonds Payable	1,997,203.31
Compensated Absences	95,870.67
Total Current Liabilities	<u>9,345,586.76</u>

Noncurrent Liabilities

Compensated Absences	862,836.03
Bonds Payable	22,567,033.30
Net Pension Liability	25,601,000.00
OPEB Liability	10,126,130.00
Total Noncurrent Liabilities	<u>59,156,999.33</u>

Total Liabilities	<u>68,502,586.09</u>
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Deferred Inflow of Resources

Pension	496,000.00
OPEB	7,121,835.00
Total Deferred Inflow of Resources	<u>7,617,835.00</u>

NET POSITION

Net Investment in Capital Assets	78,330,969.82
Restricted for:	
Expendable:	
Debt Service	879,838.83
Scholarships and Fellowships	25,986.83
Training and Business	35,228.22
Unrestricted	<u>(17,830,349.99)</u>
Total Net Position	<u>\$ 61,441,673.71</u>

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***Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended September 30, 2021***

OPERATING REVENUES

Student Tuition and Fees (Net of Scholarship Allowances of \$7,623,344.84)	\$ 9,125,027.54
Sales and Services of Educational Departments	6,644.87
Federal Grants and Contracts	8,104,866.26
State and Local Grants and Contracts	864,841.48
Nongovernmental Grants and Contracts	475,323.85
Other Operating Revenues	361,221.12
Auxiliary Enterprises (Net of Scholarship Allowances of \$280,692.44):	
Housing	197,705.46
Food Services	274,831.28
Other	164,238.15
Total Operating Revenues	<u>19,574,700.01</u>

OPERATING EXPENSES

Instruction	14,173,895.27
Public Service	2,657.50
Academic Support	5,829,182.15
Student Services	4,135,153.75
Institutional Support	3,601,892.57
Operation and Maintenance	5,139,543.04
Scholarships and Financial Aid	8,338,310.94
Auxiliary Enterprises	1,104,179.68
Depreciation	3,385,955.09
Total Operating Expenses	<u>45,710,769.99</u>
Operating Income (Loss)	<u>(26,136,069.98)</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	17,921,997.88
Federal Grants	12,013,735.81
Investment Income	25,416.69
Bond Surety Fee Expense	(65,253.57)
Interest on Indebtedness	(890,425.00)
Other Nonoperating Revenue	135,576.53
Net Nonoperating Revenues	<u>29,141,048.34</u>
Changes in Net Position	3,004,978.36
Total Net Position - Beginning of Year	58,436,695.35
Total Net Position - End of Year	<u>\$ 61,441,673.71</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Cash Flows
For the Year Ended September 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and Fees	\$ 9,380,204.17
Grants and Contracts	5,043,345.99
Payments for Benefits	(5,274,685.09)
Payments to Suppliers	(9,278,000.69)
Payments to Employees	(16,131,685.91)
Payments to Utilities	(1,708,967.77)
Payments for Scholarships	(8,338,310.94)
Sales and Services of Educational Activities	6,644.87
Auxiliary Enterprise	677,754.30
Other Receipts (Payments)	361,221.12
Net Cash Provided (Used) by Operating Activities	<u>(25,262,479.95)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	17,921,997.88
Bond Surety Fee Expense	(61,805.20)
Federal Grants	12,013,735.81
Loan Receipts	5,085,799.00
Loan Disbursements	(5,085,799.00)
Other	(108,421.28)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>29,765,507.21</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	(4,039,794.36)
Proceeds from Sale of Capital Assets	19,882.30
Principal Paid on Capital Debt	(1,895,000.00)
Interest Paid on Capital Debt	(843,465.50)
Bond Issuance Cost	(27,203.31)
Trustee Deposits	(227,838.28)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(7,013,419.15)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	25,416.69
Purchase of Investments	(16,227.93)
Net Cash Provided (Used) by Investing Activities	<u>9,188.76</u>

Net Increase (Decrease) in Cash and Cash Equivalents	(2,501,203.13)
Cash and Cash Equivalents - Beginning of Year	13,732,116.06
Cash and Cash Equivalents - End of Year	<u>\$ 11,230,912.93</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:

Operating Income (Loss) \$ (26,136,069.98)

Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:

Depreciation Expense 3,385,955.09

Changes in Assets and Liabilities:

(Increase)/Decrease in Receivables, Net (4,020,423.13)

(Increase)/Decrease in Deferred Outflow (5,438,621.47)

