Financial Statements,
Required Supplementary Information, and
Additional Supplemental Information

Charter Oak State College

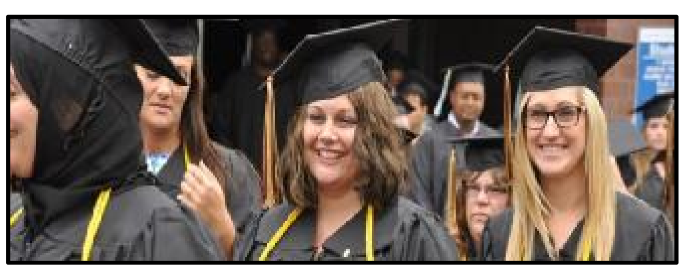
(Including Connecticut Distance Learning Consortium)

June 30, 2016

CSCU
Connecticut State Colleges & Universities

Charter Oak State College Mission Statement

As part of the Connecticut State Colleges & Universities (CSCU) system, Charter Oak State College, the state's only public, online, degree-granting institution, provides affordable, diverse and alternative opportunities for adults to earn undergraduate and graduate degrees and certificates. The College's mission is to validate learning acquired through traditional and non-traditional experiences, including its own courses. The college rigorously upholds standards of high quality and seeks to inspire adults with the self-enrichment potential of non-traditional higher education.



Members of the Board of Regents for Higher Education
(Between 7/1/15 – 6/30/16)

- Thirteen members: nine appointed by the Governor; four appointed by legislative leaders
- Two students chosen by their peers (Chair and Vice Chair of Student Advisory Committee)
- Six non-voting, ex-officio members:
    - Four CT commissioners appointed by the Governor from the Departments of Public Health, Education, Economic and Community Development, and Labor
    - Chair and Vice Chair of the Faculty Advisory Committee

Regents as of 6/30/16 (2 vacancies)

Nicholas M. Donofrio, Chairman
Yvette Meléndez, Vice Chair
Richard J. Balducci
Naomi K. Cohen
Lawrence J. DeNardis
Matt Fleury
Merle W. Harris
David R. Jimenez
William J. McGurk
JoAnn H. Price
Elease E. Wright
Holly Palmer (COSC Student; elected April 2016)
Gordon Plouffe (CC student; elected September 2015)

Ex-Officio, Non-voting members

Stephen Adair – Chair of the Faculty Advisory Committee
Barbara E. Richards – Vice Chair of the Faculty Advisory Committee (term began January 2016)
Raul Pino – Commissioner of the CT Department of Public Health (appointed December 2015)
Dianna R. Wentzell – Commissioner of the State Board of Education
Scott Jackson – Commissioner of the CT Department of Labor (appointed January 2016)
Catherine Smith – Commissioner of the CT Department of Economic and Community Development

Former Board members (who served between 7/1/15 – 6/30/16)
Jewel Mullen – Commissioner, CT Department of Public Health (term ended November, 2015)
Sharon Palmer – Commissioner, CT Department of Labor (term ended December, 2015)
Sarah E. Greco, CSU Student (resigned March 2016)
Robert E. Brown – VC of FAC (term ended December 2015)

Charter Oak State College
55 Paul Manafort Drive
New Britain, CT 06053
Ed Klonoski, President

Connecticut State Colleges & Universities
61 Woodland Street
Hartford, CT 06105
Mark E. Ojakian, President

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Introduction

The Management's Discussion and Analysis provides an overview of the financial position and activities of the Charter Oak State College ("COSC" or "combining unit") and its component units for the fiscal year ended June 30, 2016, along with comparative information for the fiscal year ended June 30, 2015. This discussion has been prepared by and is the responsibility of management, and should be read in conjunction with the financial statements and footnote disclosures which follow this section. The discussion immediately following reflects COSC as it existed during fiscal year 2016.

The Board of Regents for Higher Education was established by the Connecticut General Assembly in 2011 (via Public Act 11-48 as amended by Public Act 11-61) bringing together the governance structure for the four Connecticut State Universities, twelve Community Colleges and Charter Oak State College, effective July 1, 2011. The new Board of Regents for Higher Education is authorized under the provisions of this public act to "serve as the Board of Trustees for Community-Technical Colleges".

The reorganization in 2011 combined two separate state appropriations; one for COSC and one for the Connecticut Distance Learning Consortium ("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, Cyber Security, Business Administration, and Psychology. In addition, COSC is authorized to offer Master's Degrees. COSC's first Master's Degree, Organizational Effectiveness and Leadership, was launched in September 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 2016, the number of new applicants fell 19% from 2,103 in FY 15 to 1,685 in FY 16. FY 15 was boosted by the Go Back to Get Ahead program. At the same time, total credit hours were down 11% from 32,098 in FY 15 to 28,499 in FY 2016.

Courses are offered in three semesters during the year 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 two five-week offerings are available. Students are accepted into a program during three time periods throughout the year; fall, spring, and 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 promote 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

Using the Financial Statements

COSC's annual report includes the following financial statements: the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as defined by the Governmental Accounting Standards Board ("GASB"). GASB Statement No. 35 established standards for external financial reporting for public colleges and universities, and requires that financial statements be presented on a basis to focus on the financial condition, results of operations, and cash flows of COSC as a whole. As required by GASB Statements No. 34 and 35, a comparative analysis of fiscal year 2016 full financial statements and footnotes with fiscal year 2015 is also presented, both for the COSC *primary institution*, as well as for certain other organizations that have a significant related party relationship with COSC (the "component units").

The COSC Foundation is the only component unit of COSC. The Foundation is a legally independent, tax-exempt non-profit organization separate from college control, founded to foster and promote the growth, progress and general welfare of the College and to solicit, receive and administer donations for such purposes.

During fiscal year 2016, management identified certain errors in the fiscal year 2015 financial statements related to accounting and reporting for pensions and reporting Pell revenues. As a result, amounts reported in fiscal year 2015 within the FY16 management discussion and analysis have been restated to reflect the correction of these errors. Refer to footnote 1 of the financial statements for further details related to amounts adjusted in connection with the pension accounting. With respect to changes in reporting of Pell revenues, prior to fiscal year 2016, Pell revenues had been incorrectly reported as operating revenues rather than non-operating revenues. This change impacted operating results (vs. non-operating results), but had no impact on change in net position. All amounts presented in the following MD&A have been restated to reflect the corrected amounts for fiscal year 2015.

Financial Highlights

Charter Oak State College had total assets of $7.3 million, liabilities of $12.9 million, and a total net position balance of ($3.0) million at June 30, 2016. Of this amount, ($6.7) million is classified as unrestricted net position, a $1.0 million decrease from 2015. The negative balance in unrestricted net position is a result of the adoption of GASB 68, as discussed within this report. Adoption of GASB 68 required COSC to recognize a liability associated with the pension plans, which was previously disclosed only at the State level. The offset to the pension liability was a reduction of unrestricted net position as further discussed below. The table included below illustrates the unrestricted net position trends before the adjustment for pension liability.

Total operating revenues from student tuition and fees, grants and contracts, and other college activities (net of scholarship allowances) were $10.1 million, a 12% decrease over the previous year. Operating expenses were $19.6 million, an increase of 5% over the previous year, resulting in an operating loss of $9.5 million during the year ended June 30, 2016. Net non-operating revenues and other changes were $8.3 million, up 21% from the previous year, reflecting a $1.1 million increase in bond appropriations and a $0.3 million increase in general fund appropriations. Overall COSC experienced a decrease in net position of $1.1 million during fiscal year 2016.

Cash and cash equivalents were $2.8 million at June 30, 2016, including $0.9 million of cash equivalents in the form of State bond appropriations. Total current assets were $4.4 million at June 30, 2016. The ratio of unrestricted current assets of $3.5 million to unrestricted current liabilities of $2.3 million was 1.5:1 in 2016. The current ratio reflects a financial position sufficient to provide short term liquidity. However, as the State continues to address budget shortfalls over the next few years, management will continue to carefully monitor liquidity metrics. Non-current liabilities increased 9.1% from $9.7 million at June 30, 2015 to $10.6 million at June 30, 2016. This significant liability includes $10.0 million for pension liability and $0.6 million for the long-term portion of the accrued value of benefits earned by employees which must be paid out when they retire or otherwise terminate service in the future (net of the estimated amounts to be paid out in the upcoming year). These large and essentially unfunded liabilities continue to represent a long-term obligation impacting COSC's financial flexibility.

