

**COMBINED FINANCIAL
STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE
LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

**COMBINED FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2015

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

**Combined Financial Statements and
Management's Discussion and Analysis**

June 30, 2015

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**COMBINED FINANCIAL STATEMENTS
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CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

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Management's Discussion and Analysis**

June 30, 2015

C O N T E N T S - C O N T I N U E D

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INDEPENDENT AUDITORS' REPORT

To the Connecticut State Colleges & Universities
Board of Regents for Higher Education
Hartford, Connecticut

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Charter Oak State College and Connecticut Distance Learning Consortium (component units of the State of Connecticut, collectively the "Combining Unit"), which comprise the combined statement of net position (deficit) as of June 30, 2015, the related combined statement of revenues and expenses, changes in net position (deficit) and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 the combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of the Charter Oak State College Foundation, Inc. (the "Foundation") as of June 30, 2015. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audits 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the net position of the Combining Unit as of June 30, 2015, and the respective changes in net position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, is effective for the fiscal year 2015 and required the Combining Unit to restate net position as of June 30, 2014 to recognize their proportionate share of the net pension obligation or asset determined for the State Employee's Retirement Plan. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-24, the schedule of proportionate share of net pension liability on page 52, the schedule of contributions on page 51 and the notes to the required supplemental information on page 50 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined 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 combined 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 combined financial statements, and other knowledge we obtained during our audit of the basic combined 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.

Supplemental Information

The combining statements of net position (deficit), revenues and expenses and changes in net position (deficit) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined 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 combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statements are fairly stated in all material respects, in relation to the basic financial statements as a whole. Our audits were conducted for the purpose of forming an opinion on the Combining Unit's basic combined financial statements. The combining statement of net position (deficit), statement of revenues and expenses and changes in net position (deficit) are presented for purposes of additional analysis and are not a required part of the basic combined financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2016, on our consideration of the Combining Unit'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Combining Unit's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

January 13, 2016

COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM (Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited)

June 30, 2015 and 2014

The following discussion and analysis provides an overview of the financial position and activities of Charter Oak State College (COSC) and Connecticut Distance Learning Consortium (CTDLC) (collectively the "Combining Unit") for the fiscal year ended June 30, 2015, along with comparative information for the fiscal year ended June 30, 2014. This discussion has been prepared by and is the responsibility of the Combining Unit's management, and should be read in conjunction with the financial statements and footnote disclosures which follow this section. The discussion immediately following reflects the Combining Unit as it existed during fiscal year 2015.

Since 2011, COSC is one of 17 public institutions governed by the Board of Regents. Prior to the reorganization of the higher education system, COSC was governed by the former Board for State Academic Awards (BSAA) from 1973 to November 30, 2011. In 1998, the BSAA created the CTDLC as an independent operation with a different mission than COSC.

The reorganization in 2011 combined two separate state appropriations; one for COSC and one for the CTDLC, into one appropriation. While the State provides one appropriation, the Combining Unit continues to budget and record expenses separately for each entity. The financial statements present a combined view of COSC and the CTDLC. Additional statements showing separate summaries of COSC and the CTDLC are also presented. The holistic entity will be described as the Combining Unit.

COSC's role is to serve both residents of Connecticut and nonresidents with a variety of credit aggregation mechanisms, credit for prior learning, testing, and the acceptance of a high level of transfer credits to assist adults to complete their college degrees. This role evolved in 1998 with the introduction of online courses to complete degrees. In contrast, CTDLC was created to provide technical services and support to help educational institutions, and other learning focused organizations in and out of Connecticut to meet ever increasing demands of developing and delivering effective technology enhanced learning opportunities for students in higher education, adult education, and in the workplace.

COSC, which is the State's online college, was authorized by Section 28, 10a-143 (c) of the CT general statutes. It offers four General Studies degrees: Associate of Arts, Associate of Science, Bachelor of Arts, and Bachelor of Science. It has also been approved to offer five majors in Health Information Management, Health Care Administration, and Cyber Security, Business Administration, and Psychology. In addition, the COSC can offer Master's Degrees. COSC's

COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM (Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

first Master's Degree, Organizational Effectiveness and Leadership, is awaiting approval by the New England Association of Schools & Colleges this fall. This program is expected to launch in the fall of 2016. Twelve concentrations are available exclusively using COSC online courses and credits from transfer credit, examination, or prior learning evaluation in order to graduate. An additional 20 concentrations can be achieved using COSC courses in conjunction with courses from other institutions in order to graduate. Eleven certificates programs are also offered.

In 2015, the number of new applicants was up 2% from 2,061 in FY 14 to 2,103 in FY 15. Total credit hours generated were up 19% from 27,057 in FY 14 to 32,098 in FY 15.

Three semesters of courses are offered annually by COSC; fall, spring, and summer. The fall and spring semesters offer courses in three time formats: 15 weeks, two eight-week, and three-five week offerings. In the summer, two eight-week and 2 five-week offerings are available. Students are accepted in a program three times a year in the fall, spring, or summer.

The CTDLC was created by the former Board for State Academic Awards in 1998 to provide services and support to help educational institutions and other learning focused organizations in and out of Connecticut meet ever increasing demands of developing and delivering effective technology enhanced learning opportunities. Services of the CTDLC are present in higher education, adult education, and in the workplace to promoted workforce training and development.

The CTDLC offers the following services to assist educators, State agencies, and employers to meet increasing demands of developing and delivering effective technology-enhanced learning opportunities:

- Learning Systems Hosting
- Instructional Design
- E-Tutoring Collaborative
- Web Integration
- K-12 services
- Technical Support
- Strategic Consulting
- Consortium priced LMS software pricing
- Strategic Consulting

COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM

(Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Overview of Financial Statements

At the end of June 30, 2015, the Combining Unit had \$10,882,916 in total assets and deferred outflows, total liabilities and deferred inflows of \$12,341,696, current assets of \$5,071,240, and total net deficit of (\$1,458,075). Of this amount, (\$5,720,578) is classified as unrestricted net deficit. Compared to FY 14, total assets and deferred outflows increased \$1,664,735 or 18%; current assets decreased \$662,587 or 12%, total liabilities and deferred inflows increased \$1,678,999 or 16%; total net deficit decreased \$14,264 or 1%; and unrestricted net deficit decreased \$25,582 or less than 1%.

In June of 2012, the Government Accounting Standards Board (GASB) issued Statement 68 – Accounting and Financial Reporting for Pensions. This statement is effective for fiscal years beginning after June 15, 2014. During the fiscal year ending June 30, 2015, the Combining Unit implemented GASB 68. With the new reporting change, the Combining Unit has allocated its proportionate share of the State of Connecticut State Employees' Retirement System's net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased the beginning total net position by \$7,146,294. At the end of FY 15, the Combining Unit reflected a pension liability of \$9,129,790 which has dramatically increased the total liabilities of the Combining Unit and created an overall net deficit.

Total operating revenues of the Combining Unit from student tuition and fees, grants and contracts, and other COSC activities (net of scholarship allowances) were \$13,439,726, a 14% increase over the previous fiscal year. Operating expenses were \$18,345,185, an 9% increase over the previous fiscal year, resulting in a net operating loss of \$4,904,459 during the year ended June 30, 2015. Net non-operating revenues and other changes were \$4,320,435, up 9% from the previous year.

Cash and cash equivalents at the end of the year decreased 11% from \$4,533,569 in FY 2014 to \$4,054,062 in FY 2015.

COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM

(Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Derivation of the Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities (GASB 35), as amended by GASB Statements No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34, (GASB 37); No. 38, Certain Financial Statement Note Disclosures (GASB 38) and No. 39, Determining Whether Certain Organizations are Component Units – an amendment of GASB statement No. 14 (GASB 39). GASB 35 extended the state and local government financial reporting requirements of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB 34) to include public colleges and universities. As required by GASB 34 and 35, a comparative analysis of fiscal year 2015 financial data with fiscal year 2014 is also presented. The Combining Unit also complies with GASB 51, Accounting and Financial Reporting for Intangible Assets, which provides guidance on the accounting and reporting of intangible assets including computer software. The capitalization threshold for intangible assets is one thousand dollars.

The Combining Unit reports as a special-purpose government engaged only in business-type activities, with much of the cost of providing service recovered through tuition and fees charged to students and other external users in exchange for services. Required financial statements include the Statement of Net Position (Deficit), the Statement of Revenues and Expenses, Changes in Net Position (Deficit), and the Statement of Cash Flows. A review of these financial statements can provide information regarding short-term profitability and liquidity, as well as long-term financial viability and financing, helping to answer the important question of whether the financial condition continues to support the achievement of its operating objectives and mission.

Also included in the Combining Unit's financial statements is the Charter Oak State College Foundation, Inc., (the "Foundation") which is a component unit of COSC. As required by GASB 39, component unit information relative to the Foundation is discretely presented, and is based on separately prepared financial statements. Because the Foundation is private, not-for-profit corporation rather than a government agency, they report using different generally accepted accounting principles (GAAP) than government agencies. The primary authority for the promulgation of GAAP for private corporations is the Financial Accounting Standards Board (FASB), which has promulgated Statement of Financial Accounting Standards (SFAS) No. 117,

COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM (Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Derivation of the Financial Statements - Continued

Financial Statements of Not-for-profit Organizations, as well as other standards, that are applicable to the Foundation. While the Combining Unit's financial statements include the Foundation, no attempt has been made to reformat or compare incomparable FASB standards applied by the Foundation with the GASB standard applied by the Combining Unit, nor have the Foundation financial statement footnotes, disclosures or other detailed information included in the separate Foundation statements, been re-stated herein. Unless otherwise specifically stated, the management discussion, notes and disclosures in the Combining Unit's statements refer to the Combining Unit as the primary institution and not the Foundation.

The **Statement of Net Position (Deficit)** presents the overall financial position of the Combining Unit at the end of fiscal year 2015 compared with fiscal year 2014, and includes all assets and liabilities, including capital assets, net of depreciation. The difference between total assets and total liabilities, or net position (deficit), is one indicator of the current financial condition. Over time, increases or decreases in net position (deficit) may serve as an indicator of whether the financial health of the Combining Unit is improving or deteriorating, although other factors including enrollment and condition of physical facilities must also be considered. The Statement of Net Position (Deficit) classifies assets and liabilities as current and non-current. In general, current liabilities are those that will be paid within one year of the date of the statement of net position. Current assets are those that are available to satisfy current liabilities. Comparisons of current assets to current liabilities can provide an indication of the Combining Unit's ability to meet its obligations in the short term.

Net position (deficit) balances represent resources available to support future operations. Net position (deficit) classified as Invested in Capital Assets provides an indication of the State's and the Combining Unit's investment in long-lived assets such as land, buildings, technology infrastructure, machinery and moveable equipment, necessary to support the educational mission on a long-term basis. Restricted-Expendable net position provides an indication of non-exchange resources available for specific purposes based on donor or legal restrictions, including unexpended capital (State bond fund), appropriations, scholarship donations, and other non-capital gifts. Unrestricted Net Position (Deficit) provides an indication of the one-time financial reserves available to supplement current-year revenues or to provide resources for designated program expansions or capital investment, and as such, can provide an indication of the financial health and flexibility of the Combining Unit as well as its ability to weather short-term financial difficulties.

COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM

(Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Derivation of the Financial Statements - Continued

The **Statement of Revenues and Expenses (SRE)**, like the Statement of Net Position (Deficit), is prepared using the economic resources measurement focus, which includes both financial resources and capital resources. As required by GASB 35, both statements also utilize the full accrual basis of accounting, similar to that used by corporations, private colleges and universities, which recognizes revenues when goods or services are provided, and expenses when goods or services are consumed, regardless of when the related inflows and outflows of cash occur. The SRE provides information regarding whether the Combining Unit is receiving sufficient revenues each year to cover the costs incurred in providing its educational and other services to students and the public.

The SRE classifies revenues and expenses into operating and non-operating. Operating revenues, those which are generated as a result of the Combining Unit's educational and public service activities, do not include State appropriations. Therefore, the Combining Unit and virtually all public colleges and universities that rely on government appropriations as a major source of (non-operating) revenue, will show an operating loss on the Statement of Revenues and Expenses.

GASB 34 and 35 require that revenues be reported net of discounts and allowances. Therefore, for financial reporting purposes, student tuition, fee and other revenues are reduced by the value of student financial aid and tuition and fee waivers used to pay off these charges. Similarly, student financial aid and waiver expenses are reduced to the extent used to pay off tuition and fee charges. The resulting net revenues reflect only the revenues to be actually paid by and on behalf of the students, and the resulting net financial aid/waiver expense reflects only the amount of financial aid actually paid to students to satisfy tuition and fee charges. The SRE shows both the gross and reduction, tuition and fee revenue amounts.

Governments including public colleges and universities are required under GASB 34 and 35, to record depreciation expense for all capital assets. The SRE records a portion of the initial capital outlay each year as depreciation expense, over the expected useful life of the asset. This differs from budgetary practices, which record all capital outlays as expenditure against the current year appropriation or budget.

**COMBINED FINANCIAL STATEMENTS OF
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Derivation of the Financial Statements - Continued

The **Statement of Cash Flows** presents information related to cash inflows and outflows summarized into the categories of operating, non-capital financing, and investing activities. State appropriations, which are considered to be cash equivalents, are also included in this statement. These State appropriations include the general fund appropriation and the value of associated fringe benefits. The Statement of Cash Flows utilizes the direct method, providing information regarding where cash and cash equivalents came from and what they were used for during the year and the net change in cash and equivalents during the year. This statement provides information regarding the Combining Unit's ability to meet short-term financial obligations, its ability to generate future cash flows, and its liquidity, solvency and financial flexibility. It can also help users assess the reasons for differences between changes in net position and the associated cash receipts and payments.

COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM (Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Derivation of the Financial Statements - Continued

A review of the statement of net position (deficit) is as follows:

	<u>2015</u>	(Restated) <u>2014</u>	<u>% Change</u>
Assets:			
Current Assets	\$ 5,071,240	\$ 5,733,828	-12%
Non-Current Assets	<u>3,296,748</u>	<u>2,760,948</u>	19%
Total Assets	8,367,988	8,494,776	-1%
Deferred Outflows of Resources	<u>2,514,928</u>	<u>723,405</u>	248%
Total Assets and Deferred Outflows	<u>\$ 10,882,916</u>	<u>\$ 9,218,181</u>	18%
Liabilities:			
Current Liabilities	\$ 2,280,533	\$ 2,273,709	0%
Non-Current Liabilities	<u>9,735,099</u>	<u>8,388,990</u>	16%
Total Liabilities	12,015,632	10,662,699	13%
Deferred Inflows of Resources of Resources	<u>326,064</u>	<u>-</u>	100%
Net Position (Deficit):			
Invested in Capital Assets	3,296,748	2,760,948	19%
Expendable & Unrestricted	<u>(4,755,528)</u>	<u>(4,205,466)</u>	13%
Total Net Position	<u>(1,458,780)</u>	<u>(1,444,518)</u>	1%
Total Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)	<u>\$ 10,882,916</u>	<u>\$ 9,218,181</u>	18%

Total current assets were \$5,071,240 at the end of the 2015 fiscal year, a decrease from \$5,733,827, or 12%, from the end of the 2014 fiscal year. This is due to the reduction in cash held by the State Treasurer and a decrease in accounts receivable, net.

**COMBINED FINANCIAL STATEMENTS OF
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Derivation of the Financial Statements - Continued

Current assets include cash held by the State Treasurer of \$4,038,814, a decrease of 11%, compared to \$4,517,091 in fiscal year 2014. This decrease is due to the spending of bond funding for a special program and computer equipment. Current assets also include account receivable, net of \$633,000. This amount decreased 35% from \$967,777 in the prior year. The decrease is primarily due to the receipt of a receivable posted in FY 14 in excess of \$400,000 to support the GBTGA Program. Other current assets include prepaid expenses for memberships, software licenses, and subscriptions of \$384,178 compared to \$232,481 in fiscal year 2014. Total assets and deferred outflows increased to \$10,882,916 or 18%, from \$9,218,180 in fiscal year 2014. This increase was the result of deferred outflows of resources items related to the implementation of GASB 68.

Noncurrent capital assets increased to \$3,296,748 compared to \$2,760,948, or 19%, from fiscal year 2014. Computer equipment purchases are primarily responsible for this increase.

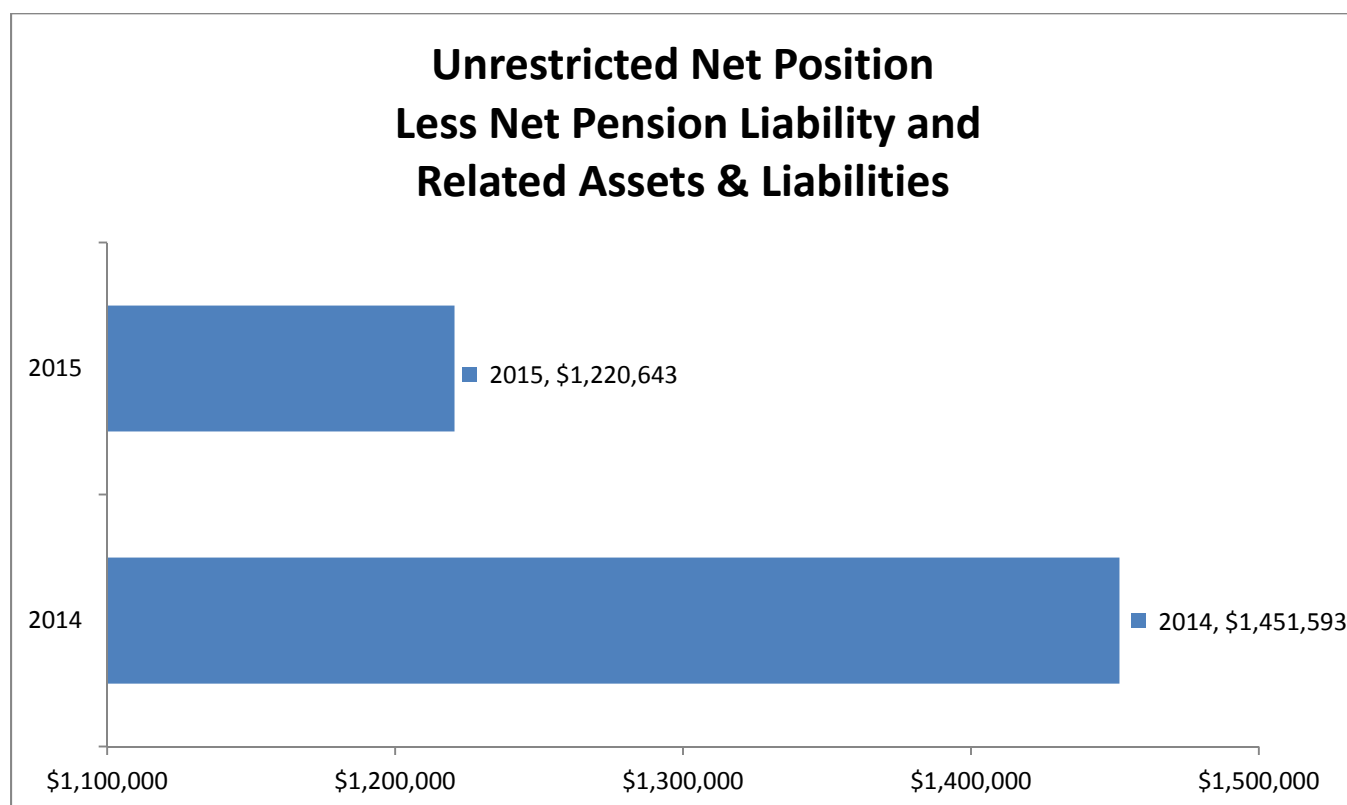
COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM

(Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Derivation of the Financial Statements - Continued



When the net pension liability and related assets and liabilities are not taken into account, the unrestricted net position decreased \$230,950 or 16% in FY 15. This decrease is attributed to a number of reasons. The capital appropriations received in 2014 were spent to purchase technology equipment during 2015. Expenditures in general increased in 2015 driven by 5 new employees in either academic support, student services, or institutional support. Instructional expenses also increased due to enrollment. Another impact was the 5.65% salary increase for all unionized staff during FY 15.

COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM (Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Derivation of the Financial Statements - Continued

A review of the Statement of Revenues and Expenses is as follows:

		(Restated)	
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Operating Revenues:			
Student Tuition & Fees	\$ 10,851,053	\$ 9,059,330	20%
Less: Scholarship Discounts & Allowances	<u>(2,252,713)</u>	<u>(1,852,553)</u>	22%
Net Tuition & Fees	8,598,340	7,206,777	19%
CTDLC Fees	1,644,815	1,434,985	15%
Federal Grants & Contracts	2,357,159	1,978,398	19%
State Grants & Contracts	657,592	830,540	-21%
Other Operating Revenues	<u>181,820</u>	<u>357,020</u>	-49%
 Total Operating Revenues	 <u>13,439,726</u>	 <u>11,807,720</u>	 14%
Operating Expenses:	<u>18,345,185</u>	<u>16,797,212</u>	9%
 Net Operating Loss	 <u>(4,905,459)</u>	 <u>(4,989,492)</u>	 -2%
Non-Operating Revenues:	<u>4,320,435</u>	<u>3,957,373</u>	9%
 Net Non-Operating Revenues	 <u>(585,024)</u>	 <u>(1,032,119)</u>	 -43%
 Capital Appropriations	 <u>570,762</u>	 <u>2,546,838</u>	 -78%
 Net Increase (Decrease) in Net Position (Deficit)	 <u>\$ (14,262)</u>	 <u>\$ 1,514,719</u>	 -101%

**COMBINED FINANCIAL STATEMENTS OF
CHARTER OAK STATE COLLEGE AND
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Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Derivation of the Financial Statements - Continued

Total operating revenues for fiscal year 2015 were up 14% from \$11,807,720 to \$13,439,726 compared to fiscal year 2014. This increase is due to a number of factors. Net tuition and fees increased by 20% which was due to the Go Back to Get Ahead Program. This program sought to attract students that had been away from higher education for 18 months and wanted to return to one of the 17 Board of Regents institutions. If a student took six credits or more, a free three credit course was offered to enrollees. A total of nine free courses were offered to students that remain continually enrolled in the program. Through the spring of 2015, Charter Oak enrolled 359 students. The program no longer accepts new students and enrollment growth in 2016 is not expected to mirror the gains in 2015.

