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STATE OF NEW HAMPSHIRE
DEPARTMENT of RESOURCES and ECONOMIC DEVELOPMENT
OFFICE OF THE COMMISSIONER

172 Pembroke Road P.O. Box 1856 Concord, New Hampshire 03302-1856

February 23, 2015

Her Excellency, Governor Margaret Wood Hassan
and the Honorable Executive Council
State House
Concord, New Hampshire 03301

REQUESTED ACTION

Authorize the Department of Resource and Economic Development, Office of Workforce Opportunity to enter into a **Sole Source** Memorandum of Understanding (MOU) with the Community College System of New Hampshire (CCSNH) (VC #216952), 26 College Drive, Concord, NH in an amount not to exceed \$3,600,000 for the implementation and delivery of a Job Readiness Certificate program for unemployed NH citizens; upon Governor and Council approval, effective July 1, 2015 through June 30, 2019. The initial MOU was approved by Governor and Council on May 25, 2011 (Item #42), which was modified effective April 3, 2013 (Item#52) to extend the MOU date through June 30, 2013. The current MOU, which expires on June 30, 2015, was approved on June 6, 2013 (Item #122). **100% Other Funds – Job Training Program.**

Funding is available in account titled, Job Training Program, as follows and pending State budget approval for fiscal years 2016-2019.

	<u>FY 16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>
03-35-35-350510-54200000-102-500731 Contract for Program Services	\$900,000	\$900,000	\$900,000	\$900,000

EXPLANATION

This is a **Sole Source** MOU between two state entities for the purpose of delivering a Job Readiness Certificate program to address the under-preparedness of unemployed individuals and others who are seeking to enter the NH labor market. This is a continuation of the program developed by CCSNH in consultation with state partners to address work readiness issues. Consistent with the mission of CCSNH to better prepare citizens for work, CCSNH is best suited to develop and deliver a program designed to address basic work related deficiencies. The project piloted at four Community Colleges: White Mountain Community College (Berlin); Great Bay Community College (Portsmouth); Manchester Community College; and River Valley Community College (Claremont) has a proven record of successfully delivering services that improve basic skills in math, reading, communication and workplace behaviors. The Community Colleges working collaboratively with local NH Works American Job Centers provides these services to workers seeking employment services.

The project originally developed in response to New Hampshire business owners concerned that entry-level workers and other new hires often do not possess the basic skills needed to perform successfully in the workplace, provides assessment, instruction and credentialing in key areas identified by employers as essential to workplace success. The training program is available at no cost to unemployed job seekers, offering skills-training and two nationally recognized work-readiness credentials (the National Career Readiness Certificate from ACT and the WorkReadyNH Certificate from the Community College. Moving forward the goal is to be able to offer WorkReadyNH at the seven community colleges.

The Attorney General's Office has reviewed and approved this MOU as to form, substance and execution.

Respectfully submitted,

Jeffrey J. Rose
Commissioner

Memorandum of Understanding (MOU)

Between

New Hampshire Department of Resources & Economic Development (DRED)
Concord, NH 03301

And

The Community College System of NH (CCSNH)
26 College Drive
Concord, NH 03301

Section I. Parties and Purpose

The New Hampshire Department of Resources and Economic Development (DRED), agrees to contract with the Community College System of New Hampshire (CCSNH) for the delivery of a Job Readiness Certificate (WorkReadyNH) program to address the under-preparedness of New Hampshire residents who are seeking to enter or advance in the NH labor market. The CCSNH will operate a program that addresses basic skills in math, reading, communication, and workplace behaviors. CCSNH colleges will work collaboratively with local NH Works (one-stop) offices and other appropriate social services agencies to identify likely candidates for the program. The effective date of this MOU is July 1, 2015 or upon Governor and Executive Council approval, whichever is the latest, through June 30, 2019.

Funding for this initiative is contingent upon the continued availability of sufficient Job Training funds. DRED will reimburse CCSNH for costs associated with the delivery of the services specified in this MOU not to exceed \$ 900,000 for each year during which this MOU is in effect. CCSNH will work with staff from DRED/OWO to ensure that CCSNH meets the reporting requirements of DRED/OWO.

Nothing contained in this MOU shall be deemed to constitute a waiver of sovereign immunity of the State of New Hampshire, which hereby reserved to the State, its agencies and officials.

Section II. Scope of Function and Responsibilities

CCSNH Agrees to:

1. Provide a comprehensive work readiness program focusing on addressing gaps in worker readiness in the areas of math, reading, and problem solving, as well as workplace behaviors: self- discipline, teamwork, communication, and professional behavior.
2. Offer the program at no less than four sites, with preference given to the original four colleges i.e., White Mountains Community College; River Valley

Community College; Great Bay Community College; and Manchester Community College, with the option to expand services to other sites as determined appropriate by CCSNH and approved by the DRED/OWO.

