

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

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

JUNE 30, 2014

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

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

June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Charter Oak State College and Connecticut Distance Learning Consortium (component units of the State of Connecticut) (collectively the "Combining Unit"), which comprise the combined statements of net position as of June 30, 2014 and 2013, the related combined statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of the Charter Oak State College Foundation, Inc. (the "Foundation") as of June 30, 2014 and 2013. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the net position of the Combining Unit as of June 30, 2014 and 2013, and the respective changes in net position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Change in Reporting Entity

For the year ended June 30, 2013, the financial statements for Charter Oak State College and the Connecticut Distance Learning Consortium were issued separately. The year ended June 30, 2014 is the first year the financial statements for both component units have been issued on a combined basis.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-21 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2014, on our consideration of the Combining Unit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Combining Unit's internal control over financial reporting and compliance.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

December 9, 2014

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

Management's Discussion and Analysis

June 30, 2014 and 2013

The following discussion and analysis provides an overview of the financial position and activities of Charter Oak State College (COSC) and Connecticut Distance Learning Consortium (CTDLC) (collectively the "Combining Unit") for the fiscal year ended June 30, 2014, along with comparative information for the fiscal year ended June 30, 2013. This discussion has been prepared by and is the responsibility of the Combining Unit's management, and should be read in conjunction with the financial statements and footnote disclosures which follow this section. The discussion immediately following reflects the Combining Unit as it existed during fiscal year 2014.

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

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

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

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

Management's Discussion and Analysis - Continued

June 30, 2014 and 2013

COSC, which is the State's online college, was authorized by Section 28, 10a-143 (c) of the Connecticut general statutes. It offers 4 General Studies degrees: Associate of Arts, Associate of Science, Bachelor of Arts, and Bachelor of Science. It has also been approved to offer three majors in Health Information Management, Health Care Administration, and Cybersecurity. In addition, COSC can offer Master's Degrees. COSC's first Master's Degree is awaiting approval by the Board of Regents. Eighteen concentrations are available exclusively using COSC's online courses and credits from transfer credit, examination, or prior learning evaluation in order to graduate. An additional 27 concentrations can be achieved using courses from other institutions in order to graduate. Eleven certificates programs are also offered.

In 2014, the number of new applicants was down 2% from 2,100 in FY 13 to 2,061 in FY 14. Course enrollments were also down 1% from 27,373 in FY 13 to 27,057 in FY 14.

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

The CTDLC was created by the former BSAA 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 for students in higher education, adult education, and in the workplace to promoted workforce training and development.

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

- Learning systems hosting
- Instructional design
- E-Tutoring collaborative
- Web integration
- K-12 services
- Technical support
- Strategic consulting
- Consortium priced LMS software pricing

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

(Component Units of the State of Connecticut)

Management's Discussion and Analysis - Continued

June 30, 2014 and 2013

Overview of Financial Statements

At the end of June 30, 2014, the Combining Unit had \$8,494,774 in total assets, total liabilities of \$2,792,998, current assets of \$5,733,826, and total net position of \$5,701,776. Unrestricted net position totaled \$1,451,593. Compared to FY 13, total assets increased \$1,884,666 or 29%; current assets increased \$1,499,070 or 35%, total liabilities increased \$369,947 or 15%; total net position increased \$1,514,719 or 36%; and unrestricted position decreased \$102,728 or -7%. At the end of the year, cash and equivalents increased 25% from \$3,640,779 in FY 2013 to \$4,533,568 in FY 2014.

Total operating revenues of the Combining Unit from student tuition and fees, grants and contracts, and other college activities (net of scholarship allowances) were \$11,807,721, a 14% increase over the previous fiscal year. Operating expenses were \$16,797,212, an 18% increase over the previous fiscal year, resulting in a net operating loss of \$4,989,492 during the year ended June 30, 2014. Net non-operating revenues and other changes were \$3,957,373, a 12% increase over the previous year. The net increase in net position was \$1,514,719 or 279% compared to FY 13.

Derivation of the Financial Statements

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities (GASB 35), as amended by GASB Statements No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, an amendment of GASB Statements No. 21 and No. 34, (GASB 37): No. 38, Certain Financial Statement Note Disclosures (GASB 38) and No. 39, Determining Whether Certain Organizations are Component Units – an amendment of GASB statement No. 14 (GASB 39). GASB 35 extended the state and local government financial reporting requirements of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB 34) to include public colleges and universities. As required by GASB 34 and 35, a comparative analysis of fiscal year 2014 financial data with fiscal year 2013 is also presented. The Combining Unit also complies with GASB 51, Accounting and Financial Reporting for Intangible Assets, which provides guidance on the accounting and reporting of intangible assets including computer software. The capitalization threshold for intangible assets is one thousand dollars.

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

June 30, 2014 and 2013

Derivation of the Financial Statements - Continued

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

Also included in the Combining Unit's financial statements is the Charter Oak State College Foundation, Inc., (the "Foundation") which is a component unit of COSC. As required by GASB 39, component unit information relative to the Foundation is discretely presented, and is based on separately prepared financial statements. Because the Foundation is private, not-for-profit corporation rather than a government agency, they report using different generally accepted accounting principles (GAAP) than government agencies. The primary authority for the promulgation of GAAP for private corporations is the Financial Accounting Standards Board (FASB), which has promulgated Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-profit Organizations, as well as other standards, that are applicable to the Foundation. While the Combining Unit's financial statements include the Foundation, no attempt has been made to reformat or compare incomparable FASB standards applied by the Foundation with the GASB standard applied by the Combining Unit, nor have the Foundation financial statement footnotes, disclosures or other detailed information included in the separate Foundation statements, been re-stated herein. Unless otherwise specifically stated, the management discussion, notes and disclosures in the Combining Unit's statements refer to the Combining Unit as the primary institution and not the Foundation.

The **Statement of Net Position** presents the overall financial position of the Combining Unit at the end of fiscal year 2014 compared with fiscal year 2013, and includes all assets and liabilities, including capital assets, net of depreciation. The difference between total assets and total liabilities, or net position, is one indicator of the current financial condition. Over time, increases or decreases in net position may serve as an indicator of whether the financial health of the Combining Unit is improving or deteriorating, although other factors including enrollment and condition of physical facilities must also be considered. The Statement of Net Position classifies assets and liabilities as current and non-current. In general, current liabilities are those

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

June 30, 2014 and 2013

Derivation of the Financial Statements - Continued

that will be paid within one year of the date of the statement of net position. Current assets are those that are available to satisfy current liabilities. Comparisons of current assets to current liabilities can provide an indication of the Combining Unit's ability to meet its obligations in the short term.

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

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

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

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

June 30, 2014 and 2013

Derivation of the Financial Statements - Continued

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

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

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

**COMBINED FINANCIAL STATEMENTS OF
CHARTER OAK STATE COLLEGE AND
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(Component Units of the State of Connecticut)**

Management's Discussion and Analysis - Continued

June 30, 2014 and 2013

Derivation of the Financial Statements - Continued

A review of assets is as follows:

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Assets:			
Current Assets	\$ 5,733,826	\$ 4,234,756	35%
Non-Current Assets	<u>2,760,948</u>	<u>2,375,352</u>	16%
 Total Assets	 <u>\$ 8,494,774</u>	 <u>\$ 6,610,108</u>	 29%
Liabilities:			
Current Liabilities	\$ 2,273,707	\$ 1,913,840	19%
Non-Current Liabilities	<u>519,291</u>	<u>509,211</u>	2%
 Total Liabilities	 <u>2,792,998</u>	 <u>2,423,051</u>	 15%
Net Position:			
Invested in Capital Assets	2,760,948	2,375,352	16%
Expendable & Unrestricted	<u>2,940,828</u>	<u>1,811,705</u>	38%
 Total Net Position	 <u>5,701,776</u>	 <u>4,187,057</u>	 36%
 Total Liabilities and Net Position	 <u>\$ 8,494,774</u>	 <u>\$ 6,610,108</u>	 29%

Total assets were \$8,494,774 at the end of the 2014 fiscal year, an increase from \$6,610,108, or 29%, from the end of the 2013 fiscal year.