In addition, a broader partnership was created with Big Picture Learning (College Unbound) which enrolled students from Rhode Island and Louisiana. This program has brought more than 80 new students to the college. Finally, a tuition increase of 4.8% also contributed to the increase in total operating revenues.

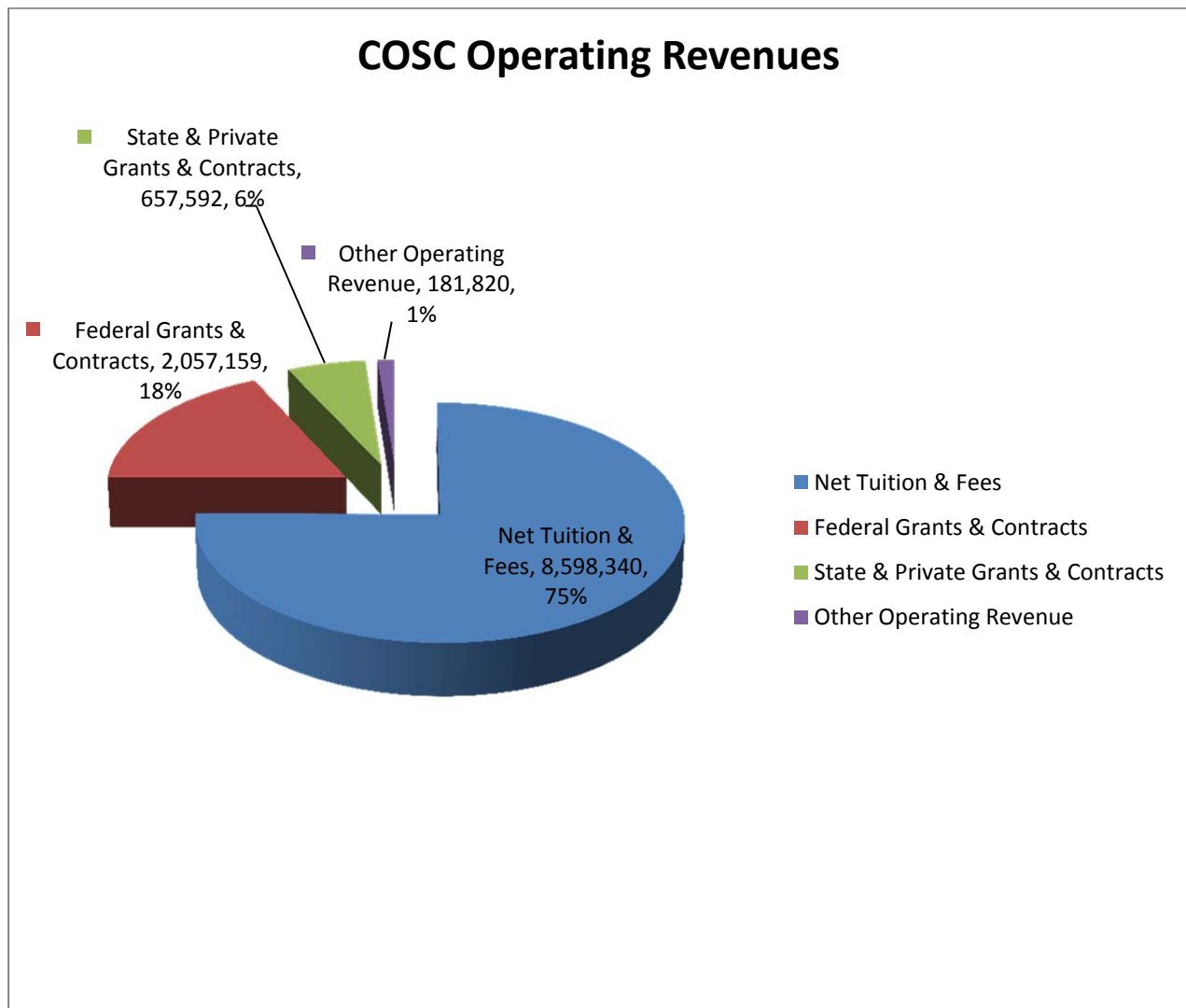
COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM (Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Derivation of the Financial Statements - Continued

A review of operating revenues is as follows:

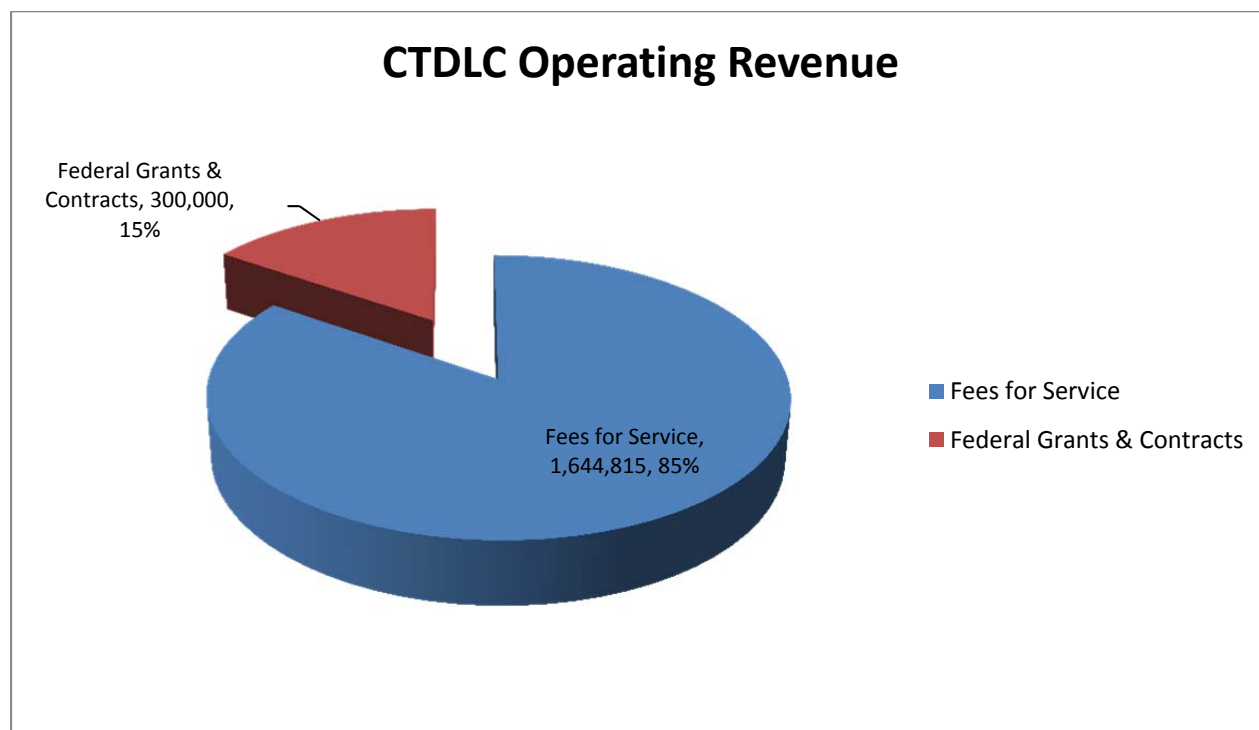


COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM (Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Derivation of the Financial Statements - Continued



Total operating expenses for Combining Unit increased 9% from \$16,797,212 in FY 2014 to \$18,345,185. The majority of this increase is attributed to the instructional cost increase due to the increase in course registrations in FY 15 as the result of GBTGA and College Unbound programs. Changes in the student services are attributed to the hiring of 3.5 FTE's to support the GBTGA program. Student services costs increased due to the addition of two new employees. Also, the staff received a 5.65% increase in wages in FY 15. Fringe benefits continue to increase as employees (full-time, part-time, and faculty) switch from the Alternate Retirement Plan to the Hybrid Retirement Plan. This change in retirement fringe benefit rate can cost the institution an additional 48% in the cost of these benefits.

COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM (Component Units of the State of Connecticut)

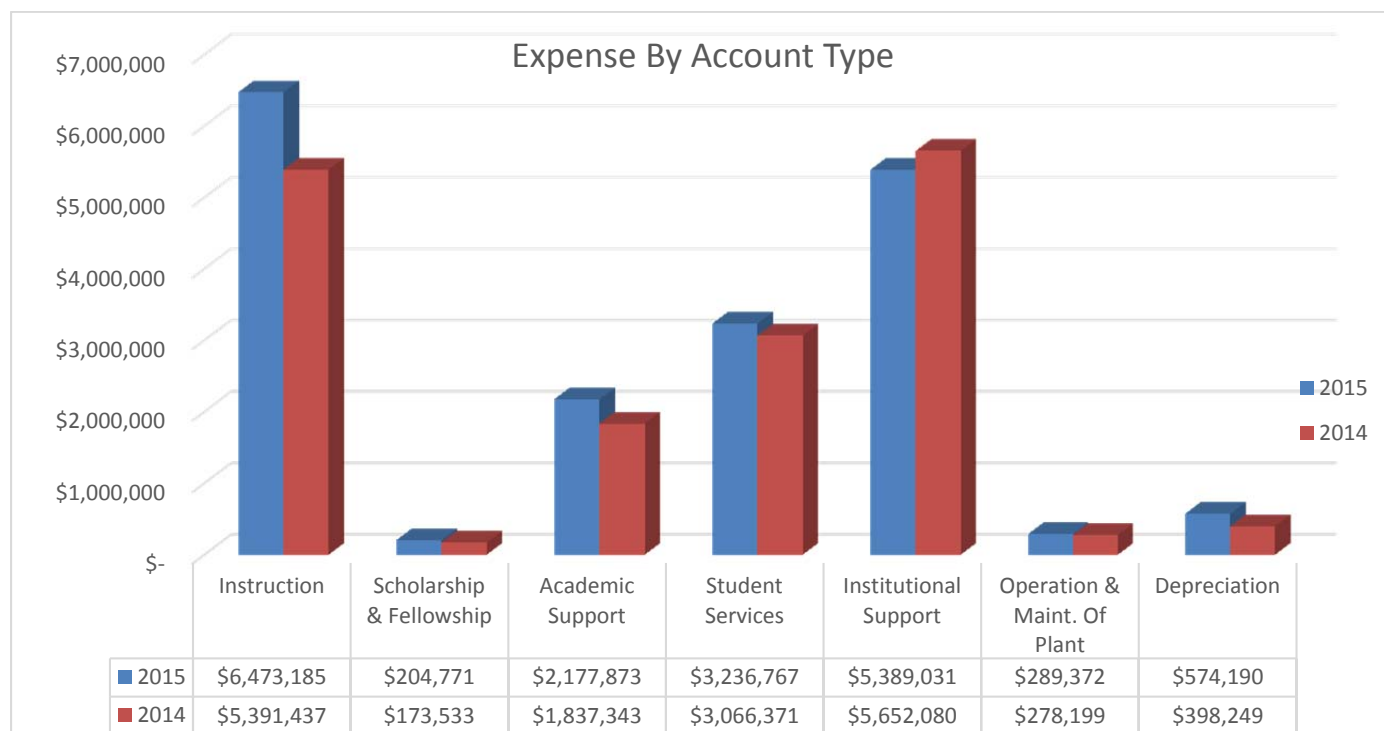
Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Derivation of the Financial Statements - Continued

Net operating loss increased 2% from (\$4,989,492) in FY 2014 to (\$4,905,459). While the operating revenue increased 14% it wasn't adequate to offset the 9% increase in operating expenditures. The net decrease in net position at the end of the year in FY 2015 was 101%. A significant decrease in capital appropriations along with the increase in operating expense are primarily responsible for the change in net position.

