CSCU Charter Oak State College

Financial Statements

including

Required Supplementary Information

Additional Supplemental Information

June 30, 2018

Connecticut State Colleges & Universities

Charter Oak State College Mission Statement

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

Members of the Board of Regents for Higher Education

(Between 7/1/17 – 6/30/18)

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

Regents as of 6/30/18

(three vacancies: two student regents; one legislative)
Matt Fleury, Chairman **(appt to Chair 7/1/17)**
Yvette Meléndez, Vice Chair
Richard J. Balducci
Aviva D. Budd
Naomi K. Cohen
Lawrence J. DeNardis
Felice Gray-Kemp
Merle W. Harris
Holly Howery **term began 4/19/18**
David R. Jimenez
JoAnn Ryan – **term began 4/19/18**
Elease E. Wright
Ex-Officio, Non-voting members
William Lugo – Chair of the Faculty Advisory Committee **term began 1/1/18**
Del Cummings – Vice Chair of the Faculty Advisory Committee **term began 1/1/18**
Raul Pino – Commissioner of the CT Department of Public Health
Dianna R. Wentzell – Commissioner of the State Board of Education
Catherine Smith – Commissioner of the CT Department of Economic and Community Development
Commissioner Kurt Westby – Commissioner of the CT Department of Labor – term began June 2018

Former Board members (who served between 7/1/17 – 6/30/18)

William J. McGurk; **term ended 4/19/18**
JoAnn H. Price **term ended 4/19/18**
Holly Palmer (COSC Student; **term ended December, 2017**)
Joseph Young (CC student; **term ended June 30, 2017**)
Hector Navarro (CC student; elected in June 2017; **left Board in May 2018**)
Juan Carlos Leal (CSU student; elected in December 2017; **left Board in May 2018**)
Barbara E. Richards – Chair of the Faculty Advisory Committee – **term ended 12/31/17**
Stephen Adair – Vice Chair of the Faculty Advisory Committee – **term ended 12/31/17**
Scott Jackson – Commissioner of the CT Department of Labor – **left the Board June 2018**

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

Ed Klonoski, President

Connecticut State Colleges & Universities
61 Woodland Street
Hartford, CT 06105

Mark E. Ojakian, President

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Introduction

Management Discussion & Analysis provides an overview of the financial position and activities of the Charter Oak State College ("COSC" or "Combining Unit") and its component units for the fiscal year ended June 30, 2018, along with certain comparative information for the prior fiscal years ended June 30. This discussion has been prepared by and is the responsibility of management, and should be read in conjunction with the financial statements and footnote disclosures which follow this section.

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

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. COSC, which is the State's online college, was authorized by Section 28, 10a-143 (c) of the CT general statutes. It offers four General Studies degrees: Associate of Arts, Associate of Science, Bachelor of Arts, and Bachelor of Science. In addition, COSC is offers Master's Degrees and certificate programs.

Courses are offered in three semesters during the year by COSC; fall, spring, and summer. The fall and spring semesters offer courses in three time formats: 15 weeks, two eight-week, and three-five week offerings. In the summer, two eight-week and two five-week offerings are available. Students are accepted into a program during three time periods throughout the year; fall, spring, and summer.

Using The Financial Statements

COSC's financial report includes the following financial statements: the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as defined by the Governmental Accounting Standards Board ("GASB"). GASB Statement No. 35 established standards for external financial reporting for public colleges and universities, and requires that financial statements be presented on a basis to focus on the financial condition, results of operations, and cash flows of COSC as a whole. As required by GASB Statements No. 34 and 35, a condensed comparative analysis of fiscal year 2018 to prior reporting periods in included. Full financial statements and footnotes for fiscal year 2018 is also presented, both for the COSC *primary institution*, as well as for certain other organizations that have a significant related party relationship with COSC (the "component units").

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

Financial Highlights

Charter Oak State College had total assets of $7.6 million, deferred outflows of $12.2 million, liabilities of $49.9 million, and a total net position balance of ($32.4) million as of June 30, 2018. Of this amount, ($36.0) million is classified as unrestricted net position, a $28.6 million decrease from 2017. The negative balance in unrestricted net position is a result of the pension and other post-employment benefit liabilities, as discussed within this report.

Total operating revenues from student tuition and fees, grants and contracts, and other college activities (net of scholarship allowances) were $10.6 million, a 2% increase over the previous year. Operating expenses were $19.3 million, a 3% increase from the previous year, resulting in an operating loss of $8.7 million during the year ended June 30, 2018. Net non-operating revenues and other changes were $7.5 million, down 7% from the previous year, reflecting a $0.3 million decrease in general fund appropriations which was offset partially by increases in Pell. Capital appropriations were $1.3 million, up from $0.2 million in fiscal 2017.

Cash and cash equivalents were $3.6 million at June 30, 2018, including $0.5 million of cash equivalents in the form of State bond appropriations restricted for capital expenditures. Total current assets were $4.5 million as of June 30, 2018. At June 30, 2017, cash and cash equivalents were $3.0 million and total current assets were $4.2 million. The ratio of unrestricted current assets of $3.1 million to current liabilities of $2.4 million was 1.7:1 in 2018 as compared to 1.6:1 in fiscal 2017. The current ratio reflects a financial position sufficient to provide short term liquidity. Non-current liabilities increased 8% from $44.2 million at June 30, 2017 to $47.5 million at June 30, 2018. The majority of this significant liability is composed of the net pension and other post-employment benefit liabilities. These large and essentially unfunded liabilities represent long-term obligations that are paid by the State of Connecticut and not COSC individually. The remaining long term liability of $0.7 million represents the long-term portion of the accrued value of vacation and sick time benefits earned by employees which must be paid out when they retire or otherwise terminate service in the future (net of the estimated amounts to be paid out in the upcoming year).

Statement of Net Position

The Statement of Net Position presents the overall financial position of COSC at the end of the fiscal year, and includes all assets and liabilities of Charter Oak State College, including capital assets net of depreciation.

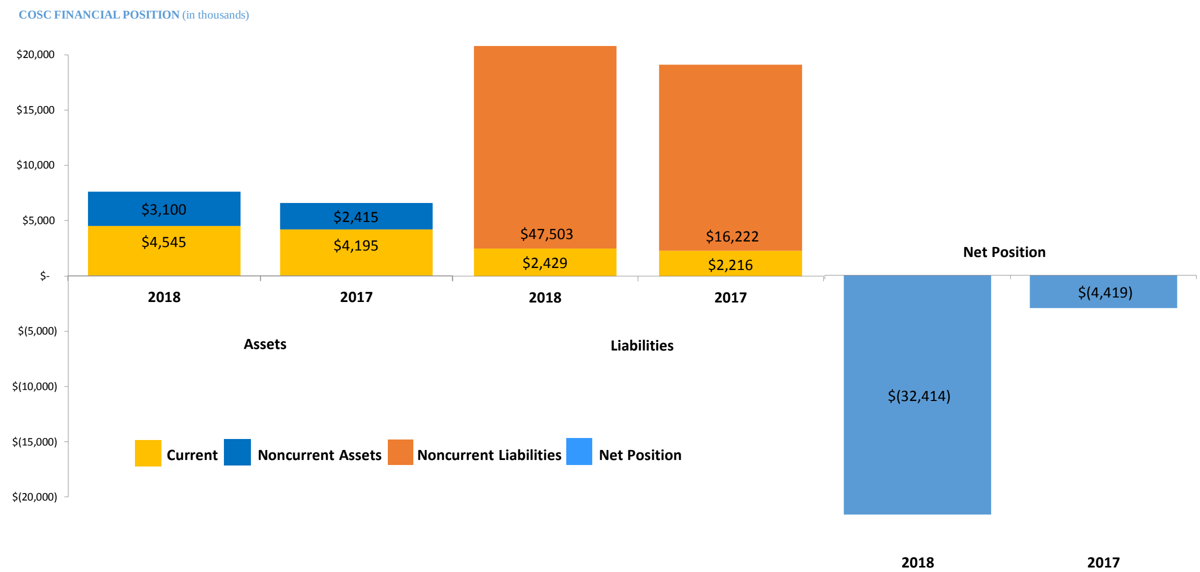
Condensed Statements of Net Position as of June 30
(in thousands)