Statement of Net Position

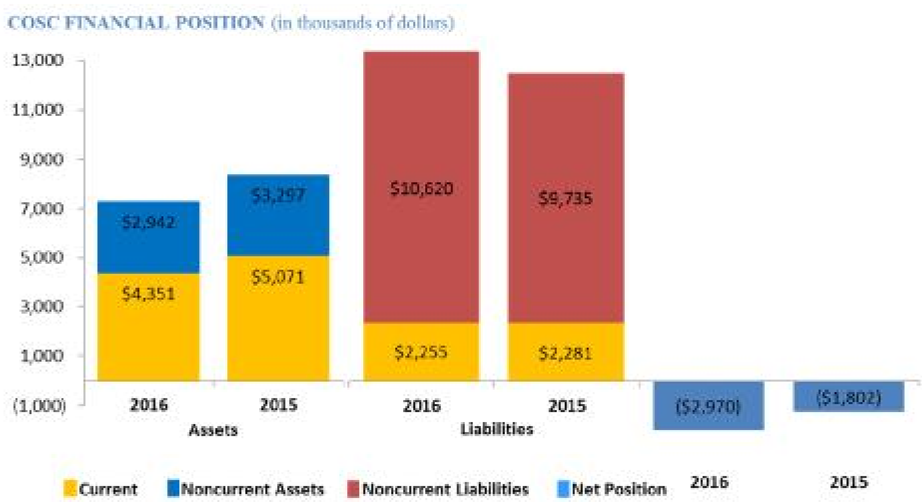
The Statement of Net Position presents the overall financial position of COSC at the end of the fiscal year, and includes all assets and liabilities of Charter Oak State College, including capital assets net of depreciation. The change in Net Position is one indicator of whether the overall financial condition of COSC has improved or worsened during the year.

Condensed Statements of Net Position
June 30, 2016 and 2015
(in thousands)

	2016	2015 (Restated*)	% Change
ASSETS			
Current assets	$ 4,351	$ 5,071	(14.2) %
Non-current assets	2,942	3,297	(10.8) %
Total assets	7,293	8,368	(12.8) %
DEFERRED OUTFLOWS OF RESOURCES	2,612	2,172	20.3 %
LIABILITIES			
Current liabilities	2,255	2,281	(1.1) %
Non current liabilities	10,620	9,735	9.1 %
Total liabilities	12,875	12,016	7.1 %
DEFERRED INFLOWS OF RESOURCES	-	326	(100.0) %
NET POSITION			
Invested in capital assets	2,942	3,297	(10.7) %
Restricted-expendable	778	965	(19.4) %
Unrestricted	(6,690)	(6,064)	(10.3) %
Total net position	(2,970)	(1,802)	(64.8) %
Total liabilities and net position	$ 9,905	$ 10,540	(6.0) %

*FY 15 is restated for certain amounts previously reported for the adoption of GASB 68 in fiscal year 2015 which were incorrect. As a result, the net position, and deferred outflows of fiscal year 2015 have been restated.

Current assets consist of cash, cash equivalents, accounts receivable and prepaids. The $0.7 million decrease in current assets from the previous year is largely attributable to a $1.2 million decrease in the cash held at the State Treasurer offset by an increase in prepaids. Accounts receivables totaled $0.5 million at the end of fiscal year 2016. This reflects a $0.1 million decrease from the $0.6 million of accounts receivable at the end of fiscal year 2015. This reflects a decrease in student receivables after the winding down of the Go back to Get Ahead program. Investment of cash is handled by the State of Connecticut Treasurer's Office, which invests cash balances in a Short Term Investment Fund ("STIF") on behalf of State agencies. COSC does not carry any other separate investments.



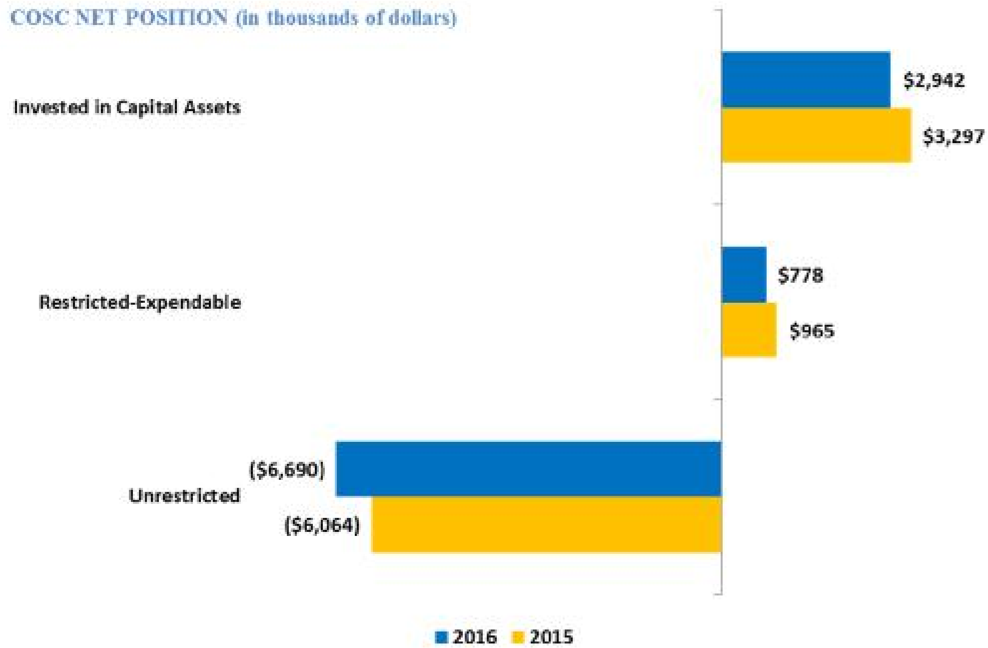
Non-current assets decreased 10.7% from $3.3 million at June 30, 2015, to $2.9 million at June 30, 2016. Net capital assets account for all the non-current assets. At June 30, 2016, capital assets in service totaled $6.2 million, offset by $3.3 million in accumulated depreciation; this compared with $6.4 million and $3.2 million, respectively, at the end of fiscal year 2015.

Current liabilities consist primarily of accrued payroll and related benefits, unearned revenue, and accounts payable. Total liabilities were $2.3 million at the end of fiscal year 2016, which was consistent with fiscal year 2015. The most significant current liabilities were employee salary and fringe benefits payable of $0.9 million and unapplied payments of $0.6 million, primarily collected in advance for the summer semester. Additional current liabilities include vendor accounts payable of $0.1 million, and $0.7 million for the estimated value of accrued compensated absences (sick and vacation time benefits) that will be paid within the coming year to employees who terminate or retire.

Non-current liabilities consist almost exclusively of $10.0 million in pension liability and long-term accrued compensated absences ("ACA") – $0.6 million– to be paid out to terminating employees over time in the future beyond one year. This is an increase of $0.9 million or 9.1% over fiscal year 2015. The total ACA liability of $1.2 million (long-term and current) and pension liability of $10.0 million exceed the assets of COSC, and causes the reported unrestricted net position balance to be negative. In practice, however, much of these payouts are funded through current-year revenues rather than through existing net position.

Pension liability is COSC's proportionate share of the State Employee Retirement System's (SERS) and the Teachers Retirement System's (TRS) net pension liability. In June 2012 GASB released Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, with an effective date of June 30, 2015. This Statement established standards for measuring and recognizing future defined benefit pension liabilities. As defined in this Statement, SERS is considered a single employer plan and COSC is considered a cost-sharing employer of TRS. These accounting requirements do not impact COSC's funding requirements for the pension plans. COSC's total net pension obligation was $10.0 million and $9.1 million at June 30, 2016 and June 30, 2015 respectively.

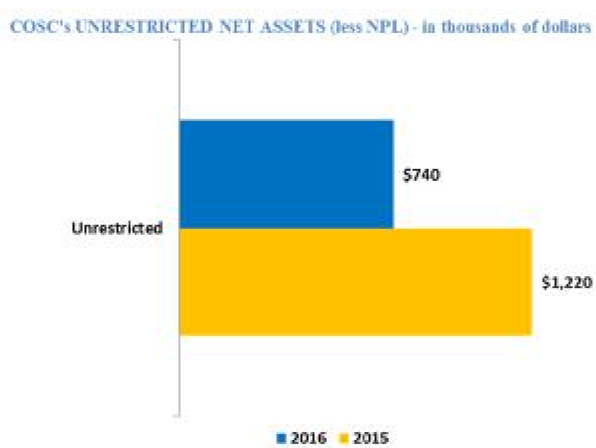
The total *net position* balance includes $2.9 million *Invested in capital assets* net of related debt and depreciation. Charter Oak State College does not carry capital debt. Bonding and debt repayment are the responsibility of the State of Connecticut and are not reflected in COSC's financial statements.



