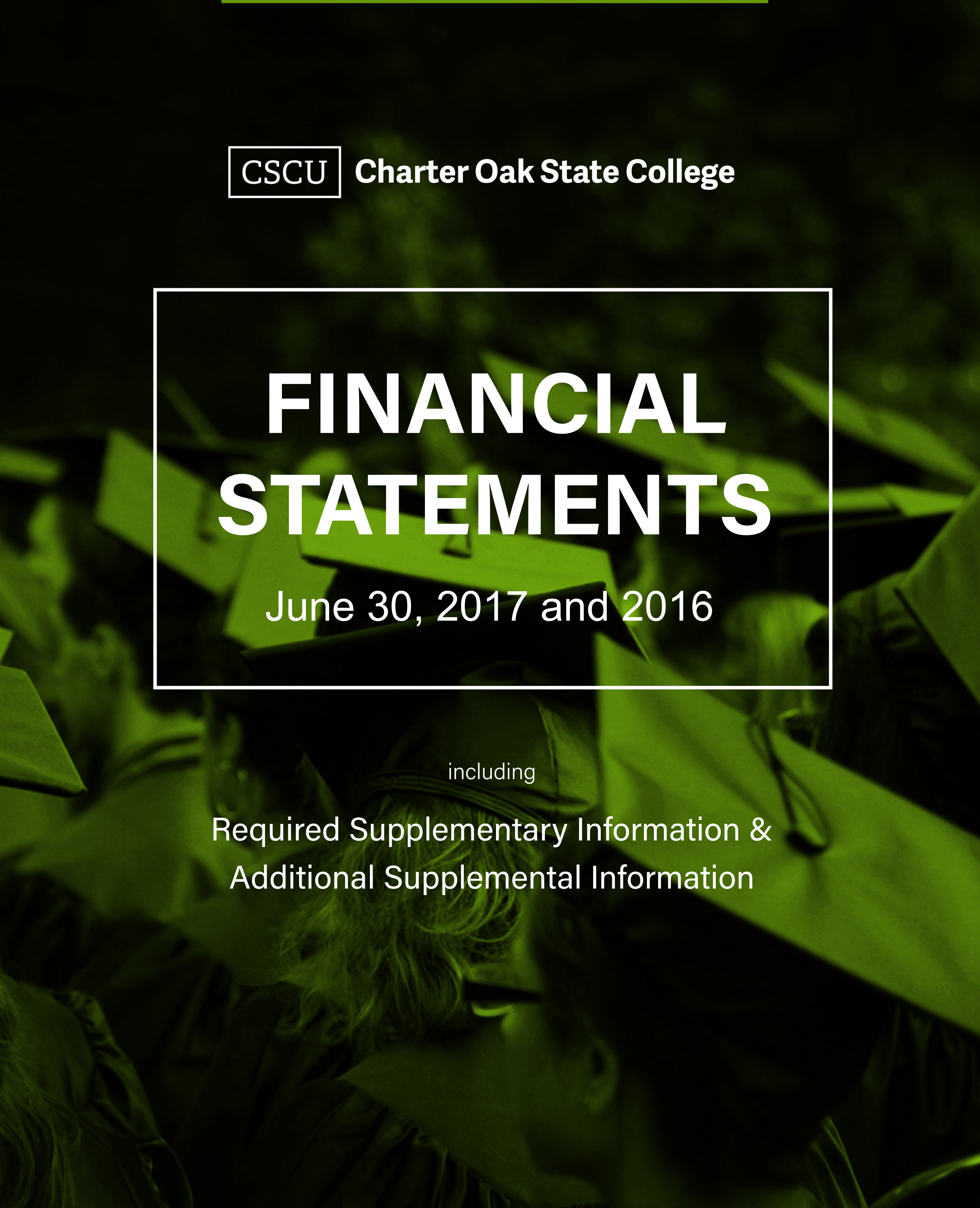
Connecticut State Colleges & Universities

CSCU Charter Oak State College



# FINANCIAL STATEMENTS

June 30, 2017 and 2016

including

Required Supplementary Information &
Additional Supplemental Information

# 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 – 6/30/17)**

- 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 6/30/17 (1 vacancy)**

Matt Fleury, Chairman (appt to Chair 7/1/17)
Yvette Meléndez, Vice Chair
Richard J. Balducci
Aviva D. Budd (appointed 1/25/17)
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)
Joseph Young (CC student; elected September 2016)

**Ex-Officio, Non-voting members**

Barbara E. Richards –Chair of the Faculty Advisory Committee (term began January 2016)
Stephen Adair – Vice Chair of the Faculty Advisory Committee
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 – 6/30/17)**

Nicholas M. Donofrio (term ended June 30, 2016)
Jewel Mullen – Commissioner, CT Department of Public Health (resigned November, 2015)
Sharon Palmer – Commissioner, CT Department of Labor (resigned December, 2015)
Sarah E. Greco, CSU Student (resigned March 2016)
Gordon Plouffe (CC student; term ended September 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

# Charter Oak State College

Table of Contents

June 30, 2017 and 2016

## Introduction

Management Discussion & 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, 2017, along with comparative information for the fiscal year ended June 30, 2016. 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 2017.

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 Board of Regents for Higher Education is authorized under the provisions of this public act to "serve as the Board of Trustees" for the Universities and 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 or COSC.

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. In addition, COSC is authorized to offer Master's Degrees and certificate programs.

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 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
- Web Integration
- K-12 services
- Technical Support
- Strategic Consulting

## Using the Financial Statements

COSC's financial 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 2017 full financial statements and footnotes with fiscal year 2016 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.

## Financial Highlights

Charter Oak State College had total assets of $6.6 million, deferred outflows of $7.4 million, liabilities of $18.4 million, and a total net position balance of ($4.4) million as of June 30, 2017. Of this amount, ($7.4) million is classified as unrestricted net position, a $0.7 million decrease from 2016. The negative balance in unrestricted net position is a result of the pension liability, as discussed within this report, and the significant reduction in non-operating funding as the Smart classroom project ended.

Total operating revenues from student tuition and fees, grants and contracts, and other college activities (net of scholarship allowances) were $10.4 million, a 3% increase over the previous year. Operating expenses were $18.7 million, a decrease of 4.5% from the previous year, resulting in an operating loss of $8.3 million during the year ended June 30, 2017. Net non-operating revenues and other changes were $6.9 million, down 18% from the previous year, reflecting a $0.3 million increase in general fund appropriations which was offset by decreases in Pell and other non-operating revenues totalling $0.3 million and a decrease in bond fund appropriations of $1.5 million. Overall COSC experienced a decrease in net position of $1.4 million during fiscal year 2017.