	2018	2017 *	% Change
ASSETS			
Current assets	$ 4,545	$ 4,195	8%
Non-current assets	3,100	2,415	28%
Total assets	7,645	6,610	16%
DEFERRED OUTFLOWS OF RESOURCES	12,264	8,409	46%
LIABILITIES			
Current liabilities	2,429	2,216	10%
Noncurrent liabilities	47,503	44,150	8%
Total liabilities	49,932	46,366	8%
DEFERRED INFLOWS OF RESOURCES	2,391	-	N/M
NET POSITION			
Invested in capital assets	3,100	2,415	28%
Restricted-expendable	535	575	-7%
Unrestricted	(36,049)	(34,291)	5%
Total net position	(32,414)	(31,301)	4%

*Net position and non-current liabilities were restated to reflect the net OPEB liability at June 30, 2017 of $27.9 million as if the GASB No. 75 liability was recorded in 2017.

N/M - Not meaningful

Current assets consist of cash, cash equivalents, accounts receivable and prepaids. The $0.4 million increase in current assets from the previous year is largely attributable to an increase in cash held offset by decreases in net accounts receivable and prepaids. Accounts receivable totaled $0.3 million at the end of fiscal year 2018. This is a $0.1 million decrease from the $0.4 million of accounts receivable at the end of fiscal year 2017, primarily as a result of an increase in the bad debt allowance. Investment of cash is handled by the State of Connecticut Treasurer's Office, which invests cash balances in a Short-Term Investment Fund ("STIF") on behalf of State agencies. COSC does not carry any other separate investments.



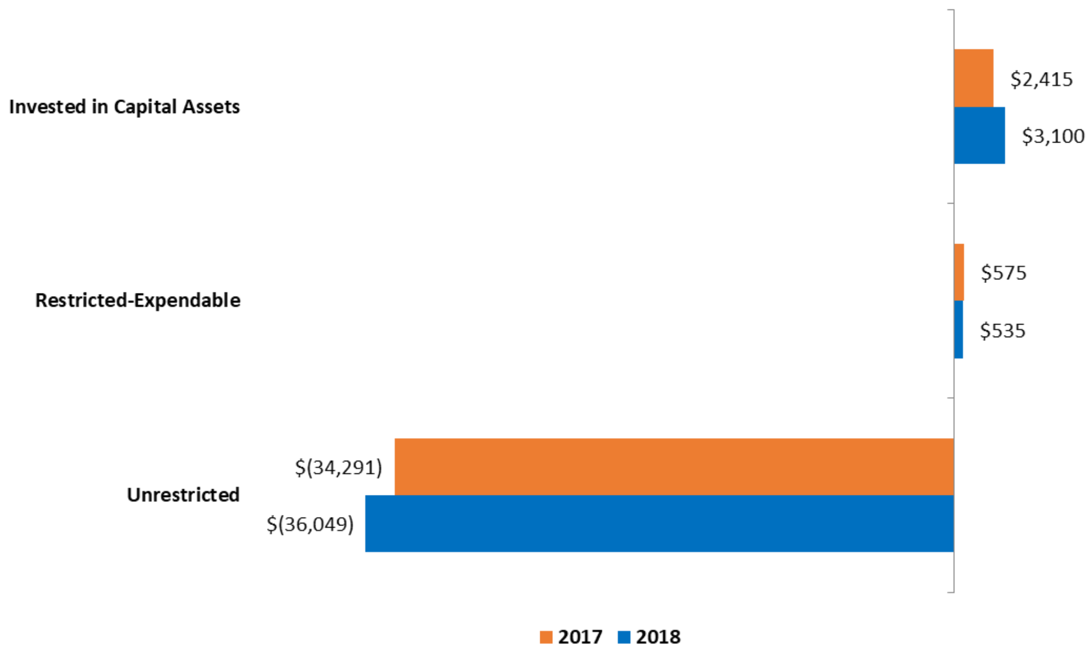
Non-current assets increased 28% from $2.4 million at June 30, 2017, to $3.1 million at June 30, 2018. Net capital assets account for all the non-current assets. At June 30, 2018, capital assets in service totaled $7.2 million, offset by $4.1 million in accumulated depreciation; this compared with $6.3 million and $3.9 million, respectively, at the end of fiscal year 2017. The increase in fiscal 2018 was related to the refresh of a technological data center.

Current liabilities consist primarily of accrued payroll and related benefits, unearned revenue, and accounts payable. Total current liabilities were $2.4 million at the end of fiscal year 2018, representing a $0.2 million increase from fiscal year 2017. The most significant current liabilities were employee salary and fringe benefits payable of $1.2 million and unapplied payments of $0.6 million, primarily collected in advance for the following summer semester. Additional current liabilities include vendor accounts payable of $0.1 million, and $0.6 million for the estimated value of accrued compensated absences (sick and vacation time benefits) that will be paid within the coming year to employees who terminate or retire.

Non-current liabilities consist of $20.8 million in pension liability, $26.0 million in other post-employment benefit liabilities and long-term accrued compensated absences ("ACA") of $0.7 million– to be paid out to terminating employees over time in the future beyond one year. The increase in non-current liabilities is related to the increases in the pension liability of $5.2 million. The total ACA liability coupled with the pension and other post-employment benefit liabilities exceed the assets of COSC, and causes the unrestricted net position balance to be negative. In practice, however, the ACA liability represents the total payout should 100% of the employees resign immediately while the pension and other post-employment benefit liabilities are funded through historical contributions paid to the State of Connecticut and State of Connecticut general fund dollars not allocated to COSC rather than through COSC's net position.

The total *net position* balance includes $3.1 million *Invested in capital assets, net of depreciation*. Charter Oak State College does not carry capital debt. Bonding and debt repayment are the responsibility of the State of Connecticut and are not reflected in COSC's financial statements.

COSC NET POSITION (in thousands)

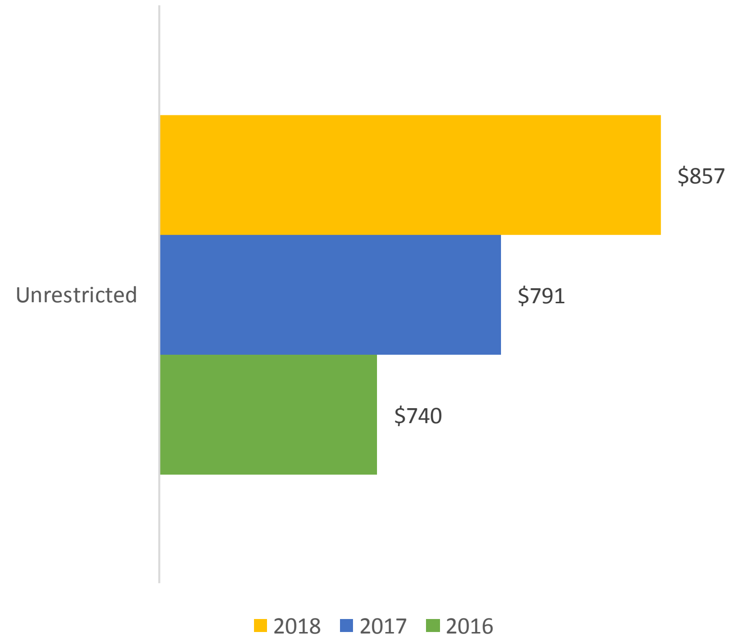


Restricted-Expendable net position represents primarily bond fund appropriation balances at June 30, 2018 and unexpended funds held for certain minor grant program activities. There were no significant changes in restricted-expendable net position year over year.