The functional classification of expenses for the Combining Unit is as follows:



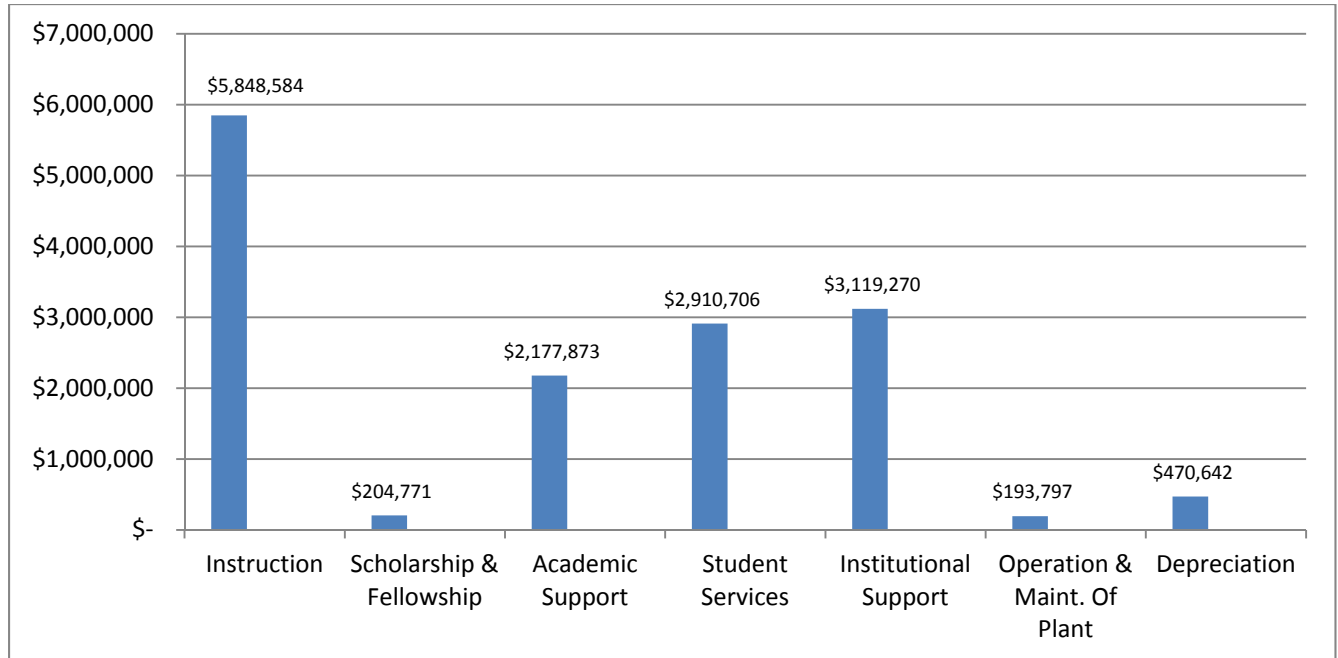
COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM (Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Derivation of the Financial Statements - Continued

The functional expenses of COSC are as follows:



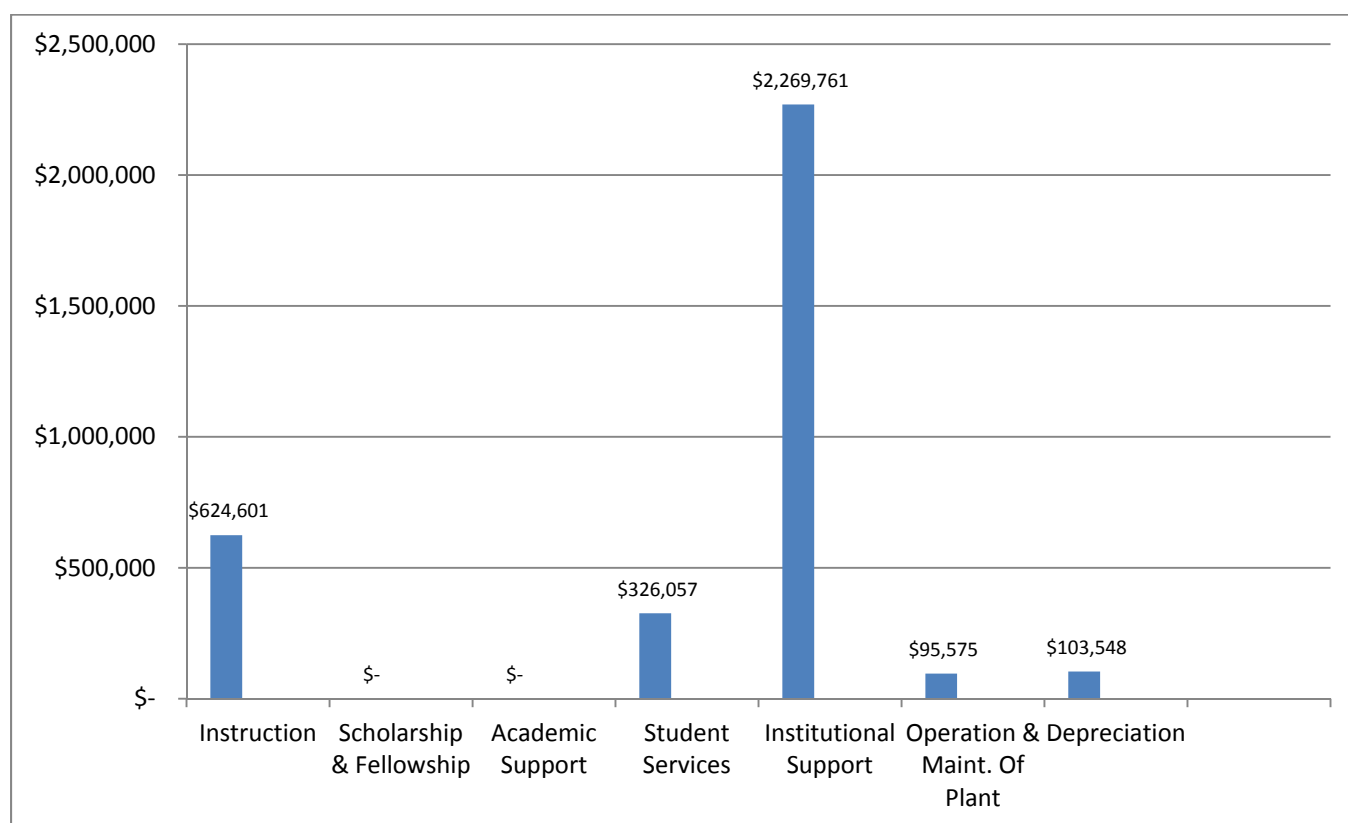
COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM (Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Derivation of the Financial Statements - Continued

The functional expenses of CTDLC are as follows:



The statement of cash flows utilizes the direct method and outlines cash receipts and payment summaries for fiscal years 2014 and 2015. Receipts from tuition and fees, grants and contracts, and other receipts are shown along with outflows of payments to employees, suppliers and vendors.

There was a net decrease in cash and equivalents of \$(479,507) in FY 15. Cash and equivalents at the end of fiscal year 2015 decreased 11% from \$4,533,569 in fiscal year 2014 to \$4,054,062 in fiscal year 2015.

COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM (Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Factors Impacting Future Results

The entities within the Combining Unit have different strategies to impact sustainability and future results. COSC relies more on student centered activities while the CTDLC is more service development and sales oriented.

COSC

Adult based online colleges continue to face stiffer competition as more “brick and mortar” colleges and universities add online programs to their course and program offerings and attempt to attract more adult students. Enrollments at a number of colleges are generally increasing more slowly, are flat, or declining. While COSC had a 19% increase in credit hours generated in FY 15, this was affected strongly by the one-time Go Back to Get Ahead Program. This initiative has ended and the results in FY 16 are not expected to duplicate the enrollment gains in FY 15.

Attracting and retaining students; new and unique program offerings; administrative effectiveness; funding stabilization by the State; and expanded service opportunities will strengthen the operation and sustainability of the COSC.

In fiscal year 2015, COSC expended considerable energy on the development of new programs. Since the costs of developing programs are so high, partnerships were pursued that would allow COSC to deliver new programs more quickly and for less expense. COSC entered into a contract with Big Picture Learning to enroll students from Rhode Island and Louisiana in a new concentration. This project has resulted in approximately 80 new students attending the institution.

A master's program was presented to the Board of Regents for Approval this past spring. The program was approved and is now awaiting approval from NEASC. The program is expected to launch in the fall of 2016 and over 100 students are expected to participate in this program. Development of an additional master's program is planned for 2015/2016.

COSC's Health Information Management program just received accreditation. This new status is expected to drive enrollments in the program since students are now eligible to take the professional test for certification. Two additional majors, Business Administration and Psychology were also added during FY 15.

COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM

(Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Factors Impacting Future Results - Continued

COSC - Continued

The president of COSC has also been continuing his conversations with the Lumina Foundation to position the COSC as a degree completion institution that would serve other states seeking to increase degree attainment of their state workforce (similar to the GBTGA program). These discussions with the Lumina Foundation and other degree completion institutions have been ongoing and results are expected in fiscal year 2016.

In addition to new programs, COSC continually reviews its marketing and admissions activities and processes in order to evaluate effectiveness of the current processes/activities. More regular "personal follow-up" with inquiries and applicants are now in place. Tailored out of state marketing strategies in the state of Florida were implemented in FY 15. This marketing approach will be continued in FY 16 to attract a new market of students to COSC. Preliminary results of the Florida campaign are positive.