3. Purchase the equipment, software, furniture, etc. necessary to adequately maintain classrooms/a lab facility at each site.
4. Use as the basis of the program a portable, evidence-based credential that measures essential workplace skills and is a reliable predictor of workplace success, such as the National Career Readiness Certificate issued by ACT.
Issue a CCSNH certificate credential to successful completers of the CCSNH Workplace Behaviors curriculum.
7. Hire curriculum developers and faculty to teach the Workplace Behaviors curriculum.
8. Hire and maintain an adequate level of staff to ensure continuity of services.
9. Hire a state-wide coordinator to act as liaison between the colleges and businesses, state agencies and other stakeholders.
10. Market the program both locally and state-wide; all outreach and marketing activities shall acknowledge NH Works sponsorship.
11. Conduct annual customer satisfaction surveys, and share results with DRED/OWO quarterly.
12. Compile an annual report whose elements would be designed by the Office of Workforce Opportunity (OWO) and submit the report to the OWO by no later than May 31st of each program year. [This report shall be included in the required comprehensive Job Training Fund annual report to the NH Legislature.]
13. Offer the program at no cost to New Hampshire residents; 18 years of age or older unless otherwise approved by DRED/OWO.
14. Collaborate with NH Works staff and appropriate local social services agencies to identify potential participants for the program.
15. Recruit and enroll sufficient numbers of individuals consistent with the agreed to enrollment plan for each program year.

DRED agrees to:

1. Fund the program for four cycles (July 1, 2015 - June 30, 2019) at a cost not to exceed \$900,000 per cycle; *contingent upon the ongoing availability of NH Job Training Funds* dedicated for this purpose.
2. Facilitate the referral of clients to the CCSNH through NH Works and other appropriate social services agencies.

3. Assist CCSNH in the ongoing development and evaluation of the WorkReadyNH program.
4. Provide a contract (MOU) manager through the Office of Workforce Opportunity.

Both Parties Jointly Agree to:

1. Collaborate and update the Inter-Agency Director Group (IDG) that will provide input and advice as the program evolves, and act as advocates for the program both state-wide and locally.
2. Work as a partner with the Governor's Office in the development, dissemination, publicizing, and evaluation of the program.
3. Modify program deliverable to adapt to new or changing demands and/or target populations as needed and/or necessary.

Section III. Pricing / Payments

CCSNH agrees to provide DRED with the services indicated in Section II of this MOU within the limitations of this MOU as shown below.

Services to be provided are based on estimated costs (see budget in Section IV) associated with the services specified in this MOU, and consistent with the line-budget negotiated by both parties annually to reflect and align with actual costs associated with providing the services outlined in Section II - Scope of Functions and Accountabilities.

The conditions and responsibilities outlined in this MOU are further subject to the availability of resources. Any party may, after thirty (30) days written notification, suspend this MOU if funds become unavailable to carry out this MOU, if the DRED is no longer willing to carry out the MOU, or if CCSNH is no longer willing or able to provide services for the program outlined herein. Upon termination, all allowable expenses incurred and paid by CCSNH prior to the termination date will be reimbursed.

Total MOU not to exceed: \$ 3,600,000

FY 2016 expenses not to exceed: \$ 900,000

FY 2017 expenses not to exceed: \$ 900,000

FY 2018 expenses not to exceed: \$ 900,000

FY2019 expenses not to exceed: \$ 900,000

For services performed between July 1, 2015 and June 30, 2019, CCSNH shall be paid on a cost reimbursement basis based on monthly invoices of actual cost, not to exceed Nine Hundred Thousand Dollars (\$900,000) for each program year covered under this MOU.

Upon presentation of any invoice for such services and related expenses, which shall be billed monthly, the amount of the invoice shall be immediately due and payable to CCSNH.

Invoices shall be sent to: NH DRED
Office of Workforce Opportunity
Attn: Julianne Pelletier
172 Pembroke Rd.
Concord, NH 03301

Payment shall be made to: Community College System of NH
Attn: Kristyn Van Ostern
26 College Drive
Concord, NH 03301

Section IV. Approved Line Item Budget

The attached budget is approved for the first year of this MOU; line-item budgets for subsequent years will be negotiated by no later than June 30th of each program year covered under this agreement.

CCSNH shall expend funds made available through this MOU consistent with the line-item limits in the Approved Line Item Budget, with the flexibility to adjust costs within 20% between line item categories, with the exception of salary, benefits and staff training costs. Adjustments to the salary, benefit and staff training costs must be approved prior to and in writing by the OWO.

Section V. Recruitment Plan

CCSNH agrees to recruit and enroll 750 new program participants for each program year with assistance from NH Works partners. It is understood that this is a *goal* established by the parties to this MOU for the purpose of ensuring cost reasonableness and return on investment.

Program services are limited to individuals 18 years of age or older, unless otherwise approved by OWO/IDG/Governor's staff.

Program enrollments shall be monitored by the IDG on a quarterly basis.

All partners to the NH Works system agree to actively assist CCSNH in recruiting for the program as needed.

Section VI. Other Provisions

1. CCSNH and DRED will each designate a primary contact person for communication purposes. All communications, both written and verbal, will be channeled through these designees.

2. This MOU may be executed in multiple counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
3. The parties hereto do not intend to benefit any third parties and this MOU shall not be construed to confer any such benefit.
4. CCSNH may self-insure and / or at its option purchase any insurance it considers appropriate as part of the operating budget of this project.
5. DRED shall be responsible for all claims, suits, damages, judgments, recoveries, settlements, or other liabilities incurred as a result of performance or failure to perform under this MOU arising out of the negligent or intentional actions of its officials, employees, subcontractors, and/or agents.