(Increase)/Decrease in Inventory 9,243.73

(Increase)/Decrease in Other Assets 714,568.35

Increase/(Decrease) in Deposit Liability (228,333.51)

Increase/(Decrease) in Accounts Payable 565,501.63

Increase/(Decrease) in Pension Liability 3,940,000.00

Increase/(Decrease) in OPEB Liability 3,426,939.00

Increase/(Decrease) in Deferred Inflow (1,469,689.00)

Increase/(Decrease) in Unearned Revenue (85,106.43)

Increase/(Decrease) in Compensated Absences 73,555.77

Net Cash Provided (Used) by Operating Activities \$ (25,262,479.95)

Notes to the Financial Statements

For the Year Ended September 30, 2021

Note 1 – Summary of Significant Accounting Policies

The financial statements of Southern Union 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 Southern Union State Community College are described below.

A. Reporting Entity

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

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

The financial statements of Southern Union State Community 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.

Notes to the Financial Statements

For the Year Ended September 30, 2021

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.

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

1. Cash, Cash Equivalents, and Investments

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

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

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

2. Receivables

Accounts receivable relate to amounts due from students, federal grants, state grants and third-party tuition. The receivables are shown net of allowance for doubtful accounts.

3. Inventories

The inventories are comprised of (1) consumable supplies and (2) items held for resale. Inventories are valued at the lower of cost or market. Inventories are valued using the first in/first out (FIFO) method.

Notes to the Financial Statements

For the Year Ended September 30, 2021

4. 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. Depreciation is not allocated to a functional expense category. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

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

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

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

Assets	Depreciation Method	Useful Lives
Buildings and Improvements	Straight-Line	50 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

5. 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.

Notes to the Financial Statements

For the Year Ended September 30, 2021

6. 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. The premiums and discounts are amortized over the life of the applicable bonds.

7. 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.

8. 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.

9. 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 revenues.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the Teachers' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

Notes to the Financial Statements

For the Year Ended September 30, 2021

11. Postemployment Benefits Other Than Pensions (OPEB)

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

12. 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.

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2021

13. 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*).

14. Scholarship Allowances and Student Aid

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

Note 2 – Deposits and Investments

A. 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.

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

Notes to the Financial Statements

For the Year Ended September 30, 2021

B. 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 rating as described by nationally recognized statistical rating organizations (NRSROs). Obligations of the U. S. government or obligations explicitly guaranteed by the U. S. government are excluded from this requirement. Permissible investments include: 1) U. S. Treasury bills, notes, bonds, and stripped Treasuries; 2) U. S. Agency notes, bonds, debentures, discount notes and certificates; 3) certificates of deposit (CDs), checking and money market accounts of savings and loan associations, mutual savings banks, or commercial banks whose accounts are insured by FDIC/FSLIC, and who are designated a Qualified Public Depository (QPD) under the SAFE Program; 4) mortgage backed securities (MBSs); 5) mortgage-related securities including collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMIC) securities; 6) repurchase agreements; and 7) stocks and bonds which have been donated to the institution.

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

Notes to the Financial Statements

For the Year Ended September 30, 2021

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

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

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

The Statement of Net Position current investment classification consists of non-negotiable certificates of deposit in the amount of \$3,663,781.14. Certificates of deposit are not subject to risk categorization because they are considered deposits for the purpose of this note.

At September 30, 2021, the College had \$882,208.83 in accounts administered by its bond trustee. In accordance with the covenants of the College’s Revenue Bond Series 2012, the trustee is permitted to invest these funds in direct general obligations of the United States or securities the payment of which is unconditionally guaranteed by the United States. All instruments purchased are deemed money market instruments as defined in rule 2a7 and priced at amortized cost.

The entire balance on deposit with the trustee is invested in First American Funds which consist of Treasury securities and Treasury repurchase agreements. The fund is rated AAAM by Standard & Poor’s and Aaa-mf by Moody’s.

To the extent available, the College’s investments are recorded at fair value as of September 30, 2021. GASB Statement Number 72 – ***Fair Value Measurement and Application***, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity’s assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

Notes to the Financial Statements

For the Year Ended September 30, 2021

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

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

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

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

Investments by Fair Value Level	At 9/30/2021	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<u>Debt Securities</u>				
U. S. Government Guaranteed	\$	\$	\$	\$
Total Debt Securities		\$	\$	\$
Certificates of Deposit	3,663,781.14			
Money Market (*)	882,208.83			
Total	<u>\$4,545,989.97</u>			
(*) All instruments purchased are deemed money market instruments as defined in rule 2a7 and priced at amortized cost.				