Restricted-Expendable net position represent primarily bond fund appropriation balances at June 30, 2016 and unexpended funds held for certain minor grant program activities. Changes in restricted-expendable net position are related primarily to the change in bond fund appropriation revenues and expenses in connection with facility expenditures and/or equipment purchases.

Unrestricted net position ("UNP") has shifted to a negative balance with the recognition of the pension liability. This negative balance increased by $0.6 million during fiscal year 2016. Excluding the pension liability, UNP decreased by $0.5 million to $0.7 million during fiscal year 2016. The table below illustrates the fluctuations in aggregate COSC UNP over the past several years:

	FY12	FY13	FY14	FY15	FY16
	$1.0	$1.6	$1.5	$1.2	$0.7
UNP Adjusted for GASB 68:				($6.1)	($6.7)



Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents COSC's results of operations, as well as the non-operating revenues and expenses. Total *operating revenues* for fiscal year 2016 were $10.1 million, down 12% from $11.4 million in fiscal year 2015. *Student tuition and fees* of $10.3 million represent the largest portion of operating revenue on a gross basis, but are offset by student financial aid and waivers resulting in net tuition and fee revenue of $8.1 million after scholarship allowances. This differs from budgetary practices, which recognize revenue on a gross basis without offset for scholarship allowances. On a gross basis, fiscal year 2016 tuition and fee revenues decreased 5.2% from the previous year, to $10.3 million. These revenues reflect a FTE credit enrollment decrease of 7.6% in fiscal year 2016.

Condensed Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015
(in thousands)

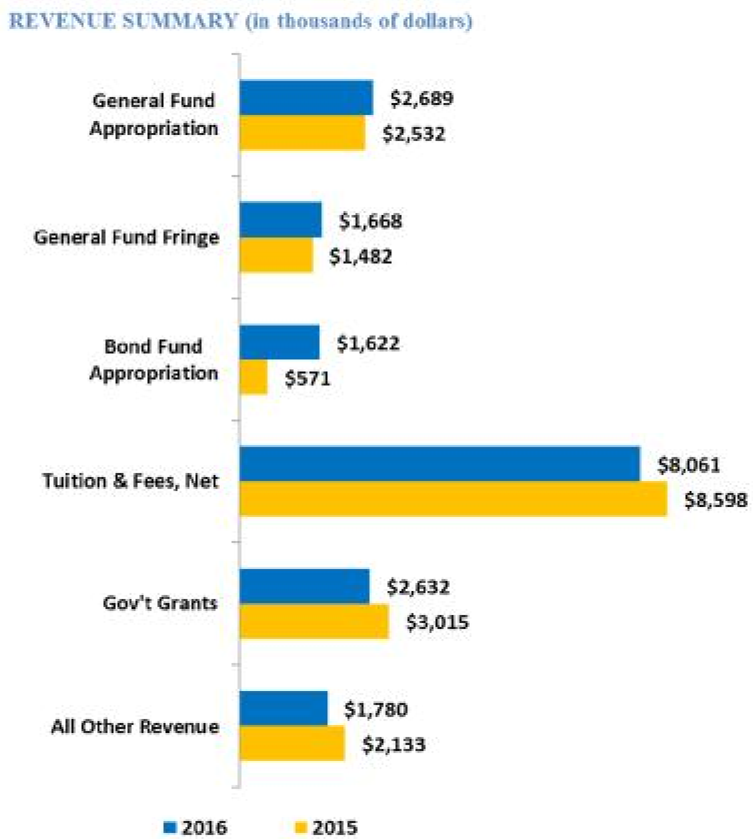
	2016	2015 (Restated*)	% Change
OPERATING REVENUES			
Tuition and fees, Net	8,061	8,598	(6)
Government grants and contracts	706	1,020	(31) %
Additional operating revenues	1,360	1,827	(26) %
Total operating revenues	10,127	11,445	(12) %
OPERATING EXPENSES			
Expenses before depreciation and amortization	19,033	18,102	5
Depreciation	587	574	2 %
Total operating expenses	19,620	18,676	5
Operating loss	(9,493)	(7,231)	(31) %
NON-OPERATING REVENUES (EXPENSES)			
State appropriations - general fund	4,357	4,014	9 %
State appropriations - bond fund	1,622	571	184 %
PELL Grants	1,926	1,995	(3) %
Other non-operating revenues (expenses), net	420	306	37 %
Total non-operating revenues	8,325	6,886	21 %
NET POSTION			
Change in net position	(1,168)	(345)	(238) %
Net position, beginning of year	(1,802)	(1,457)	(24) %
Net position, end of year	$ (2,970)	$ (1,802)	(65) %

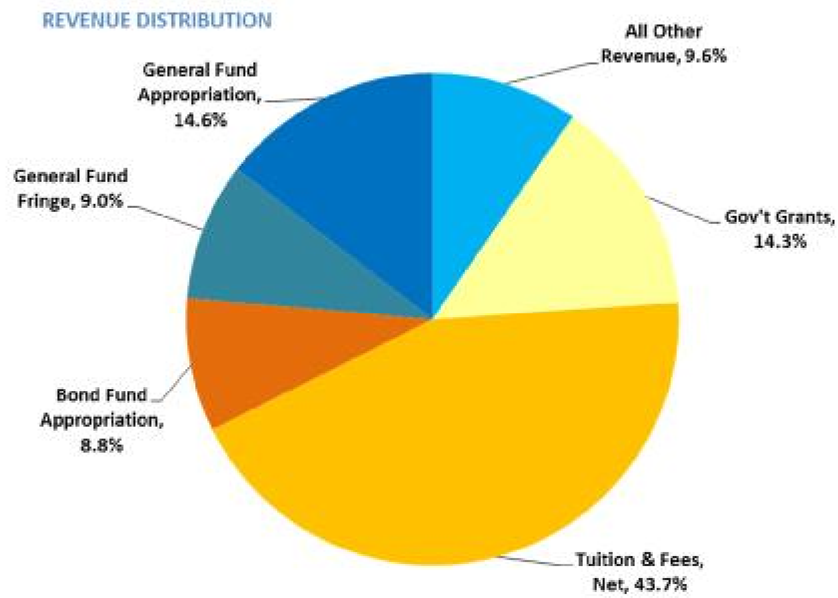
*FY 15 is restated for certain amounts previously reported for the adoption of GASB 68 in fiscal year 2015 which were incorrect. Additionally PELL grants have been reclassified as non-operating revneues from operating revenues.

Charter Oak State College recorded an operating loss of $9.5 million during the year ended June 30, 2016. In major part, this results from the fact that the State general fund appropriation and related fringe benefits, as well as State bond fund appropriations and Pell grant revenue are classified as *non-operating revenues* under GASB 35, although the expenditure of these resources on personnel, non-capital equipment, depreciation and scholarships are considered to be an operating expense. Other non-operating activity includes private gifts and donations and investment income earned on cash balances invested by the State treasurer's office. The State general fund appropriation for salaries increased by 6.2% and the associated revenues to cover fringe benefit costs increased by 12.5%, to $2.7 million and $1.7 million, respectively. Bond fund appropriation revenues increased from $0.5 million in 2015 to $1.6 million in 2016 as funding was received for the Smart Classroom project, to purchase Kaltura for CSCU, and to transition the Jenzabar Student Information System to the cloud. When the full value of the general fund appropriation and fringe benefits, capital appropriations, and other non-operating revenue and expense is taken into account, COSC recorded a total 2016 net decrease in net position of $1.2 million compared to a result in 2015 that showed little change from the previous year.

Government grant revenues are comprised of the federally funded Supplemental Education Opportunity ("SEOG") and the Adult Education grants together with other state government grants which fund various program-related activities. Government grant revenues at June 30, 2016 were $0.7 million; federal dollars were unchanged and state dollars were down $0.3 million from the previous fiscal year.