Unrestricted net position ("UNP") has shifted to a negative balance with the recognition of the pension liability in fiscal year 2015 which is further exacerbated by the recognition of the other post-employment benefit liability in fiscal 2018. Excluding the pension and other post-employment benefit liabilities, UNP increased by $0.1 million to $0.9 million during fiscal year 2018. The table below illustrates the fluctuations in aggregate COSC UNP over the past several years:

	FY13	FY 14	FY 15	FY 16	FY 17	FY 18
UNP Excluding Pension and OPEB Liability	$1.6	$1.5	$1.2	$0.7	$0.8	$0.9
UNP Adjusted for Pension Liability:	-	-	($6.1)	($6.7)	($7.4)	($8.9)
UNP Adjusted for Pension & OPEB Liability:	-	-	-	-	($34.3)	($36.0)

COSC's UNRESTRICTED NET POSITION EXCLUDING PENSION & OPEB LIABILITIES (in thousands)



Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents COSC's results of operations, as well as the non-operating revenues and expenses. Total *operating revenues* for fiscal year 2018 were $10.6 million, up 2% from $10.4 million in fiscal year 2017. *Student tuition and fees* of $10.7 million represent the largest portion of operating revenue on a gross basis, but are offset by student financial aid and waivers resulting in net tuition and fee revenue of $8.4 million after scholarship allowances. These revenues reflect a FTE credit enrollment decrease offset by tuition rate increases and additional revenue from the introduction of the Graduate program.

Condensed Combined Statements of Revenues, Expenses and Changes in Net Position for the Year Ended June 30 (in thousands)

	2018	2017*	% Change
OPERATING REVENUES			
Tuition and fees, net	8,389	8,223	2%
Government grants and contracts	602	626	-4%
Additional operating revenues	1,650	1,579	4%
Total operating revenues	10,641	10,428	2%
OPERATING EXPENSES			
Expenses before depreciation	18,847	18,122	4%
Depreciation	440	618	-29%
Total operating expenses	19,287	18,740	3%
Operating loss	(8,646)	(8,312)	4%
NON-OPERATING REVENUES (EXPENSES)			
State appropriations - general fund **	4,285	4,605	-7%
State appropriations - bond fund	1,350	238	467%
PELL Grants	1,866	1,673	12%
Other non-operating revenues (expenses), net	32	347	-91%
Net non-operating revenues	7,533	6,863	10%
NET POSTION			
Change in net position	(1,113)	(1,449)	-23%
Net position, beginning of year	(31,301)	(29,852)	5%
Net position, end of year	$ (32,414)	$ (31,301)	4%

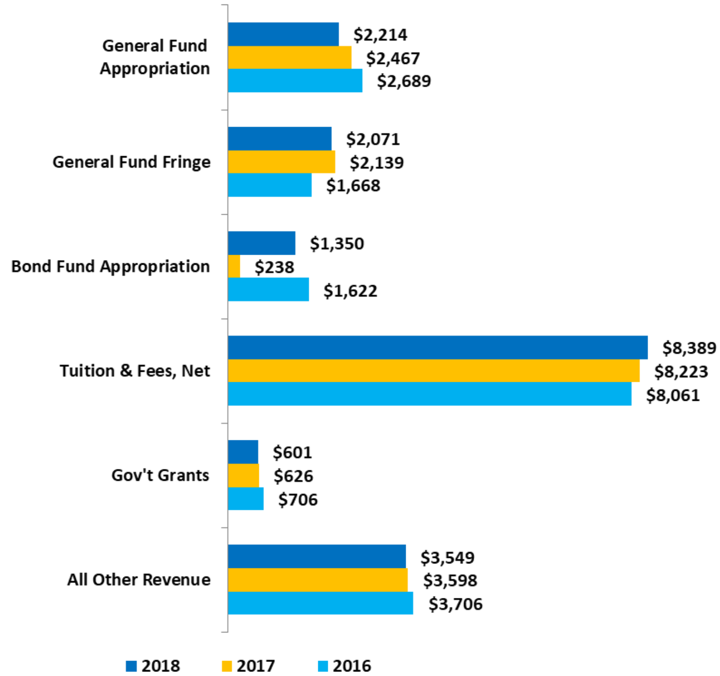
* Net position was restated to reflect the net OPEB liability at June 30, 2017 of $27.9 million as if the GASB No. 75 liability was recorded in 2017.

** Including non-cash fringe benefit expenditures

Charter Oak State College recorded an operating loss of $8.6 million during the year ended June 30, 2018. The primary contributing factors of the increase in loss year over year relates to declining enrollment coupled with the increase in employee fringe benefit costs. In addition, State bond fund appropriations and Pell grant revenue being classified as *non-operating revenues* under GASB 35 although the expenditures of these resources on personnel, non-capital equipment, depreciation and scholarships are considered to be an operating expense contributes to the operating loss.

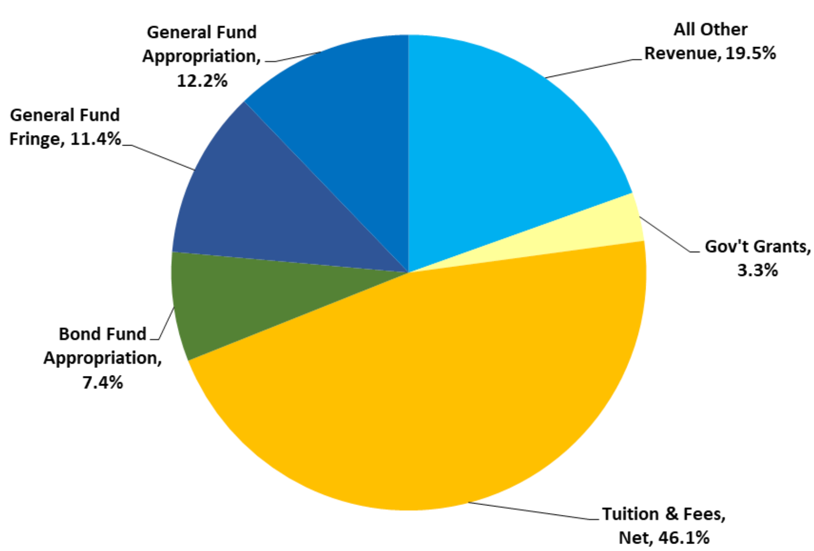
Government grant revenues are comprised of the federally funded Supplemental Education Opportunity Grant ("SEOG") and the Adult Education grants together with other state government grants which fund various program-related activities. Government grant revenues at June 30, 2018 were $0.6 million with federal and state dollars consistent with the previous fiscal year. *Additional operating revenues* totaled $1.7 million in 2018, up 4% from $1.6 million in fiscal year 2017 which are primarily made up of fees earned by the CTDLC for services, and fees for other services offered by the college such as testing and credit reviews under the Connecticut Credit Assessment Program ("CCAP").