Retaining students is also a more heightened activity of COSC. Students that do not return each semester for coursework are contacted in several ways by COSC staff to facilitate the return of the student to their program of study. Mechanisms have been created that allow the staff to identify non returning students prior to the close of the next registration cycle in order to assist the students with their return to the COSC. This approach has also added to the knowledge of why students do not return in the subsequent semester. Additional surveys have also been developed to assist COSC with information to strengthen their student service approach.

The stability and quantity of the State appropriation continues to be a challenge for COSC. The State is projected a budget deficit in FY 15 and an even larger projected deficit in FY 16. Normally the budget deficit mitigation plan involves a reduction of funding during the current fiscal year and a potential reduction of funding for the next fiscal year.

CTDLC

The CTDLC continues to reach out to other higher educational institutions and State agencies regarding the sale of educational services.

COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM

(Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Factors Impacting Future Results - Continued

CTDLC - Continued

Since the CTDLC was created in 1998, the composition of revenue has dramatically changed. In the beginning most revenue was generated by work with public and private institutions hosting learning management systems and supporting these institutions with the preparation of their online courses for delivery on the hosted system. This approach reduced the infrastructure costs of these participating institutions to expand their instructional reach through distance learning. As more colleges are creating their own infrastructure and staff resources to offer online courses, this revenue source has become more limited.

The success of the organization will be the result of a number of factors; they include: reducing and streamlining infrastructure costs; continue the transition to more of a consulting service model; aggressively seeking partnerships with public and private non-profit organizations around student support and grant opportunities; and continuous environmental scanning for new opportunities. It has become clear that State support can no longer be considered predictable to support the operation.

In terms of reducing and streamlining infrastructure, the CTDLC continually looks at cost savings options to reduce the number of servers required by focusing on virtualization and also seeks out software that will allow the data center to work more efficiently. As their role as a hosting site has decreased, ongoing evaluation has taken place to size the data center in terms of the services that are offered to its clients.

The transition to a consulting service model has had success over the last several years. More opportunities have been created to engage in web based training for State and private organizations. One significant result of these activities has been the receipt of \$1.6 million dollars in FY 14 to create the CT Academy. This project, which is ongoing, will provide eLearning opportunities to state employees. The learning would include the required State Employee courses in Workforce Violence, Diversity Training, and Sexual Harassment training. An Active Shooter course has already been developed and a Lean course is expected in the near future. Later, more generic training courses will be delivered to the state workforce for a fee.

COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM

(Component Units of the State of Connecticut)

Management's Discussion and Analysis (Unaudited) - Continued

June 30, 2015 and 2014

Factors Impacting Future Results - Continued

CTDLC - Continued

Additional opportunities have occurred to work with State and private non-profit organizations in grant opportunities or discussions of partnerships. The service or help desk services have also steadily increased to include areas like financial aid support to higher education institutions. This program continues to grow and more institutions are interested in these services during fiscal year 2016. Instructional design services have also increasingly been sold to organizations looking to develop training or instructional programs for their personnel.

Student support activities have tremendously expanded with the sale of an ETutoring platform that was created by CTDLC. This software that allows for consortium institutions to share tutoring resources among the group has reduced the costs of educational institutions to provide academic support to their students. The uniqueness of this product continues to attract more institutions into the mix. International clients have been added as users of this tutoring platform. Continued expansion is expected in FY 16.

The staff of the CTDLC continually scans the environment for new opportunities for the organization. Involvement in State, educational services, grant, and other consultant projects continuously places representatives of the organization in new situations where their services may be applied to different needs. Attendance at several national conferences each year also assists in the identification of trends and new needs of the education and learning technology sectors. These conferences are also used to recruit new business for the organization.

Conclusion

This financial report is designed to provide a general overview of the Combining Unit's finances. Questions concerning any of the information provided in this report should be addressed to Clifford Williams, Chief Financial & Administrative Officer, Charter Oak State College, 85 Alumni Road, Newington, CT. 06111.

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

Combined Statement of Net Position (Deficit)

June 30, 2015

COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)

Combined Statement of Net Position (Deficit)

June 30, 2015

Assets and Deferred Outflows of Resources

	Primary Government	Component Unit
	<u>Combined</u>	<u>Foundation</u>
Current Assets:		
Cash and equivalents	\$ 15,248	\$ 123,367
Cash held by State Treasurer	4,038,814	-
Accounts receivable, net	633,000	10,496
Investments	-	1,682,103
Other current assets	<u>384,178</u>	<u>625</u>
Total Current Assets	<u>5,071,240</u>	<u>1,816,591</u>
Non-Current Asset:		
Capital assets, net	<u>3,296,748</u>	-
Deferred Outflows of Resources:		
Contributions made after the measurement date	1,206,089	-
Changes in proportion due to internal allocation	<u>1,308,839</u>	-
Total Deferred Outflows of Resources	<u>2,514,928</u>	-
Total Assets and Deferred Outflows	<u>\$ 10,882,916</u>	<u>\$ 1,816,591</u>

Liabilities, Deferred Inflows of Resources and Net Position (Deficit)

Current Liabilities:		
Accounts payable	\$ 137,894	\$ -
Accrued payroll	706,610	-
Accrued employee compensated absences	691,089	-
Unearned tuition revenues	<u>744,940</u>	-
Total Current Liabilities	<u>2,280,533</u>	-
Non-Current Liabilities:		
Accrued employee compensated absences	605,309	-
Net pension liability	<u>9,129,790</u>	-
Total Non-Current Liabilities	<u>9,735,099</u>	-
Total Liabilities	<u>12,015,632</u>	-
Deferred Inflows of Resources:		
Differences between projected and actual earnings of plan investments	<u>326,064</u>	-
Net Position:		
Net investment in capital assets	3,296,748	-
Restricted-nonexpendable	-	1,051,208
Restricted-expendable	964,755	713,131
Unrestricted	<u>(5,720,283)</u>	<u>52,252</u>
Total Net Position (Deficit)	<u>(1,458,780)</u>	<u>1,816,591</u>
Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)	<u>\$ 10,882,916</u>	<u>\$ 1,816,591</u>

See accompanying notes to the combined financial statements.

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

Combined Statement of Revenues and Expenses

For the Year Ended June 30, 2015

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Combined</u>	<u>Foundation</u>
Operating Revenues:		
Tuition and fees	\$ 10,851,053	\$ -
Less: scholarships and fellowships	<u>2,252,713</u>	<u>-</u>
Net tuition and fees	8,598,340	-
CTDLC fees	1,644,815	
Federal grants and contracts	2,357,159	-
State grants and contracts	657,592	-
Private grants and contracts	40,075	-
Other operating revenues	<u>141,745</u>	<u>-</u>
Total Operating Revenues	<u>13,439,726</u>	<u>-</u>
Operating Expenses:		
Educational and general:		
Instruction	6,473,185	-
Scholarships and fellowships	204,771	93,101
Academic support	2,177,873	-
Student services	3,236,763	-
Institutional support	5,389,031	29,417
Operation and maintenance of plant	289,372	-
Depreciation	<u>574,190</u>	<u>-</u>
Total Operating Expenses	<u>18,345,185</u>	<u>122,518</u>
Net Operating Loss	<u>(4,905,459)</u>	<u>(122,518)</u>
Non-Operating Revenues:		
State appropriations	4,014,400	-
Contributions	15,000	115,813
Other	288,047	-
Investment income	<u>2,988</u>	<u>54,058</u>
Net Non-Operating Revenues	<u>4,320,435</u>	<u>169,871</u>
Increase (Decrease) in Net Position Before Capital Appropriations	(585,024)	47,353
Capital Appropriations	<u>570,762</u>	<u>-</u>
Net Increase (Decrease) in Net Position	<u>\$ (14,262)</u>	<u>\$ 47,353</u>

See accompanying notes to the combined financial statements.

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

Combined Statement of Changes in Net Position (Deficit)

For the Year Ended June 30, 2015

	<u>Primary Government</u>				
	<u>Net Investment in Capital Assets</u>	<u>Restricted Non-expendable</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2014, as previously reported	\$ 2,760,948	\$ -	\$1,489,235	\$ 1,451,593	\$ 5,701,776
Prior Period Adjustment - Adoption of new accounting principle (Note 2)	-	-	-	(7,146,294)	(7,146,294)
Balance June 30, 2014, as restated	2,760,948	-	1,489,235	(5,694,701)	(1,444,518)
Changes in net deficit for 2015	535,800	-	(524,480)	(25,582)	(14,262)
Balance, June 30, 2015	<u>\$ 3,296,748</u>	<u>\$ -</u>	<u>\$ 964,755</u>	<u>\$ (5,720,283)</u>	<u>\$ (1,458,780)</u>

	<u>Component Unit</u>				
	<u>Net Investment in Capital Assets</u>	<u>Restricted Non-expendable</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2014	\$ -	\$ 1,029,798	\$ 684,447	\$ 54,993	\$ 1,769,238
Changes in net position for 2015	-	21,410	28,684	(2,741)	47,353
Balance, June 30, 2015	<u>\$ -</u>	<u>\$ 1,051,208</u>	<u>\$ 713,131</u>	<u>\$ 52,252</u>	<u>\$ 1,816,591</u>

See accompanying notes to the combined financial statements.

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

Combined Statement of Cash Flows

For the Year Ended June 30, 2015

	Primary Government
Cash Flows from Operating Activities:	
Tuition and fees	\$ 8,868,611
CTDLC fees	1,634,112
Grants and contracts	3,497,676
Payments to employees	(13,071,921)
Payments to suppliers and vendors	(3,643,932)
Payments to students	(204,771)
Other operating receipts	<u>141,745</u>
Net Cash Applied to Operating Activities	<u>(2,778,480)</u>
Cash Flows from Non-Capital Financing Activities:	
State appropriations	2,532,166
Contributions	15,000
Other	<u>288,047</u>
Net Cash Provided by Non-Capital Financing Activities	<u>2,835,213</u>
Cash Flows from Capital Financing Activities:	
Capital appropriations	570,762
Purchases of capital assets	<u>(1,109,990)</u>
Net Cash Applied to Non-Capital Financing Activities	<u>(539,228)</u>
Cash Flows from Investing Activity:	
Interest on investments	<u>2,988</u>
Net Decrease in Cash and Equivalents	(479,507)
Cash and Equivalents, Beginning of Year	<u>4,533,569</u>
Cash and Equivalents, End of Year	<u>\$ 4,054,062</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:	
Net operating loss	\$ (4,905,459)
Adjustments to reconcile net operating loss to net cash applied to operating activities:	
Depreciation	574,190
Bad debts	215,402
Fringe benefits provided by the state	1,482,234
Changes in assets and liabilities:	
Accounts receivable	119,375
Other current assets	(151,697)
Accounts payable	(248,652)
Accrued payroll	85,894
Accrued employee compensation and benefits	103,265
Unearned tuition revenues	152,337
Net pension activity	<u>(205,369)</u>
Net Cash Applied to Operating Activities	<u>\$ (2,778,480)</u>
Non-Cash Transaction:	
Fringe benefits provided by the state	<u>\$ 1,482,234</u>

See accompanying notes to the combined financial statements.

