



SPECIAL MEETING OF THE AUDIT COMMITTEE

Board of Regents for Higher Education
Room 209
39 Woodland Street, Hartford, Connecticut

Monday, April 22, 2012, at 9:30 AM

REVISED AGENDA

1. Approval of the December 6, 2012 and December 21, 2012 meeting minutes
2. **Vote** to move to Executive Session (*to discuss the appointment, employment, performance, evaluation, health or dismissal of a public officer or employee*)
3. Return to Open Session
4. Possible **vote** authorizing appointment of a Director of Internal Audit for the Connecticut State Colleges and Universities
5. Presentation by Drew & O'Connor P.C. – Audit of Charter Oak State College and Connecticut Distance Learning Consortium for the Fiscal Year ended June 30, 2012
6. Appointment of PricewaterhouseCoopers as External Auditors for the Connecticut State Universities and Community Technical Colleges
7. Adjournment

**SPECIAL MEETING OF THE
AUDIT COMMITTEE**
Connecticut State Colleges and Universities
Board of Regents for Higher Education
39 Woodland Street
Hartford, Connecticut

Thursday, December 6, 2012, at 10:00 a.m.
Room 209

Minutes

REGENTS PRESENT

Craig Lappen, Chair
Michael Pollard
Nick Donofrio

BOR/CONNSCU STAFF PRESENT

Philip Austin, Interim President; Dennis Murphy, Interim Chief of Staff; William Bowes, Chief Financial Officer; Steve Weinberger, VP of Human Resources; Wendy Chang, Chief Information Officer Ernestine Weaver, Counsel; Mary Lenehan, Assistant Attorney General; Karen Stone, Internal IT Auditor; Ray Yirga, Director of Accounting & Finance; Susan Grant, Senior Finance Officer; Rosalie Butler, Administrative Assistant for Finance

MARCUM LLP STAFF PRESENT

Michael Brooder, Partner
James Miller, Senior Manager

PWC STAFF PRESENT

Ray Vicks, Partner; Carol Ruiz, Managing Director (for CSU); Shannon Smith, Managing Director, (for CCCs); Steve Manocchio, IT Director

With a quorum present, the meeting was called to order at 10:00 a.m.

1. Minutes of the June 7, 2012 meeting

The minutes of the January 11, 2012 meeting were unanimously approved, as written.

1. Presentation by Marcum, LLP –Audit of Project Expenditures of CSUS 2020 during the Fiscal Year ended June 30, 2011: Michael Brooder, Partner; James Miller, Senior Accountant

Messrs. Brooder and Miller provided Committee members with an overview of their audit of CSUS 2020 Project Expenditures for FY2012. They indicated they had been given full and complete access to the books, records, staff and management at both the System Office, DPS and

the four universities. Pending the receipt of a confirmation letter from the Attorney General's office, Marcum staff will issue an unqualified or "clean" opinion, with no recommended adjustments and no findings of either material control weaknesses or significant deficiencies.

Acceptance of the Audit of CSUS 2020 Project Expenditures for FY2012 was deferred, pending receipt of litigation correspondence from the Attorney General's office.

Marcum Staff left the meeting at 10:25 a.m.

3. Overview of CSU/CCC Financial Statements/Highlights

CFO Bowes provided Regents with a high-level overview of the FY2012 Financial Statements for the Connecticut State Universities and Community Colleges, including Management's Discussion and Analysis; Statements of Net Assets, Revenues Expenditures and Changes in Net\Assets; Statement of Cash Flows and Notes to the Financial Statements.

4. Presentation by PricewaterhouseCoopers LLP – FY2012 Financial Statements and Management Letters for the Connecticut State Universities and Community Colleges: Ray Vicks, Lead Engagement Partner; Steven Manocchio, Risk Assurance Director; Carol Ruiz, Senior Manager; Shannon Smith, Manager

PricewaterhouseCoopers staff provided Regents with a detailed overview of FY2012 Financial Statements, Management Letters and other required communications for the Connecticut State Universities and Community Colleges. An unqualified opinion has been issued on the financial statements. There were no material weaknesses or significant deficiencies.

The FY2012 Financial Statements, Management Letter and Required Communications were unanimously accepted on a motion by Regent Donofrio, seconded by Regent Pollard.

5. Update on Internal Auditor Search Process

VP Weinberger provided Regents with a status of the search for a ConnSCU Director of Internal Audit.

6. Western CSU Security Issues/Security Matters

Citing Connecticut General Statute 1-210(b)(20) "Records of standards, procedures, processes, software and codes, not otherwise available to the public, the disclosure of which would compromise the security or integrity of an information technology system...", Chairman Lappen called for a motion to move into Executive Session. He requested CIO Chang, CFO Bowes, Attorney Weaver and Ms. Stone remain. He announced no votes would be taken in Executive Session. All other staff left the meeting.

Motion: Pollard; Second: Donofrio. Motion carried. Move to Executive Session at 11:55 AM.

At 12:40 PM, Chairman Lappen announced the meeting had returned to Open Session and that no votes were taken during Executive Session.

On a motion by Regent Donofrio, seconded by Regent Pollard, the meeting was adjourned at 12:40 PM.

**SPECIAL MEETING OF THE
AUDIT COMMITTEE**
Connecticut State Colleges and Universities
Board of Regents for Higher Education
39 Woodland Street
Hartford, Connecticut

Friday, December 21, 2012, at 2:00 p.m.
VIA TELECONFERENCE
originating from Room 209

Minutes

REGENTS PRESENT

Craig Lappen, Chair
Michael Pollard
Nick Donofrio

BOR/CONNSCU STAFF PRESENT

William Bowes, Chief Financial Officer; Rosalie Butler, Administrative Assistant for Finance

With a quorum present, the meeting was called to order at 2:00 p.m.

1. Approval of Audit of Project Expenditures of CSUS 2020 during the Fiscal Year ended June 30, 2012 by Marcum, LLP

At the December 6th, 2012 meeting of the Audit Committee, Marcum LLP staff provided Committee members with an overview of their audit of CSUS 2020 Project Expenditures for FY2012. They indicated they had been given full and complete access to the books, records, staff and management at both the System Office, DPS and the four universities. However, acceptance of the Audit of CSUS 2020 Project Expenditures for FY2012 was deferred, pending receipt of litigation correspondence from the Attorney General's office.

Having since received the confirmation letter from the Attorney General's office, Marcum staff has issued an unqualified or "clean" opinion, with no recommended adjustments and no findings of either material control weaknesses or significant deficiencies.

The Audit of CSUS 2020 Project Expenditures for FY12 by Marcum LLP was unanimously accepted on a motion by Regent Donofrio, seconded by Regent Pollard.

On a motion by Regent Donofrio, seconded by Regent Pollard, the meeting was adjourned at 2:05 PM.

ITEM

Approval of the Charter Oak State College Audit for the fiscal year ending June 30, 2012

RECOMMENDED MOTION FOR FULL BOARD

RESOLVED, that the Board of Regents hereby approves the audit of Charter Oak State College for the fiscal year ending June 30 2012.

BACKGROUND

The Charter Oak State College (COSC) FY2012 audit, including the Connecticut Distance Learning Consortium (CTDLC), represents the first independent audit of the institution. The audit provides an overview of the financial position and activities of the college and CTDLC for the fiscal year ending June 30, 2012 with comparative information for the fiscal year ending June 30, 2011. Statements for FY 2011 are unaudited.

The audit for COSC contains two findings: The college needs to reevaluate its general ledger procedures so that one general ledger will capture and accurately summarize its financial data in a timely fashion in accord with GAAP and various reporting requirements. The college concurs with the finding, stating that it plans to extend the use of its current financial reporting system to address all transactions.

The second finding concerns the college's compliance with federal regulations regarding old outstanding checks, stating that the college needs to evaluate its outstanding check list to determine whether any funds should be returned to the federal government. The college concurs with the finding. The college will request from the state Treasurer's Office a more frequent update on outstanding financial aid refund checks in order to comply with the federal requirements.

ANALYSISCharter Oak State College

Charter Oak State College had \$5,357,292 in total assets, total liabilities of \$1,954,714, and total net assets of \$3,402,578 at the end of fiscal year 2012. Of this amount, \$922,504 is classified as unrestricted net assets, a \$626,157 decrease from FY 2011.

Total operating revenues from student tuition and fees, grants and contracts, and other college activities (net of scholarship allowances) were \$7,773,256, a 3.6% decrease over the previous fiscal year. Operating expenses were \$11,297,370 a 1 % decrease over the previous fiscal year, resulting in an operating loss of \$3,524,114 during the year ended June 30, 2012. Net non-operating revenues and other changes were \$2,701,894, 13% from the previous year, reflecting in large part, a 15% decrease in the state appropriation. Every dollar lost in State funding costs the College \$1.40 to absorb the fringe benefits retirement (employer social security and

retirement contributions), Medicare, Worker's Compensation, Unemployment Insurance, and medical and dental costs.

Cash and cash equivalents were \$2,575,966 at the end of June 30, 2012. Cash was down from \$3,378,410 or 23.8% from June 30, 2011. This is due to the drop in planned course enrollment in FY 2012.

Connecticut Distance Learning Consortium

The CT Distance Learning Consortium had \$689,962 in total assets, liabilities of \$304,787, and a total net asset balance of \$385,175. Of this amount, \$87,510 is classified as unrestricted net assets, a \$221,987 decrease from FY 2011.

Total operating revenues from fees, grants, and contracts were \$1,598,130, a 6% decrease over the previous fiscal year. Operating expenses were \$3,417,145, a .3% increase over the previous fiscal year, resulting in an operating loss of \$1,819,015 during the year ended June 30, 2012. Net non-operating revenues and other changes were \$1,232,547 down 37% from the previous year.

Cash and cash equivalents were \$332,617 at the end of June 30, 2012. Cash was down from \$1,008,042 or by \$675,425 from June 30, 2011.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

CHARTER OAK STATE COLLEGE
(a Component unit of the State of Connecticut)

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

June 30, 2012

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of Charter Oak State College (a component unit of the State of Connecticut (the "College")) as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We have also audited the statements of net assets of Charter Oak State College Foundation, Inc., (the "Foundation") as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because we were not engaged as auditors until after June 30, 2011, we did not perform audit procedures related to the Statement of Net Assets as of June 30, 2011, and we have not satisfied ourselves by means of other auditing procedures about beginning balances of the Statement of Net Assets. Also, in accordance with the terms of our engagement, we have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the Statement of Net Assets at June 30, 2011. The amount of accounts receivable and accrued payroll and related benefits, and other significant aspects of the Statement of Net Assets at June 30, 2011, including classifications and amounts, materially affect the determination of the results of operations and cash flows for the year ended June 30, 2012.