CCSNH shall be responsible for all claims, suits, damages, judgments, recoveries, settlements, or other liabilities incurred as a result of performance or failure to perform under this MOU arising out of the negligent or intentional actions of its officials, employees, subcontractors, and/or agents. DRED reserves all rights and defenses under the doctrine of sovereign immunity, which immunity is not waived. This covenant shall survive the termination of this MOU.

6. In the event of an early termination of this MOU for any reason other than the completion of the Services, CCSNH shall deliver to DRED, not later than forty-five (45) days after the date of termination, an invoice for services rendered which shall be paid by DRED within the standard state reimbursement timeframe for payment.
7. In connection with the performance of the Services, CCSNH shall comply with all statutes, laws, regulations, and orders of federal, state, county or municipal authorities which impose any obligation or duty upon CCSNH, including, but not limited to civil rights and equal opportunity laws.
8. The Contracting Officer specified on the signature page, or his or her successor, shall be the State's representative. In the event of any dispute concerning the interpretation of this MOU, both parties agree to negotiate in good faith to resolve it, and failing resolution, the Contracting Officer's shall seek final resolution through the Attorney General's office.
9. 9.1 Any one or more of the following acts or omissions of DRED or CCSNH shall constitute an event of default hereunder ("Events of Default"):
 - 9.1.1 failure to pay timely; or
 - 9.1.2 failure to submit any report required hereunder; or
 - 9.1.3 failure to perform any other covenant or condition of this MOU.

9.2 Upon the occurrence of any Event of Default, the non-defaulting party may take any one, or more, or all, of the following actions:

9.2.1 give the defaulting party written notice specifying the Event of Default and requiring it to be remedied within, in the absence of a greater or lesser specification of time, thirty (30) days from the date of the notice; and if the Event of Default is not timely remedied, terminate this MOU, effective two (2) days after giving notice of termination; and

9.2.2 give the defaulting party written notice specifying the Event of Default and suspend all services under this MOU until such time as the Event of Default has been cured; and

9.2.3 set off against any other obligations owed to the defaulting party any damages suffered by reason of any Event of Default; and

9.2.4 treat the MOU as breached and pursue any of its remedies at law or in equity, or both.

10. This MOU may be amended, waived or discharged only by an instrument in- writing signed by the parties hereto.

11. To facilitate the performance of this MOU, the following positions are designated as liaisons between DRED and CCSNH:

a. For DRED: Jacqueline Heuser
Director, Office of Workforce Opportunity
172 Pembroke Rd
Concord, NH 03302

b. For CCSNH: Beth Doiron
Director of DoE and College Access Programs, CCSNH
26 College Drive
Concord, NH 03301

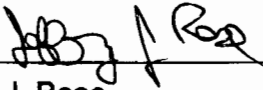
12. Neither party shall be liable for delays caused by fire, accident, labor dispute, war, insurrection, riot, act of government, act of God, or any other cause reasonably beyond its control; but each party shall use all reasonable efforts to minimize the extent of any such delay.

13. Neither party may assign its rights or delegate its obligations hereunder without the prior written consent of the other party, which consent will not be unreasonably withheld, provided that CCSNH may assign its rights to receive monies due and becoming due.

14. Neither party shall be deemed to have waived any right hereunder unless such waiver is in writing and executed by a duly authorized officer of the waiving party. No waiver by either party of any right hereunder shall constitute a waiver of any right on any other occasion.

15. The invalidity or unenforceability, in whole or in part, of any provision, term or condition hereof shall not affect the validity or enforceability of the remainder of such provision, term or condition or of any other provision, term or condition.
16. This MOU shall be construed in accordance with the laws of the State of New Hampshire and is binding upon and inures to the benefits of the parties and their respective successors and assigns.
17. Captions of the sections of this MOU are for reference purposes only and do not constitute terms or conditions hereof. The parties acknowledge that they have thoroughly reviewed this MOU -and bargained over its terms. Accordingly, neither party shall be considered responsible for the preparation of this MOU, which shall be deemed to have been prepared jointly by both parties. The provisions of the MOU allocate the risks between the parties. The terms and conditions included herein reflect this allocation of risk, and each provision herein is part of the bargained for consideration of this MOU.
18. The General Provisions of this MOU as written constitute the entire MOU between DRED and CCSNH, and supersedes all prior MOUs and understandings

New Hampshire Department of Resources and Economic Development

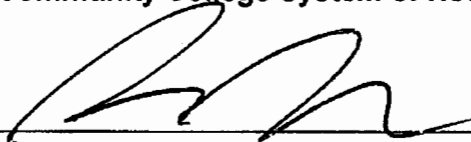


Jeffrey J. Rose
Commissioner

3/3/15

Date

Community College System of New Hampshire




Ross Gittell
Chancellor

2/25/15

Date

Approved by the Attorney General (Form, Substance and Execution)

Date: 3/17/15

By: 

Approved by the Governor and Council

Date: _____

Item #: _____

Community College System of NH-WRNH Budget - FY16

FT Personnel	\$349,000.00
PT Personnel	\$27,000.00
Benefits	244,000.00
Supplies	\$15,000
Credentialing Licenses	\$10,000
Assessment Tests	\$15,000
Marketing	\$21,500
Instruction Delivery	\$133,000
In-State Travel	\$11,188.07
Equipment	\$0
Sub-Total	\$825,688
Indirect Costs	\$74,311.93
Grand Total	\$900,000.00

SubTotal	\$825,688.07
Minus Equipment	\$825,688.07
Indirect Costs	\$74,311.93

Grant Award	\$900,000	\$900,000
Budget Total	\$0.00	\$0.00
Difference	\$900,000.00	\$900,000.00

Corporate Resolution

I, Marie Mills, hereby certify that I am the duly elected Clerk/Secretary
(Name)
Of the Community College System of NH. I hereby certify the following is a true copy of a vote taken at
(Name of Corporation)
a meeting of the Board of Directors/shareholders, duly called and held on December 12, 2011 at which a
quorum of the Directors/Shareholders were present and voting.