COMBINED FINANCIAL STATEMENTS CHARTER OAK STATE COLLEGE CONNECTICUT DISTANCE LEARNING CONSORTIUM (Component Units of the State of Connecticut)

Notes to the Combined Financial Statements

June 30, 2015

Note 1 - Summary of Significant Accounting Policies

Organization

The accompanying combined financial statements present the combined financial position of Charter Oak State College and the Connecticut Distance Learning Consortium (collectively the "Combining Unit"). Both organizations are overseen by the Connecticut State College & Universities Board of Regents.

Charter Oak State College ("COSC") is a state-supported comprehensive college that offers education leading to associate and bachelor's degrees in the arts and sciences, as well as professional certificate programs. COSC is located in New Britain, Connecticut and provides instruction and training in a variety of liberal arts, sciences and business fields of study. COSC is accredited by the New England Association of Schools and Colleges.

Connecticut Distance Learning Consortium ("CTDLC") is a state-supported organization created in 1999 to provide services and support to help educational institutions and other learning focused organizations, in and out of the State of Connecticut, to meet the ever increasing demands of developing and delivering effective technology enhanced learning opportunities for students in higher education, K-12, adult education, and in the workplace to promote workforce training and development.

Basis of Presentation and Accounting

The accompanying combined financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* ("GASB 39") requires a legally separate, tax-exempt, affiliated entity to be considered a component unit of the Combining Unit and presented discretely in the Combining Unit's financial statements.

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation and Accounting - Continued

The Charter Oak State College Foundation, Inc. (the "Foundation") was formed to render financial assistance and support to the educational programs and development of COSC and to meet the requirements of a component unit of COSC. The Foundation is legally separate from COSC, and COSC is not financially accountable for the Foundation. The Foundation has been included in the combined financial statements because of the nature and significance of its relationship with COSC. Complete financial statements can be obtained from the Foundation's administrative office in New Britain, Connecticut.

Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. The accompanying combined statements of revenues and expenses and changes in net position demonstrate the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues primarily include charges to students or others who enroll or directly benefit from services that are provided by a particular function. Items not meeting the definition of program revenues are instead reported as general revenues.

The Combining Unit has determined that it functions as a business-type activity as defined by GASB. The effect of inter-fund activity has been eliminated from these combined financial statements. The basic combined financial statements and required supplementary information for general purpose governments consist of management's discussion and analysis, basic combined financial statements including the Combining Unit's discretely presented component unit and required supplementary information. The Combining Unit presents combined statements of net position, revenues and expenses, changes in net position (deficit) and cash flows on a combined Combining Unit-wide basis.

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation and Accounting - Continued

The Combining Unit's policy for defining operating activities in the combined statements of revenues and expenses are those that generally result from exchange transactions such as payments received for services and for the purchase of goods and services. Certain other transactions are reported as non-operating activities in accordance with GASB Statement No. 35. These non-operating activities include the Combining Unit's operating and capital appropriations from the State of Connecticut, net investment income and interest expense.

Net Position

Resources are classified for accounting purposes into the following four net position categories:

Net Investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets.

Restricted - nonexpendable: Net position subject to externally imposed conditions that the Combining Unit must maintain in perpetuity.

Restricted - expendable: Net position whose use is subject to externally imposed conditions that can be fulfilled by the actions of the Combining Unit or by the passage of time.

Unrestricted: All other categories of net position. Unrestricted net position may be designated by actions of the Combining Unit's Board of Regents.

The Combining Unit has adopted a policy of generally utilizing restricted - expendable funds, when available, prior to unrestricted funds.

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 1 - Summary of Significant Accounting Policies - Continued

Cash and Equivalents

Cash and equivalents consist of cash held by the state treasurer in a Short-Term Investment Fund ("STIF"), state general fund and capital appropriations, and petty cash. The STIF, stated at market value, is held on behalf of the Combining Unit by the State Treasurer and has original maturities of three months or less. Interest income is recognized on the accrual basis. The largest inflow of cash related to non-capital financing is State appropriations, including general fund appropriations for salaries and other items. The Combining Unit however does not receive cash from the State in support of the general fund appropriation. The appropriation is treated as a cash equivalent for accounting and reporting purposes, and it is included in the combined statements of cash flows.

Allowance for Doubtful Accounts

Provisions for losses on receivables are determined on the basis of loss experience, known and inherent risks, and current economic conditions.

Investments

The Foundation invests in mutual funds which are recorded at fair value. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of the investment securities will occur and that such changes could materially affect the amounts reported in the statement of net position.

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings, equipment and collection items are stated at cost, at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the state's capitalization policy, only those items with a unit cost of more than \$1,000 are capitalized. Library materials are no longer capitalized and amortized. Combining Unit's capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 40 years. The costs of

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 1 - Summary of Significant Accounting Policies - Continued

Capital Assets - Continued

normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The Combining Unit does not have collections of historical treasures, works of art or other items that are inexhaustible by their nature and are of immeasurable intrinsic value, thus not requiring capitalization or depreciation in accordance with GASB guidelines.

Fringe Benefits

The Combining Unit participates in the state's Fringe Benefit programs, including health insurance, unemployment, pension and workers' compensation benefits. Health insurance, unemployment and pension costs are billed through a fringe benefit rate charged to the Combining Unit. Workers' compensation costs are assessed separately based on the Combining Unit's actual experience.

Pension Obligations

The Combining Unit records pension obligations equal to the net pension liability for its defined benefit plans. The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available.

Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows of resources and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

COMBINED FINANCIAL STATEMENTS CHARTER OAK STATE COLLEGE CONNECTICUT DISTANCE LEARNING CONSORTIUM (Component Units of the State of Connecticut)

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 1 - Summary of Significant Accounting Policies - Continued

Compensated Absences

Employees earn the right to be compensated during absences for vacation and sick leave. Accrued vacation is the amount earned by all eligible employees at June 30, 2015. The accrued sick leave balance represents 25% of amounts earned by those employees with ten or more years of state service as of June 30, 2015. Upon termination of employment, these employees are entitled to receive payment for this accrued balance.

Unearned Tuition Revenues

Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are recorded as the related services are provided. The revenue for a summer session is split between the two fiscal years, with results in a portion of the revenue being recognized as unearned.

Student Fees

Student tuition and fees are presented as net of scholarships and fellowships applied to students' accounts at COSC. Certain other scholarships are paid directly to, or refunded to, the student and are generally reflected as expenses.

CTDLC Fees

Revenue represents services that CTDLC provides to other organizations in developing distance learning programs and is recognized in the accounting period in which the contracted services are earned.

Tax Status

The Combining Unit is a component unit of the State of Connecticut and is therefore generally exempt from income taxes under Section 115(a) of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 1 - Summary of Significant Accounting Policies - Continued

New Governmental Accounting Pronouncements

GASB 72, *Fair Value Measurement and Application*, is effective for periods beginning after June 15, 2015. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The valuation techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach. Valuation methodologies should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value, which are as follows: Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable, directly or indirectly. Level 3 inputs are unobservable inputs such as management's assumptions about certain factors affecting the value of the asset or liability. Management is in the process of evaluating the implementation of this Statement but does not expect any material effect to its financial position.

Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 – GASB Statement 73. The provisions of this Statement applicable to the Combining Unit are effective for periods beginning after June 15, 2016. The purpose of these provisions is to clarify and enhance certain reporting requirements of GASB Statements 67 and 68. GASB Statement 73 is effective for the fiscal year ended June 30, 2017. Management has not yet evaluated the effects of the implementation of GASB Statement 73.

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – GASB Statement 75, is effective for periods beginning after June 15, 2017. This Statement replaces Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans* and Statement 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of Statement 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions ("OPEB"). It also

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
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Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 1 - Summary of Significant Accounting Policies - Continued

New Governmental Accounting Pronouncements - Continued

requires additional information by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 75 also identifies the assumptions and methods that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service for defined benefit OPEB. Management has not yet evaluated the effects of the implementation of this Statement.

The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments – GASB Statement 76, supersedes similarly named Statement 55 and is effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (“GAAP”). The hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment of a transaction or other event is not specified within a source of authoritative GAAP. Management is currently reviewing this pronouncement, implementation of which must be applied retroactively.

Note 2 - Adoption of Newly Effective Accounting Standard

Effective July 1, 2014, the Combining Unit adopted GASB Statement 68, *Accounting and financial Reporting for Pensions - an Amendment of GASB Statement No. 27* (“GASB 68”). The System also adopted GASB Statement No. 71, *Pension Transition for Contributions made subsequent to the Measurement Date, an amendment of GASB Statement 68*. GASB 68 replaces the requirements of GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements

COMBINED FINANCIAL STATEMENTS

CHARTER OAK STATE COLLEGE

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(Component Units of the State of Connecticut)

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 2 - **Adoption of Newly Effective Accounting Standard - Continued**

of GASB Statement 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. In addition, GASB 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. To the extent practical, GASB 68 requires retrospective adoption, which results in restatement of prior periods presented. Restatement of all prior periods presented is not practical because the pension plans are managed by the State of Connecticut and this information is not readily available. The total beginning net pension liability allocable to the Combining Unit has been actuarially determined and the effect of adopting GASB 68 as of July 1, 2014 was as follows:

	<u>As Previously Stated</u>	<u>As Restated</u>
Net pension liability	\$ -	\$ 7,869,699
Deferred outflows of resources	-	723,405
Unrestricted net position (deficit)	1,451,593	(5,694,701)

Note 3 - **Cash and Equivalents**

Cash is invested in the State of Connecticut Treasurer's STIF, a combined investment pool of high quality, short-term money market instruments. All temporary surplus cash is invested in the STIF. The Combining Unit may add or withdraw monies on a daily basis with interest earned from date of deposit to date of withdrawal. The primary investment objectives of the STIF are the preservation of principal and the provision of liquidity to meet the Combining Unit's daily cash flow requirements.

COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
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Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 3 - Cash and Equivalents - Continued

The STIF is managed by investment managers in accordance with the investment guidelines established by the State Treasurer. These guidelines prohibit investment in derivative securities other than floating rate securities, which vary in the same direction as individual short-term money market indices, and limit the ability to enter into reverse repurchase agreements in amounts not to exceed 5% of the STIF's assets at the time of execution.

The Combining Unit has assessed the Credit Risk, Custodial Credit Risk, Concentration of Credit Risk, and the Interest Rate Risk of its Cash and Equivalents as follows:

Credit Risk - Credit risk is the risk that an investor will lose money because of the default of the security issuer or investment counterparty. The Combining Unit is only invested in the State of Connecticut Treasurer's STIF, which is a combined investment pool of high quality, short-term money market instruments. Management believes there is essentially no risk to these types of investments.

Concentration of Credit Risk - Concentration of credit risk is assumed to arise when the amount of investments with one issuer exceeds 5 percent or more of the total value of investments. All of the Combining Unit's total cash and equivalents are invested in the STIF or consist of State general fund and capital bond fund appropriations allocated to the Combining Unit, which are backed by cash held by the state.