Note 3 – Receivables

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

<u>Accounts Receivable:</u>	
Federal	\$ 6,267,889.57
State	251,250.35
Third Party	1,229,809.98
Student	1,455,447.56
Return Checks	1,531.29
Interest	3,318.67
Auxiliary Fund	14,796.89
Allowance	(1,853,193.66)
Total Receivables	<u>\$ 7,370,850.65</u>

Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 4 – Capital Assets

Capital asset activity for the year ended September 30, 2021, was as follows:

	Beginning Balance	Additions	Deletions	Adjustments/ Reclassifications	Ending Balance
Land	\$ 1,159,258.08	\$	\$	\$	\$ 1,159,258.08
Buildings	124,602,514.90				124,602,514.90
Improvements Other Than Buildings	7,179,599.37				7,179,599.37
Furniture and Equipment > \$25,000	5,878,484.93	464,032.76	(34,361.00)	(23,036.83)	6,285,119.86
Furniture and Equipment < \$25,000	3,164,549.93	732,228.34	(99,548.56)	23,036.83	3,820,266.54
Library Books and Audiovisuals	810,720.57	36,354.58	(14,970.00)		832,105.15
Construction in Progress	1,896,149.04	2,134,966.76			4,031,115.80
Total	144,691,276.82	3,367,582.44	(148,879.56)		147,909,979.70
Less: Accumulated Depreciation:					
Buildings	32,208,047.73	2,381,204.13		(11,175.85)	34,578,076.01
Improvements Other Than Buildings	2,424,284.00	268,208.37			2,692,492.37
Furniture and Equipment > \$25,000	4,166,892.34	365,577.35	(34,361.00)		4,498,108.69
Furniture and Equipment < \$25,000	2,688,261.58	329,359.98	(72,548.92)	11,562.64	2,956,635.28
Library Books and Audiovisuals	133,380.91	41,605.26			174,986.17
Total Accumulated Depreciation	41,620,866.56	3,385,955.09	(106,909.92)	386.79	44,900,298.52
Capital Assets, Net	\$103,070,410.26	\$ (18,372.65)	\$ (41,969.64)	\$ (386.79)	\$103,009,681.18

Note 5 – Defined Benefit Pension Plan

A. Plan Description

The Teachers' Retirement System of Alabama (TRS), a cost-sharing multiple-employer public employee retirement plan (the "Plan"), was established as of September 15, 1939, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975*, Section 16-25-2, grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2021

B. Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members 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.

Act Number 2012-377, Acts of Alabama, established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

C. Contributions

Tier 1 covered 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, Tier 1 covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, Tier 1 covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Tier 1 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, Tier 1 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, Tier 1 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Notes to the Financial Statements

For the Year Ended September 30, 2021

Participating employers contractually required contribution rate for the year ended September 30, 2021, 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 College was \$1,768,390.60 for the year ended September 30, 2021.

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

At September 30, 2021, the College reported a liability of \$25,601,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of September 30, 2019. 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, 2020, the College's proportion was 0.206966%, which was an increase of 0.011059% from its proportion measured as of September 30, 2019.

For the year ended September 30, 2021, the College recognized pension expense of \$2,817,000.00. At September 30, 2021, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$1,267,000.00	\$444,000.00
Changes of assumptions	266,000.00	
Net difference between projected and actual earnings on pension plan investments	1,901,000.00	
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,240,000.00	52,000.00
Employer contributions subsequent to the measurement date	1,768,390.60	
Total	\$6,442,390.60	\$496,000.00

Notes to the Financial Statements

For the Year Ended September 30, 2021

The \$1,768,390.60 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ending:	
September 30, 2022	\$ 923,000.00
2023	\$1,292,000.00
2024	\$1,251,000.00
2025	\$ 712,000.00
2026	\$ 0.00
Thereafter	\$ 0.00

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment Rate of Return (*)	7.70%
Projected Salary Increases	3.25-5.00%
(*) Net of pension plan investment expense	

The actuarial assumptions used in the September 30, 2019 valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015.

Mortality rates were based on the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for males and 112% for females age 78 and older. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

Notes to the Financial Statements
For the Year Ended September 30, 2021

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	17.00%	4.40%
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%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%
Total	100.00%	

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.70%. 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.