REVENUE SUMMARY (in thousands)

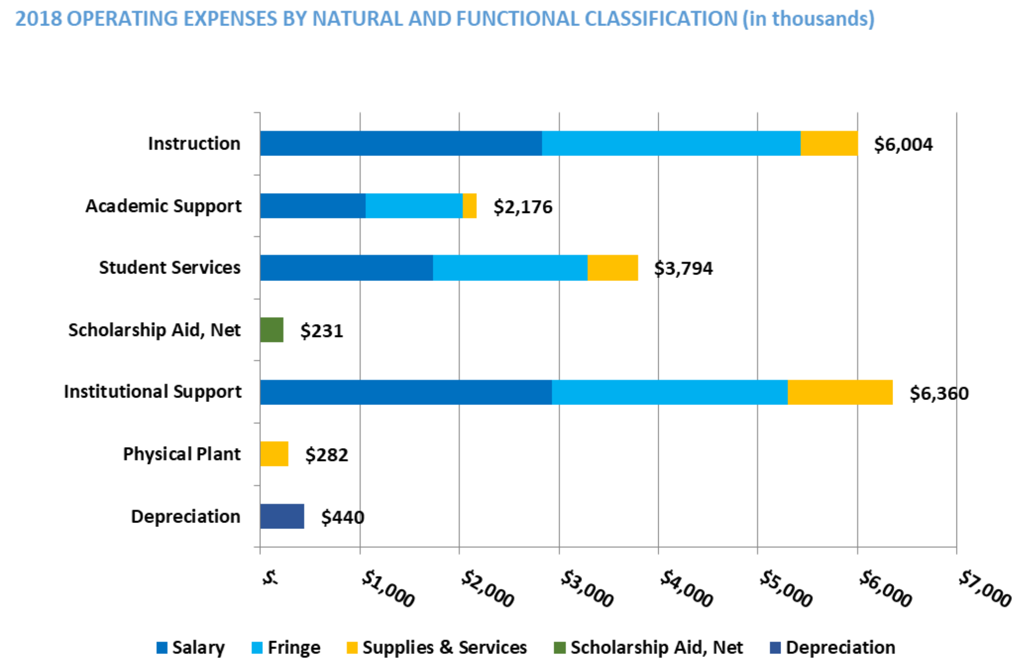


The State general fund appropriation for salaries decreased by 10.0% to $2.2 million while associated State of Connecticut reimbursements to cover fringe benefit costs decreased by 3% to $2.1 million. Bond fund appropriation revenues increased from $0.2 million in 2017 to $1.4 million in 2018 as funding for replacement equipment for COSC's data center was received by COSC from the State of Connecticut. Other non-operating activity in fiscal year 2018 was limited to income earned on cash balances invested by the State treasurer's office.

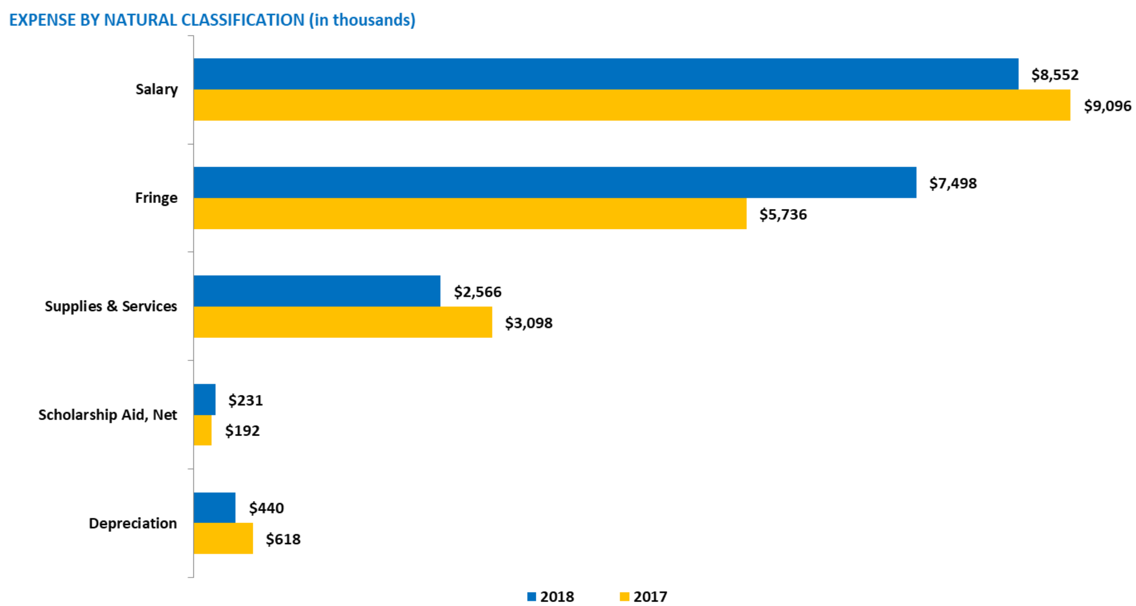
2018 REVENUE DISTRIBUTION



Total operating expenses for fiscal year 2018 were $19.3 million. This reflects an operating expense increase of 3% from $18.7 million in fiscal year 2017. The increase in fiscal year 2018 reflects increases in personnel fringe expenses offset partially through expense reductions across remaining categories.



Supplies and services include expenditures for non-capital telecommunications and information technology-related services and supplies; premises and property-related expenses including utilities, security, maintenance and repairs, custodial and grounds, and other related costs, and all other non-personnel costs of operating the college.



<u>Statement of Cash Flows</u>

The statement of cash flows presents the significant sources and uses of cash. Major sources of *operating activity* cash inflows include receipts of student tuition and fees of $8.3 million and receipts from government grants and contracts of $0.6 million which trended in line with the prior fiscal year. Cash is also received from other miscellaneous activities such as testing and CCAP. The largest operating cash outflows include salaries paid to employees of $11.8 million, down 2% from prior year. Operating cash outflows also include vendor payments of $2.4 million, down 14% from prior year. Payments to students of $0.2 million for financial aid refunds was consistent with prior year. Net cash used by operating activities decreased significantly in fiscal year 2018 when compared to fiscal year 2017, a 14% reduction reflecting lower personnel costs because of staff resignations and retirements. The State of Connecticut also directly covered a portion of the cost of fringe benefits for employees valued at $2.1 million representing a non-cash transaction for COSC.

Capital and related financing cash flows are derived from capital appropriations from the state. During fiscal year 2018, COSC received capital funding of $1.3 million offset by capital expenditures of $1.1 million with net cash provided by capital financing activities equal to $0.2 million. The cash receipts and expenditures were primarily utilized to replace the data center supporting all technology components of COSC. Cash provided by *investing activities* represents small amounts of interest income earned on operating fund cash balances invested by the State treasurer on behalf of COSC, and distributed quarterly.

Condensed Combined Statements of Cash Flows
Year Ended June 30
(in thousands)

	2018	2017	% Change
NET CASH PROVIDED BY (USED IN)			
Operating activities	$ (3,816)	$ (4,418)	-14%
Noncapital financing activities	4,115	4,476	-8%
Capital and related financing activities	247	142	74%
Investing activities	33	11	200%
Net change in cash and cash equivalents	579	211	174%
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents, beginning of year	3,045	2,834	7%
Cash and cash equivalents, end of year	$ 3,624	$ 3,045	19%

Enrollment Table

Charter Oak State College will confront significant challenges and opportunities in the years ahead similar to other higher education institutions and State of Connecticut agencies. The factors that will have the greatest financial impact on COSC are declining student course enrollments. The following table illustrates the Integrated Postsecondary Education Data System ("IPEDS") unduplicated headcount and full-time equivalent ("FTE") student attendance at COSC:

Year Ended June 30	Unduplicated Headcount	% Change	FTE	% Change
2018	2,270	-4.8%	878	-5.2%
2017	2,384	-4.9%	926	-2.5%
2016	2,507	-14.0%	950	-11.2%
2015	2,915	17.1%	1070	18.1%
2014	2,489	-4.0%	906	-1.2%
2013	2,592	-1.7%	917	4.0%
2012	2,637	-	882	-

Economic Outlook

As indicated above, COSC has experienced declining headcount and FTE enrollments after a short period of growth associated with the Go Back to Get Ahead initiative. With the continued emphasis on affordability keeping tuition and fee increases as low as possible, COSC and CSCU leadership has met with the State of Connecticut to advocate, challenge and develop mutual solutions to fit the needs of the students. On May 9, 2018 the Connecticut General Assembly revised the fiscal year 2019 appropriation allocated to COSC to $2.9 million up from $2.2 million, a 32% increase from fiscal 2018. This additional funding of $0.7 in fiscal year 2019 million will also carry an additional $0.6 million of fringe benefit reimbursements that will be paid to COSC by the State of Connecticut to offset the increase in fringe benefit expenditures expected during the upcoming fiscal period.