Cash and cash equivalents were $3.0 million at June 30, 2017, including $0.6 million of cash equivalents in the form of State bond appropriations. Total current assets were $4.2 million as of June 30, 2017. At June 30, 2016, cash and cash equivalents were $2.8 million and total current assets were $4.4 million, 4% higher than in FY 2017. The ratio of unrestricted current assets of $3.6 million to current liabilities of $2.2 million was 1.6:1 in 2017. 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 52.7% from $10.6 million at June 30, 2016 to $16.2 million at June 30, 2017. This significant liability includes $15.6 million for the 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

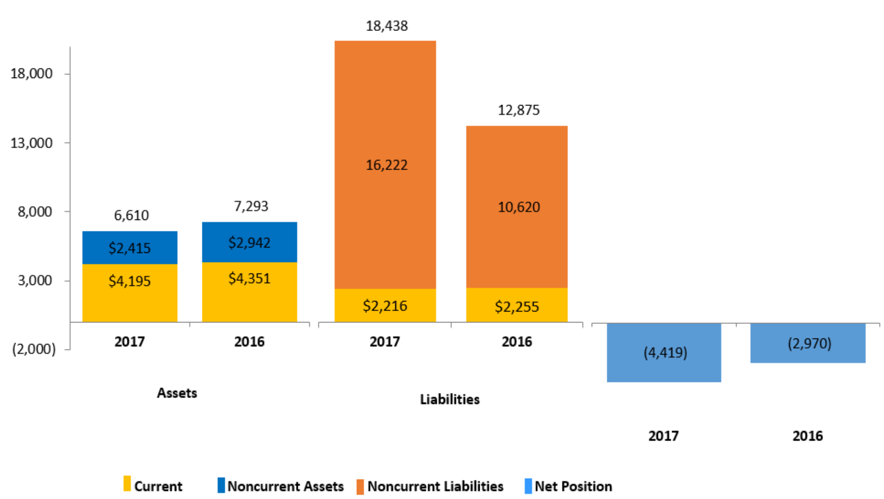
The Statement of Net Position presents the overall financial position of COSC at the end of the fiscal year, and includes all assets and liabilities of Charter Oak State College, including capital assets net of depreciation. The change in Net Position is one indicator of whether the overall financial condition of COSC has improved or worsened during the year. Increased fringe expenses per employee for the year ended June 30, 2017 was the primary driver for the weakening of net position.

**Condensed Statements of Net Position**
**June 30, 2017 and 2016**
**(in thousands)**

| | 2017 | 2016 | % Change |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | $ 4,195 | $ 4,351 | (3.6) % |
| Non-current assets | 2,415 | 2,942 | (17.9) % |
| Total assets | 6,610 | 7,293 | (9.4) % |
| **DEFERRED OUTFLOWS OF RESOURCES** | 7,409 | 2,612 | 183.7 % |
| **LIABILITIES** | | | |
| Current liabilities | 2,216 | 2,255 | (1.7) % |
| Noncurrent liabilities | 16,222 | 10,620 | 52.7 % |
| Total liabilities | 18,438 | 12,875 | 43.2 % |
| **NET POSITION** | | | |
| Invested in capital assets | 2,415 | 2,942 | (17.9) % |
| Restricted-expendable | 575 | 778 | (26.1) % |
| Unrestricted | (7,409) | (6,690) | (10.7) % |
| Total net position | (4,419) | (2,970) | (48.8) % |

*Current assets* consist of cash, cash equivalents, accounts receivable and prepaids. The $0.2 million decrease in current assets from the previous year is largely attributable to a $0.2 million increase in the cash held at the State Treasurer offset by decreases in accounts receivable and prepaids. Accounts receivable totaled $0.4 million at the end of fiscal year 2017. This is a $0.1 million decrease from the $0.5 million of accounts receivable at the end of fiscal year 2016 reflecting decreased course enrollments and increases in bad debt allowance for uncollectible financial aid that was returned to the Government. 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.

COSC FINANCIAL POSITION (in thousands of dollars)



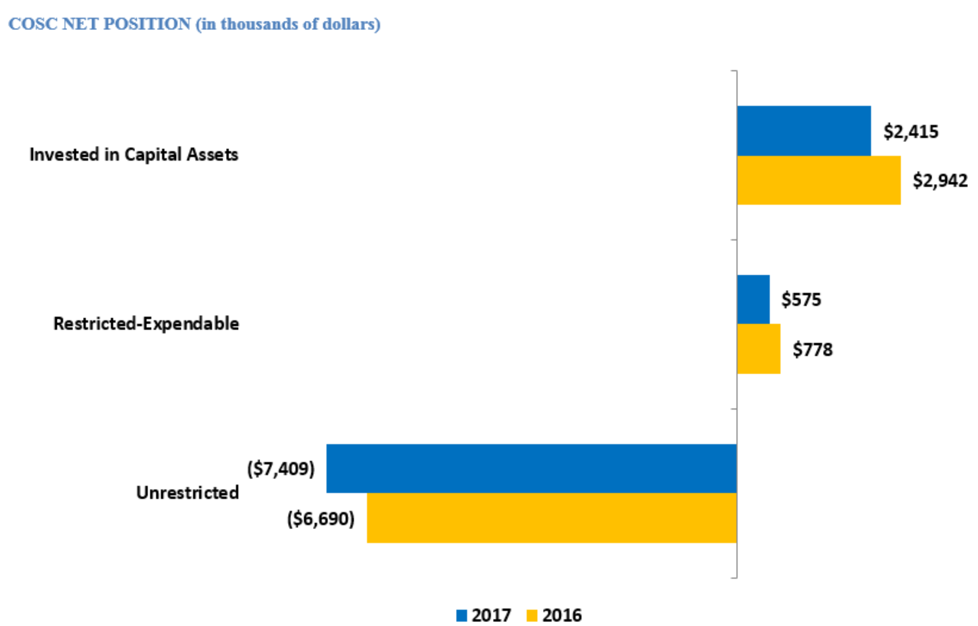
*Non-current assets* decreased 18.0% from $2.9 million at June 30, 2016, to $2.4 million at June 30, 2017. Net capital assets account for all the non-current assets. At June 30, 2017, capital assets in service totaled $6.3 million, offset by $3.9 million in accumulated depreciation; this compared with $6.2 million and $3.3 million, respectively, at the end of fiscal year 2016.

*Current liabilities* consist primarily of accrued payroll and related benefits, unearned revenue, and accounts payable. Total current liabilities were $2.2 million at the end of fiscal year 2017, which was consistent with fiscal year 2016. The most significant current liabilities were employee salary and fringe benefits payable of $0.9 million and unapplied payments of $0.7 million, primarily collected in advance for the summer semester. Additional current liabilities include vendor accounts payable of $0.1 million, and $0.6 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 $15.6 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 $5.6 million or 52.7% over fiscal year 2016 as a result of increases in the net pension liability attributable to COSC. The total ACA liability of $1.2 million (long-term and current) and pension liability of $15.6 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 a combination of current-year revenues and State of Connecticut contributions 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. SERS is considered a single employer plan and COSC is considered a cost-sharing employer of TRS. COSC’s total net pension obligation was $15.6 million and $10.0 million at June 30, 2017 and June 30, 2016, respectively.

The total *net position* balance includes $2.4 million *Invested in capital assets* net of 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.