Current assets include cash held by the State Treasurer of \$4,517,091, an increase of 25%, compared to \$3,627,351 in fiscal year 2013. This increase is due to two significant bond allocations made to the Combining Unit. COSC received \$951,000 in Capital Equipment Funds and the CTDLC received \$1,595,838 to fund the Connecticut Academy. Current assets also include account receivable, net of \$967,777. Account receivable, net increased 86% from \$519,235 due to the use of FY 14 reserves to fund a system wide initiative called "Go Back to Get Ahead." These funds will be paid back to COSC by the Board of Regents in FY 15. Other current assets include prepaid expenses for memberships, software licenses, and subscriptions of \$232,481 compared to \$74,742 in fiscal year 2013. Total current assets increased to \$5,733,826 or 35%, from \$4,234,756 in fiscal year 2013.

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

June 30, 2014 and 2013

Derivation of the Financial Statements - Continued

Noncurrent capital assets increased to \$2,760,948 compared to \$2,375,352, or 16%, from fiscal year 2013.

A review of the Statement of Revenues, Expenses and Changes in Net Position is as follows:

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Operating Revenues:			
Student Tuition & Fees	\$ 9,059,330	\$ 8,235,811	10%
Less: Scholarship Discounts & Allowances	<u>(1,852,553)</u>	<u>(1,626,687)</u>	14%
Net Tuition & Fees	7,206,777	6,609,124	9%
CTDLC Fees	1,434,985	1,161,783	24%
Federal Grants & Contracts	1,978,398	1,911,583	3%
State Grants & Contracts	830,540	338,757	145%
Other Operating Revenues	<u>357,020</u>	<u>381,924</u>	-7%
 Total Operating Revenues	 <u>11,807,720</u>	 <u>10,403,171</u>	 14%
Operating Expenses	<u>16,797,212</u>	<u>14,186,610</u>	18%
 Net Operating Loss	 <u>(4,989,492)</u>	 <u>(3,783,439)</u>	 -32%
Non-Operating Revenues:			
State Appropriation	<u>3,536,985</u>	<u>3,195,301</u>	11%
 Net Non-Operating Revenues	 <u>3,957,373</u>	 <u>3,547,494</u>	 12%
 Decrease in Net Position Before Capital Appropriations	 <u>(1,032,119)</u>	 <u>(235,945)</u>	 -337%
Capital Appropriations	<u>2,546,838</u>	<u>635,249</u>	301%
 Net Increase in Net Position	 <u>1,514,719</u>	 <u>399,304</u>	 279%
Net Position:			
Beginning of Year	<u>4,187,057</u>	<u>3,787,753</u>	11%
 End of Year	 <u>\$ 5,701,776</u>	 <u>\$ 4,187,057</u>	 36%

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

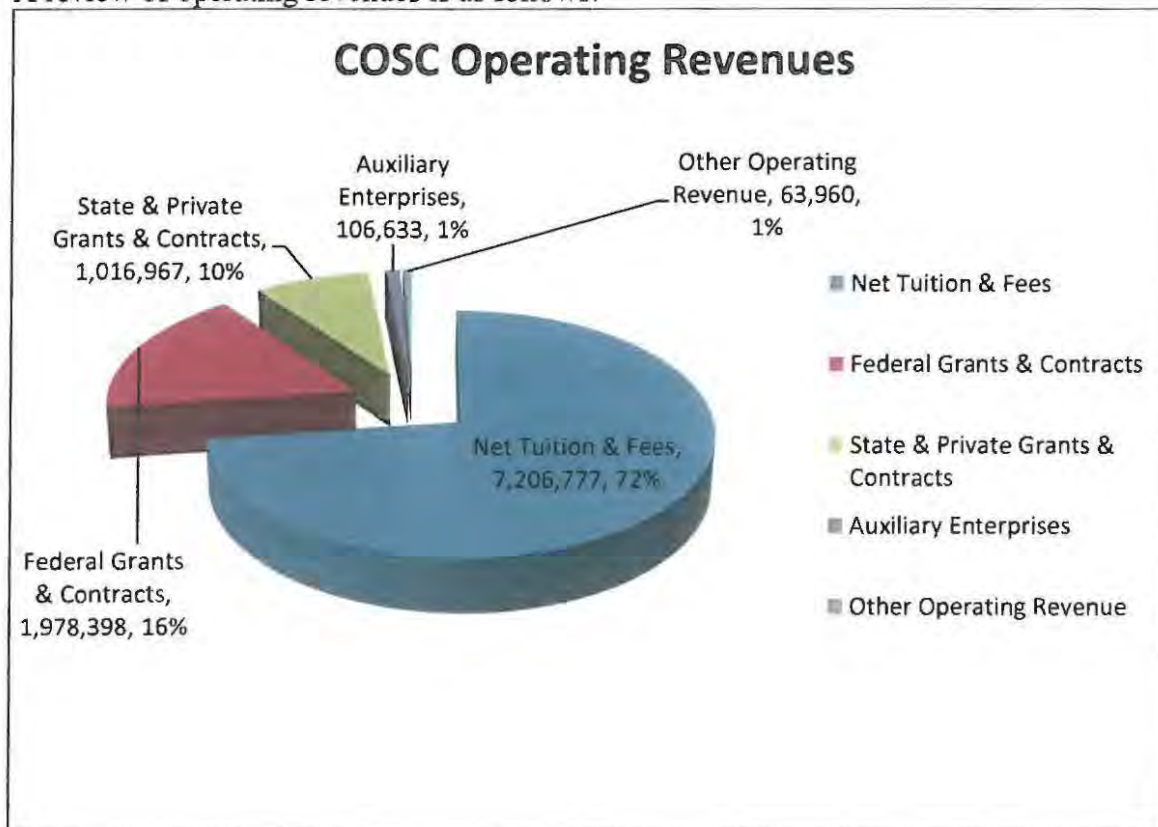
Management's Discussion and Analysis - Continued

June 30, 2014 and 2013

Derivation of the Financial Statements - Continued

Total operating revenues for fiscal year 2014 were up 14% from \$10,403,171 to \$11,807,720 compared to fiscal year 2013. This increase is attributed to mainly two factors: an increase in tuition and fees due to a tuition increase of 5.3% at COSC in FY 2014 and an increase in CTDLC fees of 24% during the same period.

A review of operating revenues is as follows:

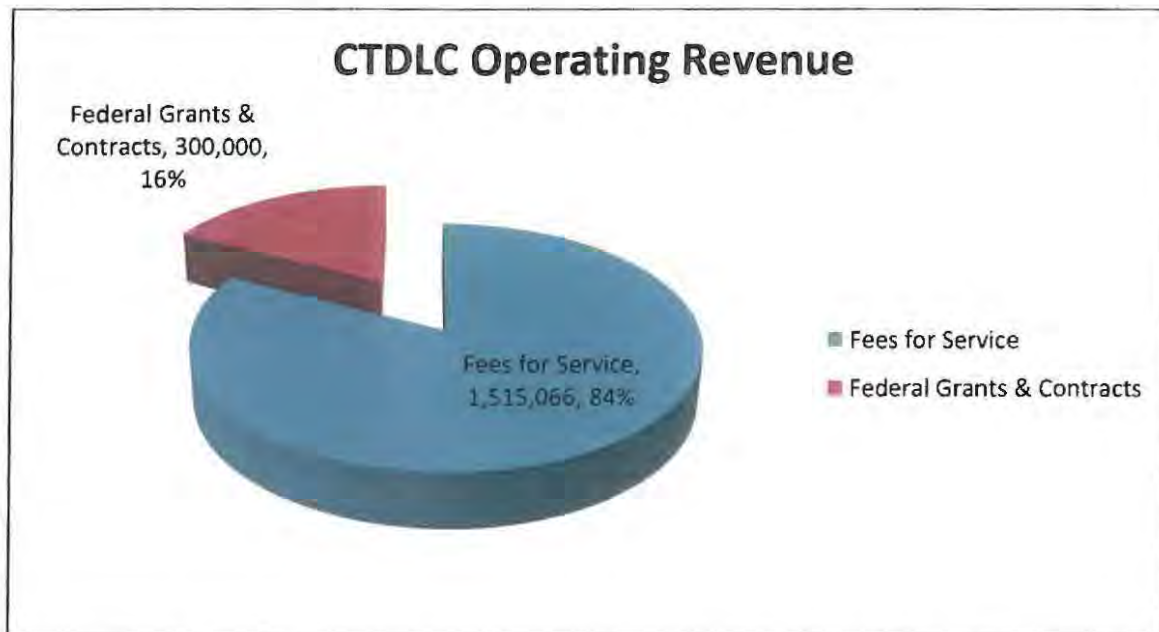


**COMBINED FINANCIAL STATEMENTS OF
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Management's Discussion and Analysis - Continued

June 30, 2014 and 2013

Derivation of the Financial Statements - Continued



Total operating expenses for the Combining Unit increased 18% from \$14,186,610 in FY 2013 to \$16,797,212 in FY 2014. The increase is attributed to the first collective bargaining increase in two years and an increase in health insurance fringe rate. The staff received a 5.65% increase and the faculty and non-executive managers received a 5% increase. Fringe benefits continue to creep up as employees (full-time, part-time, and faculty) switch from the Alternate Retirement Plan to the Hybrid Retirement Plan. This change in retirement fringe benefit rate can cost the institution an additional 43% in the cost of these benefits.

Net operating loss increased 32% from (\$3,783,439) in FY 2013 to (\$4,989,492) in FY 2014. While the operating revenue increased 18%, it wasn't adequate to offset the increase in operating expenditures. The expenditures increased driven mainly by personal service costs attributed to salary increases, increases in fringe benefit rates, and faculty salary accruals of approximately \$1.3 million. The increase in net position at the end of the year in FY 2014 was a 36% improvement from FY 2013. This was affected primarily by the receipt of capital funds for equipment and the Connecticut Academy. This amount increased from \$4,187,057 in FY 2013 to \$5,701,776 in FY 2014.

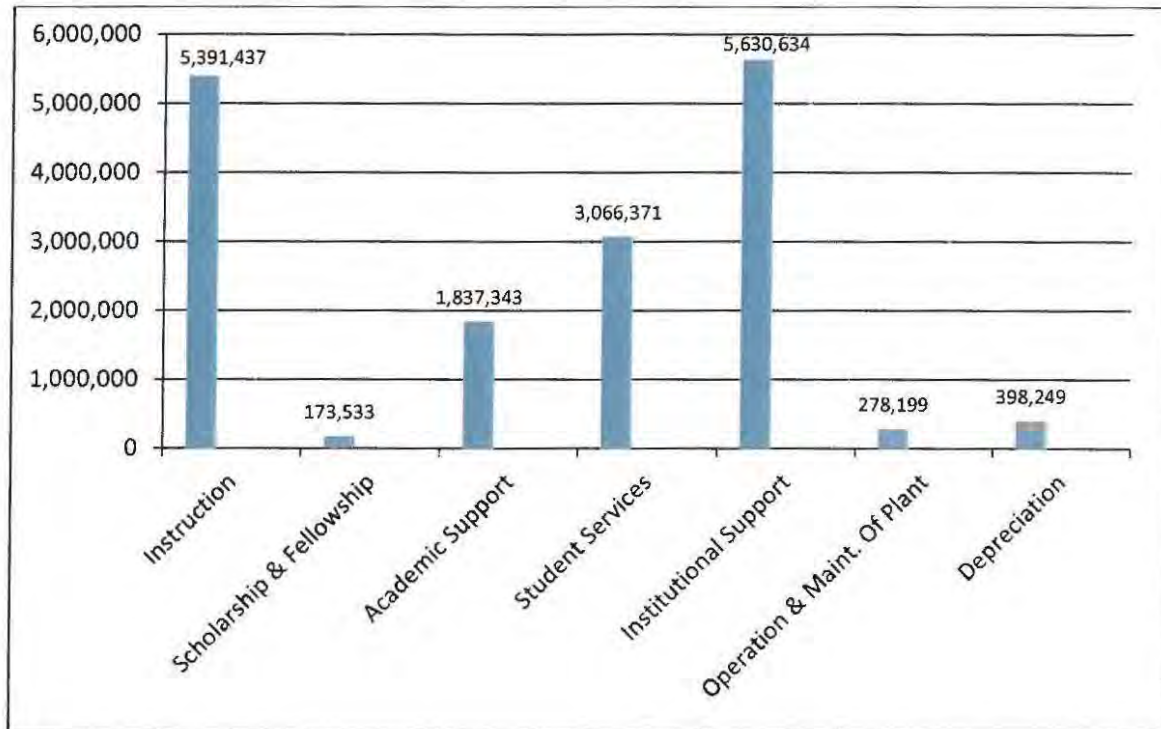
**COMBINED FINANCIAL STATEMENTS OF
CHARTER OAK STATE COLLEGE AND
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Management's Discussion and Analysis - Continued

June 30, 2014 and 2013

Derivation of the Financial Statements - Continued

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



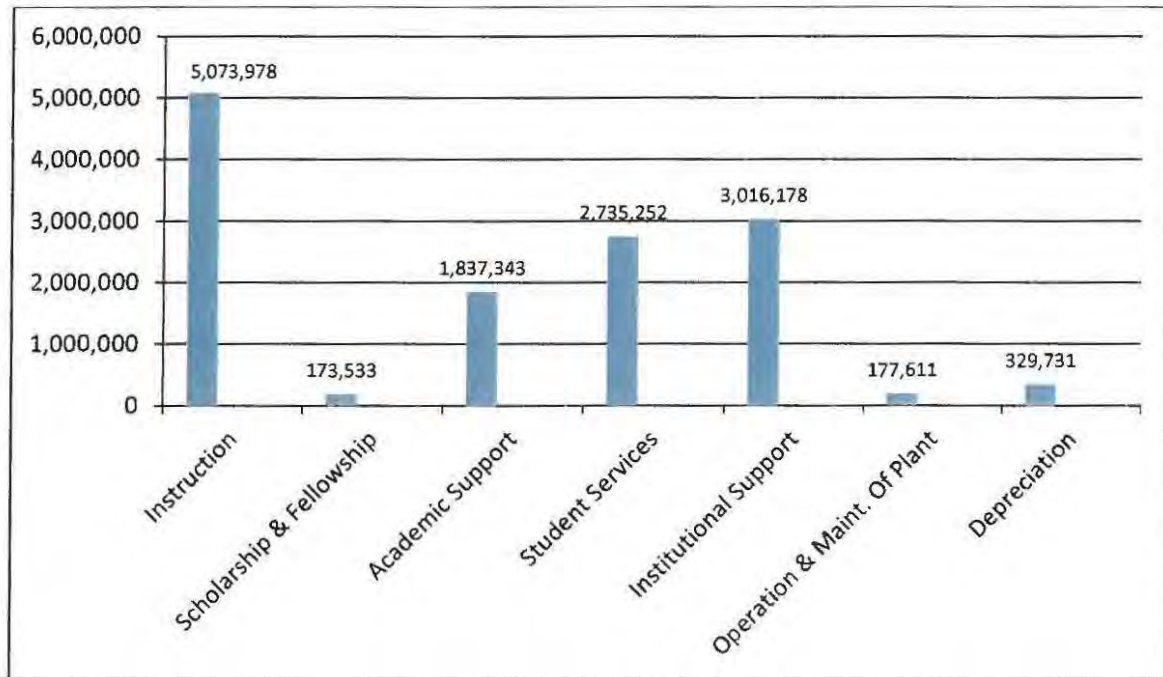
**COMBINED FINANCIAL STATEMENTS OF
CHARTER OAK STATE COLLEGE AND
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Management's Discussion and Analysis - Continued