Connecticut will have a new governor and new state administration, as well as a number of new legislators and political appointees beginning in January 2019. With such changes will undoubtedly come both new risks and new opportunities for Charter Oak. In order to provide new state administration with an informative view of Charter Oak and CSCU, management has prepared a white paper detailing the system's economic and social value to the state. This document includes investments which we believe are necessary to further develop programs and degrees which will further the economic recovery of Connecticut. The new state biennium budget will be developed shortly after administration is in place, and advocating for CSCU institutions is particularly important at this time. Through several institutional efforts COSC was able to slightly improve its unrestricted net position (exclusive of net pension and other post-employment benefit liabilities) in fiscal year 2018 in the face of declining enrollment. The combination of identifying additional revenue sources and rationalization of expenditures represents a strengthening of COSC's operating cash position affording greater opportunity than historical periods. COSC has additionally developed a strategic plan in fiscal year 2018 which identifies several areas of growth and development prioritized through a cost / benefit assessment. Leadership is currently developing an implementation for these strategies.

Additional Information

This financial report is designed to provide a general overview of COSC's finances and to show accountability for the funds it receives. Questions about this report or requests for additional financial information should be directed to Michael Moriarty, Chief Financial Officer (860-515-3760).

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Regents of
Connecticut State Colleges and Universities

Report on the financial statements

We have audited the accompanying financial statements of the business-type activities, and the discretely presented component unit of Charter Oak State College and Connecticut Distance Learning Consortium, an enterprise fund of the State of Connecticut (collectively, the "College") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit (the affiliated foundation ("Foundation")), which statements reflect total assets of $2.1 million and total net assets of $2.1 million as of June 30, 2018, and total revenues, capital gains and losses, and other support of $251 thousand for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and discretely presented component unit of the Charter Oak State College and Connecticut Distance Learning Consortium, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the College, an enterprise fund of the State of Connecticut and do not purport to, and do not present fairly the financial position of the State of Connecticut as June 30, 2018, the changes in its financial position or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the accompanying Management's Discussion and Analysis on pages 1 through 10 and the Schedule of Net Pension Liability and Related Ratios and Schedule of Contributions on page 36, and the Schedule of Net OPEB Liability and Related Ratios on page 38 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Grant Thornton LLP

Westborough, Massachusetts
January 25, 2019

		2018
Assets		
Current assets:		
Cash and cash equivalents	$	3,624,526
Accounts receivable, net		262,182
Other current assets		658,107
Total current assets		4,544,815
Noncurrent assets:		
Capital assets, net		3,100,479
Total noncurrent assets		3,100,479
Total assets		7,645,294
Deferred outflows of resources:		
Deferred pension		11,076,758
Deferred other post-employment benefits		1,187,694
Total deferred outflows of resources		12,264,452
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities		70,023
Accrued payroll		1,156,316
Unearned tuition revenues		557,681
Accrued employee compensated absences		645,146
Total current liabilities		2,429,166
Noncurrent liabilities		
Accrued employee compensated absences		724,013
Net pension liability		20,752,751
Net other post-employment benefit liability		26,026,160
Total noncurrent liabilities		47,502,924
Total liabilities		49,932,090
Deferred inflows of resources:		
Deferred pension		39,626
Deferred other post-employment benefits		2,351,594
Total deferred inflows of resources		2,391,220
Net Assets		
Invested in capital assets, net of related debt		3,100,479
Restricted expendable		534,700
Unrestricted		(36,048,744)
Total net position (deficit)	$	(32,413,565)

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

		2018
Operating revenues:		
Student tuition and fees	$	10,720,325
Less: scholarships and fellowships		(2,331,678)
Net tuition and fees		8,388,647
Federal grants and contracts		362,046
State and local grants and contracts		239,614
Nongovernmental grants and contracts		120,890
Other operating revenues		1,529,708
Total operating revenues		10,640,905
Operating expenses:		
Personnel services and fees		16,051,094
Professional services and fees		280,441
Travel expenses		88,131
Operation and maintenance of plant		281,615
Student aid		230,528
Other operating expenses		1,781,165
Bad debt expense		134,226
Depreciation		439,850
Total operating expenses		19,287,050
Net operating income (loss)		(8,646,145)
Nonoperating revenues (Expenses):		
State appropriations		4,285,358
Investment income		32,510
Gain (loss) on disposal of capital assets		(6,102)
Other nonoperating revenues/expenses		6,044
Pell grants		1,865,831
Net nonoperating revenues		6,183,641
Increase (decrease) in net position before capital appropriations		(2,462,504)
Capital appropriations		1,349,638
Increase (decrease) in net position		(1,112,866)
Net position:		
Net assets - beginning of year (restated - see note 1)		(31,300,679)
Net assets - end of year	$	(32,413,545)

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

		2018
Cash flows from operating activities		
Tuition and fees	$	8,271,484
CTDLC fees		1,506,287
Grants and contracts		722,550
Payments to employees		(11,777,169)
Payments to suppliers and vendors		(2,390,241)
Payments to students		(229,906)
Other operating receipts		93,772
Net cash used in operating activities		(3,803,223)
Cash flows from non-capital financing activities		
State appropriations		2,214,049
Pell grants		1,865,831
Other		22,887
Net cash provided by non-capital financing activities		4,102,767
Cash flows from capital financing activities		
Capital appropriations		1,349,638
Purchases of capital assets		(1,102,253)
Net cash provided by capital financing activities		247,385
Cash flows from investing activities		
Interest on cash held by the State		32,510
Net increase (decrease) in cash and equivalents		579,439
Cash and equivalents, beginning of year		3,045,087
Cash and equivalents, end of year		3,624,526
Reconciliation of net operating loss to net cash used in operating activities		
Net operating loss		(8,646,145)
Adjustments to reconcile net operating loss to net cash used by operating activities:		
Depreciation		439,850
Fringe benefits provided by the state		2,071,309
Changes in assets and liabilities:		
Accounts receivable		117,162
Other Current assets		112,759
Accounts payable		14,135
Accrued payroll		234,207
Accrued employee compensation and benefits		191,065
Unearned tuition revenues		(114,908)
Net pension obligation		1,514,766
Net other post-employment benefit obligation		262,577
Net cash used for operating activities	$	(3,803,223)
Non-cash transaction		
Fringe benefits provided by the state	$	2,071,309

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

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

CSCU

Statement of Activities

		2018
Revenues and support		
Contributions	$	117
Investment income		59
Gain(loss) on investments, net		69
Other nonoperating revenues		6
Total revenues and support		251
Expenses		
Program services - scholarships and grants		105
Supporting services		28
Total expenses		133
Change in net assets		118
Net position		
Net assets - beginning of year		1,983
Net assets - end of year	$	2,101

Statement of Activities

		2018
Revenues and support		
Contributions	$	117
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Net position		
Net assets - beginning of year		1,983
Net assets - end of year	$	2,101

1. Summary of Significant Accounting Policies

Organization

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

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

Basis of Presentation

The financial statements for the COSC and the CTDLC have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. These financial statements include the statements of COSC, CTDLC, and a discretely presented component unit.

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents
Cash and cash equivalents consist of cash held by the state treasurer in a Short-Term Investment Fund ("STIF"), state general fund and capital appropriations, and petty cash. The STIF, stated at market value, is held on behalf of COSC by the State Treasurer and has original maturities of three months or less (see Note 2).

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

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

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

Investment in Plant
Capital assets of the Combining Unit are stated at historical cost. Depreciation of capital assets is calculated on a straight-line basis over the respective asset's estimated useful life, which range from 5 to 40 years. Title to all assets, whether purchased, constructed or donated, is held physically by the State of Connecticut.