Because of the significance of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of operations and cash flows for the year ended June 30, 2012, or on the consistency of application of accounting principles with the preceding year.

In our opinion, the accompanying Statement of Net Assets referred to in the first paragraph presents fairly, in all material respects, the financial position of Charter Oak State College as of June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated DATE, on our consideration of Charter Oak State College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a 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. 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 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.

Certified Public Accountants
Braintree, Massachusetts

DATE

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

The following discussion and analysis provides an overview of the financial position and activities of Charter Oak State College (the "College") for the fiscal year ended June 30, 2012, along with comparative information for the fiscal year ended June 30, 2011 (unaudited). This discussion has been prepared by and is the responsibility of Charter Oak management, and should be read in conjunction with the financial statements and footnote disclosures which follow this section. The discussion immediately following reflects Charter Oak State College as it existed during fiscal year 2012. Organizational and governance changes which were enacted by the state legislature effective July 1, 2012 are incorporated in the analysis.

Charter Oak State College is now one of 17 public institutions governed by the Board of Regents. Prior to FY 12, the 4 state universities, 12 community colleges, and Charter Oak State College were governed by separate Boards. In 2011, the governor and the legislature desired a higher education system that would be organized by one board and have one system office. This arrangement was desired to decrease administrative costs to operate and savings could be used to support additional faculty and student services. Prior to FY 12, the state universities and the community colleges each had a central office; Charter Oak did not. This change became effective July 1, 2012.

In addition to cost savings from creating a single system office, the reorganization also resulted in more consistent practices by all 17 institutions. One of those changes was for Charter Oak to have an independent audit done for the first time in FY 12. The state universities and the community colleges routinely had independent audits completed each year. Charter Oak financial statement comparisons to FY 11 are to summaries that are not independently audited.

Aside from higher education reorganization, the state was able to secure an agreement with the state unions to reduce state government costs by freezing wages for two years. Changes were also made to health insurance; contributions to the health retirement fund; and retirement age eligibility. In exchange for freezing wages in FY 12 & FY 13 and changing other benefits, the state and the unions agreed to a no layoff agreement for four years through FY 15 for all employees hired prior to July 1, 2011.

Prior to the reorganization, Charter Oak State College was governed by the Board for State Academic Awards (BSAA) from 1973 to November 30, 2011. In 1998, the BSAA created the CT Distance Learning Consortium ("CTDLC") as an independent operation with a different mission than the College. The College's role was to serve the residents of CT and outside of CT with a variety of credit aggregation mechanisms to assist adults to complete their college degrees. The CTDLC in contrast was created to provide services and support to help educational institutions and other learning focused organizations in and out of CT to meet the ever increasing demands of developing and delivering effective technology enhanced learning

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

opportunities for students in higher education, K-12 and adult education, and in the workplace to promote workforce training and development.

The reorganization also collapsed two distinct state appropriations; one for Charter Oak and one for the CTDLC into one appropriation described as Charter Oak State College. The single appropriation clouds the mission of the college and the distinct focus of the CTDLC. While the State provides one appropriation, the agency continues to budget and record expenses separately. Distinct financial statements are presented for the College and the CTDLC. The state appropriation is divided based on historical funding percentages and revenues and expenditures are recorded appropriately for each entity.

Charter Oak State College, which is the state's online college, was authorized by Section 28, 10a-143 (c) of the CT general statutes. It offers 4 General Studies degrees: Associate of Arts, Associate of Science, Bachelor of Arts, and Bachelor of Science and can offer Master's Degrees. The college's first Master's Degree is awaiting approval by the Board of Regents. Sixteen concentrations are available exclusively using Charter Oak online courses from transfer credits, examination, or prior learning evaluation. An additional 28 concentrations can be achieved using courses from other institutions and eleven certificates programs are also offered.

In 2012, 3,183 students, a 23% increase over 2011, were enrolled in degree programs compared to 2,594 in fiscal year 2011 and 26,246 credit hour course registrations compared to 28,178 in 2011, a 6.8% decline.

Three semesters of courses are offered annually by the College; 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 in a program three times a year in the fall, spring, or summer.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Financial Highlights – All Comparisons to FY 2011 are to Unaudited Financial Summaries

Charter Oak State College had \$5,357,292 in total assets, total liabilities of \$1,954,714, and total net assets of \$3,402,578 at the end of fiscal year 2012. Of this amount, \$922,504 is classified as unrestricted net assets, a \$626,157 decrease from FY 2011.

Total operating revenues from student tuition and fees, grants and contracts, and other college activities (net of scholarship allowances) were \$7,773,256, a 3.6% decrease over the previous fiscal year. Operating expenses were \$11,297,370 a 1% decrease over the previous fiscal year, resulting in an operating loss of \$3,524,114 during the year ended June 30, 2012. Net non-operating revenues and other changes were \$2,701,894, down 13% from the previous year, reflecting in large part, a 15% decrease in the State appropriation. Every dollar lost in State funding costs the College \$1.40 to absorb the fringe benefits and retirement (employer social security and retirement contributions), Medicare, Worker's Compensation, Unemployment Insurance, and medical and dental costs.

Cash and cash equivalents were \$2,575,966 at the end of June 30, 2012. Cash was down from \$3,378,410 or 23.8% from June 30, 2011. This is primarily due to the drop in planned course enrollment in FY 2012.

Overview 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 2012 financial data with fiscal year 2011 (unaudited) is also presented. The College 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.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Overview of the Financial Statements - Continued

Charter Oak State College 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 Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. A review of these financial statements can provide information regarding both 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.

Included in Charter Oak's financial statements as a component unit is the College's Foundation. 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 a private, not-for-profit corporation rather than a government agency, the Foundation reports using different generally accepted accounting principles (GAAP) than do 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, applicable to the college Foundation. While the College's financial statements include the Foundation, no attempt has been made to reformat or compare incomparable FASB standards applied by the Foundation with GASB standard applied by the college, 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 College's statements refer to the College as the primary institution and not to the Foundation.

The **Statement of Net Assets** presents the overall financial position of the College at the end of fiscal year 2012 compared with fiscal year 2011, and includes all assets and liabilities, including capital assets net of depreciation. The difference between total assets and total liabilities, or net assets, is one indicator of the current financial condition. Over time, increases or decreases in net assets may serve as an indicator of whether the financial health of the College is improving or deteriorating, although other factors including enrollment and condition of physical facilities must also be considered. The Statement of Net Assets classifies assets and liabilities as current and non-current. In general, current liabilities are those that will be paid within one year of the date of the statement of net assets. Current assets are those that are available to satisfy current liabilities. Comparisons of current assets to current liabilities can provide an indication of the College's ability to meet its obligations in the short term.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Overview of the Financial Statements - Continued

Net asset balances represent resources available to support future operations. Net assets classified as Invested in Capital Assets provide an indication of the State's and the College'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 assets provide an indication of non-exchange resources available for specific purposes based on donor or legal restrictions, including unexpended capital (bond fund), appropriations, scholarship donations, and other non-capital gifts. Unrestricted Net Assets provide 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 College as well as its ability to weather short-term financial difficulties.

The **Statement of Revenues, Expenses and Changes in Net Assets (SRECNA)**, like the Statement of Net Assets, 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 and 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 SRECNA provides information regarding whether the College is receiving sufficient revenues each year to cover the costs incurred in providing its educational and other services to students and the public.

The SRECNA classifies revenues and expenses into operating and non-operating. Operating revenues – those which are generated as a result of the College's educational and public service activities – do not include State appropriations. Therefore, the college 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 Assets.

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, above any amounts used to satisfy tuition and fee charges. The SRECNA shows both the gross and contra, or reduction, tuition and fee revenue amounts.

CHARTER OAK STATE COLLEGE

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Management's Discussion and Analysis - Continued

Overview of the Financial Statements - Continued

Governments including public colleges and universities are required under GASB 34 and 35, to record depreciation expense for all capital assets. The SRECNA 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, capital financing, and investing activities. State appropriations, which are considered to be cash equivalents, are also included in this statement. 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 college'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 assets and the associated cash receipts and payments.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Overview of the Financial Statements - Continued

	<u>2012</u>	<u>2011</u>	<u>% Change Current Year</u>
Assets:			
Current assets	\$ 2,939,269	\$ 3,755,601	-22%
Non-current assets	<u>2,418,023</u>	<u>2,482,132</u>	-3%
Total Assets	\$ <u>5,357,292</u>	\$ <u>6,237,733</u>	-14%
Liabilities:			
Current liabilities	\$ 1,461,486	1,545,450	-5%
Non-current liabilities	<u>493,228</u>	<u>467,485</u>	6%
Total Liabilities	<u>1,954,714</u>	<u>2,012,935</u>	-3%
Net Assets:			
Invested in capital assets, net of related debt	<u>2,418,023</u>	2,482,132	-3%
Restricted - nonexpendable	62,051	194,005	-68%
Unrestricted	<u>922,504</u>	<u>1,548,661</u>	-40%
Total Net Assets	<u>3,402,578</u>	<u>4,224,798</u>	-19%
Total Liabilities and Net Assets	\$ <u>5,357,292</u>	\$ <u>6,237,733</u>	-14%

Total assets were \$5,357,292 at the end of the 2012 fiscal year, down from \$6,237,733 or 14% at the end of the 2011 fiscal year.

Current assets include cash and equivalents of \$2,575,966, compared to \$3,378,410 or 24% less than in fiscal year 2011. Current assets also include student tuition and fee receivables of \$596,095, net of \$247,123 in doubtful accounts. Other current assets include prepaid expenses for memberships and subscriptions of \$14,331 compared to \$9,184 in fiscal year 2011. Total current assets decreased to \$816,332 or 21.7%, down from \$3,755,601 in fiscal year 2011.