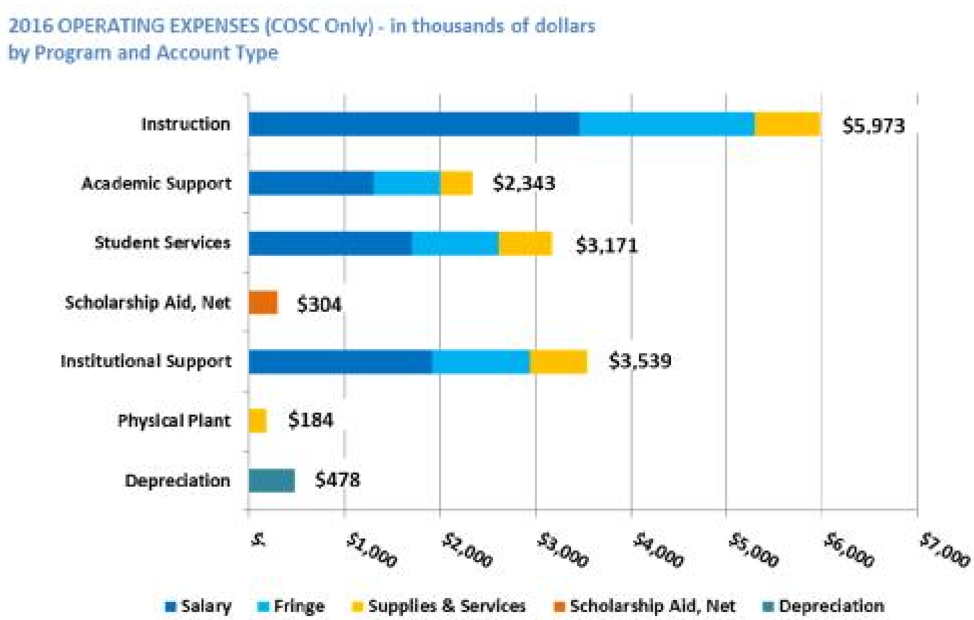
Other revenues totaled $1.4 million in 2016, down from $1.8 million in fiscal year 2015. Other revenues are primarily made up of fees earned by the CTDLC for services, and fees for other services offered by the college such as testing and credit reviews under the Connecticut Credit Assessment Program (CCAP).

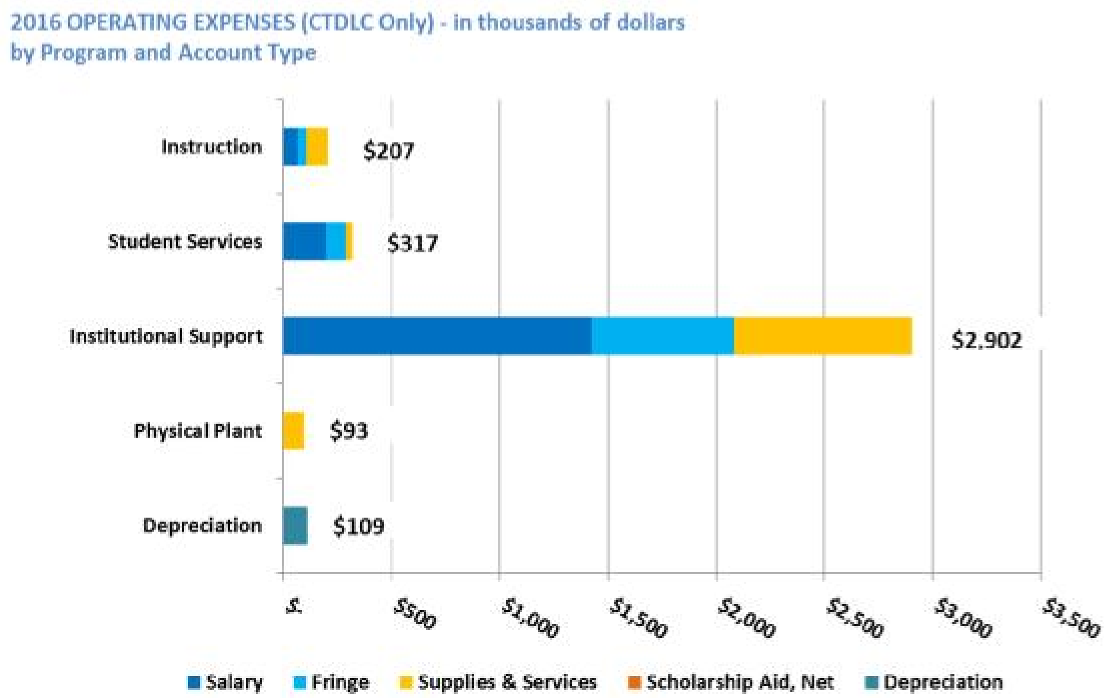


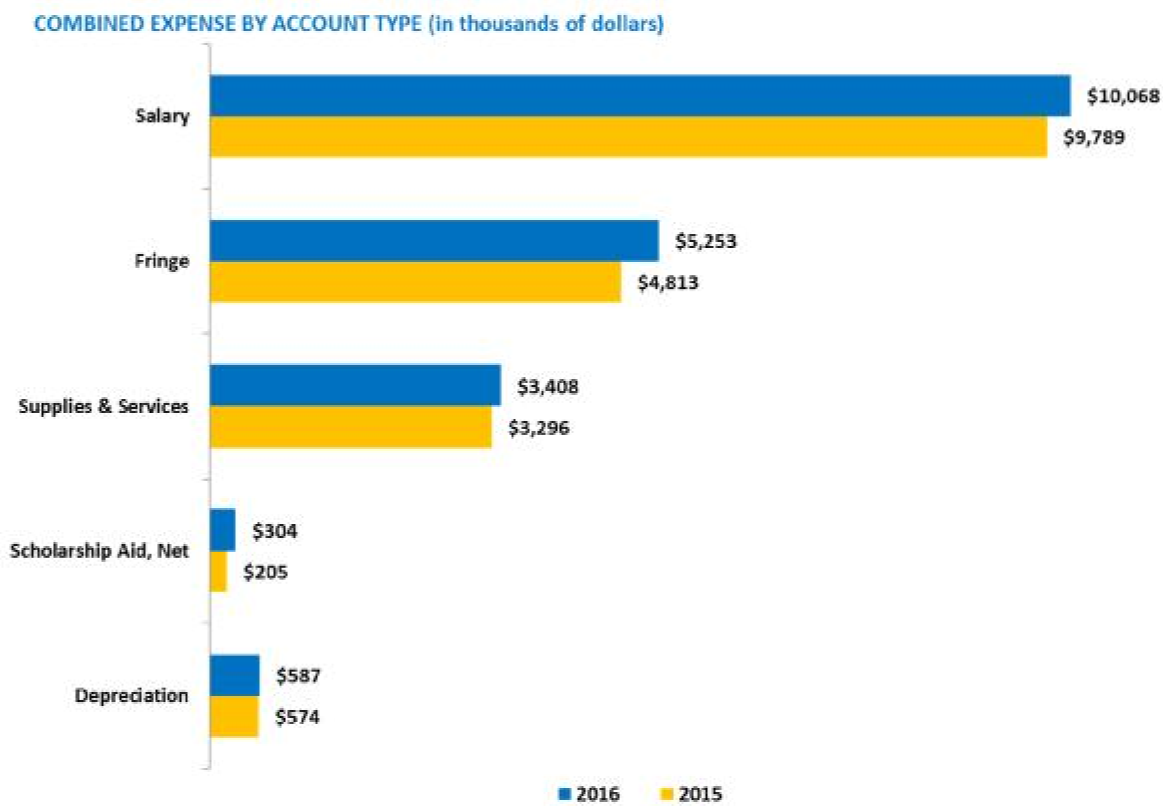


Total operating expenses for fiscal year 2016 were $19.6 million, after reductions for the amount of student financial aid and waivers applied to student tuition and fees. This reflects an operating expense increase of 5% from $18.7 million in fiscal year 2015. The $0.9 million increase in fiscal year 2016 reflects increases in benefits costs as employees transitioned to SERS coupled with spending for the Smart Classroom project. Salary costs registered a decrease as student levels fell as the Go Back to Get Ahead program wound down.

Operating expenses include $15.3 million for salary and wages and related fringe benefits, or 78.1% of total operating expense. In addition, operating expenses include $0.6 million in depreciation expense and $3.4 million for all other service and supply costs. Supplies and services include $2.0 million in non-capital telecommunications and information technology-related services and supplies; premises and property-related expenses including utilities, security, maintenance and repairs, custodial and grounds, and other related costs totaling $0.3 million; and all other non-personnel costs of operating the colleges.