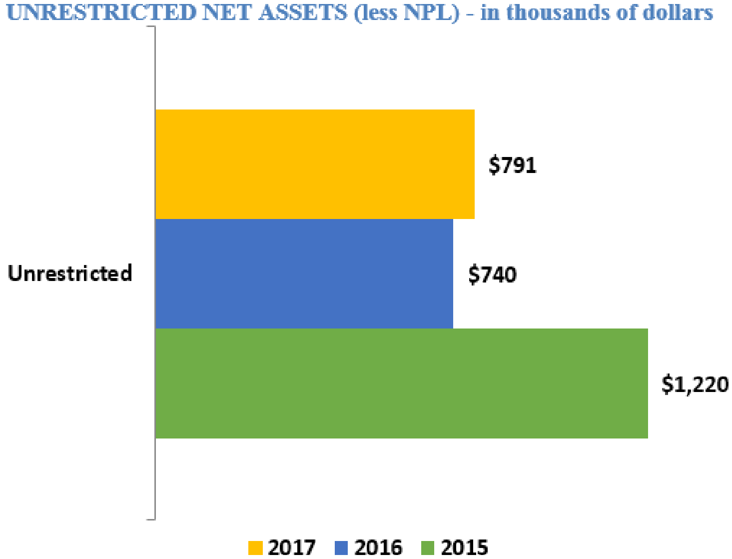


*Restricted-Expendable* net position represents primarily bond fund appropriation balances at June 30, 2017 and unexpended funds held for certain minor grant program activities. Changes in restricted-expendable net position are related primarily to the change in bond fund appropriation revenues and expenses 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 in fiscal year 2015. This negative balance increased 10.7% to ($7.4) during fiscal year 2017. Excluding the pension liability, UNP increased by $0.1 million to $0.8 million during fiscal year 2017. The table below illustrates the fluctuations in aggregate COSC UNP over the past several years:

| FY13 | FY 14 | FY 15 | FY 16 | FY 17 |
|---|---|---|---|---|
| $1.6 | $1.5 | $1.2 | $0.7 | $0.8 |
| UNP Adjusted for Pension Liability | | ($6.1) | ($6.7) | ($7.4) |

COSC's UNRESTRICTED NET ASSETS (less NPL) - in thousands of dollars




## 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 2017 were $10.4 million, up 3% from $10.1 million in fiscal year 2016. *Student tuition and fees* of $10.4 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 $8.2 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 2017 tuition and fee revenues increased 1.0% from the previous year, to $10.4 million. These revenues reflect a FTE credit enrollment decrease offset by higher tuition from the introduction of the Graduate program.

**Condensed Combined Statements of Revenues, Expenses and Changes in Net Position**
**Years Ended June 30, 2017 and 2016**
**(in thousands)**

| | 2017 | 2016 | % Change |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Tuition and fees, net | 8,223 | 8,061 | 2 % |
| Government grants and contracts | 626 | 706 | (11) % |
| Additional operating revenues | 1,579 | 1,360 | 16 % |
| Total operating revenues | 10,428 | 10,127 | 3 % |
| **OPERATING EXPENSES** | | | |
| Expenses before depreciation | 18,122 | 19,033 | (5) % |
| Depreciation | 618 | 587 | 5 % |
| Total operating expenses | 18,740 | 19,620 | (4) % |
| Operating loss | (8,312) | (9,493) | 12 % |
| **NON-OPERATING REVENUES (EXPENSES)** | | | |
| State appropriations - general fund * | 4,605 | 4,357 | 6 % |
| State appropriations - bond fund | 238 | 1,622 | (85) % |
| PELL Grants | 1,673 | 1,926 | (13) % |
| Other non-operating revenues (expenses), net | 347 | 420 | (17) % |
| Net non-operating revenues | 6,863 | 8,325 | (18) % |
| **NET POSTION** | | | |
| Change in net position | (1,449) | (1,168) | (24) % |
| Net position, beginning of year | (2,970) | (1,802) | (65) % |
| Net position, end of year | $ (4,419) | $ (2,970) | (49) % |

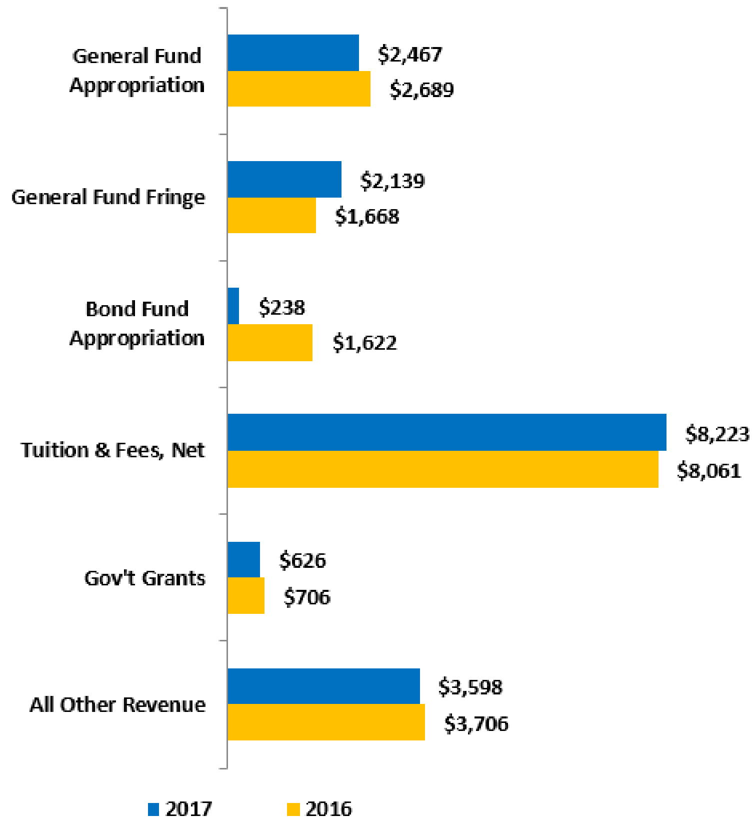
* Including fringe benefits

Charter Oak State College recorded an operating loss of $8.3 million during the year ended June 30, 2017. Contributing factors were new revenues from the CTDLC call center initiative and the graduate program coupled with lower personnel expenditures and spending on the Smart Classroom project. The large operating loss also 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 decreased by 11.6% to $2.4 million while associated revenues to cover fringe benefit costs increased by 28.2% to $2.1 million. Bond fund appropriation revenues decreased from $1.6 million in 2016 to $0.2 million in 2017 as funding for the Smart Class-room project came to an end.

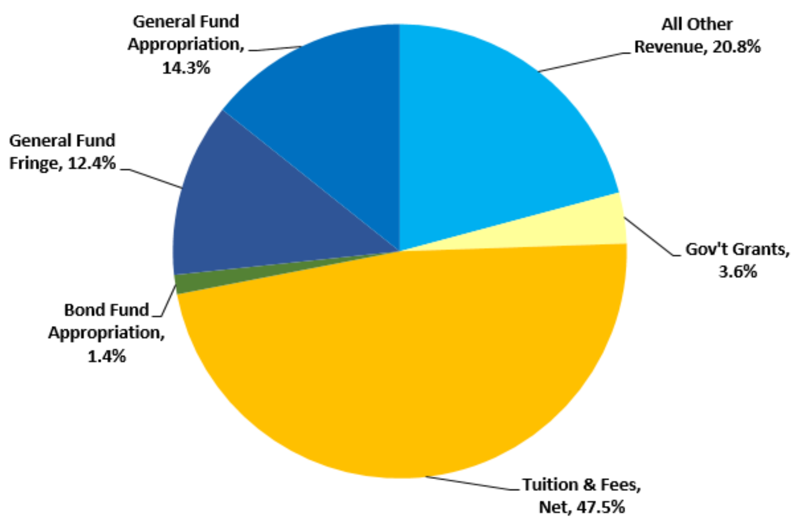
*Government grant revenues* are comprised of the federally funded Supplemental Education Opportunity ("SEOG") and the Adult Education grants together with other state government grants which fund various program-related activities. Government grant revenues at June 30, 2017 were $0.6 million; federal dollars were unchanged and state dollars were down $0.1 million from the previous fiscal year.