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

Pension & Other Post Employment Obligations
COSC records pension and other post-employment obligations equal to the net pension for its defined benefit and retiree health plans. These net liabilities are measured as the total pension and health liability, less the amount of the respective plan's fiduciary net position. The total liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. Because there are other state entities participating in the plans, the net liability recorded by COSC is based on an allocation of the total net liability, as determined by an independent actuary.

Pension and other post-employment benefit expenses are recognized for benefits earned during the period, interest on the unfunded liability, and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows of resources and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years. Refer to the GASB pronouncements effective in fiscal year 2018 for additional information on the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Unearned Tuition, Fees and Grant Revenues
Unearned tuition, fees and grant revenues consist primarily of tuition and fees that have been collected as of June 30, but are applicable to classes held thereafter.

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

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

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

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

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

GASB Pronouncements Effective for Fiscal Year 2018
In June 2015, the GASB released Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment

benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. COSC adopted this accounting pronouncement in fiscal year 2018 and was retroactively recorded through an adjustment to beginning of year net position and deferred outflows of resources as follows:

Net Position		
Net position, June 30, 2017 (as reported)	$	(4,419,672)
Impact of Adoption (net liability)		(27,881,428)
Impact of Adoption (contributions after the measurement date)		1,000,421
Net position, June 30, 2017 (restated)	$	(31,300,679)

Refer to Note 9 for additional disclosures related to Other Post-Employment Benefits

In March 2016, the GASB released Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments and may include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement and that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. This standard was adopted in fiscal year 2018 and there was no impact as a result of the adoption. In March 2017, the GASB released Statement No. 85 *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. This standard was adopted in fiscal year 2018 and there was no impact as a result of the adoption.

In May 2017, the GASB released Statement No. 86 *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This

Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. This standard was adopted in fiscal year 2018 and there was no impact as a result of the adoption.

GASB Pronouncements Effective in Future Fiscal Years

In November 2016, GASB released Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this statement is to address accounting for legally enforceable liabilities associated with the retirement and future activities of a capital asset. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 with earlier application encouraged.

In January 2017, GASB released Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 with earlier application encouraged.

In June 2017, GASB released Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 with earlier application encouraged

At various dates in 2018, GASB released Statements 88-90. The requirements of these Statements in addition to Statements 83, 84 and 87 are effective for future reporting periods and management is evaluating the impact these pronouncements will have.

Subsequent Events

In accordance with generally accepted accounting principles, COSC has evaluated subsequent events for the period after June 30, 2018, through January 25, 2019, the date the financial statements were issued noting the following event:

On July 1, 2018 the CTDLC was placed into runoff whereby pre-existing commitments for services would be fulfilled but no new service contracts would be entered into. Future amounts associated with CTDLC fee revenues, expenditures, assets and liabilities are expected to reduce over time.

2. Cash, Cash Equivalents and Investments

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

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

Cash and cash equivalents also include operating funds held by the State of Connecticut in a pooled, interest credit program which earns interest at a rate determined monthly by the Office of the State Treasurer. The interest rate at June 30, 2018 was 1.98%.

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

Credit Risk – Credit risk is the risk that an investor will lose money because of the default of the security issuer or investment counterparty. COSC is only invested in the State of Connecticut Treasurer's STIF, which is a combined investment pool of high quality, short-term money market instruments. There is low risk to these types of investments.

Concentration of Credit Risk – Concentration of credit risk is assumed to arise when the amount of investments with one issuer exceeds 5% or more of the total value of investments. The majority of COSC's total cash, cash equivalents and investments was invested in the STIF and the State's pooled, interest credit program accounts as of June 30, 2018.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. There is no significant exposure to interest rate risk as cash and cash equivalents are held in STIF which is comprised of short-term money market instruments.

3. Accounts Receivable

Accounts receivable consist of the following at June 30, 2018 (in thousands):

Student accounts receivable	$ 827
Other receivable	9.2
Gross accounts receivable	836.3
Less: allowance for doubtful accounts	(574.1)
Accounts receivable, net	$ 262

4. Capital Assets

Capital Asset activity for the year ended June 30, 2018 is as follows (in thousands):

	Estimated life (in years)	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets, not depreciated:					
Art		$ 15.0	$ -	$ -	$ 15.0
Capital assets, depreciated:					
Buildings and improvements	10-40	2,509.0	-	-	2,509.0
Furnishings and equipment	5	3,232.3	698.9	(214.6)	3,716.6
Software	5	534.6	432.9	-	967.5
Total depreciable assets		6,275.9	1,131.8	(214.6)	7,193.1
Total capital assets		6,290.9	1,131.8	(214.6)	7,208.1
Less: accumulated depreciation					
Buildings and Improvements		1,232.0	74.0	-	1,306.0
Furnishings and equipment		2,109.8	319.6	(208.6)	2,220.8
Software		534.6	46.2	-	580.8
Total accumulated depreciation		3,876.4	439.8	(208.6)	4,107.6
Capital assets, net		$ 2,414.5	$ 692.0	$ (6.0)	$ 3,100.5

5. Long Term Liabilities

Long-term liabilities at June 30, 2018 consist of (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Other long-term liabilities					
Vacation	$ 868.2	$ 709.5	$ (536.7)	$ 1,041.0	$ 623.1
Sick	309.9	74.8	(56.6)	$ 328.1	22.0
Net pension liability	15,609.5	5,143.3	-	20,752.8	-
Net other post-employment liability	-	26,026.2	-	26,026.2	-
Total long-term liabilities	$ 16,787.6	$ 31,953.8	$ (593.3)	$ 48,148.1	$ 645.1

These accruals represent estimated amounts earned by all eligible employees through June 30, 2018. The ACA will be settled over a number of years, and are not expected to have a significant impact on the future annual cash flows of COSC. The current portion of compensated absences is estimated based on recent past history.

6. Related Parties

Periodically, public acts may be signed into law by the Governor stating that the Secretary of the Office of Policy and Management may approve monies to be transferred from CSCU's operating reserves to the State of Connecticut's General Fund. There were no transfers made during fiscal year 2018.

Accrued salaries and related fringe benefit costs for CSCU employees within COSC, whose salaries will be charged to the State of Connecticut General Fund represent a related party balance. The accompanying statements of net position includes balances among related parties. Significant balances for the year ended June 30, 2018 relate to Cash and Cash equivalents held by the State Treasurer.

7. Commitments, Contingencies and Leases

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

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

COSC may have outstanding purchase orders and related commitments for materials, services and capital expenditures that had not been received as of June 30, 2018. These commitments are not recorded as liabilities until materials or services are received. The commitments of total net position balances as of June 30, 2018 were not material.

COSC leases various equipment under operating lease agreements. The following summarizes future minimum payments under non-cancelable leases subsequent to the year ended June 30, 2018 (in thousands):

Fiscal Years Ending June 30,	Operating Leases
2019	$ 96.3
2020	85.3
2021	84.8
2022	-
2023	-
	$ 266.4

Rent expense for operating leases was $80,216 for the year ended June 30, 2018.

8. Pension Plans

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

Employees hired before July 1, 2011 participate in Tier I, Tier II, Tier IIA, or TRS depending on several factors.

Employees hired after July 1, 2011 but before July 31, 2017 were eligible to participate in Tier III or the Hybrid Plan, the 2 primary SERS plan options available (some employees are eligible to elect the Teachers Retirement System - "TRS"). The Hybrid Plan, which became effective July 1, 2011 under the 2011 agreement between the State of Connecticut and the State Employee Bargaining Agent Coalition ("SEBAC"), provides a retirement plan option for employees hired on or after July 1, 2011 in a position statutorily defined as a state teacher or a professional staff member in higher education. The Hybrid Plan is a defined benefit plan that provides members with a life-time defined benefit the same as the benefit provided under SERS Tier III with the option at the time of retirement to elect to receive a lump sum payment of their contributions with a 5% employer match and 4% interest in lieu of a defined benefit.