Notes to the Financial Statements
For the Year Ended September 30, 2021

G. 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 7.70%, 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 (6.70%) or 1-percentage point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Discount Rate (7.70%)	1% Increase (8.70%)
College's proportionate share of collective net pension liability	\$34,157	\$25,601	\$18,362
(Dollar Amounts in Thousands)			

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2020. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2020. The auditor's report dated April 23, 2021, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2020, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2021

Note 6 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Alabama Retired Education Employees' Health Care Trust (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 (the "Board") to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in the Public Education Employees' Health Insurance Plan (PEEHIP). Active and retiree health insurance benefits are paid through PEEHIP. In accordance with GASB, the Trust is considered a component unit of the State of Alabama (the "State") and is included in the State's Comprehensive Annual Financial Report.

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 PEEHIP. The Board is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975*, Section 16-25A-4, provides the Board with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIP and, consequently, serves as the administrator of the Trust.

B. Benefits Provided

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2021

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

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2021

C. Contributions

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

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the 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.

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

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

At September 30, 2021, the College reported a liability of \$10,126,130 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019. 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, 2020, the College's proportion was 0.156030%, which was a decrease of 0.021537% from its proportion measured as of September 30, 2019.

Notes to the Financial Statements
For the Year Ended September 30, 2021

For the year ended September 30, 2021, the College recognized OPEB expense of \$(309,044.00) with no special funding situations. At September 30, 2021, 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
Differences between expected and actual experience	\$ 256,791	\$3,640,586
Changes of assumptions	3,536,978	1,880,330
Net difference between projected and actual earnings on OPEB plan investments		427
Changes in proportion and differences between employer contributions and proportionate share of contributions	783,450	1,600,492
Employer contributions subsequent to the measurement date	278,935	
Total	\$4,856,154	\$7,121,835

The \$278,935 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, 2022.

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, 2022	\$(831,455)
2023	\$(816,030)
2024	\$(579,386)
2025	\$(688,877)
2026	\$ 174,260
Thereafter	\$ 196,872

Notes to the Financial Statements

For the Year Ended September 30, 2021

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected Salary Increases (1)	3.25% - 5.00%
Long-Term Investment Rate of Return (2)	7.25%
Municipal Bond Index Rate at the Measurement Date	2.25%
Municipal Bond Index Rate at the Prior Measurement Date	3.00%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2040
Single Equivalent Interest Rate at the Measurement Date	3.05%
Single Equivalent Interest Rate at the Prior Measurement Date	5.50%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	6.75%
Medicare Eligible	(**)
Ultimate Trend Rate	
Pre-Medicare Eligible	4.75% in 2027
Medicare Eligible	4.75% in 2024
(1) Includes 3.00% 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 for the period after service retirement are according to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2016.

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, 2019.

Notes to the Financial Statements

For the Year Ended September 30, 2021

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

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

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

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	30.00%	4.40%
U. S. Large Stocks	38.00%	8.00%
U. S. Mid Stocks	8.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash	5.00%	1.50%
Total	100.00%	
(*) Geometric mean, includes 2.5% inflation.		

Notes to the Financial Statements

For the Year Ended September 30, 2021

F. 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, 2020, was 3.05%. The discount rate used to measure the total OPEB liability at the prior measurement date was 5.50%. 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, 14.802% of the employer contributions were used to assist in funding retiree benefit payments in 2020, and it is assumed that the amount will increase by 1.00% per year and continue into the future. 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 2118. The long-term rate of return is used until the assets are expected to be depleted in 2040, after which the municipal bond rate is used.

G. Sensitivity of the College's Proportionate Share of the Collective Net OPEB Liability to Changes in 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 (5.75% Decreasing to 3.75% for Pre-Medicare and Known Decreasing to 3.75% for Medicare Eligible)	Current Healthcare Trend Rate (6.75% Decreasing to 4.75% for Pre-Medicare and Known Decreasing to 4.75% for Medicare Eligible)	1% Increase (7.75% Decreasing to 5.75% for Pre-Medicare and Known Decreasing to 5.75% for Medicare Eligible)
College's proportionate share of collective net OPEB liability	\$8,004,738	\$10,126,130	\$12,887,460

Notes to the Financial Statements
For the Year Ended September 30, 2021

H. 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 3.05%, 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 (2.05%)	Current Rate (3.05%)	1% Increase (4.05%)
College’s proportionate share of collective net OPEB liability	\$12,420,224	\$10,126,130	\$8,304,122

I. 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, 2020. The supporting actuarial information is included in the GASB Statement Number 74 Report for PEEHIP prepared as of September 30, 2020. Additional financial and actuarial information is available at www.rsa-al.gov.