Note 4 - Accounts Receivable

The accounts receivable balance is comprised of the following at June 30, 2015:

Student accounts receivable	\$ 1,020,427
State receivable	45,587
Other receivable	47,197
Less: allowance for doubtful accounts	<u>(480,211)</u>
	<u>\$ 633,000</u>

COMBINED FINANCIAL STATEMENTS

CHARTER OAK STATE COLLEGE

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(Component Units of the State of Connecticut)

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2015 is as follows:

	<u>Estimated lives (in years)</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
Capital assets, not depreciated:						
Land		\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
Capital assets, depreciated:						
Buildings and improvements	10-40	2,460,816	36,636	-	-	2,497,452
Furnishings and equipment	5	2,377,730	1,073,354	-	-	3,451,084
Software	5	534,607	-	-	-	534,607
Total depreciable assets		5,373,153	1,109,990	-	-	6,483,143
Total capital assets		5,388,153	1,109,990	-	-	6,498,143
Less: accumulated depreciation:						
Buildings and improvements		1,016,185	72,707	-	-	1,088,892
Furnishings and equipment		1,171,245	448,603	-	-	1,619,848
Software		439,775	52,880	-	-	492,655
Total accumulated depreciation		2,627,205	574,190	-	-	3,201,395
Capital assets, net		\$ 2,760,948	\$ 535,800	\$ -	\$ -	\$ 3,296,748

COMBINED FINANCIAL STATEMENTS

CHARTER OAK STATE COLLEGE

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(Component Units of the State of Connecticut)

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 6 - **Long-Term Liabilities**

Long-term liabilities at June 30, 2015 consist of:

	<u>Beginning Balance</u>	<u>Net Additions</u>	<u>Net Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Other long-term liabilities:					
Vacation	\$ 818,379	\$ 52,395	\$ -	\$ 870,774	\$ 656,348
Sick	374,754	50,870	-	425,624	34,741
Net pension liability	<u>7,869,669</u>	<u>1,260,121</u>	<u>-</u>	<u>9,129,790</u>	<u>-</u>
Total long-term liabilities	<u>\$ 9,062,802</u>	<u>\$ 1,363,386</u>	<u>\$ -</u>	<u>\$ 10,426,188</u>	<u>\$ 691,089</u>

Leases

The Combining Unit leases various equipment under operating lease agreements. The following summarizes future minimum payments under non-cancelable leases subsequent to the year ended June 30, 2015:

Fiscal Years Ending <u>June 30,</u>	Operating <u>Leases</u>
2016	\$ 97,380
2017	97,380
2018	<u>85,616</u>
	<u>\$ 280,376</u>

Rent expense for operating leases was \$103,163 for the year ended June 30, 2015.

COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
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Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 7 - Restricted Net Position

The Combining Unit is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time.

Restricted - expendable net position consist of income to be used for grants and research, as well as funds to be used for capital projects.

The Foundation's restricted - expendable net position consists of funds, whose income is mainly used for various scholarships, grants and other general purposes.

Note 8 - Contingencies

In the opinion of management, no litigation is now pending or threatened, which would materially affect the Combining Unit's financial position.

The Combining Unit receives significant financial assistance from federal and state agencies in the form of grants. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit. The Combining Unit must repay any disallowed expenditures resulting from such audits. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition of the Combining Unit.

Note 9 - Operating Expenses

The Combining Unit's operating expenses, on a natural classification basis, are comprised of the following at June 30, 2015:

Compensation and benefits	\$ 14,537,943
Supplies and services	3,028,281
Depreciation	574,190
Scholarships and fellowships	<u>204,771</u>
	<u>\$ 18,345,185</u>

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 10 - Retirement and Other Post-Employment Benefits

Retirement Plan Description

All regular full-time employees participate in one of two retirement plans. The State of Connecticut is statutorily responsible for the pension benefits of Combining Unit's employees who participate in the State Employees' Retirement System ("SERS"). SERS is the administrator of a single employer defined benefit public employee retirement system ("PERS"). The plan provides retirement, disability, death benefits and annual cost of living adjustments to plan members, and their beneficiaries. Plan benefits, cost of living adjustments, contribution requirements of plan members, and the State and other plan provisions are described in the General Statutes. The plan does not issue stand-alone financial reports. Information on the plan is currently publicly available in the State of Connecticut's Comprehensive Annual Financial Report prepared by the Office of the State Comptroller.

Tier III or the Hybrid Plan are the two primary SERS options available to employees of the Combining Unit first hired into state service on or after July 1, 2011 (some employees are eligible to elect the Teachers Retirement System - TRS). Employees hired after July 1, 2011 participate in Tier I, Tier II, Tier IIA, Tier III, or TRS depending on several factors. The Combining Unit makes contributions on behalf of employees in SERS plans through a fringe benefit charge assessed by the State of Connecticut. The Hybrid Plan, which became effective July 1, 2011 under the 2011 agreement between the State of Connecticut and the State Employee Bargaining Agent Coalition (SEBAC), provides a new retirement plan option for employees hired on or after July 1, 2011 in a position statutorily defined as a state teacher or a professional staff member in higher education. The Hybrid Plan is a defined benefit plan that provides members with a life-time defined benefit the same as the benefit provided under SERS Tier III with the option at the time of retirement to elect to receive a lump sum payment of their contributions with a five percent employer match and four percent interest in lieu of a defined benefit.

COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
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Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 10 - Retirement and Other Post-Employment Benefits - Continued

Retirement Plan Description - Continued

Alternatively, employees may choose to participate in the Alternate Retirement Plan (ARP), which is managed by Voya Financial ("Voya"). Under this arrangement, plan participants contribute 5% of their pay and the state contributes 8% to individual participants' investment accounts managed by Voya. The Combining Unit contributes fringe benefit charge to the State which includes the 8% employer contribution and an administrative charge. The aforementioned 2011 SEBAC agreement provides the Combining Unit employees who were hired before July 1 2011 and participating in ARP with a one-time irrevocable option though a date no yet determined of electing to transfer their membership from ARP to the Hybrid Plan and purchasing credit in the Hybrid Plan for their prior services at full actuarial cost.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature subject to the contractual rights established by collective bargaining.

Tier I Plan B regular and Hazardous Duty members are required to contribute 2% and 4% of their annual salary, respectively, up to the Social Security Taxable Wage Base plus 5% above that level. Tier I Plan C members are required to contribute 5% of their annual salary. Tier IIA Plan regular and Hazardous Duty members are required to contribute 2% and 5% of their annual salaries, respectively.

The State is required to contribute at an actuarially determined rate, which may be reduced by an act of the State legislature. The rate was 43.94% and 23.65% for SERS and TRS respectively for fiscal year ended June 30, 2015. The System contributed \$45.8 million and \$1.3 million for SERS and TRS respectively for fiscal year ended June 30, 2015, equal to 100% of the required contributions the year. Administrative costs of the plan are funded by the State.

COMBINED FINANCIAL STATEMENTS

CHARTER OAK STATE COLLEGE

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(Component Units of the State of Connecticut)

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 10 - **Retirement and Other Post-Employment Benefits - Continued**

Net Pension Liability

The Combining Unit's net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Combining Unit's proportion of the net pension liability was based on a projection of the Combining Unit's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities and the State, actuarially determined. At June 30, 2014 the Combining Unit's proportion of the SERS net pension liability was 0.06%

All SERS assets are available to pay any members benefits respectively. However, the portion of each plan's net pension liability attributable to the Combining Unit is tracked separately. The net pension liability for the Combining Unit as of June 30, 2015 for SERS was \$9,129,790.

Sensitivity of Net Pension Liability to Changes in Discount Rate

The following presents the current-period net pension liability of the Combining Unit calculated using the current-period discount rate assumption of 8% percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

1.00% Decrease (7.00%)	Current Discount Rate (8.00%)	1.00% Increase (9.00%)
\$ 10,891,122	\$ 9,129,790	\$ 7,648,531

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 10 - **Retirement and Other Post-Employment Benefits - Continued**

Actuarial Assumptions

Inflation	2.75%
Salary increases	4.00% to 20.00%, including inflation
Investment rate of return net of pension plan investment expense, including inflation	8% of regular compensation

Mortality rates were based on the RP-2000 Employees table projected 15 years for men and 25 years for women with the Scale AA.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the actuarial experience study as of June 30, 2013.

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 rates of return by the target asset allocation percentage. The best estimates of geometric rates of return for each major asset class as of June 30, 2014 are summarized in the following table on the next page.

COMBINED FINANCIAL STATEMENTS

CHARTER OAK STATE COLLEGE

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(Component Units of the State of Connecticut)

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 10 - **Retirement and Other Post-Employment Benefits - Continued**

Actuarial Assumptions - Continued

Asset Class	Target Allocation	Long-term expected real rate of return
Large Cap U.S. Equities	21%	5.80%
Developed Non- U.S. Equities	18%	6.60%
Emerging Market (Non-U.S)	9%	8.30%
Real Estate	7%	5.10%
Private Equity	11%	7.60%
Alternative Investments	8%	4.10%
Fixed Income	8%	1.30%
High Yield Bonds	5%	3.90%
Emerging Market Bond	4%	3.70%
TIPS	5%	1.00%
Cash	4%	0.40%
	<u>100%</u>	

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the states's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the net position was 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.

COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 10 - **Retirement and Other Post-Employment Benefits - Continued**

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Defined Benefit Pension

For the year ended June 30, 2015, the Combining Unit recognized pension expense of \$1,000,710. Deferred outflows of resources and deferred inflows of resources for pensions attributed to the Combining Unit were related to the following sources for the year ended June 30, 2015:

Deferred Outflows of Resources

Contributions made after the measurement date	\$ 1,206,089
Changes in proportion due to internal allocation	<u>1,308,839</u>
Total	<u>\$ 2,514,928</u>

Deferred Inflows of Resources

Differences between projected and actual earnings of plan investments	\$ 326,064
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The net amount of deferred outflows of resources and deferred inflows of resources related to the pensions attributed to the Combining Unit that will be recognized in pension expense during the next five years and thereafter is as follows:

COMBINED FINANCIAL STATEMENTS

CHARTER OAK STATE COLLEGE

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(Component Units of the State of Connecticut)

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 10 - **Retirement and Other Post-Employment Benefits - Continued**

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Defined Benefit Pension - Continued

Years ending
June 30,

2016	\$ 195,194
2017	195,194
2018	195,194
2019	195,194
2020	<u>201,999</u>
	 <u>\$ 982,775</u>

Payable to the Defined Benefit Pension Plan

At June 30, 2015, the Combining Unit reported a payable of \$125,369 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Other Post-Employment Benefits

The State of Connecticut provides post-retirement health care and life insurance benefits to Combining Unit employees, in accordance with Section 5-257(d) and 5-259(a) of the Connecticut General Statutes. When employees retire, the State pays up to 100% of their health care insurance premium cost (including the cost of dependent coverage). The benefit is available to retirees of SERS and ARP who meet certain age and service criteria.