Other assets (net), increased 111% to \$172,698 from \$81,808 in fiscal year 2011 for primarily software purchases. Investment in plant and equipment decreased slightly by 1% to \$4,071,987 in fiscal year 2012 from \$4,130,517 in fiscal year 2011. Investment in plant and equipment, net of accumulated depreciation decreased to \$2,245,325 or 7% from \$2,400,418 in fiscal year 2011. Total noncurrent assets were 3% less than fiscal year 2011, which represents \$2,418,023 compared to \$2,482,132 in fiscal year 2011.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Overview of the Financial Statements - Continued

	<u>2012</u>	<u>2011</u>	<u>% Change Current Year</u>
Operating Revenues:			
Student tuition and fees	\$ 7,559,097	\$ 7,637,329	-1%
Less: scholarship discounts and allowances	<u>(1,622,505)</u>	<u>(1,505,876)</u>	8%
Net tuition and fees	5,936,592	6,131,453	-3%
Federal grants	1,553,219	1,468,882	6%
Additional operating revenues	<u>283,445</u>	<u>460,496</u>	-38%
 Total Operating Revenues	 7,773,256	 8,060,831	 -4%
Operating Expenses	<u>11,297,370</u>	<u>11,364,988</u>	-1%
Operating loss	<u>(3,524,114)</u>	<u>(3,304,157)</u>	7%
Non-Operating Revenues (Expenses):			
State appropriations	2,614,869	3,063,451	-15%
Other non-operating revenues (expenses), net	<u>87,025</u>	<u>45,104</u>	95%
 Net non-operating revenues	 <u>2,701,894</u>	 <u>3,108,555</u>	 -13%
Net Decrease in Net Assets	<u>(822,220)</u>	<u>(195,602)</u>	-320%
Net Assets:			
Net Assets - Beginning of Year	<u>4,224,798</u>	<u>4,420,400</u>	-4%
 Net Assets - End of Year	 <u>\$ 3,402,578</u>	 <u>\$ 4,224,798</u>	 -19%

Total operating revenues for fiscal year 2012 were down 4% compared to fiscal year 2011. The change was from \$8,060,831 in previous fiscal year to \$7,773,256 in fiscal year 2012. The 3% decline of net tuition was due to the application of state waivers to tuition for the first time and an increase of students utilizing financial aid. In addition to the change in net tuition, state and local as well as nongovernmental contracts were 59% and 43% lower than fiscal year 2011. Auxiliary revenues primarily represent the activity of the college's Testing Center. The federal grants increased 6%; attributed to more financial aid to students.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Overview of the Financial Statements - Continued

Total operating expenses decreased 1% in fiscal year 2012 compared to fiscal year 2011. The change was from \$11,364,988 in the previous fiscal year to \$11,297,370 in fiscal year 2012. While the decrease in expenses is small the distribution of expenses are very different. Personnel service and fringe benefits were 16% higher increasing from \$7,607,058 in fiscal year 2011 to \$9,045,102. The College transitioned all faculty to payroll in fiscal year 2012 with an average of 27% in fringes. Also for fiscal year 2012, the College had to pay an extra or 27th payroll that only happens once every 10 years. The professional services line decreased 89% from \$1,328,857 in fiscal year 2011 to \$140,788 in fiscal year 2012 reflecting the shift of faculty to employee status.

The remaining major change in the operating expenses was the 265% increase in bad debt in fiscal year 2012. This changed from \$61,183 to \$223,052 in fiscal year 2012. This was due primarily to an alignment to student loan limits set by the federal government that created higher disbursement values to students. In 2011 the College did not routinely allocate the full value of a student loan. Students had to request approval to the full limit. This practice was cancelled to comply with federal loan requirements. Since students that do not earn their entire financial aid award have to have funds returned to the federal government, a higher level of funds had to be returned to the government. The college is in the process of trying to collect these funds from students.

The College recorded an operating loss of \$3,524,114. This is a 7% increase in fiscal year 2012 compared to \$3,304,157 in the previous year. Due to the GASB 35 requirements, the State general fund and related benefits are classified as non operating revenues. The net non-operating revenues were \$2,701,894 in fiscal year 12 down 11% from \$3,108,555 the previous year. The largest dollar change was a decrease of \$448,582 in the State appropriation, which resulted in higher fringe benefit costs on the operating budget expense. The State appropriation does include the fringe benefits paid directly by the State.

Net assets decreased from \$4,224,798 at the beginning of fiscal year 2012 to \$3,402,578.

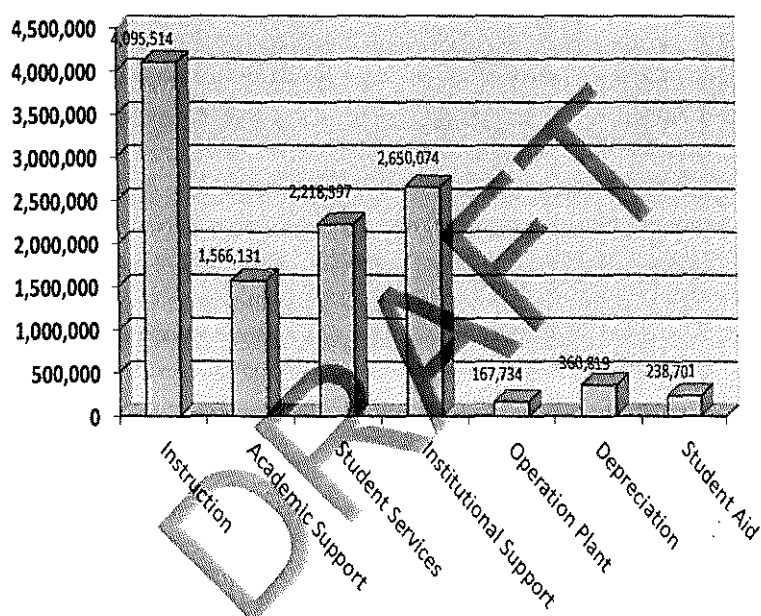
CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Overview of the Financial Statements - Continued

The functional classification of expenses is as follows:



The statement of cash flows utilizes the direct method and outlines cash receipts and payment summaries for fiscal year 2012. Receipts are from tuition and fees, sales and services, State appropriation, interest and dividends, and other receipts. Outflows are for salaries and wages and payments to vendors for goods and services. Net cash applied to operating activities is \$2,474,034. Net cash provided by financing activities is \$1,666,384. Net cash provided by investing activities is \$5,206.

Cash and cash equivalents at the beginning of fiscal year 2012 were \$3,378,410 and the value at the end of the year was \$2,575,966. The end of the year value is 24% less than fiscal year 2011.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Factors Impacting Future Results

Online colleges are facing stiffer competition as “brick and mortar” colleges and universities add online programs to their offerings. More programs focused on adults are also more prevalent. Fiscal year 2012 was a difficult year for some private online institutions and enrollments declined up to 24%. Charter Oak also had a decrease in course enrollment of 6.8% which was a significantly different course enrollment year than the historic yearly increases of 14% or more.

Attracting and retaining students; new and unique program offerings; administrative effectiveness; and expanded service opportunities will strengthen the operation and sustainability of the College. Attracting students and new and unique program offerings are critical to drawing new students to the College.

In fiscal year 2012, the College expended considerable energy on the development of two new programs. The Health Information Management program was developed based on market research and industry representatives to supply formal training and certification for this growing field. The program curriculum was developed and all but one of the approval processes was completed in fiscal year 2012. The final approval from the New England Association of Schools and Colleges was received in fiscal 2013 and the program will launch in the spring of the same fiscal year. The other significance of this program is that it will be the first major offered by the College. In the past concentrations were exclusively offered.

In addition to this new program, the College's first master's degree program in Organizational Effectiveness was presented to the Board of Regents for approval in fiscal year 2012. While this program has yet to be approved, action on the submission is expected in fiscal year 2013.

While new programs are being developed, the College continually reviews its marketing and admissions activities and processes in order to adapt the current processes/activities. More regular “personal follow-up” with inquiries and applicants are now in place. Another major change for the College was the change in the fee structure for entering students. In the past students would pay an annual matriculation fee in excess of \$1,000 upon entry to the College. This fee has been reduced to \$165 each semester for state resident students in fiscal year 2012. While course enrollments have not increased in fiscal year 2012, matriculated increased by 23% over the previous year. These activities are expected to continue to increase admitted students and course enrollments.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Factors Impacting Future Results - Continued

Retaining students is also a more vigilant activity of the College. Students that do not return each semester for coursework are contacted in several ways by College 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.

Administrative effectiveness is also critical to react to trends with more productive approaches. The bad debts of students, which are mostly related to returns of Title IV aid increased tremendously in fiscal year 2012. Based on this trend, the College changed its disbursement process from once a semester to two times a semester. This change reduced the spring returns of federal aid in half during the spring semester of fiscal year 2012 and this change is expected to lower the amount of bad debt going forward. In addition to this change, faculty are more proactive in reporting lack of student engagement in courses to the Registrar's Office. This change has also reduced the number of disbursements to students that are not engaged in their courses.

Administrative efforts to impact the funding model of the College is critical. Compared to the Community Colleges and the CSU's, the college state appropriation supports only 17% of personnel costs compared to a 35% average of the other Board of Regent's (BOR) institutions. No support for instructional costs is provided. This funding level requires that 80% of the college's operating expenses go to support personnel. This is compared to a 69% of other BOR constituent units. Management's influence on the BOR funding model is necessary to enhance sustainability.

Since tuition represents 64% of operating revenue compared to an average of 42% for the Community Colleges and CSU's, management must also broaden the revenue stream through additional opportunities through vehicles like continuing education programs.

Pursuit of energy management savings activities and a continuous review of the use of technology to support the services of the College are also ongoing activities.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Factors Impacting Future Results - Continued

The reductions in the State appropriation have also increased the activities of the administration to identify other funding streams to support the College. This focus has led to a number of discussions with various potential partners to expand programs and services more quickly and with fewer resources. These include credit and non credit courses for new targeted audiences; new certificates; new approaches and expansion of credit assessment; and more discussions on grant or contractual partnerships. The recent reorganization of public higher education in CT is also expected to create new opportunities for the College working in collaboration with the other 16 colleges in the Board of Regents. All of these activities are expected to increase the services that are offered to the residents of the State of Connecticut and national audiences. The combination of all of these strategies is expected to yield positive results for the institution in fiscal year 2013 and beyond.

Requests for Information

This financial report is designed to provide a general overview of the College'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.