June 30, 2014 and 2013

Derivation of the Financial Statements - Continued

The functional expenses of COSC are as follows:



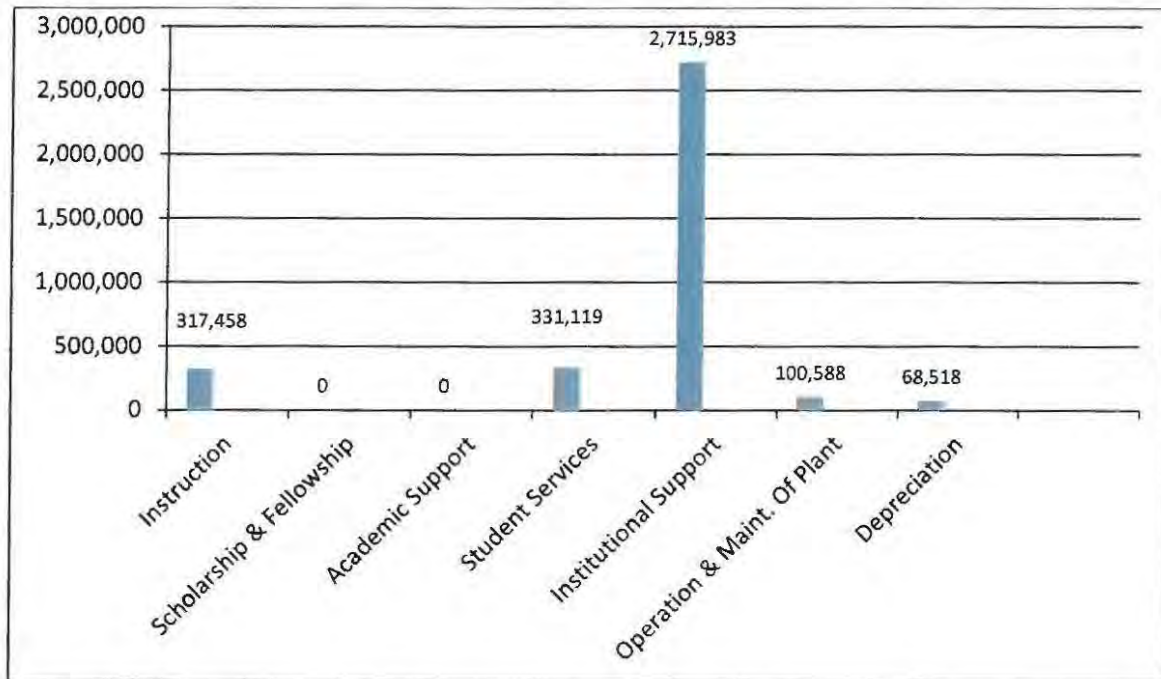
COMBINED FINANCIAL STATEMENTS OF CHARTER OAK STATE COLLEGE AND CONNECTICUT DISTANCE LEARNING CONSORTIUM (Component Units of the State of Connecticut)

Management's Discussion and Analysis - Continued

June 30, 2014 and 2013

Derivation of the Financial Statements - Continued

The functional expenses of CTDLC are as follows:



The statement of cash flows utilizes the direct method and outlines cash receipts and payment summaries for fiscal years 2013 and 2014. Receipts from tuition and fees, grants and contracts, and auxiliary receipts and other receipts are shown along with outflows of payments to employees, suppliers and vendors.

A net increase in cash and equivalents of \$892,789 was realized in fiscal year 2014 compared to an increase of \$732,196 in fiscal year 2013. At the end of fiscal year 2014, cash and equivalents increased 24% from \$3,640,779 in fiscal year 2013 to \$4,533,568 in fiscal year 2014.

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

Management's Discussion and Analysis - Continued

June 30, 2014 and 2013

Factors Impacting Future Results

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

COSC

Online colleges continue to face stiffer competition as more “brick and mortar” colleges and universities add online programs to their course and program offerings and attempt to attract more adult students. Enrollments at a number of colleges are generally increasing more slowly, are flat, or declining. COSC had decreases in new students (2%) and course enrollments (1%) in FY 2014. Attracting and retaining students; new and unique program offerings; administrative effectiveness; funding stabilization utilizing the COSC's strengths to support the BOR; and expanded service opportunities will strengthen the operation and sustainability of COSC.

In fiscal year 2014, COSC expended considerable energy on the development of new programs. Since the costs of developing programs are so high, partnerships were pursued that would allow COSC to deliver new programs more quickly and for less expense. Late in FY 13, a partnership was formed with Jones & Bartlett to develop a Cybersecurity degree program and noncredit certificate program. These negotiations were completed and the new programs were launched in FY 14. The delayed approval of the degree program affected the delivery of this new major in FY 14. More success with this program is expected in FY 15. The one year course development cycle for these programs was a lot faster than developing any program internally.

COSC also began conversations with another organization, Big Picture Learning, concerning integrating students from their non-collegiate public service programs in Louisiana and Rhode Island into a newly developed COSC concentration. These conversations were an outgrowth of arrangements to “teach out” a group of 30 of their students that were no longer associated with another institution of higher education. The new expected partnership in the two states is still going through necessary approval process with NEASC and is expected to be offered in FY 15.

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

Management's Discussion and Analysis - Continued

June 30, 2014 and 2013

Factors Impacting Future Results - Continued

COSC - Continued

A proposal titled, "Go Back to Get Ahead", which would reach out to Connecticut residents who have attended one of the 17 BOR institutions but did not receive a degree, was presented to the BOR during fiscal year 2013. The BOR accepted the proposal, and along with the Governor's Office financial support, funded the program in FY 14. While program development activities began in FY 14, the implementation will affect FY 15 enrollments. It is expected that COSC will benefit positively with enrollment as the result of this program.

The President of COSC has also been conversing with the Lumina Foundation to position COSC as a degree completion institution that would serve other states seeking to increase degree attainment of their state workforce. These discussions with the Lumina Foundation and other degree completion institutions have been ongoing and results are expected in fiscal year 2015.

COSC continues to pursue a graduate program in Organizational Effectiveness. This program has been delayed, but action is expected to occur during FY 15.

While new programs are being developed, COSC continually reviews its marketing and admissions activities and processes in order to evaluate effectiveness of the current processes/activities. More regular "personal follow-up" with inquiries and applicants are now in place. Tailored out of state marketing strategies in the state of Florida are also planned in fiscal year 2015.

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

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

June 30, 2014 and 2013

Factors Impacting Future Results - Continued

COSC - Continued

The instability and quantity of the State appropriation continues to be a challenge for COSC. The 1% increase in State funding in fiscal year 2014 was inadequate to keep pace with the increased operating expense of COSC. The State appropriation has declined 4% since FY 2012. This funding issue will also be compounded as more staff transition from the ARP to the SERS retirement plans with a large increase in fringe benefit costs. The primary solutions to this problem are improving and providing new program offerings with the goal of increasing enrollment. Non personnel expenses have been reduced to a point where there are no other opportunities to further reduce these costs.

CTDLC

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

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

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

In terms of reducing and streamlining infrastructure, the CTDLC continually looks at cost savings options to reduce the number of servers required by focusing on virtualization and also

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

June 30, 2014 and 2013

Factors Impacting Future Results - Continued

CTDLC - Continued

seeks out software that will allow the data center to work more efficiently. As their role as a hosting site has decreased, ongoing evaluation has taken place to size the data center in terms of the services that are offered to its clients.