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

Notes to the Combined Financial Statements - Continued

June 30, 2015

Note 10 - Retirement and Other Post-Employment Benefits - Continued

Other Post-Employment Benefits - Continued

The State also pays 100% of the premium cost for a portion of the employees life insurance continued after retirement. The amount of life insurance continued at no cost to the retiree is determined in a formula based on the number of years of State service that the retiree had at time of retirement. The State finances the cost of post-retirement health care and life insurance benefits.

Note 11 - Pass-Through Grants

The Combining Unit distributed approximately \$6,600,000 as of June 30, 2015, for student loans through the U.S. Department of Education Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues nor as cash disbursements and cash receipts in the accompanying combined financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**COMBINED STATEMENTS OF CHARTER OAK
STATE COLLEGE AND CONNECTICUT
DISTANCE LEARNING CONSORTIUM**
(a Component Unit of the State of Connecticut)

**Required Supplementary Information
Schedule of Changes in the Net Pension Liabilities
and Related Ratios**

(Unaudited)

For the Years Ended June 30,

	<u>2015</u>	<u>2014</u>
Combining Unit's proportion of the net pension liability	0.057%	0.047%
Combining Unit's proportionate share of the net pension liability	\$ 9,129,790	\$ 7,869,699
Combining Unit's covered-employee payroll	\$ 1,988,268	\$ 1,591,797
Combining Unit's proportionate share of the net pension liability as a percentage of its covered-employee payroll	459.18%	494.39%
Plan fiduciary net position as a percentage of the total pension liability	39.54%	Unavailable

The Schedule is intended to show ten years. Information will be presented when available.

Actual covered employee payroll by pension plan is not available. These figures are based on the total covered employee payroll reported by the pension plan multiplied by the percentage of the NPL attributed to the Combining Unit.

**COMBINED STATEMENTS OF CHARTER OAK
STATE COLLEGE AND CONNECTICUT
DISTANCE LEARNING CONSORTIUM**
(a Component Unit of the State of Connecticut)

Schedule of Contributions

(Unaudited)

For the Years Ended June 30,

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 723,405	\$ 502,587
Contributions in relation to the contractually required contribution	<u>723,405</u>	<u>502,085</u>
Contribution excess	<u>\$ -</u>	<u>\$ 502</u>
Combining Unit's covered-employee payroll	\$ 1,988,268	\$ 1,591,797
Contribution as a percentage of covered-employee payroll	36.38%	31.54%

The Schedule is intended to show ten years. Information will be presented when available.

Actual covered employee payroll by pension plan is not available. These figures are based on the total covered employee payroll reported by the pension plan multiplied by the percentage of the NPL attributed to the Combining Unit.

**COMBINED FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

**Notes to the Required Supplementary Information
(Unaudited)**

June 30, 2015

Note 1 - Changes In Benefit Terms

For the June 30, 2014 valuation, there were two changes in benefit terms:

The 2011 SEBAC Agreement changed the benefit multiplier for the portion of benefit below the breakpoint from 1.33% to 1.4%. This change was made effective for all active members who retire on or after July 1, 2013 in Tier II, IIA and III.

A one-time decision was granted to members not eligible to retire by July 1, 2022 to elect to maintain the same normal retirement edibility applicable to members eligible to retire before July 1, 2022. Employees who elected by July 1, 2013 to maintain the eligibility are required to make additional employee contributions for the length of their remaining active service with SERS. The additional contribution was up to 0.72% of pensionable earnings.

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



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

To the Connecticut State Colleges & Universities
Board of Regents for Higher Education
Hartford, Connecticut

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 combined financial statements of Charter Oak State College and Connecticut Distance Learning Consortium (collectively the "Combining Unit"), which comprise the combined statement of net position as of June 30, 2015, the related combined statement of revenues, expenses and change in net position (deficit) and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Combining Unit's basic combined financial statements and have issued our report thereon dated January 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Combining Unit's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Combining Unit's internal control. Accordingly, we not express an opinion on the effectiveness of the Combining Unit'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 Combining Unit's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Combining Unit'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 determination of financial statement amounts. 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 Combining Unit'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 Combining Unit's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

January 13, 2016

SUPPLEMENTAL INFORMATION

COMBINING FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)

Combining Statement of Net Position (Deficit) - Primary Government

June 30, 2015

Assets and Deferred Outflows of Resources

	<u>College</u>	<u>CTDLC</u>	<u>Combined</u>
Current Assets:			
Cash and equivalents	\$ 15,248	\$ -	\$ 15,248
Cash held by State Treasurer	2,915,077	1,123,737	4,038,814
Accounts receivable, net	569,411	63,589	633,000
Other current assets	<u>123,614</u>	<u>260,564</u>	<u>384,178</u>
Total Current Assets	<u>3,623,350</u>	<u>1,447,890</u>	<u>5,071,240</u>
Non-Current Asset:			
Capital assets, net	<u>2,908,743</u>	<u>388,005</u>	<u>3,296,748</u>
Deferred Outflows of Resources:			
Contributions made after the measurement date	1,002,460	203,629	1,206,089
Changes in proportion due to internal allocation	<u>1,087,863</u>	<u>220,976</u>	<u>1,308,839</u>
Total Deferred Outflows of Resources	<u>2,090,323</u>	<u>424,605</u>	<u>2,514,928</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 8,622,416</u>	<u>\$ 2,260,500</u>	<u>\$ 10,882,916</u>

Liabilities, Deferred Inflows of Resources and Net Position (Deficit)

Current Liabilities:			
Accounts payable	\$ 131,432	\$ 6,462	\$ 137,894
Accrued payroll	586,192	120,418	706,610
Accrued employee compensated absences	563,146	127,943	691,089
Unearned tuition revenues	<u>744,940</u>	<u>-</u>	<u>744,940</u>
Total Current Liabilities	<u>2,025,710</u>	<u>254,823</u>	<u>2,280,533</u>
Non-Current Liabilities:			
Accrued employee compensated absences	494,982	110,327	605,309
Net pension liability	<u>7,537,834</u>	<u>1,591,956</u>	<u>9,129,790</u>
Total Non-Current Liabilities	<u>8,032,816</u>	<u>1,702,283</u>	<u>9,735,099</u>
Total Liabilities	<u>10,058,526</u>	<u>1,957,106</u>	<u>12,015,632</u>
Deferred Inflows of Resources:			
Differences between projected and actual earnings of plan investments	<u>271,013</u>	<u>55,051</u>	<u>326,064</u>
Net Position:			
Invested in capital assets, net of related debt	2,908,743	388,005	3,296,748
Restricted-expendable	464,758	499,997	964,755
Unrestricted	<u>(5,080,624)</u>	<u>(639,659)</u>	<u>(5,720,283)</u>
Total Net Position (Deficit)	<u>(1,707,123)</u>	<u>248,343</u>	<u>(1,458,780)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position (Deficit)	<u>\$ 8,622,416</u>	<u>\$ 2,260,500</u>	<u>\$ 10,882,916</u>

See independent auditors' report.

COMBINING FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)

Combining Statement of Revenues and Expenses - Primary Government

For the Years Ended June 30, 2015

	<u>College</u>	<u>CTDLC</u>	<u>Combined</u>
Operating Revenues:			
Tuition and fees	\$ 10,851,053	\$ -	\$ 10,851,053
Less: scholarships and fellowships	<u>2,252,713</u>	<u>-</u>	<u>2,252,713</u>
Net tuition and fees	8,598,340	-	8,598,340
 CTDLC fees	 -	 1,644,815	 1,644,815
Federal grants and contracts	2,057,159	300,000	2,357,159
State grants and contracts	657,592	-	657,592
Private grants and contracts	40,075	-	40,075
Other operating revenues	<u>141,745</u>	<u>-</u>	<u>141,745</u>
 Total Operating Revenues	 <u>11,494,911</u>	 <u>1,944,815</u>	 <u>13,439,726</u>
 Operating Expenses:			
Educational and general:			
Instruction	5,848,584	624,601	6,473,185
Scholarships and fellowships	204,771	-	204,771
Academic support	2,177,873	-	2,177,873
Student services	2,910,706	326,057	3,236,763
Institutional support	3,119,270	2,269,761	5,389,031
Operation and maintenance of plant	193,797	95,575	289,372
Depreciation	<u>470,642</u>	<u>103,548</u>	<u>574,190</u>
 Total Operating Expenses	 <u>14,925,643</u>	 <u>3,419,542</u>	 <u>18,345,185</u>
 Net Operating Loss	 <u>(3,430,732)</u>	 <u>(1,474,727)</u>	 <u>(4,905,459)</u>
 Non-Operating Revenues:			
State appropriations	3,063,410	950,990	4,014,400
Contributions	15,000	-	15,000
Other	-	288,047	288,047
Investment income	<u>2,988</u>	<u>-</u>	<u>2,988</u>
 Net Non-Operating Revenues	 <u>3,081,398</u>	 <u>1,239,037</u>	 <u>4,320,435</u>
 Decrease in Net Position Before Capital Appropriations	 (349,334)	 (235,690)	 (585,024)
Capital Appropriations	<u>570,762</u>	<u>-</u>	<u>570,762</u>
 Net Increase (Decrease) in Net Position	 <u>\$ 221,428</u>	 <u>\$ (235,690)</u>	 <u>\$ (14,262)</u>

See independent auditors' report.

**COMBINING FINANCIAL STATEMENTS
CHARTER OAK STATE COLLEGE
CONNECTICUT DISTANCE LEARNING CONSORTIUM
(Component Units of the State of Connecticut)**

Combining Statement of Changes in Net Position (Deficit) - Primary Government

For the Years Ended June 30, 2015

	<u>Charter Oak State College</u>				
	<u>Investment in Capital Assets, Net</u>	<u>Restricted Non-expendable</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2014, as previously reported	\$ 2,486,270	\$ -	\$ 248,820	\$ 1,230,224	\$ 3,965,314
Adoption of new accounting principle (Note 2)	-	-	-	(5,893,865)	(5,893,865)
Balance June 30, 2014, as restated	2,486,270	-	248,820	(4,663,641)	(1,928,551)
Changes in net position for 2015	422,473	-	215,938	(416,983)	221,428
Balance, June 30, 2014, as restated	<u>\$ 2,908,743</u>	<u>\$ -</u>	<u>\$ 464,758</u>	<u>\$ (5,080,624)</u>	<u>\$ (1,707,123)</u>

	<u>CTDLC</u>				
	<u>Investment in Capital Assets, Net</u>	<u>Restricted Non-expendable</u>	<u>Restricted Expendable</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, June 30, 2014, as previously reported	\$ 274,678	\$ -	\$ 1,240,415	\$ 221,369	\$ 1,736,462
Adoption of new accounting principle (Note 2)	-	-	-	(1,252,429)	(1,252,429)
Balance June 30, 2014, as restated	274,678	-	1,240,415	(1,031,060)	484,033
Changes in net position for 2015	113,327	-	(740,418)	391,401	(235,690)
Balance, June 30, 2015	<u>\$ 388,005</u>	<u>\$ -</u>	<u>\$ 499,997</u>	<u>\$ (639,659)</u>	<u>\$ 248,343</u>

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