2016 OPERATING EXPENSES (CTDLC Only) - in thousands of dollars
by Program and Account Type
Instruction
$207
Student Services
$317
Institutional Support
$2,902
Physical Plant
$93
Depreciation
$109
$-
$500
$1,000
$1,500
$2,000
$2,500
$3,000
$3,500
Salary
Fringe
Supplies & Services
Scholarship Aid, Net
Depreciation


COMBINED EXPENSE BY ACCOUNT TYPE (in thousands of dollars)
Salary
$10,068
$9,789
Fringe
$5,253
$4,813
Supplies & Services
$3,408
$3,296
Scholarship Aid, Net
$304
$205
Depreciation
$587
$574
2016
2015

Statement of Cash Flows

The statement of cash flows presents the significant sources and uses of cash. Major sources of *operating activity* cash inflows include receipts of student tuition and fees of $8.0 million, down 9.4% from 2015 and receipts from government grants and contracts of $0.7 million, down 52.8% from 2015. Cash is also received from other miscellaneous activities such as testing and CCAP. The largest operating cash outflows include salaries paid to employees of $9.6 million, down 1% from 2015, fringe benefits paid on behalf of employees of $3.6 million, up 5.8% from 2015, vendor payments of $4.3 million, up 17.3% from 2015 and payments to students of $0.3 million for financial aid refunds, up 48% from 2015. Net cash used by operating activities more than doubled during fiscal year 2016 when compared to fiscal year 2015. There was significant spending on the Smart Classroom upgrade, moving the Jenzabar Student Information system to the cloud and acquiring software licenses for Blue Jeans and Kaltura during fiscal year 2016.

The largest inflow of cash related to *non-capital financing* is State appropriations of $2.7 million, including general fund appropriations for salaries and related fringe.

Capital financing cash flows are derived from capital appropriations from the state. During fiscal year 2016, COSC received capital funding of $1.6 million which was expended on the Smart Classroom project, minor facility repairs and maintenance and technology equipment and software. Cash provided by *investing activities* represents small amounts of interest income earned on operating fund cash balances invested by the State treasurer on behalf of COSC, and distributed quarterly.

Condensed Statements of Cash Flows

Years Ended June 30, 2016 and 2015

(in thousands)

	2016	2015 (Restated*)	% Change
NET CASH PROVIDED BY (USED IN)			
Operating activities	$ (7,646)	$ (4,773)	(60) %
Noncapital financing activities	4,950	4,830	2 %
Capital and related financing activities	1,471	(539)	373 %
Investing activities	4	3	34 %
Net change in cash and cash equivalents	(1,221)	(479)	(155) %
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents, beginning of year	4,054	4,534	(11) %
Cash and cash equivalents, end of year	$ 2,833	$ 4,055	(30) %

*FY 15 is restated to reflect PELL revenue as non-capital financeing activities rather than operating activities.

Economic Outlook

Charter Oak State College will confront significant challenges and opportunities in the years ahead. The factors that will have the greatest financial impact on COSC are declining student course enrollments and the fiscal condition of the state of Connecticut, which projects significant future budget deficits. The state has already implemented a budget rescission impacting all state agencies in fiscal year 2017, and has indicated that another rescission may be forthcoming in order to balance the state budget.

The following table illustrates Fall Full Time Equivalent ("FTE") student attendance at COSC:

Fall Headcount Enrollment and Full Time Equivalent				
Year Ended 30-Jun	Undergraduate	% Change	Full Time Equivalent	% Change
2016	1,583	-8.8%	750	-7.6%
2015	1,735	-10.1%	812	-10.9%
2014	1,929	22.1%	911	27.1%
2013	1,580	-3.9%	717	0.0%
2012	1,644	-	717	

Note: Headcount is unduplicated, registered students. Undergraduate and graduate students are combined. FTE is based on credit hours. One FTE is 15 credits for undergraduates and 12 for graduate students.

The past two years have seen declining full time equivalent students, and the five-year trend shows some decline. COSC is attempting to counteract this anticipated decline by pursuing strategic initiatives and to expand the potential student population.

The mission of CSCU was established at the time the system was created and is as follows:

> The Connecticut State Colleges & Universities (CSCU) contribute to the creation of knowledge and the economic growth of the state of Connecticut by providing affordable, innovative, and rigorous programs. Our learning environments transform students and facilitate an ever increasing number of individuals to achieve their personal and career goals.

The Board of Regents also set forth the following five goals to accomplish its mission:

Goal 1: A Successful First Year: Increase the number of students who successfully complete a first year of college.
Goal 2: Student Success: Graduate more students with the knowledge and skills to achieve their life and career goals.
Goal 3: Affordability and Sustainability: Maximize access to higher education by making attendance affordable and our institutions financially sustainable.
Goal 4: Innovation and Economic Growth: Create educational environments that cultivate innovation and prepare students for successful careers in a fast changing world.
Goal 5: Equity: Eliminate achievement disparities among different ethnic/racial, economic, and gender groups.

Embedded in these goals are the concepts of affordability, access, and sustainability which form the basis for all strategic and tactical decision-making within the system.

In the interest of continuing progress towards achieving goals and for dealing with an ever-changing operational environment and fiscal challenges, management has formed six workgroups to identify ways in which to foster greater organizational effectiveness, improve processes and practices, promote innovations and strategic partnerships, and identify potential costs savings. The workgroups were formed in summer 2016 and are comprised of staff, presidents, and faculty members. The teams have planned, evaluated current circumstances, identified opportunities for improvement, solicited input from stakeholders and subject matter experts, and arrived at preliminary recommendations. The areas under focus are human resources, compliance programs, contracting and purchasing, recruitment and retention, financial aid, and marketing. Final recommendations are expected to be presented to the Board in spring 2017.

Additional Information

This financial report is designed to provide a general overview of COSC's finances and to show accountability for the funds it receives. Questions about this report or requests for additional financial information should be directed to Erika Steiner, Chief Financial Officer, Connecticut State Colleges and Universities (860-493-0251).

Grant Thornton LLP
1400 Computer Drive, 3rd Floor
Westborough, MA 01581

T 508.926.2200
F 508.616.2972
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Regents of
Connecticut State Colleges and Universities

Report on the financial statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Charter Oak State College and Connecticut Distance Learning Consortium, an enterprise fund of the State of Connecticut (collectively, the "College") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the index.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit (the affiliated foundation ("Foundation")), which statements reflect total assets of $1.8 million and total net assets of $1.8 million as of June 30, 2016 and total revenues, capital gains and losses, and other support of $119 thousand for the year then ended. 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 auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Charter Oak State College and Connecticut Distance Learning Consortium as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the College, an enterprise fund of the State of Connecticut, and do not purport to, and do not, present fairly the financial position of the State of Connecticut as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the beginning net position as of July 1, 2015 has been restated in connection with a correction of an error related to the adoption of a new accounting standard related to pension accounting. Our opinion is not modified with respect to this matter.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis on pages 1 through 12 and the Schedule of Net Pension Liability and Related Ratios and Schedule of Contributions on page 33 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The supplemental Combining Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position included on pages 36 through 37 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Grant Thornton LLP

Westborough, Massachusetts
January 19, 2017

Charter Oak State College
Connecticut Distance Learning Consortium
Combined Statement of Net Position
June 30,2016
000's

Assets	**Combined**	**Foundation**
Current assets:		
Cash and cash equivalents	$ 10	$ 161
Cash held by State Treasurer	2,824	-
Accounts receivable, net	501	1
Investments	-	1,649
Other current assets	1,016	1
Total current assets	4,351	1,812
Noncurrent assets:		
Capital assets, net	2,942	-
Total noncurrent assets	2,942	-
Total assets	7,293	1,812
Deferred outflows of resources:		
Deferred pension contributions	2,612	-
Total deferred outflows of resources	2,612	-

Liabilities and net position

Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 118	$ 1
Accrued payroll	897	-
Unearned tuition revenues	584	-
Accrued employee compensated absences	656	-
Total current liabilities	2,255	1
Noncurrent liabilities		
Accrued employee compensated absences	577	-
Net pension liability	10,043	-
Total noncurrent liabilities	10,620	-
Total liabilities	12,875	1
Net position		
Invested in capital assets, net of related debt	$ 2,942	$ -
Restricted for:		
Nonexpendable:	-	1,063
Expendable:	778	707
Unrestricted	(6,690)	41
Total net position	(2,970)	1,811
Total liabilities and net position	$ 9,905	$ 1,812

Charter Oak State College
Connecticut Distance learning Consortium
Combined Statement of Revenues and Expenses
For the Year ended June 30,2016
000's

	Combined	Foundation
Operating revenues:		
Student tuition and fees	$ 10,289	$ -
Less: scholarships and fellowships	(2,228)	-
Net tuition and fees	8,061	-
CTDLC fees	1,188	-
Federal grants and contracts	362	-
State and local grants and contracts	344	-
Nongovernmental grants and contracts	4	-
Other operating revenues	168	-
Total operating revenues	10,127	-
Operating expenses:		
Education and general		
Instruction	6,180	-
Scholarships and fellowships	304	89
Academic support	2,343	-
Student services	3,488	-
Institutional support	6,441	35
Operation and maintenance of plant	277	-
Depreciation	587	-
Total operating expenses	19,620	124
Net operating loss	(9,493)	(124)
Nonoperating revenues (expenses)		
State appropriations	4,357	-
Pell grants	1,926	-
Contributions	-	111
Investment income	4	8
Gain(loss) on disposal of capital assets	(92)	-
Other nonoperating revenues	508	-
Net nonoperating revenues	6,703	119
Increase(decrease) in net position before capital appropriations	(2,790)	(5)
Capital appropriations	1,622	-
Increase/(decrease) in net position	$ (1,168)	$ (5)
Net position		
Net position - beginning of year, as restated *	$ (1,802)	1,817
Net position - end of year	$ (2,970)	1,812

*FY 15 is restated for certain amounts previously reported for the adoption of GASB 68 in fiscal year 2015 which were incorrect. As a result, the beginning net position, and deferred outflows of fiscal year 2015 have been restated.