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

Additional opportunities have occurred to work with State and private non-profit organizations in grant opportunities or discussions of partnerships. The service or help desk services have also steadily increased to include areas like financial aid support to higher education institutions. This program continues to grow and more institutions are interested in these services during fiscal year 2015. Instructional design services have also increasingly been sold to organizations looking to develop training or instructional programs for their personnel.

Student support activities have tremendously expanded with the sale of an ETutoring platform that was created by CTDLC. This software that allows for consortium institutions to share tutoring resources among the group has reduced the costs of educational institutions to provide academic support to their students. The uniqueness of this product continues to attract more institutions into the mix. International clients have been added as users of this tutoring platform. Continued expansion is expected in FY 15.

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

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

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Factors Impacting Future Results - Continued

CTDLC - Continued

sectors. These conferences are also used to recruit new business for the organization. The Advisory Committee of the CTDLC, which is represented by educational and training partners, also provides insight into new development.

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

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

Combined Statements of Net Position

June 30, 2014 and 2013

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

Combined Statements of Net Position

June 30,

Assets

	Primary Government		Component Unit	
	2014 <u>Combined</u>	2013 <u>Combined</u>	2014 <u>Foundation</u>	2013 <u>Foundation</u>
Current Assets:				
Cash and equivalents	\$ 16,477	\$ 13,428	\$ 97,082	\$ 77,702
Cash held by State Treasurer	4,517,091	3,627,351	-	-
Accounts receivable, net	967,777	519,235	514	514
Investments	-	-	1,672,675	1,459,127
Other current assets	<u>232,481</u>	<u>74,742</u>	<u>625</u>	<u>625</u>
Total Current Assets	<u>5,733,826</u>	<u>4,234,756</u>	<u>1,770,896</u>	<u>1,537,968</u>
Non-Current Asset:				
Capital assets, net	<u>2,760,948</u>	<u>2,375,352</u>	-	-
Total Assets	<u>\$ 8,494,774</u>	<u>\$ 6,610,108</u>	<u>\$ 1,770,896</u>	<u>\$ 1,537,968</u>

Liabilities and Net Position

Current Liability:				
Accounts payable	\$ 386,546	\$ 137,503	\$ 1,658	\$ -
Accrued payroll	620,716	364,054	-	-
Accrued employee compensated absences	673,842	631,565	-	-
Unearned tuition revenues	<u>592,603</u>	<u>780,718</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>2,273,707</u>	<u>1,913,840</u>	<u>1,658</u>	<u>-</u>
Non-Current Liability:				
Accrued employee compensated absences	<u>519,291</u>	<u>509,211</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>2,792,998</u>	<u>2,423,051</u>	<u>1,658</u>	<u>-</u>
Net Position:				
Invested in capital assets, net of related debt	2,760,948	2,375,352	-	-
Restricted-nonexpendable	-	-	1,029,798	1,024,923
Restricted-expendable	1,489,235	257,384	684,447	454,006
Unrestricted	<u>1,451,593</u>	<u>1,554,321</u>	<u>54,993</u>	<u>59,039</u>
Total Net Position	<u>5,701,776</u>	<u>4,187,057</u>	<u>1,769,238</u>	<u>1,537,968</u>
Total Liabilities and Net Position	<u>\$ 8,494,774</u>	<u>\$ 6,610,108</u>	<u>\$ 1,770,896</u>	<u>\$ 1,537,968</u>

See accompanying notes to the combined financial statements.

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

Combined Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,

	Primary Government		Component Unit	
	2014 <u>Combined</u>	2013 <u>Combined</u>	2014 <u>Foundation</u>	2013 <u>Foundation</u>
Operating Revenues:				
Tuition and fees	\$ 9,059,330	\$ 8,235,811	\$ -	\$ -
Less: scholarships and fellowships	<u>1,852,553</u>	<u>1,626,687</u>	-	-
Net tuition and fees	7,206,777	6,609,124	-	-
CTDLC fees	1,434,985	1,161,783		
Federal grants and contracts	1,978,398	1,911,583	-	-
State grants and contracts	830,540	338,757	-	-
Private grants and contracts	186,427	250,845	-	-
Auxiliary enterprises	106,633	113,604	-	-
Other operating revenues	<u>63,960</u>	<u>17,475</u>	-	-
Total Operating Revenues	<u>11,807,720</u>	<u>10,403,171</u>	-	-
Operating Expenses:				
Educational and general:				
Instruction	5,391,437	4,738,333	-	-
Scholarships and fellowships	173,533	204,900	68,029	114,439
Academic support	1,837,343	1,493,366	-	-
Student services	3,066,371	2,496,723	-	-
Institutional support	5,652,080	4,640,347	29,812	23,228
Operation and maintenance of plant	278,199	209,221	-	-
Depreciation	<u>398,249</u>	<u>403,720</u>	-	-
Total Operating Expenses	<u>16,797,212</u>	<u>14,186,610</u>	<u>97,841</u>	<u>137,667</u>
Net Operating Loss	<u>(4,989,492)</u>	<u>(3,783,439)</u>	<u>(97,841)</u>	<u>(137,667)</u>
Non-Operating Revenues (Expenses):				
State appropriations	3,536,985	3,195,301	-	-
Contributions	12,000	23,500	83,638	101,374
Non-operating grants	428,376	380,797	-	-
Loss on disposal of capital assets	(24,691)	(56,742)	-	-
Investment income	<u>4,703</u>	<u>4,638</u>	<u>245,473</u>	<u>158,030</u>
Net Non-Operating Revenues	<u>3,957,373</u>	<u>3,547,494</u>	<u>329,111</u>	<u>259,404</u>
Increase (Decrease) in Net Position Before Capital Appropriations	<u>(1,032,119)</u>	<u>(235,945)</u>	<u>231,270</u>	<u>121,737</u>
Capital Appropriations	<u>2,546,838</u>	<u>635,249</u>	-	-
Net Increase in Net Position	1,514,719	399,304	231,270	121,737
Net Position, Beginning of Year	<u>4,187,057</u>	<u>3,787,753</u>	<u>1,537,968</u>	<u>1,416,231</u>
Net Position, End of Year	<u>\$ 5,701,776</u>	<u>\$ 4,187,057</u>	<u>\$ 1,769,238</u>	<u>\$ 1,537,968</u>

See accompanying notes to the combined financial statements.