VOTED: That Dr. Ross Gittell, Chancellor is duly authorized to enter into contracts or agreements
on behalf of the Community College System of NH with the State of New Hampshire and any of
its agencies or departments and further is authorized to execute any documents which may in his /her
judgment be desirable or necessary to effect the purpose of this vote.

I hereby certify that said vote has not been amended or repealed and remains in full force and effect
as of the date of the contract to which this certificate is attached. I further certify that it is understood that
the State of New Hampshire will rely on this certificate as evidence that the person(s) listed above currently
occupy the position(s) indicated and that they have full authority to bind the corporation. To the extent that
there are any limits on the authority of any listed individual to bind the corporation in contracts with the State
of New Hampshire, all such limitations are expressly stated herein.

DATED: 2/24/15

ATTEST: Marie Anne Mills
(Name & Title) Assistant to Chancellor
Board Liaison

State of New Hampshire

County of Merrimack

Subscribed and sworn to (or affirmed) before me this 24 day of February 2015 by

Marie Anne Mills
Name of Clerk/Secretary

Beverly Adams
Notary Public or Justice of the Peace

(Seal)

My commission expires BEVERLY ADAMS, Notary Public
My Commission Expires September 18, 2018

Client#: 632687

COMMUCOL2

ACORD CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)
9/02/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER USI Insurance Services LLC 5 Bedford Farms Drive, Ste 200 Bedford, NH 03110 603 625-1100	CONTACT NAME: PHONE (A/C, No, Ext): 603 625-1100	FAX (A/C, No):
	E-MAIL ADDRESS:	
INSURED Community College System of NH 26 College Drive Concord, NH 03301-7407	INSURER(S) AFFORDING COVERAGE	
	INSURER A: Hanover Insurance Company	NAIC #: 22292
	INSURER B: NH Employers Insurance Company	13083
	INSURER C:	
	INSURER D:	
	INSURER E:	

COVERAGES CERTIFICATE NUMBER: REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	GENERAL LIABILITY <input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR GENTL AGGREGATE LIMIT APPLIES PER: <input type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC			ZBV918860104	07/01/2014	07/01/2015	EACH OCCURRENCE \$1,000,000 DAMAGE TO RENTED PREMISES (Ea occurrence) \$500,000 MED EXP (Any one person) \$15,000 PERSONAL & ADV INJURY \$1,000,000 GENERAL AGGREGATE \$3,000,000 PRODUCTS - COMP/OP AGG \$3,000,000 \$
A	AUTOMOBILE LIABILITY <input checked="" type="checkbox"/> ANY AUTO <input type="checkbox"/> ALL OWNED AUTOS <input type="checkbox"/> SCHEDULED AUTOS <input checked="" type="checkbox"/> HIRED AUTOS <input checked="" type="checkbox"/> NON-OWNED AUTOS			ABV918859703	07/01/2014	07/01/2015	COMBINED SINGLE LIMIT (Ea accident) \$1,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$ \$
A	<input checked="" type="checkbox"/> UMBRELLA LIAB <input checked="" type="checkbox"/> OCCUR <input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE <input type="checkbox"/> DED <input checked="" type="checkbox"/> RETENTION \$50			UHV918860404	07/01/2014	07/01/2015	EACH OCCURRENCE \$15,000,000 AGGREGATE \$15,000,000 \$
B	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE/OFFICER/MEMBER EXCLUDED? <input checked="" type="checkbox"/> Y/N <input type="checkbox"/> N/A (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below			ECC60040002872014A	07/01/2014	07/01/2015	<input checked="" type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER E.L EACH ACCIDENT \$500,000 E.L DISEASE - EA EMPLOYEE \$500,000 E.L DISEASE - POLICY LIMIT \$500,000
A	Leased/Rented Equipment			ZBV918860104	07/01/2014	07/01/2015	\$25,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

Supplemental Names This certificate is issued for insured operations usual to a college.
 Great Bay Community College
 Lakes Region Community College
 Manchester Community College
 Nashua Community College
 (See Attached Descriptions)