Charter Oak State College
Connecticut Distance learning Consortium
Combined Statement of Cash Flows
For the Year ended June 30,2016
000's

	Combined
Cash flows from operating activities:	
Tuition and fees	$ 8,032
CTDLC fees	1,188
Grants and contracts	710
Payments to employees	(13,163)
Payments to suppliers and vendors	(4,276)
Payments to students	(304)
Other operating receipts	168
Net cash applied to operating activities	(7,645)
Cash flows from non-capital financing activities	
State appropriations	2,689
Pell grant	1,926
Other	335
Net cash provided by non-capital financing activities	4,950
Cash flows from capital financing activities	
Capital appropriations	1,622
Purchases of capital assets	(151)
Net cash provided by capital financing activities	1,471
Cash flows from investing activities	
Interest on cash held	4
Net decrease in cash and equivalents	(1,220)
Cash and equivalents, beginning of year	4,054
Cash and equivalents, end of year	2,834
Reconciliation of net operating loss to net cash applied to operating activities	
Net operating loss	$ (9,493)
Adjustments to reconcile net operating loss to net cash applied to operating activities:	
Depreciation	587
Fringe benefits provided by the state	1,668
Changes in assets and liabilities:	
Accounts receivable	132
Other Current assets	(632)
Accounts payable	(20)
Accrued payroll	190
Accrued employee compensation and benefits	(63)
Unearned tuition revenues	(161)
Net pension obligation	147
Net cash applied to operating activities	$ (7,645)
Non-cash transaction	
Fringe benefits provided by the state	$ 1,668

1. Summary of Significant Accounting Policies

Organization

The Connecticut State Colleges and Universities System ("CSCU") was established by the State of Connecticut (the "State") in 2011 via Public Act 11-48 as amended by Public Act 11-61. This brought together the governance structure for the Connecticut State University System ("CSUS"), the Connecticut State College System ("CCC") and Charter Oak State College ("COSC") under the newly formed Board of Regents for Higher Education. The financial statements presented herein represent only the financial activities of COSC. Separate financial statements are issued for CSUS and COSC.

CSCU consists of seventeen separate institutions including four state universities, twelve community colleges and Charter Oak State College. CSCU also includes the Connecticut Distance Learning Consortium ("CTDLC") as part of COSC, which provides services and support to help educational institutions and other learning-focused organizations develop and deliver technology enhanced learning opportunities to promote workforce training and development. The CSCU system offers associate degrees, baccalaureate, graduate and certificate programs, applied doctoral degree programs in education as well as short term certificates and individual coursework in both credit and noncredit programs.

Basis of Presentation

The financial statements for the COSC and the CTDLC 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 GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. These financial statements include the statements of COSC, CTDLC, and their discretely presented component unit.

COSC's financial statements include three statements: the combined statements of net position, revenues, expenses, and changes in net position, and cash flows.

- The combined statements of net position present information on all of COSC's assets, liabilities, deferred outflows and inflows, and net position.
- The combined statements of revenues, expenses and changes in net position present information showing how the COSC's net position changed during the fiscal years presented. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, certain revenues and expenses are reported in these statements for items that will only result in cash flows in future fiscal periods (e.g., the accrual for compensated absences).
- The combined statements of cash flows is presented using the direct method. The direct method of cash flow reporting portrays net cash flow from operations by major class of operating receipts and expenditures (e.g., payments to employees for salaries and benefits).

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to COSC in support of their programs. Although COSC does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds, and invests, is restricted to the activities of COSC by the donors. Since these restricted resources held by the Foundation can only be used by, or for the benefit of, COSC, the Foundation is considered a component unit of COSC.

The Foundation is a private nonprofit organization that report under FASB standards, which includes guidelines for *Financial Reporting for Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's separately audited financial statements information in COSC's financial reporting entity for these differences.

Restatement

During fiscal 2016, it was determined that certain amounts previously reported for deferred pension contribution, pension expense, state appropriations, and related disclosures associated with the adoption of GASB 68 in fiscal year 2015 were incorrect. As a result, the beginning net assets of fiscal year 2016 have been restated. Additionally, PELL grants have been reclassified as non-operating revenues from operating revenues.

A summary of the net effects of these errors on the fiscal year 2015 financial statements and related disclosures follows:

Net Position - beginning of year as previously reported	$ 1,459
To adjust opening net position for incorrect amounts previously reported	$ 343
Net position - beginning of year as restated	$ 1,802

Net Position

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

- **Invested in Capital Assets, Net of Related Debt**
  Capital assets, at historical cost or fair market value on date of gift, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Similar net assets are included in unrestricted net assets in the statements of the component units.

- **Restricted Nonexpendable**
  Net position subject to externally imposed stipulations that they be maintained in perpetuity by COSC. Similar net assets are referred to as permanently restricted net assets in the statements of the component units.

- **Restricted Expendable**
  Net position whose use by COSC is subject to externally imposed stipulations that can be fulfilled by actions of COSC pursuant to those stipulations or that expire by the passage of time. Similar net assets are referred to as temporarily restricted net assets in the statements of the component units.

- **Unrestricted**
  Net position that is not subject to externally imposed stipulations is considered unrestricted. Unrestricted net position may be designated for the specific purpose by actions of management or the BOR or may otherwise be utilized to satisfy certain contractual agreements with outside parties. Substantially all unrestricted net position will be utilized for support for academic initiatives, and capital programs.

New GASB Pronouncements
On March 2, 2015, the Governmental Accounting Standards Board (GASB) released Statement No. 72, *Fair Value Measurement and Application,* which would generally require state and local governments to measure investments at fair value. GASB's goal is to enhance comparability of governmental financial statements by requiring fair value measurement for certain assets and liabilities using a consistent definition and accepted valuation techniques. This standard expands fair value disclosures to provide comprehensive information for financial statement users about the impact of fair value measurements on a government's financial position. The requirements are effective for financial statements for periods beginning after June 15, 2015, with early application encouraged. The College implemented GASB 72 in fiscal year 2016. There was no significant impact in connection with this adoption.

In June 2015 the Governmental Accounting Standards Board (GASB) released Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* establishes new accounting and financial reporting requirements for OPEB plans. Management is evaluating the impact this pronouncement will have on the College.

Classification of Assets and Liabilities
COSC presents short-term and long-term assets and liabilities in the statements of net position. Short-term assets include balances with maturities of one year or less, and assets expected to be received or used within one year or less, from June 30, 2016. Long-term assets represent balances with maturities of greater than one year, and assets expected to be received or used after one year, from June 30, 2016. Cash and cash equivalents and investments presented as short-term in the statements of net position include balances with a maturity of one year or less from June 30, 2016. Long-term cash and cash equivalents and investments include balances with a maturity of greater than one year from June 30, 2016 and balances that have externally imposed restrictions as to use.

Cash and Cash Equivalents
Cash and cash 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 COSC by the State Treasurer and has original maturities of three months or less (see Note 3).

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.

Fair Value of Financial Instruments
Fair value approximates carrying value for cash and cash equivalents, notes and accounts receivable and accounts payable.

Investment in Plant
Capital assets of the combining unit are stated at historical cost. Depreciation of capital assets is calculated on a straight-line basis over the respective asset's estimated useful life, which range from 5 to 40 years.

Connecticut State Colleges and Universities comprehensive long-term capital infrastructure investment plan ("CSCU 2020"), was developed consistent with master facilities plans established by the individual Colleges and Universities. For CSCU 2020 projects, the state general obligation bond proceeds are deposited into the CSCU 2020 Fund.