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

Combined Statements of Cash Flows

For the Years Ended June 30,

	<u>Primary Government 2014</u>	<u>Primary Government 2013</u>
Cash Flows from Operating Activities:		
Tuition and fees	\$ 6,965,552	\$ 6,676,655
CTDLC fees	1,464,031	1,296,622
Grants and contracts	2,531,320	2,501,185
Payments to employees	(11,870,849)	(10,723,159)
Payments to suppliers and vendors	(2,825,191)	(2,116,587)
Payments to students	(173,533)	(204,900)
Auxiliary enterprises receipts	106,633	113,604
Other operating receipts	<u>88,651</u>	<u>17,475</u>
Net Cash Applied to Operating Activities	<u>(3,713,386)</u>	<u>(2,439,105)</u>
Cash Flows from Non-Capital Financing Activities:		
State appropriations	2,422,793	2,310,807
Contributions	12,000	23,500
Other	<u>428,376</u>	<u>380,797</u>
Net Cash Provided by Non-Capital Financing Activities	<u>2,863,169</u>	<u>2,715,104</u>
Cash Flows from Capital Financing Activities:		
Capital appropriations	2,546,838	635,249
Purchases of capital assets	(811,742)	(183,690)
Proceeds from disposal of capital assets	<u>3,207</u>	<u>-</u>
Net Cash Provided by Non-Capital Financing Activities	<u>1,738,303</u>	<u>451,559</u>
Cash Flows from Investing Activity:		
Interest on investments	<u>4,703</u>	<u>4,638</u>
Net Increase in Cash and Equivalents	892,789	732,196
Cash and Equivalents, Beginning of Year	<u>3,640,779</u>	<u>2,908,583</u>
Cash and Equivalents, End of Year	<u>\$ 4,533,568</u>	<u>\$ 3,640,779</u>
Reconciliation of Net Operating Loss to Net Cash Applied to Operating Activities:		
Net operating loss	\$ (4,989,492)	\$ (3,783,439)
Adjustments to reconcile net operating loss to net cash applied to operating activities:		
Depreciation	398,249	403,720
Bad debts expense (accounts receivable recovery)	39,567	(21,781)
Fringe benefits provided by the state	1,114,192	884,494
Changes in assets and liabilities:		
Accounts receivable	(488,109)	(25,238)
Other current assets	(157,739)	(60,411)
Accounts payable	249,042	52,702
Accrued payroll	256,662	(59,525)
Accrued employee compensation and benefits	52,357	44,292
Unearned tuition revenues	<u>(188,115)</u>	<u>126,081</u>
Net Cash Applied to Operating Activities	<u>\$ (3,713,386)</u>	<u>\$ (2,439,105)</u>
Non-Cash Transaction:		
Fringe benefits provided by the state	<u>\$ 1,114,192</u>	<u>\$ 884,494</u>

See accompanying notes to the combined financial statements.

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

Notes to the Combined Financial Statements

June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies

Organization

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

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

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

Basis of Presentation and Accounting

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

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

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

Note 1 - **Summary of Significant Accounting Policies - Continued**

Basis of Presentation and Accounting - Continued

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

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

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

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

Note 1 - **Summary of Significant Accounting Policies - Continued**

Basis of Presentation and Accounting - Continued

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

The Combining Unit's combined financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements.

Net Position

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

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

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

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

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

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

Note 1 - **Summary of Significant Accounting Policies - Continued**

Net Position - Continued

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

Cash and Equivalents

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

Allowance for Doubtful Accounts

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

Capital Assets

Real estate assets, including improvements, are generally stated at cost. Furnishings, equipment and collection items are stated at cost, at date of acquisition or, in the case of gifts, at fair value at date of donation. In accordance with the state's capitalization policy, only those items with a unit cost of more than \$1,000 are capitalized. Library materials are no longer capitalized and amortized. Combining Unit capital assets, with the exception of land and construction in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 5 to 40 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**COMBINED FINANCIAL STATEMENTS OF
CHARTER OAK STATE COLLEGE AND
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(Component Units of the State of Connecticut)**

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies - Continued

Capital Assets - Continued

The Combining Unit does not have collections of historical treasures, works of art or other items that are inexhaustible by their nature and are of immeasurable intrinsic value, thus not requiring capitalization or depreciation in accordance with GASB guidelines.

In accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, all identifiable intangible assets, not specifically excluded, are included as intangible assets in the Combining Unit's financial statement, in accordance with the Combining Unit's policy regarding capitalization.

Fringe Benefits

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

Compensated Absences

Employees earn the right to be compensated during absences for vacation and sick leave. Accrued vacation is the amount earned by all eligible employees at June 30, 2014 and 2013. The accrued sick leave balance represents 25% of amounts earned by those employees with ten or more years of state service as of June 30, 2014 and 2013. Upon termination of employment, these employees are entitled to receive payment for this accrued balance.

Unearned Tuition Revenues

Deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year are recorded as the related services are provided.

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

Note 1 - **Summary of Significant Accounting Policies - Continued**

Student Fees

Student tuition and fees are presented as net of scholarships and fellowships applied to students' accounts at COSC. Certain other scholarships are paid directly to, or refunded to, the student and are generally reflected as expenses. The revenue for a summer session is split between the two fiscal years, with appropriate amounts being recognized in the accounting period in which they are earned or incurred and become measurable.

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 it is earned or incurred.

Tax Status

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

Use of Estimates

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

New Governmental Accounting Pronouncements

GASB 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* is required for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. Management is in the process of reviewing this Statement and its potential effect upon their financial reporting.

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies - Continued

New Governmental Accounting Pronouncements - Continued

GASB 69, *Government Combinations and Disposals of Government Operations* is required for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Management is in the process of reviewing this Statement and its potential effect upon their financial reporting. It does not expect any material impact.

GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date- an amendment of GASB 68* is required for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions 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 pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Management is in the process of reviewing this Statement and its potential effect upon their financial reporting.

Note 2 - Cash and Equivalents

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

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - Cash and Equivalents - Continued

The STIF is managed by investment managers in accordance with the investment guidelines established by the State Treasurer. These guidelines prohibit investment in derivative securities other than floating rate securities, which vary in the same direction as individual short-term money market indices, and limit the ability to enter into reverse repurchase agreements in amounts not to exceed 5.0% of the STIF's assets at the time of execution.

The Combining Unit has assessed the Credit Risk and Concentration of Credit Risk as follows:

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

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

Note 3 - Accounts Receivable

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

	<u>2014</u>	<u>2013</u>
Student accounts receivable	\$ 707,755	\$ 654,645
State receivable	472,045	21,408
Other receivable	52,886	68,524
Less: allowance for doubtful accounts	<u>(264,909)</u>	<u>(225,342)</u>
	<u>\$ 967,777</u>	<u>\$ 519,235</u>

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

Note 4 - **Investments**

Foundation

Investments of Charter Oak State Combining Unit Foundation, Inc. are stated at fair value and consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Vanguard Emerging Markets Stock Index Fund	\$ 114,705	\$ 15,528
Vanguard Total International Stock Index Fund	276,560	233,158
Vanguard Strategic Equity Index Fund	17,247	48,463
Vanguard Intermediate Term Investment Index Fund	63,211	170,167
Vanguard Short Term Investment Index Fund	177,632	113,965
Vanguard Total Bond Market Index Fund	295,750	286,949
Vanguard Growth Index Fund	139,183	110,100
Vanguard Total Stock Market Index Fund	135,470	318,682
Vanguard Windsor II Fund	391,573	113,047
Vanguard Explorer Fund	<u>61,344</u>	<u>49,068</u>
	<u>\$ 1,672,675</u>	<u>\$ 1,459,127</u>

The following schedule summarizes the investment return and its classification in the combined statements of revenues, expenses and changes in net position for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 47,742	\$ 47,505
Net unrealized and realized gains	<u>197,731</u>	<u>110,525</u>
	<u>\$ 245,473</u>	<u>\$ 158,030</u>

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2014 is as follows:

	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital assets, not depreciated:						
Land		\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
Capital assets, depreciated:						
Buildings and improvements	10-40	2,438,149	22,667	-	-	2,460,816
Furnishings and equipment	5	1,953,780	789,075	(365,125)	-	2,377,730
Software	5	534,607	-	-	-	534,607
Total depreciable assets		<u>4,926,536</u>	<u>811,742</u>	<u>(365,125)</u>	<u>-</u>	<u>5,373,153</u>
Total capital assets		<u>4,941,536</u>	<u>811,742</u>	<u>(365,125)</u>	<u>-</u>	<u>5,388,153</u>
Less: accumulated depreciation:						
Buildings and improvements		944,540	71,645	-	-	1,016,185
Furnishings and equipment		1,237,332	271,141	(337,228)	-	1,171,245
Software		384,312	55,463	-	-	439,775
Total accumulated depreciation		<u>2,566,184</u>	<u>398,249</u>	<u>(337,228)</u>	<u>-</u>	<u>2,627,205</u>
Capital assets, net		<u>\$2,375,352</u>	<u>\$ 413,493</u>	<u>\$ (27,897)</u>	<u>\$ -</u>	<u>\$2,760,948</u>