Note 7 – Construction and Other Significant Commitments

As of September 30, 2021, Southern Union State Community College had three projects for which final payment had not been made totaling \$508,520.01.

As of September 30, 2021, Southern Union State Community College had been awarded approximately \$9,113,231.00 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.

Notes to the Financial Statements

For the Year Ended September 30, 2021

Note 8 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at September 30, 2021, for goods and services received prior to the end of the fiscal year.

Salaries and Wages	\$1,635,637.76
Suppliers	891,912.66
Interest	208,393.75
Other	478,063.05
Total	\$3,214,007.22

Note 9 – Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable:					
Revenue Bonds:					
2012	\$26,160,000.00	\$	\$1,895,000.00	\$24,265,000.00	\$1,970,000.00
Premium	326,439.92		27,203.31	299,236.61	27,203.31
Total Bonds	26,486,439.92		1,922,203.31	24,564,236.61	1,997,203.31
Other Liabilities					
Compensated Absences	885,150.93	73,555.77		958,706.70	95,870.67
Total Long-Term Liabilities	\$27,371,590.85	\$73,555.77	\$1,922,203.31	\$25,522,943.31	\$2,093,073.98

Revenue Bonds were issued in November 2012 by the State Board of Education to provide funds for the refunding of the 2003 Revenue Bond series and to provide funding to finance the acquisition, construction and installation of various capital improvements.

Notes to the Financial Statements
For the Year Ended September 30, 2021

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

Fiscal Year	Revenue Bonds		Totals
	Principal	Interest	
2022	\$ 1,970,000.00	\$ 833,575.00	\$ 2,803,575.00
2023	2,030,000.00	774,475.00	2,804,475.00
2024	1,950,000.00	713,575.00	2,663,575.00
2025	2,010,000.00	655,075.00	2,665,075.00
2026	2,090,000.00	574,675.00	2,664,675.00
2027	2,170,000.00	495,200.00	2,665,200.00
2028	2,250,000.00	415,900.00	2,665,900.00
2029	2,320,000.00	348,400.00	2,668,400.00
2030	2,410,000.00	255,600.00	2,665,600.00
2031	2,490,000.00	177,275.00	2,667,275.00
2032	2,575,000.00	90,125.00	2,665,125.00
Totals	\$24,265,000.00	\$5,333,875.00	\$29,598,875.00

Pledged Revenues

The Alabama State Board of Education pledged student tuition and fees to repay \$32,620,000 in Southern Union State Community College Refunding and Improvement Revenue Bonds issued in November 2012. A portion of the funds were used to refund the College's outstanding Revenue Bonds Series 2003, issued in the original principal amount of \$19,475,000 and outstanding in November 2012 in the amount of \$12,755,000. The remaining portion of the bond funds was used to provide funding to finance the acquisition, construction, and installation of various capital improvements. Future revenues in the amount of \$29,598,875.00 are pledged to repay principal and interest on the bonds at September 30, 2021. Pledged revenues in the amount of \$14,379,476 were received during the fiscal year ended September 30, 2021, with \$2,804,375.00 or 19.5% of pledged revenues being used to pay principal and interest during this fiscal year. These bonds are scheduled to mature in fiscal year 2032.

Notes to the Financial Statements

For the Year Ended September 30, 2021

Note 10 – Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College has insurance for its buildings and contents through the State Insurance Fund (SIF), part of the State of Alabama, Department of Finance; Division of Risk Management 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 of Finance and Administrative Services, as well as on all other college personnel who handle funds.

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

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

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

Note 11 – Subsequent Event

On March 10, 2021, the College was authorized by the Alabama Community College System Board of Trustees to refinance the remaining principal balance of the 2012 Series Bonds. The bonds were not refinanced during the 2021 fiscal year; and on March 9, 2022, the Alabama Community College System Board of Trustees adopted a resolution to amend pledged revenues for this refinancing and to reauthorize the College to refinance the current remaining principal balance of \$24,265,000.