CERTIFICATE HOLDER

DRED
 172 Pembroke Road
 Concord, NH 03301

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE

E. B. [Signature]

State of New Hampshire

Office of Secretary of State

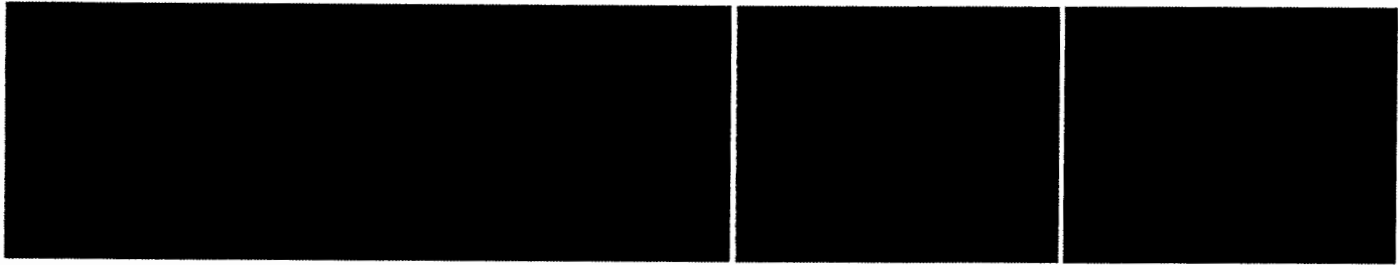
I, William M. Gardner, Secretary of State of the State of New Hampshire, do hereby certify that THE COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE was established, and made a body corporate and politic under the laws of 2011, Chapter 35.



In Testimony Whereof, I hereto set my hand at Concord, this 2nd day of September, 2014

A handwritten signature in black ink, appearing to read "W. M. Gardner", written over a horizontal line.

William M. Gardner
Secretary of State



COMMUNITY COLLEGE
system of New Hampshire
(A Component Unit of the State of New Hampshire)

FINANCIAL STATEMENTS

and

FEDERAL REPORTS IN ACCORDANCE WITH OMB CIRCULAR A-133

June 30, 2014 and 2013

With Independent Auditor's Report



COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Reports on Audits of Financial Statements and Supplemental Information

June 30, 2014 and 2013

Table of Contents

	<u>Page(s)</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis (Unaudited)	3 - 7
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10 - 11
Notes to Financial Statements	12 - 25
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26 - 27
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	28 - 31
Schedule of Expenditures of Federal Awards	32 - 33
Notes to Schedule of Expenditures of Federal Awards	34 - 35
Schedule of Findings and Questioned Costs	36 - 43
Summary Schedule of Prior Audit Findings	44 - 45



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Community College System of New Hampshire
(A Component Unit of the State of New Hampshire)

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Community College System of New Hampshire (A Component Unit of the State of New Hampshire) (CCSNH) as of June 30, 2014 and 2013, and for the years then ended, and the related notes to the financial statements, which collectively comprise CCSNH's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditor. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except that the financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of CCSNH as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not 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 U.S. generally accepted auditing standards, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014 on our consideration of CCSNH's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering CCSNH's internal control over financial reporting and compliance.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
December 22, 2014

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)**

Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) includes an analysis of the financial position and operations of the Community College System of New Hampshire (CCSNH) for the fiscal years ended June 30, 2014, 2013 and 2012. This discussion is provided by the management of CCSNH and should be read in conjunction with the financial statements and notes.

The New Hampshire State Legislature, through the passage of Chapter 361, Laws of 2007, established CCSNH as a body politic and corporate for the purpose of providing a well-coordinated system of public community college education. Governance of CCSNH was placed with a single Board of Trustees which serves as its policy making and operationing authority.

CCSNH is a statewide system of seven independent institutions including White Mountains Community College, Lakes Region Community College, River Valley Community College, NHTI – Concord's Community College, Manchester Community College, Nashua Community College, and Great Bay Community College, as well as three academic centers in Keene, Littleton, and Rochester. It includes the Community Colleges of New Hampshire Foundation as a discretely presented non-major component unit.

CCSNH offers associate degrees, certificates, workforce training, and transfer pathways to over 27,000 students.

The Community Colleges of New Hampshire Foundation (the Foundation) is a separate legal entity established as a 501(c)(3) corporation. The Foundation's mission is to provide greater access to educational opportunities through financial assistance for student scholarships, program development, and enhancements to college facilities. These assets and all activity of the Foundation are included in the financial statements of CCSNH as a discretely presented component unit. The MD&A includes information only for CCSNH, not its component unit. Complete financial statements of the Foundation can be obtained from CCSNH's system office.

FINANCIAL STATEMENTS

CCSNH reports its activity as a business-type activity using the full accrual basis of accounting. The accrual basis of accounting ensures that all amounts owed to CCSNH and all pending obligations are accounted for in the appropriate period.

STATEMENTS OF NET POSITION

The statements of net position show the financial position of CCSNH at the end of each fiscal year and includes all assets and liabilities. The total net position is the difference between the assets and liabilities. Over time, an increase in net position is one indicator of an institution's financial health. Factors contributing to the financial health reported on the statement of net position include the value of depreciated buildings, equipment, and cash and cash equivalents; and current balances of related debt obligations and accrued liabilities. The condensed statements of net position for the past three years are shown on the next page.