CHARTER OAK STATE COLLEGE
(a Component Unit of the State of Connecticut)

Statements of Net Assets

June 30, 2012

CHARTER OAK STATE COLLEGE

(a component unit of the State of Connecticut)

Statements of Net Assets

June 30, 2012

Assets

	(Audited) Primary Government	(Audited) Component Unit
	<u>College</u>	<u>Foundation</u>
Current Assets:		
Cash and cash equivalents	\$ -	\$ 75,637
Cash held by State Treasurer	2,575,966	-
Accounts receivable, net	348,972	514
Investments	-	1,346,955
Prepaid expenses and other current assets	14,331	625
Total Current Assets	<u>2,939,269</u>	<u>1,423,731</u>
Non-Current Asset:		
Capital assets, net	<u>2,418,023</u>	<u>-</u>
Total Assets	<u>\$ 5,357,292</u>	<u>\$ 1,423,731</u>

Liabilities and Net Assets

Current Liabilities:		
Accounts payable	\$ 80,191	\$ 7,500
Accrued payroll	332,278	-
Accrued employee compensated absences	394,380	-
Unearned tuition revenues	654,637	-
Total Current Liabilities	<u>1,461,486</u>	<u>7,500</u>
Non-Current Liabilities:		
Accrued employee compensated absences	<u>493,228</u>	<u>-</u>
Total Liabilities	<u>1,954,714</u>	<u>7,500</u>
Net Assets:		
Invested in capital assets, net of related debt	2,418,023	-
Restricted-nonexpendable	-	1,022,768
Restricted-expendable	62,051	339,057
Unrestricted	<u>922,504</u>	<u>54,406</u>
Total Net Assets	<u>3,402,578</u>	<u>1,416,231</u>
Total Liabilities and Net Assets	<u>\$ 5,357,292</u>	<u>\$ 1,423,731</u>

See accompanying notes to the financial statements.

CHARTER OAK STATE COLLEGE

(a component unit of the State of Connecticut)

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2012

	(Unaudited) Primary Government	(Audited) Component Unit
	<u>College</u>	<u>Foundation</u>
Operating Revenues:		
Tuition and fees	\$ 7,559,097	\$ -
Less: scholarships and fellowships	<u>1,622,505</u>	<u>-</u>
Net tuition and fees	5,936,592	-
Federal grants and contracts	1,553,219	-
State grants and contracts	50,354	-
Private grants and contracts	88,160	-
Auxiliary enterprises	129,359	-
Other operating revenues	<u>15,572</u>	<u>-</u>
Total Operating Revenues	<u>7,773,256</u>	<u>-</u>
Operating Expenses:		
Educational and general:		
Instruction	4,095,514	-
Scholarships and fellowships	238,701	84,749
Academic support	1,566,131	-
Student services	2,218,397	-
Institutional support	2,650,074	39,544
Operation and maintenance of plant	167,734	-
Depreciation	<u>360,819</u>	<u>-</u>
Total Operating Expenses	<u>11,297,370</u>	<u>124,293</u>
Net Operating Income (Loss)	<u>(3,524,114)</u>	<u>(124,293)</u>
Non-Operating Revenues (Expenses):		
State appropriations	2,614,869	-
Contributions	24,500	84,492
Other	58,356	-
Loss on disposal of capital assets	(1,037)	-
Investment income	<u>5,206</u>	<u>23,750</u>
Net Non-Operating Revenues (Expenses)	<u>2,701,894</u>	<u>108,242</u>
Total Decrease in Net Assets	(822,220)	(16,051)
Net Assets, at Beginning of Year	<u>4,224,798</u>	<u>1,432,282</u>
Net Assets, at End of Year	<u>\$ 3,402,578</u>	<u>\$ 1,416,231</u>

See accompanying notes to the financial statements.

CHARTER OAK STATE COLLEGE

(a component unit of the State of Connecticut)

Statements of Cash Flows

For the Years Ended June 30, 2012

(Unaudited)
Primary
Government

College

Cash Flows from Operating Activities:

Tuition and fees	\$ 5,905,558
Grants and contracts	1,691,733
Payments to employees	(8,521,937)
Payments to suppliers and vendors	(1,455,618)
Payments to students	(238,701)
Auxiliary enterprises receipts	129,359
Other operating receipts	15,572
Net Cash Applied to Operating Activities	<u>(2,474,034)</u>

Cash Flows from Non-Capital Financing Activities:

State appropriations	1,881,201
Contributions	24,500
Other	58,336
Net Cash Provided by Non-Capital Financing Activities	<u>1,964,037</u>

Cash Flows from Capital Financing Activity:

Purchases of capital assets	<u>(297,653)</u>
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Cash Flows from Investing Activity

Interest on investments	<u>5,206</u>
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Net Decrease in Cash and Equivalents

(802,444)

Cash and Equivalents, Beginning of Year

3,378,410

Cash and Equivalents, End of Year

\$ 2,575,966

Reconciliation of Net Operating Loss to Net Cash

Applied to Operating Activities:

Net operating loss	<u>\$ (3,524,114)</u>
Adjustments to reconcile net operating loss to net cash applied to operating activities:	
Depreciation	360,819
Accounts receivable recovery	185,866
Fringe benefits provided by the state	733,668
Changes in assets and liabilities:	
Accounts receivable	(166,905)
Prepaid expenses and other current assets	(5,147)
Accounts payable	15,374
Accrued payroll	(253,369)
Accrued employee compensation and benefits	43,903
Unearned tuition revenues	135,871
Net Cash Applied to Operating Activities	<u>\$ (2,474,034)</u>

Non-Cash Transaction:

Fringe benefits provided by the state	<u>\$ 733,668</u>
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See accompanying notes to the financial statements.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements

June 30, 2012

Note 1 - Summary of Significant Accounting Policies

Organization

Charter Oak State College (the "College") 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. The College is located in New Britain, Connecticut and provides instruction and training in a variety of liberal arts, sciences and business fields of study. The College is accredited by the New England Association of Schools and Colleges.

On June 13, 2011, the Legislation placing Connecticut Distance Learning Consortium and Charter Oak State College under the Board of Regents for Higher Education was enacted, consolidating its governing authority within a single authority including the Connecticut State University System and the Community-Technical College System.

Basis of Presentation and Accounting

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

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

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 College and meets the requirements of a component unit of the College. The Foundation is legally separate from the College, and the College is not financially accountable for the Foundation. The Foundation has been included because of the nature and significance of its relationship with the College. Complete financial statements can be obtained from the Foundation's administrative office in New Britain, Connecticut.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation and Accounting - Continued

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 statement of activities demonstrates 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 College 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 financial statements. The basic financial statements and required supplementary information for general purpose governments consist of management's discussion and analysis, basic financial statements including the College's discretely presented component unit and required supplementary information. The College presents statements of net assets, revenues, expenses, and changes in net assets and cash flows on a combined college-wide basis.

The College's policy for defining operating activities in the statement of revenues, expenses and changes in net assets 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 College's operating and capital appropriations from the State of Connecticut, net investment income and interest expense.

The College's 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. Governments are also required to follow applicable pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 that do not conflict with or contradict GASB pronouncements. Although the College has the option to apply FASB pronouncements issued after that date to its business-type activities, it has chosen not to do so.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Net Assets

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

Invested in capital assets, net of related debt: 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 assets subject to externally imposed conditions that the College must maintain them in perpetuity.

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

Unrestricted: All other categories of net assets. Unrestricted net assets may be designated by actions of the College's Board of Regents.

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

Cash and 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 the College 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 College 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 is included in the cash flow statement. Fringe benefit payments are made by the State Comptroller on behalf of the College, and information regarding the associated fringe benefit expense is provided to the College with each biweekly payroll. This is treated as a cash equivalent on the statement of cash flows.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

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. College 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.

The College 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.

With the introduction of GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets ("GASB51") in 2012 all identifiable intangible assets, not specifically excluded, are included as intangible assets in the College statement, in accordance with the College policy regarding capitalization.

Fringe Benefits

The College 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 College. Workers' compensation costs are assessed separately based on the College's actual experience.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Compensated Absences

Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2012. 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, 2012. 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.

Student Fees

Student tuition and fees are presented net of scholarships and fellowships applied to students' accounts. 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.

Tax Status

The College is an agency 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.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

New Governmental Accounting Pronouncements

GASB Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011, establishes accounting requirements for arrangements between a transferor and operator in which (a) the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or other public asset in exchange for significant consideration and (b) the operator collects and is compensated by fees from third parties. This statement applies only to arrangements meeting specific criteria determining whether a transferor retains control over the public asset. Management does not believe the College currently has any material Service Concession Arrangements.

GASB Statement 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements 14 and 34*, effective for periods beginning after June 15, 2012, modifies certain requirements for inclusion of component units in the financial reporting entity. Management of the College does not expect implementation to effect the financial statements.

GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee of Accounting Procedure. Management of the College does not expect implementation to affect the financial statements.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

New Governmental Accounting Pronouncements - Continued

GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011, provides financial reporting guidance. Deferred outflows are the consumption of net assets and deferred inflows are the acquisition of net assets, applicable to future reporting periods. Net position is identified by Concepts Statement No. 4 as the residual of all other elements presented in a statement of financial position and requires the incorporation of deferred outflows and inflows into the required components of the residual measure and renaming that measure, known as net assets, as net position. Management is in the process of reviewing this statement and its potential affect upon their financial reporting but does not expect any material impact.

GASBS 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, establishes accounting and financial reporting standards for the reclassification of certain assets and liabilities in accordance with GASBS 63. Management expects this statement to have no effect on the financial statements.

GASBS 66, *Technical Corrections -2012 – an amendment of GASB Statements 10 and 62*, effective for periods beginning after December 15, 2012 resolves conflicts between recently issued and earlier GASB statements as well as modifying guidance related to accounting for certain operating leases. Management is in the process of reviewing this statement and its potential affect upon their financial reporting but does not expect any material impact.

Note 2 - Cash and Equivalents

Cash is invested in the State of Connecticut Treasure's STIF, a combined investment pool of high quality, short-term money market instruments. All temporary surplus cash is invested in the STIF. The College 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 College daily cash flow requirements.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

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 net assets at the time of execution.

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

Credit Risk – Credit risk is the risk that an investor will lose money because of the default of the security issuer or investment counterparty. The College 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 College's total cash and cash equivalents are invested in the STIF or consist of State general fund and capital bond fund appropriations allocated to the College which are backed by cash held by the state as of June 30, 2012.