Employees hired after July 1, 2017 are eligible to participate in Tier IV as a result of the 2017 SEBAC agreement. The SERS Tier IV plan is comprised of both a traditional Defined Benefit component and a new Defined Contribution component. The Tier IV Defined Benefit component provides a pre-defined monthly retirement income for life, with the amount being affected by years of service, retirement age, and the member's final average earnings for members that satisfy the Tier IV minimum age and service eligibility requirements. The Tier IV Defined Contribution component establishes an account consisting of an accumulation of employee and employer contributions both set equal to 1%, as well as investment gains or losses. Each Tier IV member will have an account with the third party administrator of the State of Connecticut Alternate Retirement Program (ARP). COSC makes contributions on behalf of the employees in SERS plans 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 Prudential. Under this arrangement, plan participants contribute 5.5% of their pay and the State contributes 7.5% to individual participants' investment accounts managed by Prudential. COSC pays a fringe benefit charge to the State which includes the 7.5% employer contribution, employee health benefits and an administrative charge. The aforementioned 2011 SEBAC agreement provides COSC employees who were both hired before July 1, 2011 and participating in ARP with a one-time irrevocable option through December 31, 2018 of electing to transfer their membership from ARP to the SERS Tier II/IIA or Hybrid Plan and purchasing credit in the plan for their prior services at full actuarial cost.

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

Tier I Plan B regular and Plan B Hazardous Duty members are required to contribute 2% and 4% of their annual salary up to the Social Security Taxable Wage Base, respectively, plus 5% above that level. Tier I Plan C and Hybrid Plan members are required to contribute 5% of their annual salary. Tier IIA Plan and Tier III Plan regular and Hazardous Duty members are required to contribute 2% and 5% of their annual salaries, respectively. Tier IV employees contribute 5% of their salary (8% for hybrid and hazardous duty members) plus 1% into the defined contribution component.

The State is required to contribute at an actuarially determined rate, which may be reduced or increased by an act of the State legislature. The rate was 56.58% for SERS in the fiscal year ended June 30, 2018 resulting in a contribution of $1.52 million on behalf of COSC, equal to the required contribution that year.

Net Pension Liability
COSC's net pension liability is valued one year in arrears. The net pension liability recorded in the financial statements as of June 30, 2018 was measured and valued as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by the most current actuarial valuation as of that. COSC's proportion of the net pension liability was based on a projection of COSC's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities and the State, actuarially determined. For the SERS plan, COSC's proportion was 0.1% as of June 30, 2018.

All SERS and TRS assets are available to pay any participants benefits. However, the portion of each plan's net pension liability attributable to COSC is calculated separately. The net pension liability for COSC as of June 30, 2018 for SERS was $20.8 million. COSC has no net pension liability associated with the TRS due to COSC's proportional size to the overall plan.

Actuarial Assumptions for SERS:
The total pension liability was determined using the following actuarial assumptions, applied to all periods:

Measurement Year	2017
Inflation	3.75%
Salary increases including inflation	4.00% to 20.00%
Investment rate of return net of pension plan investment expense, including inflation	8.00%

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

The actuarial assumptions used in the June 30, 2017 valuation (which was the basis for recording the June 30, 2018 financial statement liabilities) were based on the results of the actuarial experience study as of June 30, 2017.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. The best estimates of geometric rates of return for each major asset class as of 2017 measurement date are summarized in the following table:

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

Discount Rate for SERS:

The discount rate used to measure the total pension liability was 6.9% in the 2017 measurement year. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the State's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Net Pension Liability to Changes in Discount Rate

The following presents the current-period net pension liability of COSC calculated using the current-period discount rate assumption of 6.9% for SERS, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (5.9%)	Current Discount (6.9%)	1% Increase (7.9%)
SERS	$ 24,000,139	$ 20,752,744	$ 16,707,322

<u>Pension Expense, Deferred Outflows and Deferred Inflows of Resources Related to Defined Benefit Pension Plan</u>
For the year ended June 30, 2018, COSC recognized pension expense of $1.5 million. A schedule of deferred outflows and inflows of resources as of June 30, 2018 has been maintained in Note 13. The net amount of deferred outflows and deferred inflows of resources related to the pensions attributed to COSC that will be recognized in pension expense during the next five years is as follows (in thousands):

Fiscal Years Ending June 30,	SERS	TRS	Total
2018	$ 2,506	$ 7	$ 2,513
2019	$ 2,572	$ 7	$ 2,579
2020	$ 2,234	$ 7	$ 2,241
2021	$ 1,664	$ 5	$ 1,669
2022	$ 606	$ 2	$ 609
Total	$ 9,582	$ 28	$ 9,610

9. Other Post-Employment Benefits

The State of Connecticut provides post-retirement health care and life insurance benefits to eligible COSC employees, in accordance with Sections 5-257(d) and 5-259(a) of the Connecticut General Statutes. When employees retire, the State pays up to 100% of their health care insurance premium cost (including the cost of dependent coverage). This benefit is available to retirees of the State Employees' Retirement System and participants in the Connecticut Alternate Retirement Program who meet certain age and service criteria.

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

There is a single State sponsored defined benefit OPEB plan open to CSCU employees, the State Employee OPEB Plan (SEOPEBP). The State Comptroller's Healthcare Policy and Benefits Division under the direction of the Connecticut State Employees Retirement Commission administers the State Employee OPEB Plan. The membership of the commission is composed of the State Treasurer or designee, who is a nonvoting ex-officio member; fifteen trustees, including six trustees representing state employees; six trustees representing state management; two trustees who are professional actuaries and one neutral trustee who serves as chairman. Also, the State Comptroller, ex officio, serves as the nonvoting secretary. The Governor makes all appointments except the employee trustees who are selected by employee bargaining agents. Management and employee trustees make the appointments of the chairman and the actuarial trustee positions.

Plan Description
SEOPEBP is a single-employer defined benefit OPEB plan that covers retired employees of CSCU who are receiving benefits from any State-sponsored retirement system. The plan provides healthcare and life insurance benefits to eligible retirees and their spouses. Plan benefits, required contributions of plan participants and the State, and other plan provisions are described in Sections 5-257 and 5-259 of the General Statutes.

Funding Policy
The contribution requirements of the plan members and the State are established and may be amended by the State legislature, or by agreement between the State and employees' unions, upon approval by the State legislature. The cost of providing plan benefits is financed approximately 100 percent by the State on a pay-as-you-go basis through an annual appropriation in the General fund outside of COSC. COSC contributes and helps fund the annual appropriation based upon a designated fringe rate established by the State.

Investments
The State Treasurer employs several outside consulting firms as external money and investment managers, to assist the State's Chief Investment Officer, as they manage the investment programs of the State Employee OPEB Plan. Plan assets are managed primarily through assets allocation decisions with the main objective being to maximize investment returns over the long term at an acceptable level of risk. There is no concentration of investments in any one organization that represents 5.0 percent or more of plan net position available for benefits. The best estimates of rates of return for each major asset class as of 2017 measurement date are summarized in the following table:

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

Net OPEB Liability
COSC's net OPEB liability is valued one year in arrears. The net OPEB liability recorded in the financial statements as of June 30, 2018 was measured and valued as of June 30, 2017 and the total liability used to calculate the net liability was determined by the most current actuarial valuation as of that date. COSC's proportion of the net OPEB liability was based on a projection of COSC's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities and the State, actuarially determined.

For the SEOPEBP plan, at June 30, 2018 COSC's proportion was 0.15%. All plan assets are available to pay any participants benefits. However, the portion of each plan's net liability attributable to CSCU is calculated separately. The net OPEB liability for COSC as of June 30, 2018 for SEOPEBP was $26.0 million.