Title to all assets, whether purchased, constructed or donated, is held physically by the State of Connecticut.

Accrued Compensated Absences (ACA)
Employees earn the right to be compensated during absences for vacation leave, sick leave and related fringe benefits. The accompanying statements of net position reflect the accrual for the amounts earned as of year-end.

Pension Obligations
COSC 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.

Unearned Tuition, Fees and Grant Revenues
Unearned tuition, fees and grant revenues consist primarily of tuition and fees that have been billed or collected at June 30, 2016. Direct charges related to these sessions are reported in the period the tuition and fees are recognized as income.

Tuition and Fees Revenue
Student tuition and fees revenue is recognized in the period earned. Student tuition and fee revenue is presented net of scholarship allowance and waivers in accordance with GASB Statement No. 35. Student aid for scholarships recorded in the statement of revenues, expenses and changes in net position includes payments made directly to students. Any aid applied directly to the students' accounts in payment of tuition and fees is reflected as a scholarship allowance.

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.

Operating Activities
Operating activities as reported on the statements of revenue, expenses and changes in net position are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of COSC expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts and investment income.

Income Taxes
COSC is a component unit of the State of Connecticut and is exempt from federal and state income taxes under the doctrine of intergovernmental tax immunity found in the U.S. Constitution. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. COSC qualifies as a public charity eligible to receive charitable contributions under Section 170(b)(1)(A)(ii) of the Internal Revenue Code, as amended (the Code).

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes at June 30, 2016 and revenues and expenses recognized during the reporting period. Major estimates include the accrual for employee compensated absences, pension liability, estimated lives of capital assets and the allowances for doubtful accounts. Actual results could differ from those estimates.

Subsequent Events
In accordance with generally accepted accounting principles, COSC has evaluated subsequent events for the period after June 30, 2016, through December 19, 2016, the date the financial statements were issued and no items needing to be reported were noted.

2. Cash, Cash Equivalents and Investments

Cash and cash equivalents is invested in the State of Connecticut Treasurer's Short-Term Investment Fund (STIF), a combined investment pool of high quality, short-term money market instruments. COSC 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 COSC's daily cash flow requirements.

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 five percent (5%) of the STIF's net assets at the time of execution.

Cash and cash equivalents also include operating funds held by the State of Connecticut in a pooled, interest credit program which earns interest at a rate determined monthly by the Office of the State Treasurer. The interest rate at June 30, 2016 was 0.44%.

Investments are pooled by the State and separate accounting is maintained as to the amounts allocable to the various funds and programs.

Credit Risk – Credit risk is the risk that an investor will lose money because of the default of the security issuer or investment counterparty. COSC is invested in U.S. Government obligations, which are not considered to have credit risk. The average credit quality rating of COSC's guaranteed investment contracts was AA-, as rated by Standard & Poor's Ratings as of June 30, 2016.

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. The majority of COSC's total cash, cash equivalents and investments was invested in the STIF and the State's pooled, interest credit program accounts as of June 30, 2016.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. Interest rate risk is managed by establishing targets for the preferred duration of the fixed income component of the investment portfolio by asset class by limiting investments through target allocations to different asset classes.

3. Accounts Receivable

Accounts receivable consist of the following at June 30, 2016:

Student accounts receivable	$ 958.1
State receivable	21.7
Other receivable	11.5
Gross accounts receivable	991.3
Less: allowance for doubtful accounts	(490.6)
Net accounts receivable	$ 500.7

4. Capital Assets

Capital Asset activity for the year ended June 30, 2016 is as follows (in thousands):

	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets, not depreciated:					
Art		$ 15.0	$ -	$ -	$ 15.0
Capital assets, depreciated:					
Buildings and improvements	10-40	2,497.5	11.5	-	2,509.0
Furnishings and equipment	5	3,451.1	312.5	(602.2)	3,161.4
Software	5	534.6	-	-	534.6
Total depreciable assets		6,483.2	324.0	(602.2)	6,205.0
Total capital assets		6,498.2	324.0	(602.2)	6,220.0
Less: accumulated depreciation:					
Buildings and Improvements		1,088.9	70.7	-	1,159.6
Furnishings and equipment		1,619.8	480.3	(510.6)	1,589.5
Software		492.7	35.7	-	528.4
Total accumulated depreciation		3,201.4	586.7	(510.6)	3,277.5
Capital assets, net		$ 3,296.8	$ (262.7)	$ (91.6)	$ 2,942.5

5. Long-Term Liabilities

Long-term liabilities at June 30, 2016 consist of (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Other long-term liabilities					
Vacation	$ 870.8	$ 37.4	$ -	$ 908.2	$ 625.5
Sick	425.6	-	(100.7)	324.9	30.1
Net pension liability	9,129.8	913.6	-	10,043.4	-
Total long-term liabilities	$ 10,426.2	$ 951.0	$ (100.7)	$ 11,276.5	$ 655.6

These accruals represent estimated amounts earned by all eligible employees through June 30, 2016. The accrued compensated absences ("ACA") will be settled over a number of years, and are not expected to have a significant impact on the future annual cash flows of COSC. The current portion of compensated absences is estimated based on recent past history.

6. Retirement and Other Post Employment Benefits

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 COSC 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"). SERS 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. SERS does not issue standalone 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 2 primary SERS plan options available to COSC employees first hired into state service on or after July 1, 2011 (some employees are eligible to elect the Teachers Retirement System – TRS). Employees hired before July 1, 2011 participate in Tier I, Tier II, Tier IIA, Tier III, or TRS depending on several factors. COSC makes contributions on behalf of the 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 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.

Alternatively, employees may choose to participate in the Alternate Retirement Plan which is managed by Prudential. Under this arrangement, plan participants contribute 5% of their pay and the State contributes 8% to individual participants' investment accounts managed by Prudential. COSC pays a fringe benefit charge to the State which includes the 8% employer contribution and an administrative charge. The aforementioned 2011 SEBAC agreement provides COSC employees who were both hired before July 1, 2011 and participating in ARP with a one-time irrevocable option through a date not 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%, respectively, of their annual salary up to the Social Security Taxable Wage Base plus 5% above that level. Tier I Plan C and Hybrid Plan members are required to contribute 5% of their annual salary. Tier IIA Plan, Tier III 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 or increased by an act of the State legislature. The rate was 43.42% and 30.35% for SERS and TRS respectively, for fiscal year ended June 30, 2016. The State contributed $833.7 thousand and $16.0

thousand for SERS and TRS respectively for fiscal year ended June 30, 2016, equal to 100% of the required contributions the year. Administrative costs of the plan are funded by the State.

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

COSCs' net pension liability is valued one year in arrears. The net pension liability recorded in the financial statements as of June 30, 2016 was measured and valued as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by the most current actuarial valuation as of that date. COSC's proportion of the net pension liability was based on a projection of COSC's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities and the State, actuarially determined. COSC's proportion of the SERS plan net pension liability, at June 30, 2016 was 0.06 %.

All SERS and TRS assets are available to pay any participants benefits. However, the portion of each plan's net pension liability attributable to COSC is tracked separately. The net pension liability for COSC as of June 30, 2016 for SERS was $10.0 million. COSC has no net pension liability associated with the TRS plan.

Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases including inflation	4.00% to 20.00%
Investment rate of return net of pension plan investment expense, including inflation	8.00%

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, 2015 valuation, which was the basis for recording the June 30, 2016 financial statement liabilities, were based on the results of the actuarial experience study as of June 30, 2014.

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, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equities	21%	5.8%
Developed Non-U.S. Equities	18%	6.6%
Emerging Market (Non-U.S.)	9%	8.3%
Real Estate	7%	5.1%
Private Equity	11%	7.6%
Alternative Investments	8%	4.1%
Fixed Income	8%	1.3%
High Yield Bonds	5%	3.9%
Emerging Market Bond	4%	3.7%
TIPS	5%	1.0%
Cash	4%	0.4%
	100%	

Discount Rate

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.