Other revenues totaled $1.6 million in 2017, up 16% from $1.4 million in fiscal year 2016. 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").

REVENUE SUMMARY (in thousands of dollars)



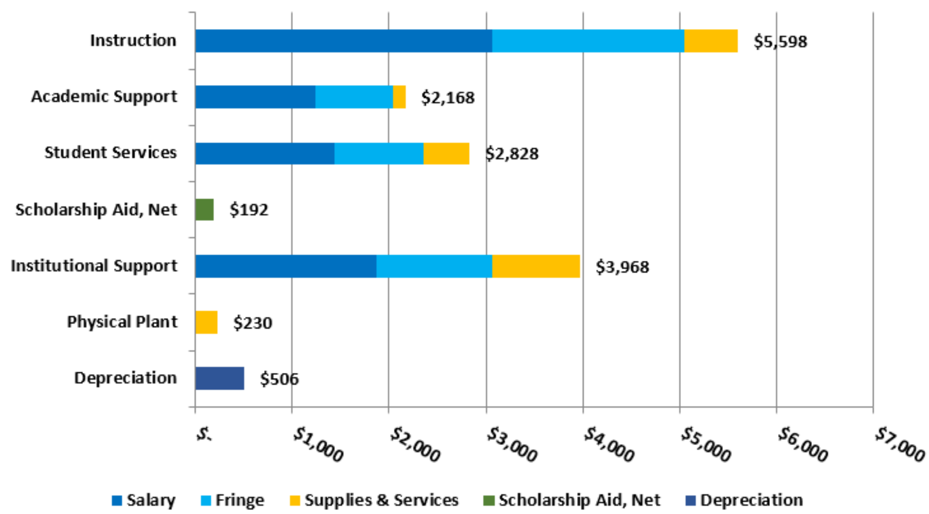

REVENUE DISTRIBUTION



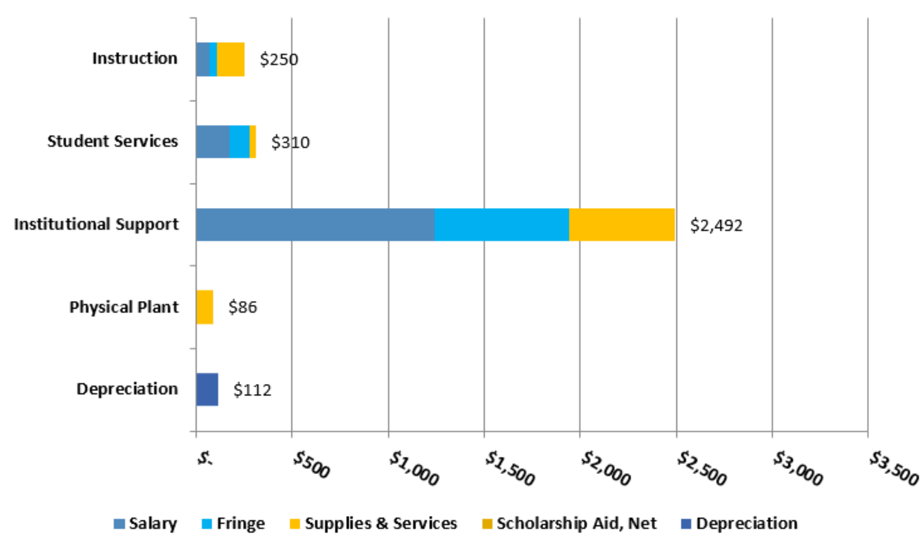
*Total operating expenses* for fiscal year 2017 were $18.7 million, after reductions for the amount of student financial aid and waivers applied to student tuition and fees. This reflects an operating expense decrease of 4.5% from $19.6 million in fiscal year 2016. The $0.9 million decrease in fiscal year 2017 reflects decreases in personnel costs as employee numbers were reduced coupled with decreased Smart Classroom spending as the project wound down.

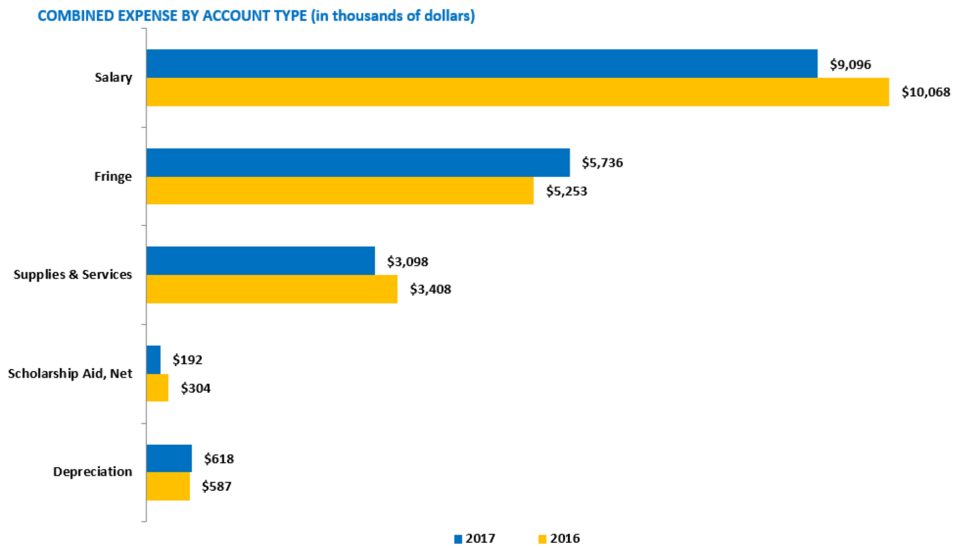
Operating expenses include $14.8 million for salary and wages and related fringe benefits, or 79.1% of total operating expense. In addition, operating expenses include $0.6 million in depreciation expense and $3.1 million for all other service and supply costs. Supplies and services include expenditures for 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, and all other non-personnel costs of operating the colleges.

2017 OPERATING EXPENSES (COSC Only) - in thousands of dollars
by Program and Account Type




2017 OPERATING EXPENSES (CTDLC Only) - in thousands of dollars
by Program and Account Type






## 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 $8.3 million, up 3.4% from 2016 and receipts from government grants and contracts of $0.6 million, down 9.9% from 2016. Cash is also received from other miscellaneous activities such as testing and CCAP. The largest operating cash outflows include salaries paid to employees of $9.1 million, down 5.2% from 2016, fringe benefits paid on behalf of employees of $2.8 million, down 22.2% from 2016, vendor payments of $2.8 million, down 34.9% from 2016 and payments to students of $0.2 million for financial aid refunds, down 36.8% from 2016. Net cash used by operating activities decreased significantly in FY2017 when compared to fiscal year 2016, reduced by 42.2% reflecting lower personnel costs because of staff resignations and retirements coupled with completion of the Smart Classroom project.