Actuarial Assumptions:
The OPEB liability was determined using the following actuarial assumptions, applied to all periods:

Measurement Year	2017
Payroll growth rate	3.50%
Salary increases	3.25% to 19.50% varying by years of service and retirement system
Discount rate	3.68% as of June 30, 2017 and 2.96% as of June 30, 2016
Healthcare cost trend rates:	
Medical	6.5% graded to 4.5% over 4 years
Prescription drug	8.0% graded to 4.5% over 7 years
Dental and Part B	4.50%
Administrative expense	3.00%

Mortality rates for the State Employees OPEB Plan were based on the RP-2000 Healthy Annuitant Mortality Table for male rates projected 15 years (set back 2 years) and female rates projected 25 years (set back one year) under Scale AA.

The discount rate used to measure the total OPEB liability for SEOPEBP was 3.68%. The projection of cash flows used to determine the discount was performed in accordance with GASB pronouncements.

The following presents the current period net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate and healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate utilized:

Discount rate sensitivity:

	1% Decrease (2.68%)	Current Discount (3.68%)	1% Increase (4.68%)
OPEB	$ 30,208,566	$ 26,026,160	$ 22,637,520

Healthcare cost trend sensitivity:

	1% Decrease	Current Discount	1% Increase
OPEB	$ 22,366,267	$ 26,026,160	$ 30,662,762

OPEB Expense, Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, COSC recognized OPEB expense of $0.27 million. A schedule of deferred outflows and inflows of resources as of June 30, 2018 is presented in Note 13. The net amount of deferred outflows and deferred inflows of resources related to OPEB attributed to COSC that will be recognized in pension expense during the next five years is as follows (in thousands):

Fiscal Years Ending June 30,	OPEB	Total
2019	$ (532,733)	$ (532,733)
2020	(532,733)	(532,733)
2021	(532,733)	(532,733)
2022	(532,736)	(532,736)
2023	(220,657)	(220,657)

10. Unearned Revenue

Unearned revenues for the year ended June 30, 2018 amounted to $557,681 with $509,331 attributable to unearned tuition revenue and $48,350 attributable to unearned CTDLC fees.

11. Natural Classification with Functional Classification

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

	Salary	Fringe	Supplies & Services	Scholarship Aid, Net	Depreciation	Total
Depreciation	-	-	-	-	440	440
Physical Plant	-	-	282	-	-	282
Institutional Support	2,926	2,374	1,060	-	-	6,360
Scholarship Aid, Net	-	-	-	231	-	231
Student Services	1,737	1,547	510	-	-	3,794
Academic Support	1,057	979	140	-	-	2,176
Instruction	2,832	2,598	574	-	-	6,004
Total operating expenses	8,552	7,498	2,566	231	440	19,287

12. Bonds Payable

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

13. Deferred Outflows and Inflows of Resources

Deferred outflows and deferred inflows of resources consisted of the following as of June 30, 2018:

	SERS	TRS	Total Pension	OPEB	Total Deferred
DEFERRED OUTFLOWS OF RESOURCES					
Difference between expected and actual experience	$ 496	$ -	$ 496	$ -	$ 496
Changes of assumptions or other inputs	3,180	-	3,180	-	3,180
Changes in proportion and differences between employer contributions and proportionate share of contributions	5,946	28	5,974	-	5,974
Employer contributions after measurement date	1,415	12	1,427	1,188	2,615
Total	$ 11,037	$ 40	$ 11,077	$ 1,188	$ 12,265
					0
DEFERRED INFLOWS OF RESOURCES					0
Changes of assumptions or other inputs	$ -	$ -	$ -	$ 624	$ 624.4
Net difference between projected and actual earnings on pension plan investments	40	-	40	29	69
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-	-	1,698	1,697.7
Total	$ 40	$ -	$ 40	$ 2,352	$ 2,391

REQUIRED SUPPLEMENTARY INFORMATION

CSCU

Schedule of The Combining Unit's Proportionate Share of The Net Pension Liability
State Employee Retirement System Plan
(in thousands)
Last 10 Fiscal Years [1]

	2018	2017	2016	2015	2014
COSC's proportion of the net pension liability	0.10%	0.07%	0.06%	0.06%	0.05%
COSC's proportionate share of the net pension liability	$ 20,753	$ 15,610	$ 10,043	$ 9,130	$ 7,870
COSC's covered-employee payroll	$ 3,793	$ 2,529	$ 2,199	$ 1,988	$ 1,592
COSC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	547%	617%	457%	459%	494%
Plan Fiduciary net position as a percentage of the total pension liability	36.25%	31.69%	39.23%	39.54%	Unavailable[1]

Schedule of The Combining Unit's Contributions
State Employee Retirement System Plan
(in thousands)
Last 10 Fiscal Years [1]

	2018	2017	2016	2015	2014
Contractually required contribution	$ 1,519	$ 1,021	$ 834	$ 727	$ 503
Contributions in relation to the contractually required contribution	(1,519)	(1,021)	(834)	(723)	(502)
Contribution deficiency (excess)	$ -	$ -	$ -	$ 4	$ 1
COSC's covered-employee payroll	$ 3,793	$ 2,529	$ 2,199	$ 1,988	$ 1,592
Contributions as a percentage of covered employee payroll	40.05%	40.36%	37.91%	36.38%	31.54%

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

1. Changes in Benefit Terms for State Employee Retirement System Plan

For the June 30, 2017 valuation, the following changes in benefit terms were included:

- A 3-year freeze on all salary increases for fiscal years ending 2017, 2018 and 2019.
- The annual COLA for those retiring on or after July 1, 2022 is based on the annual rate of increase in CPI-W from 0.0% to 2.0%, plus 60% of the annual rate of increase in CPI-W from 3.33% to 6.0%, plus 75% of the annual rate of increase in CPI-W above 6.0% and with a cap on the COLA rate of 7.5%.
- A COLA moratorium for those retiring on or after July 1, 2022 for the first 30 months of retirement benefits. If rate of increase in CPI-W exceeds an annualized rate of 5.5% during the initial 18 month period of receiving retirement benefits, the COLA provided beginning with the 31st monthly benefit includes an additional adjustment based on the annual COLA rate as determined above using the annualized rate over the 18 month period. The COLA rate applied is reduced by 2.5% and then multiplied by 1.5 to reflect the 18 month period.
- Increase to all non-Tier IV members' contribution rates by 1.5% of compensation effective July 1, 2017 and an additional 0.5% of compensation effective July 1, 2019.
- In years where employer contribution increase due to poor asset returns, half the increase is applied to Tier IV member contribution rate of up to 2% in total.
- Tier IV Hybrid Plan Structure for All New Hires (Non-Hazardous and Hazardous) after July 1, 2017:
    - i. Non-Hazardous has same retirement eligibility as Tier III
    - ii. Non-hazardous benefit multiplier is 1.30% with no breakpoint
    - iii. Hazardous duty requires 25 years of service to retire
    - iv. Employees contribute 3% more than Tier III employees into the DB Plan.
    - v. Employers contribute 1% and employees must contribute at least 1% to DC portion of Hybrid Plan.

Schedule of Net Other Post Employment Benefits Liability and Related Ratios

Last 10 Fiscal Years [1]

	2018	2017
COSC's proportion of the net OPEB liability	0.12%	0.13%
COSC's proportionate share of the net OPEB liability	$ 25,846,053	$ 27,927,904
COSC's covered-employee payroll	$ 6,053,317	$ 6,171,250
COSC's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	427%	453%
Plan Fiduciary net position as a percentage of the total OPEB liability	3.03%	1.94%

Schedule of Contributions
Other Post Employment Benefits

Last 10 Fiscal Years [1]

	2018	2017
Contractually required contribution	$ 1,000,421	$ 985,748
Contributions in relation to the contractually required contribution	(1,000,421)	(985,748)
Contribution deficiency (excess)	$ -	$ -
System's covered-employee payroll	$ 6,053,317	$ 6,171,250
Contributions as a percentage of covered employee payroll	16.53%	15.97%

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