Note 3 - Accounts Receivable

The accounts receivable balance is comprised of the following at June 30, 2012:

Student accounts receivable	\$ 596,095
Less: allowance for doubtful accounts	<u>(247,123)</u>
	\$ <u>348,972</u>

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 4 - **Investments**

Foundation

Investments of Charter Oak State College Foundation, Inc. are stated at fair value and consist of the following at June 30, 2012:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Vanguard Emerging Markets Stock Index Fund	\$ 10,194	\$ 15,879	\$ 5,685
Vanguard Total International Stock Index Fund	203,717	191,052	(12,665)
Vanguard Strategic Equity Index Fund	41,380	47,867	6,487
Vanguard Intermediate Term Investment Index Fund	165,064	162,055	(3,009)
Vanguard Short Term Investment Index Fund	73,745	74,664	919
Vanguard Total Bond Market Index Fund	265,885	271,133	5,248
Vanguard Growth Index Fund	95,603	112,455	16,852
Vanguard Total Stock Market Index Fund	274,694	315,069	40,375
Vanguard Windsor II Fund	95,938	109,453	13,515
Vanguard Explorer Fund	<u>40,866</u>	<u>47,328</u>	<u>6,462</u>
	\$ <u>1,267,086</u>	\$ <u>1,346,955</u>	\$ <u>79,869</u>

The following schedule summarizes the investment return and its classification in the statements of revenues, expenses, and changes in net assets for the years ended June 30, 2012:

Interest and dividends	\$ 32,595
Net unrealized and realized gains (losses)	<u>(8,845)</u>
Total	\$ <u>23,750</u>

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2012 is as follows:

	Estimated lives (in years)	(Unaudited) Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital assets, not depreciated:						
Land		\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
Capital assets, depreciated:						
Buildings and improvements	10-40	2,401,440	-	-	-	2,401,440
Furnishings and equipment (including the cost of capital leases)	6	1,714,076	154,743	(213,272)	-	1,655,547
Software	5	284,776	142,910	-	-	427,686
Total depreciated capital assets		4,400,292	297,653	(213,272)	-	4,484,673
Total capital assets		4,415,292	297,653	(213,272)	-	4,499,673
Less: accumulated depreciation:						
Buildings and improvements		768,098	82,475	-	-	850,573
Furnishings and equipment		962,000	226,324	(212,235)	-	976,089
Software		202,968	52,020	-	-	254,988
Total accumulated depreciation		1,933,066	360,819	(212,235)	-	2,081,650
Capital assets, net		\$ 2,482,226	\$ (63,166)	\$ (1,037)	\$ -	\$ 2,418,023

Note 6 - Long-Term Liabilities

Long-term liabilities at June 30, 2012 consist of:

	(Unaudited) Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Other long-term liabilities:					
Vacation	\$ 659,084	\$ -	\$ -	\$ 659,084	\$ 368,989
Sick	143,811	84,713	-	228,524	25,391
Total long-term liabilities	\$ 802,895	\$ 84,713	\$ -	\$ 887,608	\$ 394,380

CHARTER OAK STATE COLLEGE
(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 6 - Long-Term Liabilities - Continued

Leases

The College leases various equipment under operating lease agreements. The following summarizes future minimum payments under non-cancelable leases subsequent to the year ended June 30, 2012:

Years Ending June 30:	Operating Leases
2013	\$ 61,020
2014	20,912
2015	<u>7,104</u>
	<u>\$ 89,036</u>

Rent expense for operating leases was \$57,856 for the year ended June 30, 2012.

Note 7 - Restricted Net Assets

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

Restricted - expendable net assets 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 assets consist of funds, whose income is mainly used for various scholarships, grants and other general purposes.

Note 8 - Contingencies

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

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 8 - **Contingencies - Continued**

The College 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 College 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 College.

Note 9 - **Operating Expenses**

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

	<u>2012</u>
Compensation and benefits	\$ 9,045,102
Supplies and services	1,652,748
Depreciation	360,819
Scholarships and fellowships	<u>238,701</u>
	<u>\$ 11,297,370</u>

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 College 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.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 10 - Retirement and Other Post Employment Benefits - Continued

Retirement - Continued

Plan Description - Continued

Employees hired before July 1, 1984 participate in the old (Tier 1) Plan, which includes employee contributions; other employees may participate in the Tier II or Tier IIA Plans. As of June 30, 2012, approximately thirty-one percent (31%) of the College workforce was covered under the Tier II or Tier II A Plans. The College 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 College and the plan participants purchase individual investments managed by ING.

Funding Policy

The contribution requirements of plan members and the State are established and maybe 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 up to the Social Security Taxable Wage Base plus 5% above that level. Tier I Plan C members are required to contribute 5% of their annual salary. Tier IIA Plan regular and Hazardous Duty members are required to contribute 2% and 5% of their annual salaries, respectively. The State is required to contribute at an actuarially determined rate, which may be reduced by an act of the State legislature. 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 the College 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 College. Additionally, the information for fiscal year 2012 is not available as of the issue date of the College's financial statements and, therefore, the following information is as of June 30, 2011.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

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

Retirement - Continued

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

The liability for the pension plan will be recorded by the State of Connecticut, which has communicated to the College that the College 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, 2011 are as follows (in thousands):

Annual required contribution	\$ 944,077
Interest on net pension obligation	232,919
Adjustment to annual required contribution	<u>(177,735)</u>
Annual pension cost	999,261
Contributions made	<u>825,801</u>
Increase in net pension obligation	173,460
Net pension obligation, beginning of year	<u>2,740,231</u>
 Net pension obligation, end of year	 \$ <u>2,913,691</u>

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>
2009	\$ 810,776	86.3%	\$ 2,508,005
2010	952,753	75.6%	2,740,231
2011	999,261	82.6%	2,913,691

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 10 - Retirement and Other Post Employment Benefits - Continued

Retirement - Continued

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

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, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, closed
Remaining amortization period	21 years
Asset valuation method	5 year smoothed market
Actuarial assumptions	
Investment rate of return	8.25%
Projected salary increases (includes inflation of 4%)	4.0% - 20.0%
Cost of living adjustments	2.7% - 3.6%

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>
6/30/05	\$ 8,517.7	\$ 15,987.5	\$ 7,469.8	53.3%	\$ 2,980.1	250.7%
6/30/06	8,951.4	16,830.3	7,878.9	53.2%	3,107.9	253.5%
6/30/07	9,585.1	17,888.1	8,303.0	53.6%	3,310.4	250.8%
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 *	-	-	-	-	-	-

*An actuarial valuation was not performed for the fiscal years ended June 30, 2009 and 2011.

CHARTER OAK STATE COLLEGE

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 10 - Retirement and Other Post Employment Benefits - Continued

Retirement - Continued

Other Post-Employment Benefits

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

During fiscal year 2008, the College 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 College's financial statements. The liability for post-employment benefits will be recorded by the State of Connecticut, which has communicated to the College that the College 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 College distributed approximately \$5,348,000 as of June 30, 2012 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 financial statements.

**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***

**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 the financial statements of Charter Oak State College (the "College") as of and for the years ended June 30, 2012 and have issued our report thereon dated DATE. 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.

Internal Control Over Financial Reporting

Management of Charter Oak State College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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 College's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of 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*.

We noted certain matters that we reported to management of the College in a separate letter dated **DATE**.

This report is intended solely for the information and use of the Board of Regents and management of Charter Oak State College and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants
Braintree, Massachusetts

DATE

DRAFT

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

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

JUNE 30, 2012

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Financial Statements and Management's Discussion and Analysis

June 30, 2012

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of the Connecticut Distance Learning Consortium (a component unit of the State of Connecticut ("CTDLC")) as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of CTDLC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Because we were not engaged as auditors until after June 30, 2011, we did not perform audit procedures related to the Statement of Net Assets as of June 30, 2011, and we have not satisfied ourselves by means of other auditing procedures about beginning balances of the Statement of Net Assets. Also, in accordance with the terms of our engagement, we have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the Statement of Net Assets at June 30, 2011. The amount of accounts receivable and accrued payroll and related benefits, and other significant aspects of the Statement of Net Assets at June 30, 2011, including classifications and amounts, materially affect the determination of the results of operations and cash flows for the year ended June 30, 2012.

Because of the significance of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of operations and cash flows for the year ended June 30, 2012, or on the consistency of application of accounting principles with the preceding year.

In our opinion, the accompanying Statement of Net Assets referred to in the first paragraph presents fairly, in all material respects, the financial position of the Connecticut Distance Learning Consortium as of June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated DATE, on our consideration of the Connecticut Distance Learning Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a 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. 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 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.

Certified Public Accountants
Braintree, Massachusetts

DATE

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis

The CT Distance Learning Consortium ("CTDLC") (the "consortium") was created by the former Board for State Academic Awards in 1999 to provide services and support to help educational institutions and other learning focused organizations in and out of CT meet 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.

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

- Learning Systems Hosting
- Instructional Design
- Technical Support (support center services and web and software development to support learning services)
- Online Tutoring Services
- K-12 and Adult education services
- Strategic Consulting
- Consortium priced LMS software pricing
- Grants & Partnerships

Financial Highlights - All Comparisons to FY 2011 are to Unaudited Financial Summaries

The CT Distance Learning Consortium had \$689,962 in total assets, liabilities of \$304,787, and a total net asset balance of \$385,175. Of this amount, \$87,510 is classified as unrestricted net assets, a \$221,987 decrease from FY 2011.

Total operating revenues from fees, grants, and contracts were \$1,598,130, a 6% decrease over the previous fiscal year. Operating expenses were \$3,417,145, a .3% increase over the previous fiscal year, resulting in an operating loss of \$1,819,015 during the year ended June 30, 2012. Net non-operating revenues and other changes were \$1,232,547 down 37% from the previous year.

Cash and cash equivalents were \$332,617 at the end of June 30, 2012. Cash was down from \$1,008,042 or by \$675,425 from June 30, 2011.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Overview 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, 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 2012 financial data with fiscal year 2011 is also presented. The Consortium 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.

CT Distance Learning Consortium reports as a special-purpose government engaged only in business-type activities. Required financial statements include the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. A review of these financial statements can provide information regarding both 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.