The largest inflow of cash related to *non-capital financing* is State appropriations of $2.5 million, including general fund appropriations for salaries and related fringe. The State also directly covered the cost of fringe benefits for employees valued at $2.1 million.

*Capital financing* cash flows are derived from capital appropriations from the state. During fiscal year 2017, COSC received capital funding of $0.2 million which was expended on the Smart Classroom project. 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 Combined Statements of Cash Flows**
**Years Ended June 30, 2017 and 2016**
**(in thousands)**

| | 2017 | 2016 | % Change |
|---|---|---|---|
| **NET CASH PROVIDED BY (USED IN)** | | | |
| Operating activities | $ (4,418) | $ (7,645) | 42 % |
| Noncapital financing activities | 4,476 | 4,950 | (10) % |
| Capital and related financing activities | 142 | 1,471 | (90) % |
| Investing activities | 11 | 4 | 175 % |
| Net change in cash and cash equivalents | 211 | (1,220) | 117 % |
| **CASH AND CASH EQUIVALENTS** | | | |
| Cash and cash equivalents, beginning of year | 2,834 | 4,054 | (30) % |
| Cash and cash equivalents, end of year | $ 3,045 | $ 2,834 | 7 % |

## Economic Outlook

Charter Oak State College will confront significant challenges and opportunities in the years ahead similar to other higher education institutions and State of Connecticut agencies. 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 and limits the funding levels available to COSC. Additionally, while state support continues to decrease, the cost of fringe benefits for state employees continues to rise.

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

| Year Ended June 30 | Headcount | % Change | FTE | % Change |
|---|---|---|---|---|
| 2017 | 1,500 | -5.2% | 720 | -4.0% |
| 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 | - |

As indicated above, COSC has experienced declining headcount and FTE enrollments after a short period of growth associated with the Go Back to Get Ahead initiative. With the continued emphasis on affordability keeping tuition and fee increases as low as possible, the resulting tuition and fee revenue has not kept pace with cost increases in wages and especially fringe benefits.

Further, the economic climate in the State of Connecticut has resulted in lower levels of general fund appropriations year on year since fiscal year 2015. It is management's belief that the state will continue to experience fiscal pressures and therefore the Connecticut State College & University system has embarked on a bold plan for reorganization, targeted specifically towards the CCC's, but will also identify synergies which impact COSC and the CSU's.

Management has presented this plan, called "Students First", to its Board, to staff and faculty, to students, to legislators, and to the New England Association of Schools and Colleges ("NEASC"). NEASC is the accrediting body for all institutions of higher education in New England. For the most part, the plans have been met with great interest and support.

The plan consists of two areas of consolidation: (1) consolidation of administrative areas serving the colleges, universities, and Charter Oak State College, and (2) a consolidation of the twelve colleges into a singly accredited institution. It is expected that the latter will take effect on July 1, 2019 after considerable planning and transition.

On October 31, 2017 the Governor signed a bipartisan budget passed by the General Assembly for the biennium ending June 30, 2019. The package included an $880 million shortfall, which the Governor closed on November 17, 2017. The CSCU portion of the holdbacks and lapses totaled $26 million when considering the impact of fringe benefits. Management continues to work on the implementation of the Students First strategic initiatives in order to cut costs and compensate for the continued cuts in state funding.

Detailed information concerning the consolidation of administrative areas and the singly accredited college is available on the CSCU website.

## 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 College and Universities (860-723-0251).

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 years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### 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 audits. We did not audit the financial statements of the discretely presented component unit (the affiliated foundation (the "Foundation")), which statements reflect total assets of $2.0 million and $1.8 million and total net assets of $2.0 million and $1.8 million as of June 30, 2017 and 2016, respectively, and total revenues, capital gains and losses, and other support of $292 thousand and $119 thousand for the years then ended, respectively. 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 other auditors. 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, 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, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years 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, 2017 and 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.

### 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 11 and the Schedule of Net Pension Liability and Related Ratios and Schedule of Contributions on page 36 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, Combining Statement of Revenues, Expenses and Changes in Net Position and Combining Statement of Cash Flows included on pages 39 through 40 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
December 20, 2017

Statements of Net Position (in 000's)

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 3,045 | $ | 2,834 |
| Accounts receivable, net | | 379 | | 501 |
| Other current assets | | 771 | | 1,016 |
| Total current assets | | 4,195 | | 4,351 |
| Noncurrent assets: | | | | |
| Capital assets, net | | 2,415 | | 2,942 |
| Total noncurrent assets | | 2,415 | | 2,942 |
| **Total assets** | | 6,610 | | 7,293 |
| **Deferred outflows of resources:** | | | | |
| Deferred pension | | 7,409 | | 2,612 |
| **Total deferred outflows of resources** | | 7,409 | | 2,612 |
| **Liabilities** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | $ | 56 | $ | 118 |
| Accrued payroll | | 922 | | 897 |
| Unearned tuition revenues | | 672 | | 584 |
| Accrued employee compensated absences | | 566 | | 656 |
| Total current liabilities | | 2,216 | | 2,255 |
| Noncurrent liabilities: | | | | |
| Accrued employee compensated absences | | 613 | | 577 |
| Net pension liability | | 15,609 | | 10,043 |
| Total noncurrent liabilities | | 16,222 | | 10,620 |
| **Total liabilities** | | 18,438 | | 12,875 |
| **Net position** | | | | |
| Invested in capital assets, net of related debt | $ | 2,415 | $ | 2,942 |
| Restricted for: | | | | |
| Expendable: | | 575 | | 778 |
| Unrestricted | | (7,409) | | (6,690) |
| **Total net position** | | (4,419) | | (2,970) |

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

Statements of Revenues, Expenses and Changes in Net Position (in 000’s)

| | 2017 | 2016 |
|---|---|---|
| **Operating revenues:** | | |
| Student tuition and fees | $ 10,397 | $ 10,289 |
| Less: scholarships and fellowships | (2,174) | (2,228) |
| Net tuition and fees | 8,223 | 8,061 |
| CTDLC fees | 1,483 | 1,188 |
| Federal grants and contracts | 362 | 362 |
| State and local grants and contracts | 264 | 344 |
| Nongovernmental grants and contracts | 13 | 4 |
| Other operating revenues | 83 | 168 |
| **Total operating revenues** | 10,428 | 10,127 |
| **Operating expenses:** | | |
| Education and general | | |
| Instruction | 5,848 | 6,180 |
| Scholarships and fellowships | 192 | 304 |
| Academic support | 2,168 | 2,343 |
| Student services | 3,137 | 3,488 |
| Institutional support | 6,461 | 6,441 |
| Operation and maintenance of plant | 316 | 277 |
| Depreciation | 618 | 587 |
| **Total operating expenses** | 18,740 | 19,620 |
| **Net operating loss** | (8,312) | (9,493) |
| **Nonoperating revenues (expenses):** | | |
| State appropriations | 4,605 | 4,357 |
| Pell grants | 1,673 | 1,926 |
| Investment income | 11 | 4 |
| Gain(loss) on disposal of capital assets | (8) | (92) |
| Other nonoperating revenues | 344 | 508 |
| **Net nonoperating revenues** | 6,625 | 6,703 |
| **Increase(decrease) in net position before capital appropriations** | (1,687) | (2,790) |
| Capital appropriations | 238 | 1,622 |
| Increase/(decrease) in net position | $ (1,449) | $ (1,168) |
| **Net position:** | | |
| Net position - beginning of year | $ (2,970) | $ (1,802) |
| Net position - end of year | $ (4,419) | $ (2,970) |