Sensitivity of Net Pension Liability to Changes in Discount Rate

The following presents the current-period net pension liability of COSC calculated using the current-period discount rate assumption of 8.0% for SERS and 8.5% for TRS, 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 (in thousands):

	1% Decrease (7.0%)	Current Discount (8.0%)	1% Increase (9.0%)
SERS	$ 11,946.8	$ 10,043.3	$ 8,439.7

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

For the year ended June 30, 2016, COSC recognized pension expense of $1.2 million. Deferred outflows of resources and deferred inflows of resources for pensions attributed to the CSU System were related to the following sources for the year ended June 30, 2016 (in thousands):

	SERS	TRS	Total
DEFERRED OUTFLOWS OF RESOURCES			
Net difference between projected and actual earnings on pension plan investments	$ 1.6	$ -	$ 1.6
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,548.3	24.5	1,572.8
Employer contributions after measurement date	1,025.0	12.1	1,037.1
Total	**$ 2,574.9**	**$ 36.6**	**$ 2,611.5**

The net amount of deferred outflows of resources and deferred inflows of resources related to the pensions attributed to COSC that will be recognized in pension expense during the next five years is as follows (in thousands):

Fiscal Years Ending June 30,	SERS	TRS	Total
2017	$ 364.5	$ 4.6	$ 369.1
2018	$ 364.5	$ 4.6	$ 369.1
2019	$ 364.5	$ 4.6	$ 369.1
2020	$ 376.7	$ 4.6	$ 381.3
2021	$ 79.7	$ 6.1	$ 85.8
Total	**$ 1,549.9**	**$ 24.5**	**$ 1,574.4**

Other Post-Employment Benefits

The State of Connecticut provides post-retirement health care and life insurance benefits to eligible COSC employees, in accordance with Sections 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). This benefit is available to retirees of the State Employees' Retirement System and participants in the Connecticut Alternate Retirement Program who meet certain age and service criteria.

The State also pays 100% of the premium cost for a portion of the employee's 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 the time of retirement. The State finances the cost of post-retirement health care and life insurance benefits.

7. 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, 2016 (in thousands):

Fiscal Years Ending June 30,	Operating Leases
2017	$ 97.3
2018	97.3
2019	96.3
2020	85.5
2021	84.8
	$ 461.2

Rent expense for operating leases was $103,163 for the year ended June 30, 2016.

8. Commitments and Contingencies

COSC makes expenditures in connection with restricted government grants and contracts which are subject to final audit by government agencies. COSC is of the opinion that the amount of disallowances, if any, sustained through such audits would not materially affect the financial position of COSC.

COSC had outstanding purchase orders and related commitments for materials, services and capital expenditures that had not been received as of June 30, 2016. These commitments are not recorded as liabilities until materials or services are received. The commitments of total net position balances at June 30, 2016 totaled $0.2 million dollars, of which 60% were related to the Smart Classroom project.

9. Natural Classification with Functional Classification

The operating expenses by functional classification were as follows (in thousands):

	Year Ended June 30, 2016 - COSC					
	Salary	Fringe	Supplies & Services	Scholarship Aid, Net	Depreciation	Total
Depreciation	$ -	$ -	$ -	$ -	$ 478	$ 478
Physical Plant	-	-	184	-	-	184
Institutional Support	1,915	1,021	603	-	-	3,539
Scholarship Aid, Net	-	-	-	304	-	304
Student Services	1,701	907	563	-	-	3,171
Academic Support	1,306	697	340	-	-	2,343
Instruction	3,457	1,844	672	-	-	5,973
Total operating expenses	$ 8,379	$ 4,469	$ 2,362	$ 304	$ 478	$ 15,992

	Year Ended June 30, 2016 - CTDLC					
	Salary	Fringe	Supplies & Services	Scholarship Aid, Net	Depreciation	Total
Depreciation	$ -	$ -	$ -	$ -	$ 109	$ 109
Physical Plant	-	-	93	-	-	93
Institutional Support	1,425	656	821	-	-	2,902
Student Services	197	91	29	-	-	317
Instruction	67	37	103	-	-	207
Total operating expenses	$ 1,689	$ 784	$ 1,046	$ -	$ 109	$ 3,628

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of The Combining Unit's Proportionate Share of The Net Pension Liability
State Employee Retirement System Plan

(in thousands)

Last 10 Fiscal Years [1]

	2016	2015	2014
COSC's proportion of the net pension liability	0.06%	0.06%	0.05%
COSC's proportionate share of the net pension liability	$ 10,043	$ 9,130	$ 7,870
COSC's covered-employee payroll	$ 2,199	$ 1,988	$ 1,592
COSC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	457%	459%	494%
Plan Fiduciary net position as a percentage of the total pension liability	39.23%	39.54%	Unavailable[1]

[1] Until a full 10-year trend is compiled, COSC is presenting only information for years for which information is available.

Schedule of The Combining Unit's Contributions
State Employee Retirement System Plan

(in thousands)

Last 10 Fiscal Years [1]

	2016	2015	2014
Contractually required contribution	$ 834	$ 727	$ 503
Contributions in relation to the contractually required contribution	(834)	(723)	(502)
Contribution deficiency (excess)	$ -	$ 4	$ 1
COSC's covered-employee payroll	$ 2,199	$ 1,988	$ 1,592
Contributions as a percentage of covered employee payroll	37.91%	36.38%	31.54%

[1] Until a full 10-year trend is compiled, COSC is presenting only information for years for which information is available.

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.

For the June 30, 2015 valuation, there were no changes in benefit terms.

SUPPLEMENTARY SCHEDULES

Charter Oak State College
Connecticut Distance Learning Consortium
Combined Statement of Net Position
June 30,2016
000's

Assets	**College**	**CTDLC**	**Combining Adjustments**	**Combined FY 2016**
Current assets:				
Cash and cash equivalents	$ 10	$ -	$ -	$ 10
Cash held by State Treasurer	2,067	757	-	2,824
Accounts receivable, net	517	34	(50)	501
Other current assets	947	69	-	1,016
Total current Assets	3,541	860	(50)	4,351
Noncurrent assets:				
Capital assets, net	2,643	299	-	2,942
Total noncurrent Assets	2,643	299	-	2,942
Total Assets	6,184	1,159	(50)	7,293
Deferred outflows of resources:				
Deferred outflows	2,168	444	-	2,612
Total deferred outflows of resources	2,168	444	-	2,612
Liabilities and net position				
Current liabilities				
Accounts payable and accrued liabilities	$ 100	$ 18	$ -	$ 118
Accrued payroll	762	135	-	897
Unearned tuition revenues	584	-	-	584
Accrued employee compensated absences	562	94	-	656
Total current liabilities	2,008	247	-	2,255
Noncurrent liabilities				
Accrued employee compensated absences	475	102	-	577
Other liabilities	-	50	(50)	-
Net pension liability	8,296	1,747	-	10,043
Total noncurrent liabilities	8,771	1,899	(50)	10,620
Total liabilities	$ 10,779	$ 2,146	$ (50)	$ 12,875
Net position				
Invested in capital assets, net of related debt	$ 2,643	$ 299	$ -	$ 2,942
Restricted for:				
Expendable:	381	397	-	778
Unrestricted	(5,450)	(1,240)	-	(6,690)
Total net position	(2,426)	(544)	-	(2,970)
Total liabilities and net position	$ 8,353	$ 1,602	$ (50)	$ 9,905

Charter Oak State College
Connecticut Distance Learning Consortium
Combined Statement of Revenues and Expenses
For the Year ended June 30,2016

000's

	College	CTDLC	Combining Adjustments	Combined
Operating revenues:				
Student tuition and fees	$ 10,289	$ -	$ -	$ 10,289
Less: scholarships and fellowships	(2,228)	-	-	(2,228)
Net tuition and fees	8,061	-	-	8,061
CTDLC fees	-	1,274	(86)	1,188
Federal grants and contracts	62	300	-	362
State and local grants and contracts	344	-	-	344
Nongovernmental grants and contracts	4	-	-	4
Other operating revenues	168	-	-	168
Total operating revenues	8,639	1,574	(86)	10,127
Operating expenses:				
Instruction	5,973	207	-	6,180
Scholarships and fellowships	304	-	-	304
Academic support	2,343	-	-	2,343
Student services	3,171	317	-	3,488
Institutional support	3,625	2,902	(86)	6,441
Operation and maintenance of plant	184	93	-	277
Depreciation	478	109	-	587
Total operating expenses	16,078	3,628	(86)	19,620
Net operating loss	(7,439)	(2,054)	-	(9,493)
Nonoperating revenues (expenses)				
State appropriations	3,374	983	-	4,357
Pell grants	1,926	-	-	1,926
Investment income	3	1	-	4
Gain(loss) on disposal of capital assets	(83)	(9)	-	(92)
Other nonoperating revenues	173	335	-	508
Net nonoperating revenues	5,393	1,310	-	6,703
Increase(decrease) in net position before capital appropriations	(2,046)	(744)	-	(2,790)
Capital appropriations	1,622	-	-	1,622
Increase/(decrease) in net position	$ (424)	$ (744)	$ -	$ (1,168)