The **Statement of Net Assets** presents the overall financial position of CT Distance Learning Consortium at the end of fiscal year 2012 compared with fiscal year 2011, and includes all assets and liabilities, including capital assets net of depreciation. The difference between total assets and total liabilities, or net assets, is one indicator of the current financial condition. Over time, increases or decreases in net assets may serve as an indicator of whether the financial health of the consortium is improving or deteriorating, although other factors including enrollment and condition of physical facilities must also be considered. The Statement of Net Assets classifies assets and liabilities as current and non-current. In general, current liabilities are those that will be paid within one year of the date of the statement of net assets. Current assets are those that are available to satisfy current liabilities. Comparisons of current assets to current liabilities can provide an indication of the consortium's ability to meet its obligations in the short term.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Overview of the Financial Statements - Continued

Net asset balances represent resources available to support future operations. Net assets classified as Invested in Capital Assets, Net of Related Debt provide an indication of the State's and the consortium'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 assets provide an indication of non-exchange resources available for specific purposes based on donor or legal restrictions, including unexpended capital (bond fund), appropriations, scholarship donations, and other non-capital gifts. Unrestricted Net Assets provide 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 consortium as well as its ability to weather short-term financial difficulties.

The **Statement of Revenues, Expenses and Changes in Net Assets ("SRECNA")**, like the Statement of Net Assets, 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, 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 SRECNA provides information regarding whether the consortium is receiving sufficient revenues each year to cover the costs incurred in providing its educational and other services to students and the public.

The SRECNA classifies revenues and expenses into operating and non-operating. Operating revenues – those which are generated as a result of the consortium's educational and public service activities – do not include State appropriations. Therefore, the consortium will show an operating loss on the Statement of Revenues, Expenses and Changes in Net Assets.

The **Statement of Cash Flows** presents information related to cash inflows and outflows summarized into the categories of operating, non-capital financing, and 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.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Overview of the Financial Statements - Continued

Condensed Financial Information June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>% Change Current Year</u>
Assets:			
Current assets	\$ 455,861	\$ 1,120,541	-59%
Non-current assets	<u>234,101</u>	<u>233,351</u>	0%
Total Assets	<u>689,962</u>	<u>1,353,892</u>	-49%
Liabilities:			
Current liabilities	185,785	286,607	-35%
Non-current liabilities	<u>119,002</u>	<u>95,642</u>	24%
Total Liabilities	<u>304,787</u>	<u>382,249</u>	-20%
Net Assets:			
Invested in capital assets, net of related debt	234,101	233,351	0%
Restricted - expendable	63,564	428,795	-85%
Unrestricted	<u>87,510</u>	<u>309,497</u>	-72%
Total Net Assets	<u>385,175</u>	<u>971,643</u>	-60%
Total Liabilities and Net Assets	\$ <u>689,962</u>	\$ <u>1,353,892</u>	-49%

Total assets decreased 49% from fiscal year 2011 from \$1,353,892 to \$689,962 in fiscal year 2012.

Current assets are composed of \$332,617 in cash and cash equivalents that are in deposit with the State's STIF account through the State Treasurer's Office. This amount has declined 59% due to the use of cash to support the fiscal year 2012 budget. The \$98,155 in receivables represents the amount due from other private educational institutions for contracted services. There are also \$25,089 in receivables that are due from other State educational agencies that elect to purchase LMS licenses from CTDLC as part of a consortium agreement to reduce the costs of participating educational institutions. There are times when the annual license cost is due to the software provider before the consortium institution pays for the license.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Overview of the Financial Statements - Continued

Noncurrent assets consist of other assets (net) are software used by the CTDLC to operate a data center that supports over 42,000 students throughout the State and nationally to access and utilize electronic learning or learning support programs. The investment in plant and equipment primarily represents the value of the data center equipment. The investment in plant and equipment, net of related debt of \$234,101 consists of replacing equipment or improvements made to the data center as well as improvements to the leased space in Newington where the staff is located. The investments, net of related debt increased by 3% compared to fiscal year 2011. This investment in equipment has been declining for several years due to the absence of State bond money through the Capital Equipment Fund allocation as the direct result of the State's fiscal constraints. The absence of at least a half a million dollars every two years for equipment replacement has placed more burdens on the operating funds to replace equipment and resulted in longer than recommended life cycles and additional maintenance expense for equipment.

Liabilities are represented by accounts payables from the end of the previous fiscal year and accrued salaries and benefits from the expense accrued at June 30, 2012. Current year accrued compensated absences for the earned vacation and sick time is \$89,874.

Noncurrent liabilities are exclusively the total of the value of vacation and sick leave on the books for staff that is over a year old.

Net assets have decreased 60% from fiscal year 2011 from \$971,643 to \$385,175. Aside from the minor change on invested in capital assets, there was an 85% or \$365,231 decrease in restricted net assets in fiscal year 2012, \$63,564, compared to \$428,795 in fiscal year 2011. The reason for this decrease was the accumulation of pass through dollars for software licensing fees paid by consortium members that were not paid to the software supplier until fiscal year 2012. The unrestricted net assets decreased due to the use of cash to support the fiscal year 2012 budget.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Overview of the Financial Statements - Continued

	<u>2012</u>	<u>2011</u>	<u>% Change Current Year</u>
Operating Revenues:			
Federal grants and contracts	\$ 433,547	\$ 482,295	-10%
Nongovernmental grants and contracts	78,900	78,900	0%
Other operating revenues	<u>1,085,683</u>	<u>1,129,329</u>	-4%
Total Operating Revenues	1,598,130	1,690,524	-6%
Operating Expenses	<u>3,417,145</u>	<u>3,406,152</u>	0%
Operating loss	<u>(1,819,015)</u>	<u>(1,715,152)</u>	6%
Non-operating Revenues (Expenses):			
State appropriations	795,650	986,279	-19%
Other non-operating revenue	436,701	983,706	-56%
Other	<u>196</u>	<u>(9,590)</u>	-98%
Total non-operating revenues	<u>1,232,547</u>	<u>1,960,395</u>	-37%
Increase (decrease) in net assets	(586,468)	244,767	-340%
Net Assets:			
Net Assets - Beginning of Year	<u>971,643</u>	<u>726,876</u>	33%
Net Assets - End of Year	\$ <u>385,175</u>	\$ <u>971,643</u>	-60%

Total operating revenues decreased by 6% in fiscal year 2012 or \$92,394 changing from \$1,690,524 in fiscal year 2011 to \$1,598,130 in fiscal year 2012. While federal and private grants and contracts decreased 9% or \$48,748 from \$561,195 in fiscal year 2011 to \$512,447, other operating revenues decreased 4% or \$43,646 from \$1,129,329 in fiscal year 2011 to \$1,085,683. The latter is more significant since State contracts are less frequent due to the ongoing fiscal crisis and federal grants are more competitive. Continued growth in the other operating revenues will be necessary as the other sources of income decline.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

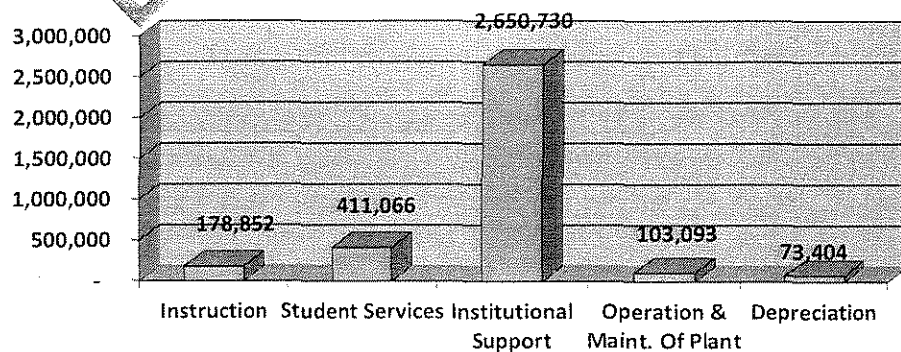
Overview of the Financial Statements - Continued

Operating expenses increased \$10,993 from \$3,406,152 in fiscal year 2011 to \$3,417,145. While most operating expenses were relatively flat or mostly decreased, the largest increase was for personnel service and fringe benefits. That change represented a 2% increase or \$45,675, which changed from \$1,960,819 in fiscal year 2011 to \$2,006,494 in fiscal year 2012. While no new employees were added, the change represents increases in the operating payroll due to the 27th payroll that is paid to State employees every 10 years. In addition to the \$91,319 loss in State support, the fringe benefit rate of 35% of personnel costs normally supported by State funds were shifted to the operating fund as well.

The CTDLC recorded an operating loss of \$1,819,015 compared to \$1,715,628 in the previous year. This small change in loss was achieved by aggressively managing other operating supplies and expenses. The non operating revenues were \$1,232,547 in fiscal year 2012 down 37% from \$1,960,395 the previous year. The largest dollar change was a reduction of \$547,005 or 56% in pass through receipts for software licenses paid by consortial members.

Net assets decreased from \$971,643 at the beginning of fiscal year 2012 to \$385,175 at the end of the year.

The functional classification of expenses is as follows:



CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Overview of the Financial Statements - Continued

The student services expense is related to the contracts that the CTDLC has with other institutions of higher education. This amount is related to the Etutoring, Virtual High School, FIPPSE, and Davis funded programs offered to external institutions.

The statement of cash flows utilizes the direct method and outlines cash receipts and payment summaries for fiscal year 2012. Receipts are from fees for services, State appropriation, and grants and other receipts. Outflows are for salaries and wages and payments to vendors for goods and services. Net cash applied to operating activities is \$1,469,865. Net cash provided by financing activities is \$793,985 Net cash provided by investing activities is \$455.

Cash and cash equivalents at the beginning of fiscal year 2012 were \$1,008,042 and the value at the end of the year was \$332,617. The end of the year value is 67% less than fiscal year 2011.

Factors Impacting Future Results

Since the CTDLC was created in 1999, the composition of revenue has radically changed. In the beginning most of 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. Over time, educational institutions have created the infrastructure to deliver online courses.

The success of the organization will be the result of a number of factors; they include: reducing and streamlining infrastructure costs; continue the transition to more of a consulting service model; aggressively seeking partnerships with public and private organizations around student support and grant opportunities; expansion of K-12 and adult education services; and continuous environmental scanning for new opportunities. It has become clear that State support can no longer be considered predictable and the availability of State bonding money to support equipment replacement in the data center has been nonexistent for the last three years.

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

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Management's Discussion and Analysis - Continued

Factors Impacting Future Results - Continued

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 employee training for State and private organizations. Additional opportunities have occurred to work with State and private organizations on grant opportunities and discussions of partnerships. The service desk services have also steadily increased to include areas like financial aid support. 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 and there is interest from potential international clients as well.

Elearning work in the K-12 space, while in operation for several years, is in the program review process. Alternate strategies to deliver this program and the development of new marketing strategies are in progress to increase participation with reduced costs in the future. The benefit of this work will not be known until the next fiscal year.