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

Statements of Cash Flows (in 000's)

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Tuition and fees | $ 8,303 | $ 8,032 |
| CTDLC fees | 1,483 | 1,188 |
| Grants and contracts | 640 | 710 |
| Payments to employees | (11,951) | (13,163) |
| Payments to suppliers and vendors | (2,784) | (4,276) |
| Payments to students | (192) | (304) |
| Other operating receipts | 83 | 168 |
| Net cash used in operating activities | (4,418) | (7,645) |
| **Cash flows from non-capital financing activities** | | |
| State appropriations | 2,466 | 2,689 |
| Pell grant | 1,673 | 1,926 |
| Other | 337 | 335 |
| Net cash provided by non-capital financing activities | 4,476 | 4,950 |
| **Cash flows from capital financing activities** | | |
| Capital appropriations | 238 | 1,622 |
| Purchases of capital assets | (96) | (151) |
| Net cash provided by capital financing activities | 142 | 1,471 |
| **Cash flows from investing activities** | | |
| Interest on cash held by the State | 11 | 4 |
| Net increase (decrease) in cash and equivalents | 211 | (1,220) |
| Cash and equivalents, beginning of year | 2,834 | 4,054 |
| Cash and equivalents, end of year | 3,045 | 2,834 |
| **Reconciliation of net operating loss to net cash used in operating activities** | | |
| Net operating loss | $ (8,312) | $ (9,493) |
| Adjustments to reconcile net operating loss to net cash used by operating activities: | | |
| Depreciation | 618 | 587 |
| Fringe benefits provided by the state | 2,139 | 1,668 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 122 | 132 |
| Other Current assets | 245 | (632) |
| Accounts payable | (61) | (20) |
| Accrued payroll | 26 | 190 |
| Accrued employee compensation and benefits | (54) | (63) |
| Unearned tuition revenues | 89 | (161) |
| Net pension obligation | 770 | 147 |
| **Net cash used for operating activities** | $ (4,418) | $ (7,645) |
| **Non-cash transaction** | | |
| Fringe benefits provided by the state | $ 2,139 | $ 1,668 |

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

Statements of Financial Position and Activities – Component Unit (in 000's)

### Statement of Financial Position

| Assets | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents | $ 126 | $ 161 |
| Accounts receivable, net | - | 1 |
| Investments | 1,856 | 1,649 |
| Other assets | 1 | 1 |
| **Total assets** | 1,983 | 1,812 |
| **Liabilities and net assets** | | |
| **Liabilities** | | |
| Accounts payable | $ 1 | $ 1 |
| **Total liabilities** | 1 | 1 |
| **Net assets** | | |
| Unrestricted | 25 | 41 |
| Temporarily restricted | 874 | 707 |
| Permanently restricted | 1,083 | 1,063 |
| **Total net assets** | 1,982 | 1,811 |
| **Total liabilities and net assets** | $ 1,983 | $ 1,812 |

### Statement of Activities

| | 2017 | 2016 |
|---|---|---|
| **Revenues and support** | | |
| Contributions | 87 | 111 |
| Investment income | - | 8 |
| Gain(loss) on investments, net | 204 | - |
| Other nonoperating revenues | 1 | - |
| **Total revenues and support** | 292 | 119 |
| **Expenses** | | |
| Program services - scholarships and grants | 91 | 89 |
| Supporting services | 30 | 35 |
| **Total expenses** | 121 | 124 |
| **Change in net assets** | 171 | (5) |
| **Net position** | | |
| Net assets - beginning of year | $ 1,812 | $ 1,817 |
| Net assets - end of year | $ 1,983 | $ 1,812 |

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

## 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" or "College") 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 CCC.

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 a 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.

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

- **Invested in Capital Assets**
  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.

**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, 2017. 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, 2017. 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, 2017. Long-term cash and cash equivalents and investments include balances with a maturity of greater than one year from June 30, 2017 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 2).

**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.

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 collected as of June 30, but are applicable to classes held thereafter.

**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, pell grants, 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, 2017 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.

**New GASB Pronouncements**

In March 2015, the 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 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.

In January 2016, the GASB released Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

In March 2016, the GASB released Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments and may include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement and that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Management is evaluating the impact this pronouncement will have on the College.

In March 2016, the GASB released Statement No. 82 *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, 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. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. There was no significant impact as a result of the adoption in fiscal year 2017.

In March 2017, the GASB released Statement No. 85 *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Management is evaluating the impact this pronouncement will have.

In May 2017, the GASB released Statement No. 86 *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Management is evaluating the impact this pronouncement will have.

In 2016 and 2017, the GASB released Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities* and Statement No. 87 *Leases*. The requirements of these Statements are effective for future reporting periods and management is evaluating the impact these pronouncements will have.

**Subsequent Events**

In accordance with generally accepted accounting principles, COSC has evaluated subsequent events for the period after June 30, 2017, through December 20, 2017, 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 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, 2017 and 2016 was 1.0% and 0.44%, respectively.

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 only invested in the State of Connecticut Treasurer's STIF, which is a combined investment pool of high quality, short-term money market instruments. There is low 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% 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, 2017 and 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. There is no significant exposure to interest rate risk as cash and cash equivalents are held in STIF which is comprised of short-term money market instruments.

## 3. Accounts Receivable

Accounts receivable consist of the following at June 30 (in thousands):

| | 2017 | 2016 |
|---|---|---|
| Student accounts receivable | $ 847.2 | $ 958.1 |
| State receivable | - | 21.7 |
| Other receivable | 56.6 | 11.5 |
| Gross accounts receivable | 903.8 | 991.3 |
| Less: allowance for doubtful accounts | (524.5) | (490.6) |
| Accounts receivable, net | $ 379.3 | $ 500.7 |

## 4. Capital Assets

Capital Asset activity for the year ended June 30, 2017 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 | 2,509.0 | - | - | 2,509.0 |
| Furnishings and equipment | 5 | 3,161.3 | 96.7 | (25.7) | 3,232.3 |
| Software | 5 | 534.6 | - | - | 534.6 |
| Total depreciable assets | | 6,204.9 | 96.7 | (25.7) | 6,275.9 |
| Total capital assets | | 6,219.9 | 96.7 | (25.7) | 6,290.9 |
| Less: accumulated depreciation | | | | | |
| Buildings and Improvements | | 1,159.6 | 72.4 | - | 1,232.0 |
| Furnishings and equipment | | 1,589.6 | 538.7 | (18.5) | 2,109.8 |
| Software | | 528.4 | 6.2 | - | 534.6 |
| Total accumulated depreciation | | 3,277.6 | 617.3 | (18.5) | 3,876.4 |
| Capital assets, net | | $ 2,942.3 | $ (520.6) | $ (7.2) | $ 2,414.5 |

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, 2017 consist of (in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Other long-term liabilities | | | | | |
| Vacation | $ 908.2 | $ 482.9 | $ (522.9) | $ 868.2 | $ 532.7 |
| Sick | 324.9 | - | (15.0) | $ 309.9 | 32.8 |
| Net pension liability | 10,043.4 | 5,566.1 | - | 15,609.5 | - |
| Total long-term liabilities | $ 11,276.5 | $ 6,049.0 | $ (537.9) | $ 16,787.6 | $ 565.5 |

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, 2017. The 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. Related Parties

Periodically, public acts may be signed into law by the Governor stating that the Secretary of the Office of Policy and Management may approve monies to be transferred from CSCU's operating reserves to the State of Connecticut's General Fund. There were no transfers made during fiscal year 2017 or 2016.