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

Note 5 - Capital Assets - Continued

Capital asset activity for the year ended June 30, 2013 is as follows:

	Estimated lives (in years)	Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital assets, not depreciated:						
Land		\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
Capital assets, depreciated:						
Buildings and improvements	10-40	2,438,149	-	-	-	2,438,149
Furnishings and equipment	5	2,069,435	183,690	(299,345)	-	1,953,780
Software	5	534,607	-	-	-	534,607
 Total depreciable assets		<u>5,042,191</u>	<u>183,690</u>	<u>(299,345)</u>	<u>-</u>	<u>4,926,536</u>
 Total capital assets		<u>5,057,191</u>	<u>183,690</u>	<u>(299,345)</u>	<u>-</u>	<u>4,941,536</u>
 Less: accumulated depreciation:						
Buildings and improvements		866,220	78,320	-	-	944,540
Furnishings and equipment		1,220,112	259,823	(242,603)	-	1,237,332
Software		318,735	65,577	-	-	384,312
 Total accumulated depreciation		<u>2,405,067</u>	<u>403,720</u>	<u>(242,603)</u>	<u>-</u>	<u>2,566,184</u>
 Capital assets, net		<u>\$ 2,652,124</u>	<u>\$ (220,030)</u>	<u>\$ (56,742)</u>	<u>\$ -</u>	<u>\$ 2,375,352</u>

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

Note 6 - **Long-Term Liabilities**

Long-term liabilities at June 30, 2014 consist of:

	<u>Beginning Balance</u>	<u>Net Additions</u>	<u>Net Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Other long-term liabilities:					
Vacation	\$ 791,550	\$ 26,829	\$ -	\$ 818,379	\$ 637,348
Sick	<u>349,226</u>	<u>25,528</u>	<u>-</u>	<u>374,754</u>	<u>36,494</u>
Total long-term liabilities	<u>\$ 1,140,776</u>	<u>\$ 52,357</u>	<u>\$ -</u>	<u>\$ 1,193,133</u>	<u>\$ 673,842</u>

Long-term liabilities at June 30, 2013 consist of:

	<u>Beginning Balance</u>	<u>Net Additions</u>	<u>Net Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Other long-term liabilities:					
Vacation	\$ 840,700	\$ -	\$ (49,150)	\$ 791,550	\$ 596,984
Sick	<u>255,784</u>	<u>93,442</u>	<u>-</u>	<u>349,226</u>	<u>34,581</u>
Total long-term liabilities	<u>\$ 1,096,484</u>	<u>\$ 93,442</u>	<u>\$ (49,150)</u>	<u>\$ 1,140,776</u>	<u>\$ 631,565</u>

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

Note 6 - Long-Term Liabilities - Continued

Leases

The Combining Unit leases various equipment under operating lease agreements. The following summarizes future minimum payments under non-cancelable leases subsequent to the year ended June 30, 2014:

Fiscal Years Ending <u>June 30,</u>	Operating <u>Leases</u>
2015	\$ 16,456
2016	16,456
2017	<u>16,456</u>
	\$ <u>49,368</u>

Rent expense for operating leases was \$92,375 and \$100,292 for the years ended June 30, 2014 and 2013, respectively.

Note 7 - Restricted Net Position

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

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

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

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

Note 8 - **Contingencies**

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

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

Note 9 - **Operating Expenses**

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

	<u>2014</u>	<u>2013</u>
Compensation and benefits	\$ 13,294,060	\$ 11,505,256
Supplies and services	2,931,370	2,072,734
Depreciation	398,249	403,720
Scholarships and fellowships	<u>173,533</u>	<u>204,900</u>
	<u>\$ 16,797,212</u>	<u>\$ 14,186,610</u>

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

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

Retirement Plan Description

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

Employees hired before July 1, 1984, participate in the old (Tier 1) Plan, which includes employee contributions while other employees may participate in the Tier II or Tier IIA Plans. As of June 30, 2014 and 2013, approximately thirty-one percent (31%) of the Combining Unit's workforce was covered under the Tier II or Tier IIA Plans. The Combining Unit makes contributions on behalf of the employees not covered by State funds through a fringe benefit charge assessed by the State of Connecticut.

Alternatively, employees may choose to participate in the Alternate Retirement Plan, which is managed by ING. Under this arrangement, the Combining Unit and the plan participants purchase individual investments managed by ING.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Tier I Plan B regular and Hazardous Duty members are required to contribute 2% and 4% of their annual salary, respectively, up to the Social Security Taxable Wage Base plus 5% above that level. Tier I Plan C

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

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

Funding Policy - Continued

members are required to contribute 5% of their annual salary. Tier IIA Plan regular and Hazardous Duty members are required to contribute 2% and 5% of their annual salaries, respectively. The State is required to contribute at an actuarially determined rate, which may be reduced by an act of the State legislature. Administrative costs of the plan are funded by the State.

Annual Pension Cost, Net Pension Obligation and Related Information (Unaudited)

Because of the cost-sharing arrangements that the Combining Unit has with other State departments and agencies, one actuarial valuation is performed for the State of Connecticut. As a result, the following information is not separately available for the Combining Unit. Additionally, the information for fiscal year 2014 is not available as of the issue date of the Combining Unit's financial statements and, therefore, the following information is as of June 30, 2013.

The liability for the pension plan will be recorded by the State of Connecticut, which has communicated to the Combining Unit that they should not record a liability associated with the pension plan.

The State's annual pension cost and net pension obligation for SERS as of June 30, 2013 are as follows (in thousands):

Annual required contribution	\$ 1,059,652
Interest on net pension obligation	244,717
Adjustment to annual required contribution	<u>(219,938)</u>
Annual pension cost	1,084,431
Contributions made	<u>1,058,113</u>
Increase in net pension obligation	26,318
Net pension obligation, beginning of year	<u>2,966,249</u>
Net pension obligation, end of year	\$ <u>2,992,567</u>

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

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

Retirement - Continued

Annual Pension Cost, Net Pension Obligation and Related Information (Unaudited) - Continued

Three year trend information (in thousands):

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2011	\$ 999,261	82.6%	\$ 2,913,691
2012	978,898	94.6%	2,966,249
2013	1,084,431	97.6%	2,992,567

The following actuarial information related to the calculation of the annual required contribution for SERS is for all State of Connecticut employees:

Actuarial valuation date	June 30, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, closed
Remaining amortization period	19 years
Asset valuation method	5 year smoothed market
Actuarial assumptions	
Investment rate of return	8.00%
Projected salary increases (includes inflation of 3.75%)	4.00% - 20.00%
Cost of living adjustments	2.3% - 3.6%

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

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

Annual Pension Cost, Net Pension Obligation and Related Information (Unaudited) -
Continued

Required Supplementary Information (in millions):

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL)</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>(a/b) Funded Ratio</u>	<u>(c) Covered Payroll</u>	<u>(b-a/c) UAAL as a Percentage of Covered Payroll</u>
6/30/08	\$ 9,990.2	\$ 19,243.4	\$ 9,253.2	51.9%	\$ 3,497.4	264.6%
6/30/09 *	-	-	-	-	-	-
6/30/10	9,349.6	21,054.2	11,704.6	44.4%	3,295.7	355.1%
6/30/11 *	-	-	-	-	-	-
6/30/12	9,745.0	23,018.8	13,273.8	42.3%	3,354.7	395.7%
6/30/13 *	-	-	-	-	-	-

* No actuarial valuation was performed.

Other Post-Employment Benefits

The State of Connecticut provides post-retirement health care and life insurance benefits to eligible Combining Unit 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 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.

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

Notes to the Combined Financial Statements - Continued

June 30, 2014 and 2013

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

Other Post-Employment Benefits - Continued

The Combining Unit has adopted GASB No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions* ("GASB 45"). However, as the State of Connecticut is legally responsible for any post-employment benefits, the standard had no impact on the Combining Unit's financial statements. The liability for post-employment benefits will be recorded by the State of Connecticut, which has communicated to the Combining Unit that the Combining Unit should not record a liability associated with the post-employment benefits for its employees or retired employees.