The staff of the CTDLC continually scans the environment for new opportunities for the organization. Involvement in State, educational, 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 sales opportunities, trends and new needs of the education and learning technology sectors. The Advisory Committee of the CTDLC which is represented by educational and training partners also provide insight into new developments.

Requests for Information

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

CONNECTICUT DISTANCE LEARNING CONSORTIUM
(a Component Unit of the State of Connecticut)

Statements of Net Assets

June 30, 2012

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a component unit of the State of Connecticut)

Statement of Net Assets

June 30, 2012

Assets

(Audited)

Current Assets:

Cash held by State Treasurer	\$ 332,617
Accounts receivable - state agencies	25,089
Accounts receivable	<u>98,155</u>

Total Current Assets	<u>455,861</u>
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Non-Current Asset:

Capital assets, net	<u>234,101</u>
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Total Assets	<u>\$ 689,962</u>
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Liabilities and Net Assets

Current Liabilities:

Accounts payable	\$ 4,610
Accrued payroll	91,301
Accrued employee compensated absences	<u>89,874</u>

Total Current Liabilities	<u>185,785</u>
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Non-Current Liabilities:

Accrued employee compensated absences	<u>119,002</u>
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Total Liabilities	<u>304,787</u>
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Net Assets:

Invested in capital assets, net of related debt	234,101
Restricted-expendable	63,564
Unrestricted	<u>87,510</u>

Total Net Assets	<u>385,175</u>
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Total Liabilities and Net Assets	<u>\$ 689,962</u>
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See accompanying notes to the financial statements.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a component unit of the State of Connecticut)

Statements of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2012

(Unaudited)

Operating Revenues:

Fees	\$ 1,085,683
Federal grants and contracts	433,547
Private grants and contracts	<u>78,900</u>
Total Operating Revenues	<u>1,598,130</u>

Operating Expenses:

Educational and general:	
Instruction	178,852
Student services	411,066
Institutional support	2,650,730
Operation and maintenance of plant	103,093
Depreciation	<u>73,404</u>
Total Operating Expenses	<u>3,417,145</u>

Net Operating Income (Loss)	<u>(1,819,015)</u>
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Non-Operating Revenues (Expenses):

Other non-operating revenue	436,701
State appropriations	795,650
Loss on disposal of capital assets	(259)
Investment income	<u>455</u>
Net Non-Operating Revenues (Expenses)	<u>1,232,547</u>

Decrease in Net Assets	(586,468)
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Net Assets, at Beginning of Year	<u>971,643</u>
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Net Assets, at End of Year	<u>\$ 385,175</u>
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See accompanying notes to the financial statements.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a component unit of the State of Connecticut)

Statement of Cash Flows

For the Year Ended June 30, 2012

(Unaudited)

Cash Flows from Operating Activities:

Collection of fees	\$ 1,074,938
Grants and contracts	512,447
Payments to employees	(1,881,450)
Payments to suppliers and vendors	<u>(1,338,167)</u>
Net Cash Applied to Operating Activities	<u>(1,632,232)</u>

Cash Flows from Non-Capital Financing Activities:

Other	436,701
State appropriations	<u>594,064</u>
Net Cash Provided by Non-Capital Financing Activities	<u>1,030,765</u>

Cash Flows from Capital Financing Activity:

Purchases of capital assets	<u>(74,413)</u>
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Cash Flows from Investing Activity:

Interest	<u>455</u>
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Net Decrease in Cash and Equivalents (675,425)

Cash and Equivalents, Beginning of Year 1,008,042

Cash and Equivalents, End of Year \$ 332,617

Reconciliation of Net Operating Loss to Net Cash

Applied to Operating Activities:

Net operating loss	<u>\$ (1,819,015)</u>
Adjustments to reconcile net operating loss to net cash applied to operating activities:	
Depreciation	73,404
Fringe benefits provided by the state	201,586
Changes in assets and liabilities:	
Accounts receivable	(4,006)
Accounts receivable - state agencies	(6,739)
Accounts payable	(921)
Accrued payroll	(97,350)
Accrued employee compensation and benefits	<u>20,809</u>
Net Cash Applied to Operating Activities	<u>\$ (1,632,232)</u>

Non-Cash Transaction:

Fringe benefits provided by the state	<u>\$ 201,586</u>
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See accompanying notes to the financial statements.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements

June 30, 2012

Note 1 - Summary of Significant Accounting Policies

Organization

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.

On June 13, 2011, the Legislation placing CTDLC and Charter Oak State College under the Board of Regents for Higher Education was enacted, consolidating its governing authority within a single authority including the Connecticut State University System and the Community-Technical College System.

Basis of Presentation and Accounting

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

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 statement of activities demonstrates 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. Fee revenues primarily include charges to educational institutions. Items not meeting the definition of fee revenue are reported as non-operating revenues.

CTDLC 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 financial statements. The basic financial statements and required supplementary information for general purpose governments consist of management's discussion and analysis and basic financial statements.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation and Accounting - Continued

CTDLC presents statements of net assets, revenues, expenses, and changes in net assets and cash flows. CTDLC's policy for defining operating activities in the statement of revenues, expenses and changes in net assets 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 CTDLC's operating and capital appropriations from the State of Connecticut, net investment income and interest expense.

CTDLC's 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. Governments are also required to follow applicable pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 that do not conflict with or contradict GASB pronouncements. Although CTDLC has the option to apply FASB pronouncements issued after that date to its business-type activities, it has chosen not to do so.

Net Assets

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

Invested in capital assets, net of related debt: 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 assets subject to externally imposed conditions that CTDLC must maintain them in perpetuity.

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

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Net Assets - Continued

Unrestricted: All other categories of net assets. Unrestricted net assets may be designated by actions of CTDLC's Board of Regents.

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

Cash and 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 CTDLC 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. CTDLC 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 is included in the cash flow statement. Fringe benefit payments are made by the State Comptroller on behalf of CTDLC, and information regarding the associated fringe benefit expense is provided to CTDLC with each biweekly payroll. This is treated as a cash equivalent on the statement 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. As of June 30, 2012, management has concluded an allowance for doubtful accounts is not required.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

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. CTDLC 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.

CTDLC 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 CTDLC statement, in accordance with CTDLC policy regarding capitalization.

Fringe Benefits

CTDLC 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 CTDLC. Workers' compensation costs are assessed separately based on CTDLC's actual experience.

Compensated Absences

Employees earn the right to be compensated during absences for vacation leave and sick leave. Accrued vacation is the amount earned by all eligible employees through June 30, 2012. 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, 2012. Upon termination of employment, these employees are entitled to receive payment for this accrued balance.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

Fees

The revenue is recognized in the accounting period in which they are earned or incurred and become measurable.

Tax Status

CTDLC is an agency 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 Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011, establishes accounting requirements for arrangements between a transferor and operator in which (a) the transferor conveys to the operator the right and related obligation to provide services through the use of infrastructure or other public asset in exchange for significant consideration and (b) the operator collects and is compensated by fees from third parties. This statement applies only to arrangements meeting specific criteria determining whether a transferor retains control over the public asset. Management does not believe CTDLC currently has any material Service Concession Arrangements.

GASB Statement 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements 14 and 34*, effective for periods beginning after June 15, 2012, modifies certain requirements for inclusion of component units in the financial reporting entity. Management of CTDLC does not expect implementation to affect the financial statements.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

New Governmental Accounting Pronouncements - Continued

GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee of Accounting Procedure. Management of CTDLC does not expect implementation to affect the financial statements.

GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011, provides financial reporting guidance. Deferred outflows are the consumption of net assets and deferred inflows are the acquisition of net assets, applicable to future reporting periods. Net position is identified by Concepts Statement No. 4 as the residual of all other elements presented in a statement of financial position and requires the incorporation of deferred outflows and inflows into the required components of the residual measure and renaming that measure, known as net assets, as net position. Management is in the process of reviewing this statement and its potential affect upon their financial reporting but does not expect any material impact.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 1 - Summary of Significant Accounting Policies - Continued

New Governmental Accounting Pronouncements - Continued

GASBS 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012, establishes accounting and financial reporting standards for the reclassification of certain assets and liabilities in accordance with GASBS 63. Management expects this statement to have no affect on the financial statements.

GASBS 66, *Technical Corrections 2012 – an amendment of GASB Statements 10 and 62*, effective for periods beginning after December 15, 2012 resolves conflicts between recently issued and earlier GASB statements as well as modifying guidance related to accounting for certain operating leases. Management is in the process of reviewing this statement and its potential affect upon their financial reporting but does not expect any material impact.

Note 2 - Cash and Equivalents

Cash is invested in the State of Connecticut Treasury's STIF, a combined investment pool of high quality, short-term money market instruments. All temporary surplus cash is invested in the STIF. CTDLC 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 CTDLC 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 5.0% of the STIF's net assets at the time of execution.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 2 - Cash and Equivalents - Continued

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

Credit Risk – Credit risk is the risk that an investor will lose money because of the default of the security issuer or investment counterparty. CTDLC 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 CTDLC's total cash and cash equivalents are invested in the STIF or consist of State general fund and capital bond fund appropriations allocated to CTDLC which are backed by cash held by the state as of June 30, 2012.

Note 3 - Accounts receivable – State Agencies

The balance represents funds due to CTDLC for services performed in the normal course of business from other State agencies.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2012 is as follows:

	Estimated lives (in years)	(Unaudited) Beginning Balance	Additions	Retirements	Reclassifications	Ending Balance
Capital assets, depreciated:						
Buildings and improvements	10-40	\$ 36,709	\$ -	\$ -	\$ -	\$ 36,709
Furnishings and equipment (including the cost of capital leases)	6	428,520	38,686	(53,318)	-	413,888
Software	5	71,194	55,727	-	-	106,921
Total depreciated capital assets		<u>536,423</u>	<u>74,413</u>	<u>(53,318)</u>	<u>-</u>	<u>557,518</u>
Less: accumulated depreciation:						
Buildings and improvements		11,830	3,817	-	-	15,647
Furnishings and equipment		240,500	56,582	(53,059)	-	244,023
Software		50,742	13,005	-	-	63,747
Total accumulated depreciation		<u>303,072</u>	<u>73,404</u>	<u>(53,059)</u>	<u>-</u>	<u>323,417</u>
Capital assets, net		\$ <u>233,351</u>	\$ <u>1,009</u>	\$ <u>(259)</u>	\$ <u>-</u>	\$ <u>234,101</u>

Note 5 - Long-Term Liabilities

Long-term liabilities at June 30, 2012 consist of:

	(Unaudited) Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Other long-term liabilities:					
Vacation	\$ 163,523	\$ 18,093	\$ -	\$ 181,616	\$ 84,845
Sick	<u>24,544</u>	<u>2,716</u>	<u>-</u>	<u>27,260</u>	<u>3,029</u>
Total long-term liabilities	\$ <u>188,067</u>	\$ <u>20,809</u>	\$ <u>-</u>	\$ <u>208,876</u>	\$ <u>89,874</u>

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 5 - Long-Term Liabilities - Continued

Leases

CTDLC leases various equipment under operating lease agreements. The following summarizes future minimum payments under non-cancelable leases subsequent to the year ended June 30, 2012:

Years Ending June 30:	Operating Leases
2013	\$ 23,218
2014	<u>3,164</u>
	\$ <u>26,382</u>

Rent expense for operating leases was \$43,272 for the year ended June 30, 2012.