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)**

Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

	June 30,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Current	\$ 22,399,204	\$ 27,694,887	\$ 19,840,613
Net capital	117,615,080	112,010,861	101,664,893
Other noncurrent assets	<u>6,873,137</u>	<u>6,865,038</u>	<u>5,398,696</u>
Total assets	<u>\$146,887,421</u>	<u>\$146,570,786</u>	<u>\$126,904,202</u>
Liabilities			
Current	\$ 11,308,001	\$ 9,948,157	\$ 9,919,398
Noncurrent	<u>25,787,830</u>	<u>27,860,049</u>	<u>21,531,897</u>
Total liabilities	<u>\$ 37,095,831</u>	<u>\$ 37,808,206</u>	<u>\$ 31,451,295</u>
Net position			
Invested in capital assets, net of related debt	\$ 96,041,576	\$ 91,022,904	\$ 85,128,765
Restricted nonexpendable	305,184	150,856	154,697
Restricted expendable	3,784,814	2,737,447	1,981,581
Unrestricted	<u>9,660,016</u>	<u>14,851,373</u>	<u>8,187,864</u>
Total net position	<u>\$109,791,590</u>	<u>\$108,762,580</u>	<u>\$ 95,452,907</u>

The major components of assets are cash and cash equivalents and net property and equipment. In 2014, overall assets increased by \$316,635 driven by an increase in net property and equipment. CCSNH's largest liability in 2014 was long-term debt. Overall, liabilities decreased by \$712,375 driven by a decrease in noncurrent accounts payable and accrued liabilities. In total, CCSNH's net position increased by \$1,029,010 in 2014.

CCSNH experienced a very productive 2013 in terms of its capital projects. Total assets and liabilities increased significantly driven by an increase in net capital assets. Net capital assets increased by \$10.3 million, while total assets increased by \$19.7 million. Liabilities increased by \$6.4 million driven by this capital activity.

In 2012, net position increased significantly due to the passage of Chapter 199, Laws of 2011, which transferred ownership of all the property used by CCSNH from the State of New Hampshire (the State) to CCSNH. The transfer is included in the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2012 as an increase to the net position of CCSNH. The capital assets recognized in the transfer were from two separate pools, those assets meeting the State's capitalization policy with a net book value of \$71,123,625, and those capital assets with costs that are less than the State's capitalization threshold, but are considered capital assets under CCSNH's capitalization policy, with a net book value of \$5,536,628.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

This statement reports total operating revenues, operating expenses, nonoperating revenue and expenses, and the increase in net position for the fiscal years ended June 30, 2014, 2013 and 2012.

	<u>Years Ended June 30,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues			
Tuition and fees	\$ 69,482,905	\$ 70,368,968	\$ 71,113,729
Other revenue	<u>13,582,669</u>	<u>12,377,514</u>	<u>9,392,589</u>
Total operating revenue	83,065,574	82,746,482	80,506,318
Operating expenses			
Employee compensation and benefits	94,191,293	81,317,456	82,984,137
Other operating expenses	<u>36,644,244</u>	<u>30,804,643</u>	<u>25,689,250</u>
Total operating expenses	<u>130,835,537</u>	<u>112,122,099</u>	<u>108,673,387</u>
Operating loss	<u>(47,769,963)</u>	<u>(29,375,617)</u>	<u>(28,167,069)</u>
Nonoperating revenues (expenses) and other changes			
State appropriations - operating	40,000,000	31,544,352	31,358,244
State appropriations - capital	7,022,709	9,106,223	4,550,488
Capital grants and contracts	2,771,500	2,840,670	-
Transfer from the State of New Hampshire	-	-	71,123,625
Capital assets received below the State's capitalization policy	-	-	5,536,628
Other nonoperating expenses	<u>(995,236)</u>	<u>(805,955)</u>	<u>(861,362)</u>
Nonoperating revenues and other changes, net	<u>48,798,973</u>	<u>42,685,290</u>	<u>111,707,623</u>
Increase in net position	1,029,010	13,309,673	83,540,554
Net position at beginning of year	<u>108,762,580</u>	<u>95,452,907</u>	<u>11,912,353</u>
Net position at end of year	<u>\$109,791,590</u>	<u>\$108,762,580</u>	<u>\$ 95,452,907</u>

The majority of CCSNH's revenues come from tuition and fees, which decreased in 2014 and 2013 as compared to the year ended June 30, 2012 due to declining credits sold. Other revenue includes grants and contracts and other auxiliary enterprises. Driven by increased grant activity, other revenue increased each year by \$1,205,155 and \$2,984,925 during 2014 and 2013, respectively. Overall, total operating revenue was up \$319,092 in 2014 and \$2,240,164 in 2013.

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)**

Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

Like many institutions of higher education, CCSNH is a labor intensive organization, and operating expenses are primarily composed of employee compensation and benefits. These expenses were up \$12,873,837 in 2014 due to salary increases, higher benefit costs, and new employees, many of whom were funded by grants. These expenses decreased by \$1,666,681 in 2013 due to reductions in staffing initiated when state appropriations decreased.

Other operating expenses were up \$5,839,601 in 2014, due in part to higher depreciation and utilities costs. Other operating expenses increased by \$5,115,393 from 2012 to 2013. The increase was reflected in several categories of other expenses. Contractual maintenance on buildings increased by \$1.4 million, funding received from the U.S. Department of Labor Trade Adjustment Act – Community College Career and Training program grant resulted in an increase of \$1.3 million, equipment acquisitions below the capitalization threshold increased by \$500,000 and advertising and supplies increased significantly.

In nonoperating revenues, our state operating appropriation was up \$8,455,468 in 2014, while our state capital appropriation was down \$2,083,514. The state appropriation in 2014 increased as the New Hampshire Legislature and Governor worked to return CCSNH state support to pre-recession levels. Nonoperating expenses were up slightly in 2014. In total, our net nonoperating revenues and other changes in net position were up \$6,113,683, driven by the higher net appropriations from the State of New Hampshire. State operating appropriations were consistent in 2013 and 2012, while our state capital appropriation increased in 2013 by \$4,555,735.