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Required Supplementary Information

Schedule of the College's Proportionate Share of the Collective Net Pension Liability
For the Year Ended September 30, 2021
(Dollar amounts in thousands)

	2021	2020	2019	2018	2017	2016	2015
College's proportion of the collective net pension liability	0.206966%	0.195907%	0.195413%	0.191159%	0.187280%	0.196947%	0.196880%
College's proportionate share of the collective net pension liability \$	25,601 \$	21,661 \$	19,429 \$	18,788 \$	20,275 \$	20,612 \$	17,886
College's covered payroll during the measurement period (*) \$	14,714 \$	13,970 \$	13,033 \$	12,627 \$	11,902 \$	12,876 \$	12,890
College's proportionate share of the collective net pension liability as a percentage of its covered payroll	173.99%	155.05%	149.08%	148.79%	170.35%	160.08%	138.76%
Plan fiduciary net position as a percentage of the total collective pension liability	67.72%	69.85%	72.29%	71.50%	67.93%	67.51%	71.01%

(*) 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. For fiscal year 2021, the measurement period for covered payroll is October 1, 2019 through September 30, 2020.

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

Schedule of the College's Contributions - Pension
For the Year Ended September 30, 2021
(Dollar amounts in thousands)

	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 1,768	\$ 1,784	\$ 1,700	\$ 1,569	\$ 1,452	\$ 1,365	\$ 1,454
Contributions in relation to the contractually required contribution	\$ 1,768	\$ 1,784	\$ 1,700	\$ 1,569	\$ 1,452	\$ 1,365	\$ 1,454
Contribution deficiency (excess)	\$	\$	\$	\$	\$	\$	\$
College's covered payroll	\$ 14,671	\$ 14,714	\$ 13,970	\$ 13,033	\$ 12,627	\$ 11,902	\$ 12,876
Contributions as a percentage of covered payroll	12.05%	12.12%	12.17%	12.04%	11.50%	11.47%	11.29%

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

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. For fiscal year 2021, the covered payroll is for the reporting fiscal year October 1, 2020 through September 30, 2021.

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.

***Schedule of the College's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2021
(Dollar amounts in thousands)***

	2021	2020	2019	2018
College's proportion of the collective net OPEB liability	0.156030%	0.177567%	0.168837%	0.162213%
College's proportionate share of the collective net OPEB liability (asset)	\$ 10,126	\$ 6,699	\$ 13,876	\$ 12,048
College's covered-employee payroll during the measurement period (*)	\$ 14,501	\$ 13,506	\$ 12,814	\$ 12,435
College's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	69.83%	49.60%	108.29%	96.89%
Plan fiduciary net position as a percentage of the total collective OPEB liability	19.80%	28.14%	14.81%	15.37%

(*) Per GASB 75, covered-employee payroll is defined as the payroll of employees that are provided with OPEB through the OPEB plan. The covered-employee payroll for this RSI Schedule (GASB 75 paragraph 97) is for the reporting period (i.e. the measurement period), which for the September 30, 2021 year is October 1, 2019 through September 30, 2020.

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

Schedule of the College's Contributions - Other Postemployment Benefits (OPEB)
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2021
(Dollar amounts in thousands)

	2021	2020	2019	2018
Contractually required contribution	\$ 279	\$ 308	\$ 505	\$ 420
Contributions in relation to the contractually required contribution	\$ 279	\$ 308	\$ 505	\$ 420
Contribution deficiency (excess)	\$	\$	\$	\$
College's covered-employee payroll	\$ 14,536	\$ 14,501	\$ 13,506	\$ 12,814
Contributions as a percentage of covered-employee payroll	1.92%	2.12%	3.74%	3.28%

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

***Notes to Required Supplementary Information
for Other Postemployment Benefits (OPEB)
For the Year Ended September 30, 2021***

Changes in Actuarial Assumptions

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

In 2016, rates of withdrawal, retirement, disability, mortality, spouse coverage, and tobacco usage were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 and later, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using Scale BB and adjusted 105% for males and 120% for females.

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.

***Notes to Required Supplementary Information
for Other Postemployment Benefits (OPEB)
For the Year Ended September 30, 2021***

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, 2020 is determined based on the actuarial valuation as of September 30, 2017. 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	24 years, closed
Asset Valuation Method	Market Value of Assets
Inflation	2.75%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.00%
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
Investment Rate of Return	5.00%, including inflation
(*) Initial Medicare claims are set based on scheduled increases through plan year 2019.	

Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Pass-Through to Subrecipients	Total Federal Expenditures
<u>Student Financial Assistance Cluster</u>				
<u>U. S. Department of Education</u>				
<u>Direct Programs</u>				
Federal Supplemental Educational Opportunity Grants	84.007			\$ 196,919.90
Federal Work-Study Program	84.033			47,354.10
Federal Pell Grant Program	84.063			7,058,695.24
Federal Direct Student Loans	84.268			5,085,799.00
Total Student Financial Assistance Cluster				<u>12,388,768.24</u>
<u>Research and Development Cluster</u>				
<u>National Science Foundation</u>				
<u>Passed Through Auburn University</u>				
Education and Human Resources	47.076	17-VP-200634-SUSCC		12,550.00
Education and Human Resources	47.076	17-VP-200603-SUSCC		9,792.11
Total Education and Human Resources				<u>22,342.11</u>
Total Research and Development Cluster				<u>22,342.11</u>
<u>WIOA Cluster</u>				
<u>U. S. Department of Labor</u>				
<u>Passed Through Alabama Department of Commerce</u>				
WIOA Youth Activities	17.259	0X800022		90,793.12
WIOA Youth Activities	17.259	9A907201		76,673.14
WIOA Youth Activities	17.259	9A908701		11,109.49
WIOA Youth Activities	17.259	1X800022		27,860.19
WIOA Youth Activities	17.259	0A907201		26,260.90
WIOA Youth Activities	17.259	0A908701		1,547.80
WIOA Youth Activities	17.259	N.A.		1,073.48
Total WIOA Youth Activities				<u>235,318.12</u>
WIOA Adult Program	17.258	0X509502		14,072.95
WIOA Adult Program	17.258	N.A.		92,027.77
Total WIOA Adult Program				<u>106,100.72</u>
WIOA Dislocated Worker Formula Grants	17.278	0X509502		784.00
WIOA Dislocated Worker Formula Grants	17.278	N.A.		418,715.50
Total WIOA Dislocated Worker Formula Grants				<u>419,499.50</u>
Total WIOA Cluster				<u>\$ 760,918.34</u>

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Pass-Through to Subrecipients	Total Federal Expenditures
<u>OTHER FEDERAL AWARDS</u>				
<u>U. S. Department of Education</u>				
<u>Direct Programs</u>				
Higher Education Emergency Relief Fund (HEERF)				
COVID-19 - HEERF Student Aid Portion	84.425E			\$ 4,731,850.00
COVID-19 - HEERF Institutional Portion	84.425F			5,716,519.45
COVID-19 - HEERF Strengthening Institutions Program	84.825M			70,659.74
Total Higher Education Emergency Relief Fund (HEERF)				<u>10,519,029.19</u>
<u>Passed Through Alabama Community College System</u>				
Adult Education - Basic Grants to States	84.002	0921AE112		284,336.43
Adult Education - Basic Grants to States	84.002	V002A200001/V002A210001		1,971.25
Total Passed Through Alabama Community College System				<u>286,307.68</u>
<u>Passed Through the Alabama State Department of Education</u>				
Career and Technical Education - Basic Grants to States	84.048	V048A210001		140,519.37
<u>U. S. Department of Labor</u>				
<u>Passed Through Alabama Department of Commerce</u>				
Apprenticeship USA Grants	17.285	0G908701		1,547.79
<u>U. S. Department of Treasury</u>				
<u>Passed Through Alabama Department of Finance</u>				
COVID-19 - Coronavirus Relief Fund	21.019	20GEERFHLTHSOUN01		71,910.70
<u>Passed Through Alabama Community College System</u>				
COVID-19 - Coronavirus Relief Fund	21.019	20GEERFSOUN01		566,626.22
Total Coronavirus Relief Fund				<u>638,536.92</u>
Total Federal Awards				<u>\$ 24,757,969.64</u>

N.A. = Not Available/Not Applicable

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

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2021***

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of Southern Union State Community College, under programs of the federal government for the year ended September 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of Southern Union State Community College, it is not intended to and does not present the financial position, changes in net position, or cash flows of Southern Union State Community College.

Note 2 – Summary of Significant Accounting Policies

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

Note 3 – Indirect Cost Rate

Southern Union State Community College has elected not to use the 10-percent de minimis indirect cost rate allowed under the *Uniform Guidance*.

Additional Information

College Officials
October 1, 2020 through September 30, 2021

Officials	Position
Jimmy Baker	Chancellor Alabama Community College System
Todd Shackett	President
Ben Jordan, CPA	Vice-President of Financial and Administrative Services

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

Independent Auditor's Report

Jimmy Baker, Chancellor – Alabama Community College System
Todd Shackett, President – Southern Union State Community College
Wadley, Alabama 36276

We have audited, in accordance with 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 Southern Union State Community College, a component unit of the State of Alabama, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise Southern Union State Community College's basic financial statements and have issued our report thereon dated March 15, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southern Union State Community 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southern Union State Community College's internal control. Accordingly, we do not express an opinion on the effectiveness of Southern Union State Community College's internal control.