Accrued salaries and related fringe benefit costs for CSCU employees within COSC, whose salaries will be charged to the State of Connecticut General Fund represent a related party balance.

The accompanying statements of net position includes balances among related parties. Significant balances for the years ended June 30, 2017 and 2016 relate to Cash and Cash equivalents held by the State Treasurer.

## 7. Commitments, Contingencies and Leases

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.

CSCU is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot presently be determined, management is of the opinion that eventual liability, if any, will not have a material effect on COSC's financial position.

COSC had outstanding purchase orders and related commitments for materials, services and capital expenditures that had not been received as of June 30, 2017 and 2016. These commitments are not recorded as liabilities until materials or services are received. The commitments of total net position balances as of June 30, 2017 totaled $0.05 million dollars.

COSC leases various equipment under operating lease agreements. The following summarizes future minimum payments under non-cancelable leases subsequent to the year ended June 30, 2017 (in thousands):

| Fiscal Years Ending June 30, | Operating Leases |
|---|---|
| 2018 | 97.3 |
| 2019 | 96.3 |
| 2020 | 85.3 |
| 2021 | 80.2 |
| 2022 | 80.2 |
| | $ 439.3 |

Rent expense for operating leases was $97,277 for the year ended June 30, 2017. Rent expense for such leases was $103,163 at June 30, 2016.

## 8. 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. 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 44.31% and 43.42% for SERS and 30.35% and 30.35% for TRS, for fiscal years ended June 30, 2017 and 2016, respectively. The State contributed $1,021 thousand and $13 thousand, on behalf of COSC, for SERS and TRS respectively for 2016 measurement year, equal to 100% of the required contributions. Administrative costs of the plan are funded by the State.

**Pension Liability**
COSCs' net pension liability is valued one year in arrears. The net pension liability recorded in the financial statements as of June 30, 2017 was measured and valued as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by the most current actuarial valuation as of that date and the net pension liability recorded in the June 30, 2016

financial statements was measured and valued as of June 30, 2015. 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, as of June 30, 2017 and 2016 was 0.07% and 0.06%, respectively.

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, 2017 and 2016 for SERS was $15.6 million and $10.0 million, respectively. 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:

| | 2016 | 2015 |
|---|---|---|
| Inflation | 2.5% | 2.75% |
| Salary increases including inflation | 3.50% to 19.50% | 4.00% to 20.00% |
| Investment rate of return net of pension plan investment expense, including inflation | 6.90% | 8.00% |

Mortality rates were based on the RP-2014 White Collar Mortality Table projected to 2020 by scale BB at 100% for males and 95% for females.

The actuarial assumptions used in the June 30, 2016 valuation (which was the basis for recording the June 30, 2017 financial statement liabilities) were based on the results of the actuarial experience study as of June 30, 2016. 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 the June 30, 2016 measurement date 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 6.9% and 8.0% in the 2016 and 2015 measurement years, respectively. 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 6.9% for SERS, 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 (5.9%) | Current Discount (6.9%) | 1% Increase (7.9%) |
|---|---|---|---|
| SERS | $ 18,524 | $ 15,610 | $ 13,184 |

For the years ended June 30, 2017 and 2016, COSC recognized pension expense of $2.3 million and $1.2 million, respectively. Deferred outflows of resources for pensions attributed to the COSC System were related to the following sources for the years ended June 30, 2017 and 2016 (in thousands):

| As of June 30, 2017 | SERS | TRS | Total |
|---|---|---|---|
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Difference between expected and actual experience | $ 434 | $ - | $ 434 |
| Changes of assumptions or other inputs | 2,783 | - | 2,783 |
| Net difference between projected and actual earnings on pension plan investments | 489 | - | 489 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 2,149 | 31 | 2,180 |
| Employer contributions after measurement date | 1,519 | 4 | 1,523 |
| **Total** | **$ 7,374** | **$ 35** | **$ 7,409** |

| As of June 30, 2016 | 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 |
|---|---|---|---|
| 2018 | $ 1,366 | $ 7 | $ 1,373 |
| 2019 | $ 1,366 | $ 7 | $ 1,373 |
| 2020 | $ 1,388 | $ 7 | $ 1,395 |
| 2021 | $ 1,083 | $ 6 | $ 1,089 |
| 2022 | $ 648 | $ 4 | $ 652 |
| **Total** | **$ 5,851** | **$ 31** | **$ 5,882** |

### 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.

## 9. Unearned Tuition Revenue

Unearned tuition revenues for the year ended June 30, are summarized as follows (in thousands):

| | 2017 | 2016 |
|---|---|---|
| Unearned tuition | $ 672.0 | $ 584.0 |

## 10. Natural Classification with Functional Classification

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

Year Ended June 30, 2017 - COSC

| | Salary | Fringe | Supplies & Services | Scholarship Aid Net | Depreciation | Total |
|---|---|---|---|---|---|---|
| Depreciation | $ - | $ - | $ - | $ - | $ 506 | $ 506 |
| Physical Plant | - | - | 230 | - | - | 230 |
| Institutional Support | 1,864 | 1,201 | 903 | - | - | 3,968 |
| Scholarship Aid, Net | - | - | - | 192 | - | 192 |
| Student Services | 1,431 | 921 | 476 | - | - | 2,828 |
| Academic Support | 1,243 | 801 | 124 | - | - | 2,168 |
| Instruction | 3,070 | 1,977 | 551 | - | - | 5,598 |
| Total operating expenses | $ 7,608 | $ 4,900 | $ 2,284 | $ 192 | $ 506 | $ 15,490 |

Year Ended June 30, 2017 - CTDLC

| | Salary | Fringe | Supplies & Services | Scholarship Aid Net | Depreciation | Total |
|---|---|---|---|---|---|---|
| Depreciation | $ - | $ - | $ - | $ - | $ 112 | $ 112 |
| Physical Plant | - | - | 86 | - | - | 86 |
| Institutional Support | 1,243 | 698 | 551 | - | - | 2,492 |
| Student Services | 176 | 99 | 35 | - | - | 310 |
| Instruction | 69 | 39 | 142 | - | - | 250 |
| Total operating expenses | $ 1,488 | $ 836 | $ 814 | $ - | $ 112 | $ 3,250 |

The operating expenses by functional classification in FY 2016 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 |

## 11. Bonds Payable

The State of Connecticut, through acts of its legislature, provides funding for certain major plant facilities of the System. The State obtains its funds for these construction projects from general obligation bonds which it issues from time to time. The State is responsible for all repayments of the bonds in accordance with bond indentures. Debt service on bonds issued by the State to finance educational and general facilities is funded by the General fund of the State, which is in the custody of the State Treasurer. These bonds do not require repayment by COSC and, accordingly, the State's debt obligation attributable to COSC educational and general facilities is not reported as COSC debt.