STATEMENTS OF CASH FLOWS

The statements of cash flows summarize transactions involving cash and cash equivalents during each fiscal year. The statements provide an additional tool to assess the financial health of the institution and its ability to generate future cash flows to meet its obligations.

	<u>Years Ended June 30,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net cash used - operating activities	\$ (39,063,740)	\$ (24,249,905)	\$ (22,248,000)
Net cash provided - noncapital financing activities	40,000,000	31,544,352	31,358,244
Net cash used - capital and related financing activities	(6,688,234)	(178,189)	(9,013,497)
Net (decrease) increase in cash and cash equivalents	(5,751,974)	7,116,258	96,747
Cash and cash equivalents, beginning of year	25,465,394	18,349,136	18,252,389
Cash and cash equivalents, end of year	\$ 19,713,420	\$ 25,465,394	\$ 18,349,136

CCSNH maintains the cash position necessary to meet its obligations. The amount of cash on hand fluctuates during the year due to the timing of tuition receipts and federal financial aid payments. Cash and cash equivalents decreased by \$5,751,974 during 2014 due to increased net cash used for operating expenses, while tuition and fee revenue declined. In addition, there was a significant decrease in capital appropriations received from the State of New Hampshire and capital debt borrowings.

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)**

Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

Cash and cash equivalents increased by \$7,116,258 in 2013 driven by increased State of New Hampshire capital appropriations.

CAPITAL ASSETS AND DEBT

CCSNH receives significant funding as part of the State's capital budget. The funding has allowed for construction and renovation at all seven campuses over the past three years. These projects included major construction at Manchester Community College (student center) and Lakes Region Community College (health and science building). During the years ended June 30, 2014, 2013 and 2012, CCSNH paid \$15,739,016, \$16,385,713 and \$6,689,044 for capital asset additions, respectively.

Most of CCSNH's construction projects are paid for by the State through its capital budget. However, certain projects, e.g., dorms, while financed by the State through the capital budget, are paid for by CCSNH. Fees collected from students are used to pay the principal and interest on the bonds used to fund these projects.

CCSNH incurred additional debt amounting to \$2 million and \$6 million during the years ended June 30, 2014 and 2013, respectively. CCSNH did not incur any additional debt during the year ended June 30, 2012. During the years ended June 30, 2014, 2013 and 2012, CCSNH paid \$1,851,606, \$1,548,171 and \$1,463,091, respectively, in principal payments on bonds payable and capital lease obligations.

ECONOMIC OUTLOOK

After many of years of enrollment growth during the recession, CCSNH's credits sold declined in 2014 and were flat in 2014 as the economy and employment improves. CCSNH continues to look for new markets for enrollment growth that align with the economic needs of New Hampshire's industries. CCSNH is working to realign our organizational structure and operating expense base to meet new forecasts for revenue growth.

Over the past few years, CCSNH's federal grant activity has increased significantly. 2015 will mark the end of the \$19.9 million U.S. Department of Labor Trade Adjustment Act – Community College Career and Training program grant (TAACCCT I), while smaller TAACCCT grant awards will continue over the next few years.

In 2015, CCSNH will receive a slightly higher appropriation from the State of New Hampshire to support a reduction in tuition to \$200 per credit from \$210 per credit. The CCSNH Board of Trustees will continue to work with the State of New Hampshire in future budget cycles to support additional tuition reductions.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Statements of Net Position

June 30, 2014 and 2013

	Community College System of New Hampshire		Community Colleges of New Hampshire Foundation	
	Years Ended June 30,		Years Ended June 30,	
	2014	2013	2014	2013
Assets				
Current assets				
Cash and cash equivalents	\$ 19,713,420	\$ 25,465,394	\$ 436,110	\$ 2,125,236
Student accounts receivable	30,788	378,353	-	-
Other current assets	993,616	335,149	94,009	65,478
Grants and contracts receivable	<u>1,661,380</u>	<u>1,515,991</u>	<u>-</u>	<u>-</u>
Total current assets	<u>22,399,204</u>	<u>27,694,887</u>	<u>530,119</u>	<u>2,190,714</u>
Noncurrent assets				
Student loans receivable, net	839,317	802,803	-	-
Due from State of New Hampshire for capital appropriations	3,832,316	3,688,278	-	-
Capital grants and contracts receivable	-	247,453	-	-
Investments	-	-	13,794,074	8,730,242
Capital assets, net	117,615,080	112,010,861	-	-
Assets held for sale	<u>2,201,504</u>	<u>2,126,504</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>124,488,217</u>	<u>118,875,899</u>	<u>13,794,074</u>	<u>8,730,242</u>
Total assets	<u>\$ 146,887,421</u>	<u>\$ 146,570,786</u>	<u>\$ 14,324,193</u>	<u>\$ 10,920,956</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	\$ 2,112,039	\$ 1,679,456	\$ 587,352	\$ 227,893
Accrued salaries and benefits	5,700,563	5,710,794	-	-
Deferred revenue and deposits	1,339,149	791,985	-	-
Current portion of bonds payable	1,868,763	1,713,205	-	-
Current portion of other liabilities	<u>287,487</u>	<u>52,717</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>11,308,001</u>	<u>9,948,157</u>	<u>587,352</u>	<u>227,893</u>
Noncurrent liabilities				
Accounts payable and accrued liabilities	922,823	3,593,483	-	-
Accrued salaries and benefits	4,509,289	4,127,431	-	-
Refundable advances	938,464	917,100	-	-
Bonds payable	19,297,978	19,166,745	-	-
Other liabilities	<u>119,276</u>	<u>55,290</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>25,787,830</u>	<u>27,860,049</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>37,095,831</u>	<u>37,808,206</u>	<u>587,352</u>	<u>227,893</u>
Net position				
Invested in capital assets, net of related debt	96,041,576	91,022,904	-	-
Restricted nonexpendable	305,184	150,856	9,890,555	8,507,976
Restricted expendable	3,784,814	2,737,447	3,632,659	1,980,811
Unrestricted	<u>9,660,016</u>	<u>14,851,373</u>	<u>213,627</u>	<u>204,276</u>
Total net position	<u>109,791,590</u>	<u>108,762,580</u>	<u>13,736,841</u>	<u>10,693,063</u>
Total liabilities and net position	<u>\$ 146,887,421</u>	<u>\$ 146,570,786</u>	<u>\$ 14,324,193</u>	<u>\$ 10,920,956</u>