Note 6 - Restricted Net Assets

CTDLC is the recipient of funds that are subject to various external constraints upon their use, either as to purpose or time. Restricted - expendable net assets consist of income to be used for grants and research, as well as funds to be used for capital projects.

Note 7 - Contingencies

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

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 8 - Operating Expenses

CTDLC's operating expenses, on a natural classification basis, are comprised of the following at June 30, 2012:

Compensation and benefits	\$2,006,494
Supplies and services	1,337,247
Depreciation	<u>73,404</u>
	<u>\$ 3,417,145</u>

Note 9 - 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 CTDLC 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; other employees may participate in the Tier II or Tier IIA Plans. As of June 30, 2012, approximately thirty-one percent (31%) of CTDLC workforce was covered under the Tier II or Tier II A Plans. CTDLC makes contributions on behalf of the employees through a fringe benefit charge assessed by the State of Connecticut.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 9 - Retirement and Other Post Employment Benefits

Retirement - Continued

Plan Description - Continued

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

Funding Policy

The contribution requirements of plan members and the State are established and maybe 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 up to the Social Security Taxable Wage Base plus 5% above that level. Tier I Plan C members are required to contribute 5% of their annual salary. Tier IIA Plan regular and Hazardous Duty members are required to contribute 2% and 5% of their annual salaries, respectively. The State is required to contribute at an actuarially determined rate, which may be reduced by an act of the State legislature. 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 CTDLC 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 CTDLC. Additionally, the information for fiscal year 2012 is not available as of the issue date of CTDLC's financial statements and, therefore, the following information is as of June 30, 2011.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 9 - Retirement and Other Post Employment Benefits - Continued

Retirement - Continued

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

The liability for the pension plan will be recorded by the State of Connecticut, which has communicated to CTDLIC that CTDLIC 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, 2011 are as follows (in thousands):

Annual required contribution	\$ 944,077
Interest on net pension obligation	232,919
Adjustment to annual required contribution	<u>(177,735)</u>
Annual pension cost	999,261
Contributions made	<u>825,801</u>
Increase in net pension obligation	173,460
Net pension obligation, beginning of year	<u>2,740,231</u>
Net pension obligation, end of year	<u>\$ 2,913,691</u>

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>
2009	\$ 810,776	86.3%	\$ 2,508,005
2010	952,753	75.6%	2,740,231
2011	999,261	82.6%	2,913,691

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 9 - Retirement and Other Post Employment Benefits - Continued

Retirement - Continued

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

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, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, closed
Remaining amortization period	21 years
Asset valuation method	5 year smoothed market
Actuarial assumptions	
Investment rate of return	8.25%
Projected salary increases (includes inflation of 4%)	4.0% - 20.0%
Cost of living adjustments	2.7% - 3.6%

Required Supplementary Information (in millions):

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	(b-a/c) UAAL as a Percentage of Covered Payroll
6/30/05	\$ 8,517.7	\$ 15,987.5	\$ 7,469.8	53.3%	\$ 2,980.1	250.7%
6/30/06	8,951.4	16,830.3	7,878.9	53.2%	3,107.9	253.5%
6/30/07	9,585.1	17,888.1	8,303.0	53.6%	3,310.4	250.8%
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 *	-	-	-	-	-	-

*An actuarial valuation was not performed for the fiscal years ended June 30, 2009 and 2011.

CONNECTICUT DISTANCE LEARNING CONSORTIUM

(a Component Unit of the State of Connecticut)

Notes to the Financial Statements - Continued

June 30, 2012

Note 9 - Retirement and Other Post Employment Benefits - Continued

Retirement - Continued

Other Post-Employment Benefits

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

During fiscal year 2008, CTDLC 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 CTDLC's financial statements.

The liability for post-employment benefits will be recorded by the State of Connecticut, which has communicated to CTDLC that CTDLC 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/>.

**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***

DRAFT

**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 the financial statements of Connecticut Distance Learning Consortium (a component unit of the State of Connecticut) ("CTDLC") as of and for the years ended June 30, 2012 and have issued our report thereon dated DATE. 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.

Internal Control Over Financial Reporting

Management of Connecticut Distance Learning Consortium is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered CTDLC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CTDLC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CTDLC's internal control over financial reporting.

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 CTDLC's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CTDLC's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Regents and management of Connecticut Distance Learning Consortium and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants
Braintree, Massachusetts

DATE

DRAFT

CHARTER OAK STATE COLLEGE

MANAGEMENT LETTER

JUNE 30, 2012

CHARTER OAK STATE COLLEGE

Management Letter

June 30, 2012

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DRAFT

To the Board of Regents for Higher Education
State of Connecticut

Management of Charter Oak State College (a component unit of the State of Connecticut) ("the College") is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements of the College as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the College's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies, as defined above. However, we noted certain matters relating to the internal control environment of the College and have included those comments and recommendations within this report.

This communication is intended solely for the information and use of management, to the Board of Regents for Higher Education, and others within the College and is not intended to be, and should not be, used by anyone other than these specified parties.

Certified Public Accountants

Braintree, Massachusetts
DATE

Financial Management System

The College uses two financial management systems to capture the activity of the College. Jenzabar is utilized for transactions involving student activities while disbursements and capital asset transactions are posted to CT Core. Information from both financial management systems is downloaded to a manual spreadsheet in order to sort and classify this information properly in the preparation of its financial statements.

Criteria: One accurate general ledger system is necessary to capture and summarize all of the financial activity within an accounting entity in a timely fashion.

Effect of Condition: This system used by the College was cumbersome, time-consuming and did not facilitate an efficient audit trail.

Recommendation: The College needs to reevaluate its general ledger procedures so that one general ledger will capture and accurately summarize its financial data in a timely fashion in accordance with generally accepted accounting principles and the various reporting requirements of the College.

Management's Response: Management agrees with this management comment. The total use of Jenzabar with our financial transactions would make our financial reporting much more efficient. It would eliminate double entry and the maintenance of separate spreadsheets to develop financial statements.

Federal Financial Aid

The College's cash account is with the Treasurer's Office of the State of Connecticut. Since each disbursement made by the College is immediately subtracted from the College's available cash balance, the College does not receive a frequent list of outstanding checks.

Students can receive financial aid for not only their tuition and fees, but also their living expenses. The College issues checks to students when their financial aid exceeds tuition and fees. Federal regulations require colleges to return funds back to the Federal government when a check containing Federal financial aid is outstanding longer than 240 days. The College does not evaluate its outstanding checks listing for any funds that must be sent back to the Federal government because the College does not receive an outstanding check list from the Treasurer's Office.

Criteria: According to 34 C.F.R. Section 668.164(h)(ii):

No later than the 240 day period described in paragraph (h)(2) of this section, the institution must cease any additional disbursement attempts and immediately return those funds.

Effect of Condition: The College may not be in compliance with Federal regulations regarding old outstanding checks.

Recommendation: The College needs to evaluate its outstanding check list to determine whether any funds should be returned to the Federal government.

Management's response: Management agrees with this management comment. We will request from the Treasurer's Office a more frequent update on outstanding financial aid refund checks in order to comply with the federal requirements. The ability of check writing through the comprehensive use of Jenzar as our financial management system will also solve this issue. The former may be the more immediate solution to the outstanding check issue.

DRAFT

CONCLUSION

We would like to thank all of the management and staff who assisted during the course of our fieldwork. The staff was very helpful and exhibited a genuine effort and pride in their work. If we can be of any assistance in the implementation of any of the above-mentioned recommendations, please do not hesitate to call our office.

DRAFT

ITEM

Appointment of PricewaterhouseCoopers LLP as external auditors for the Connecticut State Universities and Connecticut Community Colleges for fiscal year ending June 30, 2013.

RECOMMENDED MOTION FOR FULL BOARD

RESOLVED, that the Board of Regents hereby approves the appointment of PricewaterhouseCoopers to perform audits of the Connecticut State Universities and the Connecticut Community Colleges for fiscal year ending June 30, 2013.

BACKGROUND

One of the responsibilities of the Audit Committee under its Charter (adopted June 7, 2012), is to approve the appointment of independent, external auditors.

PricewaterhouseCoopers (PwC) has served as the independent audit firm for the State Universities for the last several years and remains under contract with the System through March 31, 2016. Under a separate contractual agreement, PwC also served as the independent audit firm for the Community Colleges for the audit period ending June 30, 2012. The contract with the Community Colleges terminated with the completion of that audit.

Through its services to the Connecticut State Colleges & Universities, PwC has gained a deep understanding of the organizations' structure, processes and systems, which has been invaluable to the Board of Regents during a time of transition. PwC has a reputation as a leader in higher education audit services, understands and communicates effectively changes in financial reporting requirements and regulatory matters and has been responsive to the system's needs.

The recommendation is to continue with PricewaterhouseCoopers by combining the separate audits under a single contractual agreement to cover both the State Universities and Community Colleges. Because the price quoted by PwC for Charter Oak State College was not as competitive as was hoped, it is not recommended that the agreement include Charter Oak State College. Charter Oak State College will either seek a different solution, or elect to continue with the firm that prepared its FY12 audit. That decision will be brought back for action by the Audit Committee in June.

PwC has agreed to sustain the 30% discount negotiated under the 2010 agreement with the State Universities and to maintain the 2012 Community College rate for audits of fiscal years 2013 and 2014. The estimated audit cost for FY 2013 is \$588,690, an increase of 1.7% over amounts paid in FY 2012.