For the State of Connecticut liability and disclosures associated with GASB 45 please see the State of Connecticut's Comprehensive Annual Financial Report prepared by the Office of the State Comptroller at the following website address:
<http://www.osc.state.ct.us/reports/>

Note 11 - **Pass-Through Grants**

The Combining Unit distributed approximately \$5,807,000 and \$5,701,000, as of June 30, 2014 and 2013, respectively, for student loans through the U.S. Department of Education Federal Direct Lending Program. These distributions and related funding sources are not included as expenses and revenues nor as cash disbursements and cash receipts in the accompanying combined financial statements.

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



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Charter Oak State College and Connecticut Distance Learning Consortium (collectively the "Combining Unit"), which comprise the combined statements of net position as of June 30, 2014 and 2013, the related combined statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Combining Unit's basic combined financial statements and have issued our report thereon dated December 9, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Combining Unit's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Combining Unit's internal control. Accordingly, we not express an opinion on the effectiveness of the Combining Unit's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

December 9, 2014

SUPPLEMENTAL INFORMATION

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

Combining Statements of Net Position

June 30,

Assets

	2014	2014	Primary Government Combining	2014	2013
	<u>College</u>	<u>CTDLC</u>	<u>Adjustments</u>	<u>Combined</u>	<u>Combined</u>
Current Assets:					
Cash and equivalents	\$ 16,477	\$ -	\$ -	\$ 16,477	\$ 13,428
Cash held by State Treasurer	2,594,672	1,922,419	-	4,517,091	3,627,351
Accounts receivable, net	906,891	75,790	(14,904)	967,777	519,235
Other current assets	<u>232,481</u>	<u>-</u>	<u>-</u>	<u>232,481</u>	<u>74,742</u>
Total Current Assets	<u>3,750,521</u>	<u>1,998,209</u>	<u>(14,904)</u>	<u>5,733,826</u>	<u>4,234,756</u>
Non-Current Asset:					
Capital assets, net	<u>2,486,270</u>	<u>274,678</u>	<u>-</u>	<u>2,760,948</u>	<u>2,375,352</u>
Total Assets	<u>\$ 6,236,791</u>	<u>\$ 2,272,887</u>	<u>\$ (14,904)</u>	<u>\$ 8,494,774</u>	<u>\$ 6,610,108</u>

Liabilities and Net Position

Current Liabilities:					
Accounts payable	\$ 174,583	\$ 226,867	\$ (14,904)	\$ 386,546	\$ 137,503
Accrued payroll	523,044	97,672	-	620,716	364,054
Accrued employee compensated absences	553,588	120,254	-	673,842	631,565
Unearned tuition revenues	<u>592,603</u>	<u>-</u>	<u>-</u>	<u>592,603</u>	<u>780,718</u>
Total Current Liabilities	<u>1,843,818</u>	<u>444,793</u>	<u>(14,904)</u>	<u>2,273,707</u>	<u>1,913,840</u>
Non-Current Liability:					
Accrued employee compensated absences	<u>427,659</u>	<u>91,632</u>	<u>-</u>	<u>519,291</u>	<u>509,211</u>
Total Liabilities	<u>2,271,477</u>	<u>536,425</u>	<u>(14,904)</u>	<u>2,792,998</u>	<u>2,423,051</u>
Net Position:					
Invested in capital assets, net of related debt	2,486,270	274,678	-	2,760,948	2,375,352
Restricted-expendable	248,820	1,240,415	-	1,489,235	257,384
Unrestricted	<u>1,230,224</u>	<u>221,369</u>	<u>-</u>	<u>1,451,593</u>	<u>1,554,321</u>
Total Net Position	<u>3,965,314</u>	<u>1,736,462</u>	<u>-</u>	<u>5,701,776</u>	<u>4,187,057</u>
Total Liabilities and Net Position	<u>\$ 6,236,791</u>	<u>\$ 2,272,887</u>	<u>\$ (14,904)</u>	<u>\$ 8,494,774</u>	<u>\$ 6,610,108</u>

See independent auditors' report.

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

Combining Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30,

	Primary Government			2014 Combined	2013 Combined
	2014 College	2014 CTDLC	Combining Adjustments		
Operating Revenues:					
Tuition and fees	\$ 9,059,330	\$ -	\$ -	\$ 9,059,330	\$ 8,235,811
Less: scholarships and fellowships	<u>1,852,553</u>	<u>-</u>	<u>-</u>	<u>1,852,553</u>	<u>1,626,687</u>
Net tuition and fees	7,206,777	-	-	7,206,777	6,609,124
CTDLC fees	-	1,515,066	(80,081)	1,434,985	1,161,783
Federal grants and contracts	1,678,398	300,000	-	1,978,398	1,911,583
State grants and contracts	830,540	-	-	830,540	338,757
Private grants and contracts	186,427	-	-	186,427	250,845
Auxiliary enterprises	106,633	-	-	106,633	113,604
Other operating revenues	<u>63,960</u>	<u>-</u>	<u>-</u>	<u>63,960</u>	<u>17,475</u>
Total Operating Revenues	<u>10,072,735</u>	<u>1,815,066</u>	<u>(80,081)</u>	<u>11,807,720</u>	<u>10,403,171</u>
Operating Expenses:					
Educational and general:					
Instruction	5,073,979	317,458	-	5,391,437	4,738,333
Scholarships and fellowships	173,533	-	-	173,533	204,900
Academic support	1,837,343	-	-	1,837,343	1,493,366
Student services	2,735,252	331,119	-	3,066,371	2,496,723
Institutional support	3,016,178	2,715,983	(80,081)	5,652,080	4,640,347
Operation and maintenance of plant	177,611	100,588	-	278,199	209,221
Depreciation	<u>329,731</u>	<u>68,518</u>	<u>-</u>	<u>398,249</u>	<u>403,720</u>
Total Operating Expenses	<u>13,343,627</u>	<u>3,533,666</u>	<u>(80,081)</u>	<u>16,797,212</u>	<u>14,186,610</u>
Net Operating Loss	<u>(3,270,892)</u>	<u>(1,718,600)</u>	<u>-</u>	<u>(4,989,492)</u>	<u>(3,783,439)</u>
Non-Operating Revenues (Expenses):					
State appropriations	2,703,214	833,771	-	3,536,985	3,195,301
Contributions	12,000	-	-	12,000	23,500
Non-operating grants	19,516	408,860	-	428,376	380,797
Loss on disposal of capital assets	(19,753)	(4,938)	-	(24,691)	(56,742)
Investment income	<u>3,998</u>	<u>705</u>	<u>-</u>	<u>4,703</u>	<u>4,638</u>
Net Non-Operating Revenues	<u>2,718,975</u>	<u>1,238,398</u>	<u>-</u>	<u>3,957,373</u>	<u>3,547,494</u>
Increase (Decrease) in Net Position Before Capital Appropriations	<u>(551,917)</u>	<u>(480,202)</u>	<u>-</u>	<u>(1,032,119)</u>	<u>(235,945)</u>
Capital Appropriations	<u>760,800</u>	<u>1,786,038</u>	<u>-</u>	<u>2,546,838</u>	<u>635,249</u>
Net Increase in Net Position	208,883	1,305,836	-	1,514,719	399,304
Net Position, Beginning of Year	<u>3,756,431</u>	<u>430,626</u>	<u>-</u>	<u>4,187,057</u>	<u>3,787,753</u>
Net Position, End of Year	<u>\$ 3,965,314</u>	<u>\$ 1,736,462</u>	<u>\$ -</u>	<u>\$ 5,701,776</u>	<u>\$ 4,187,057</u>

See independent auditors' report.