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

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

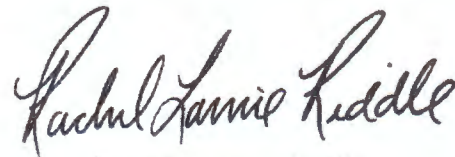
***Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards***

Compliance and Other Matters

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

Purpose of this Report

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



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

March 15, 2022

***Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance***

Independent Auditor's Report

Jimmy Baker, Chancellor – Alabama Community College System
Todd Shackett, President – Southern Union State Community College
Wadley, Alabama 36276

Report on Compliance for Each Major Federal Program

We have audited Southern Union State Community College's, a component unit of the State of Alabama, compliance with the types of compliance requirements described in the ***OMB Compliance Supplement*** that could have a direct and material effect on each of Southern Union State Community College's major federal programs for the year ended September 30, 2021. Southern Union State Community College's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Southern Union State Community College's major federal programs based on our audit of the types of compliance requirements referred to above. 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)***. Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Southern Union State Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

***Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance***

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Southern Union State Community College's compliance.

Opinion on Each Major Federal Program

In our opinion, Southern Union State Community College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

Report on Internal Control Over Compliance

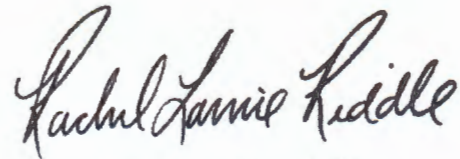
Management of Southern Union State Community College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Southern Union State Community College's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southern Union State Community College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 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.

***Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance***

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on 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.



Rachel Laurie Riddle
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

March 15, 2022

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Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2021

Section I – Summary of Examiner's Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with

2 CFR 200.516(a) of the *Uniform Guidance*?

_____ Yes X No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2021

Section I – Summary of Examiner's Results

Identification of major federal programs:

Assistance Listing Numbers	Name of Federal Program or Cluster
84.007	<u>Student Financial Assistance Cluster</u> Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
	<u>COVID-19 - Higher Education Emergency Relief Fund</u>
84.425E	COVID-19 - HEERF Student Aid Portion
84.425F	COVID-19 - HEERF Institutional Portion
84.425M	COVID-19 - HEERF Strengthening Institutions Program (SIP)
21.019	COVID-19 - Coronavirus Relief Fund

Dollar threshold used to distinguish between
Type A and Type B programs:

\$750,000.00

Auditee qualified as low-risk auditee?

_____ Yes X No

Section II – Financial Statement Findings (GAGAS)

No matters were reportable.

Section III – Federal Awards Findings and Questioned Costs

No matters were reportable.

Summary Schedule of Prior Audit Findings

SOUTHERN UNION STATE COMMUNITY COLLEGE

Mr. Todd Shackett, President

Summary Schedule of Prior Audit Findings For the Year Ended September 30, 2021

As required by the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 2 CFR 200.511, Southern Union State Community College has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 2021.

Finding Ref. No.	Status of Prior Audit Finding
---------------------------------	--------------------------------------

2020-001

Finding: The *U. S. Code of Federal Regulations* Title 2, Part 200.318, of the *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) states that non-Federal entities must use its own documented procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified within that section.

The *Code of Alabama 1975*, Section 41-16-50(a) states, "With the exception of contracts for public works whose competitive bidding requirements are governed exclusively by Title 39, all expenditure of funds of whatever nature for labor, services, work, or for the purchase of materials, equipment, supplies, or other personal property involving fifteen thousand dollars (\$15,000) or more... shall be made under contractual agreement entered into by free and open competitive bidding, on sealed bids, to the lowest responsible bidder."

Due to a lack of properly implemented internal controls and the need to put individuals in place in a timely manner during the COVID-19 pandemic to monitor entrances, the College failed to bid a contract for temporary workers. During the fiscal year, the College paid \$29,064.85 to a staffing agency without competitive bidding.

Corrective Action:

Corrective action has been taken. The College's purchasing agent routinely monitors the vendor expenditure report for totals exceeding \$15,000.

Signed: Todd Shackett
Todd Shackett
President

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