# 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]

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| COSC's proportion of the net pension liability | 0.07% | 0.06% | 0.06% | 0.05% |
| COSC's proportionate share of the net pension liability | $ 15,610 | $ 10,043 | $ 9,130 | $ 7,870 |
| COSC's covered-employee payroll | $ 2,529 | $ 2,199 | $ 1,988 | $ 1,592 |
| COSC's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 617% | 457% | 459% | 494% |
| Plan Fiduciary net position as a percentage of the total pension liability | 31.69% | 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]

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Contractually required contribution | $ 1,021 | $ 834 | $ 727 | $ 503 |
| Contributions in relation to the contractually required contribution | (1,021) | (834) | (723) | (502) |
| Contribution deficiency (excess) | $ - | $ - | $ 4 | $ 1 |
| COSC's covered-employee payroll | $ 2,529 | $ 2,199 | $ 1,988 | $ 1,592 |
| Contributions as a percentage of covered employee payroll | 40.36% | 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, 2015 and 2016 valuation, there were no changes in benefit terms. For the June 30, 2016 valuation, there were two changes in assumptions:

- Rates of withdrawal, disability retirement, service retirement and mortality were adjusted to more closely reflect actual and anticipated experience. The analysis and basis for these changes are included in the latest Experience Investigation for the five-year period ended June 30, 2015.
- Economic assumptions (assumed rates of inflation and investment return), the actuarial cost method, and the UAAL amortization methodology were changed in accordance with Memorandum of Agreement (MOU) between the State and SEBAC effective December 8, 2016.

**SUPPLEMENTARY SCHEDULES**

Combining Statement of Net Position (in 000's)

| Assets | College | CTDLC | Combining Adjustments | Combined FY 2017 | Combined FY 2016 |
|---|---|---|---|---|---|
| Current assets: | | | | | |
| Cash and cash equivalents | $ 2,338 | $ 707 | $ - | 3,045 | $ 2,834 |
| Accounts receivable, net | 481 | 48 | (150) | 379 | 501 |
| Other current assets | 678 | 93 | | 771 | 1,016 |
| Total current assets | 3,497 | 848 | (150) | 4,195 | 4,351 |
| Noncurrent assets: | | | | | |
| Capital assets, net | 2,207 | 208 | - | 2,415 | 2,942 |
| Total noncurrent assets | 2,207 | 208 | - | 2,415 | 2,942 |
| **Total assets** | 5,704 | 1,056 | (150) | 6,610 | 7,293 |
| **Deferred outflows of resources:** | | | | | |
| Deferred pension | 6,197 | 1,212 | - | 7,409 | 2,612 |
| **Total deferred outflows of resources** | 6,197 | 1,212 | - | 7,409 | 2,612 |
| **Liabilities** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | $ 52 | $ 4 | $ - | $ 56 | $ 118 |
| Accrued payroll | 786 | 136 | - | 922 | 897 |
| Unearned tuition revenues | 672 | - | - | 672 | 584 |
| Accrued employee compensated absences | 472 | 94 | - | 566 | 656 |
| Total current liabilities | 1,982 | 234 | - | 2,216 | 2,255 |
| Noncurrent liabilities: | | | | | |
| Accrued employee compensated absences | 515 | 98 | - | 613 | 577 |
| Other liabilities | - | 150 | (150) | - | - |
| Net pension liability | 12,972 | 2,637 | - | 15,609 | 10,043 |
| Total noncurrent liabilities | 13,487 | 2,885 | (150) | 16,222 | 10,620 |
| **Total liabilities** | $ 15,469 | $ 3,119 | $ (150) | $ 18,438 | $ 12,875 |
| **Net position** | | | | | |
| Invested in capital assets, net of related debt | $ 2,207 | $ 208 | $ - | $ 2,415 | $ 2,942 |
| Restricted for: | | | | | |
| Expendable: | 321 | 254 | - | $ 575 | $ 778 |
| Unrestricted | (6,096) | (1,313) | - | $ (7,409) | $ (6,690) |
| **Total net position** | (3,568) | (851) | - | (4,419) | (2,970) |

Combining Statement of Revenues, Expenses and Changes in Net Position (in 000's)

| | College | CTDLC | Combining Adjustments | Combined FY 2017 | Combined FY 2016 |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| Student tuition and fees | $ 10,397 | $ - | $ - | 10,397 | 10,289 |
| Less: scholarships and fellowships | (2,174) | - | - | (2,174) | (2,228) |
| Net tuition and fees | 8,223 | - | - | 8,223 | 8,061 |
| CTDLC fees | - | 1,534 | (51) | 1,483 | 1,188 |
| Federal grants and contracts | 62 | 300 | - | 362 | 362 |
| State and local grants and contracts | 264 | - | - | 264 | 344 |
| Nongovernmental grants and contracts | 13 | - | - | 13 | 4 |
| Other operating revenues | 83 | - | - | 83 | 168 |
| Total operating revenues | 8,645 | 1,834 | (51) | 10,428 | 10,127 |
| **Operating expenses:** | | | | | |
| Education and general | | | | | |
| Instruction | 5,598 | 250 | - | 5,848 | 6,180 |
| Scholarships and fellowships | 192 | - | - | 192 | 304 |
| Academic support | 2,168 | - | - | 2,168 | 2,343 |
| Student services | 2,828 | 310 | - | 3,138 | 3,488 |
| Institutional support | 4,019 | 2,492 | (51) | 6,460 | 6,441 |
| Operation and maintenance of plant | 230 | 86 | - | 316 | 277 |
| Depreciation | 506 | 112 | - | 618 | 587 |
| Total operating expenses | 15,541 | 3,250 | (51) | 18,740 | 19,620 |
| **Net operating loss** | (6,896) | (1,416) | - | (8,312) | (9,493) |
| **Nonoperating revenues (expenses):** | | | | | |
| State appropriations | 3,842 | 763 | - | 4,605 | 4,357 |
| Pell grants | 1,673 | - | - | 1,673 | 1,926 |
| Investment income | 10 | 1 | - | 11 | 4 |
| Gain(loss) on disposal of capital assets | (6) | (2) | - | (8) | (92) |
| Other nonoperating revenues | - | 344 | - | 344 | 508 |
| **Net nonoperating revenues** | 5,519 | 1,106 | - | 6,625 | 6,703 |
| **Increase(decrease) in net position before capital appropriations** | (1,377) | (310) | - | (1,687) | (2,790) |
| Capital appropriations | 238 | - | - | 238 | 1,622 |
| Increase/(decrease) in net position | $ (1,139) | $ (310) | $ - | $ (1,449) | $ (1,168) |