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

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2014 and 2013

	Community College System of New Hampshire		Community Colleges of New Hampshire Foundation	
	Years Ended June 30,		Years Ended June 30,	
	2014	2013	2014	2013
Operating revenues				
Tuition and fees	\$ 70,383,211	\$ 71,126,126	\$ -	\$ -
Less scholarships	<u>(900,306)</u>	<u>(757,158)</u>	<u>-</u>	<u>-</u>
Net tuition and fees	69,482,905	70,368,968	-	-
Grants and contracts	7,915,476	5,917,934	-	-
Contributions	-	-	1,780,837	685,300
Other auxiliary enterprises	2,764,827	2,618,835	-	-
Other operating revenue	<u>2,902,366</u>	<u>3,840,745</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>83,065,574</u>	<u>82,746,482</u>	<u>1,780,837</u>	<u>685,300</u>
Operating expenses				
Employee compensation and benefits	94,191,293	81,317,456	-	-
Other operating expenses	25,826,402	22,053,013	2,089,316	840,516
Utilities	3,208,828	2,583,346	-	-
Depreciation	<u>7,609,014</u>	<u>6,168,284</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>130,835,537</u>	<u>112,122,099</u>	<u>2,089,316</u>	<u>840,516</u>
Operating loss	<u>(47,769,963)</u>	<u>(29,375,617)</u>	<u>(308,479)</u>	<u>(155,216)</u>
Nonoperating revenues (expenses)				
State of New Hampshire appropriations	40,000,000	31,544,352	-	-
Contributions for long-term purposes	-	-	1,371,574	57,950
Investment gain	-	-	1,980,683	1,000,072
Interest expense on capital debt	<u>(995,236)</u>	<u>(805,955)</u>	<u>-</u>	<u>-</u>
Nonoperating revenues, net	<u>39,004,764</u>	<u>30,738,397</u>	<u>3,352,257</u>	<u>1,058,022</u>
(Loss) income before other changes in net position	<u>(8,765,199)</u>	<u>1,362,780</u>	<u>3,043,778</u>	<u>902,806</u>
Other changes in net position				
State of New Hampshire appropriations for capital expenditures	7,022,709	9,106,223	-	-
Capital grants and contracts	<u>2,771,500</u>	<u>2,840,670</u>	<u>-</u>	<u>-</u>
Total other changes in net position	<u>9,794,209</u>	<u>11,946,893</u>	<u>-</u>	<u>-</u>
Increase in net position	1,029,010	13,309,673	3,043,778	902,806
Net position at beginning of year	<u>108,762,580</u>	<u>95,452,907</u>	<u>10,693,063</u>	<u>9,790,257</u>
Net position at end of year	<u>\$ 109,791,590</u>	<u>\$ 108,762,580</u>	<u>\$ 13,736,841</u>	<u>\$ 10,693,063</u>

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

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	<u>Community College System of New Hampshire</u>		<u>Community Colleges of New Hampshire Foundation</u>	
	<u>Years Ended June 30,</u>		<u>Years Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Cash flows from operating activities				
Tuition and fees	\$ 70,236,471	\$ 70,508,506	\$ -	\$ -
Grants and contracts	7,918,600	4,977,327	-	-
Auxiliary enterprises	2,764,827	2,618,835	-	-
Contributions received	-	-	1,752,306	690,603
Payments to suppliers	(28,904,301)	(23,913,695)	(1,729,857)	(840,242)
Payments to employees	(93,617,155)	(82,298,002)	-	-
Other cash receipts	<u>2,537,818</u>	<u>3,857,124</u>	<u>-</u>	<u>-</u>
Net cash (used for) provided by operating activities	<u>(39,063,740)</u>	<u>(24,249,905)</u>	<u>22,449</u>	<u>(149,639)</u>
Cash flows from noncapital financing activities				
State of New Hampshire appropriations	40,000,000	31,544,352	-	-
Contributions for long-term purposes	<u>-</u>	<u>-</u>	<u>1,371,574</u>	<u>57,950</u>
Net cash provided by noncapital financing activities	<u>40,000,000</u>	<u>31,544,352</u>	<u>1,371,574</u>	<u>57,950</u>
Cash flows from capital and related financing activities				
Capital appropriations	6,878,671	9,968,433	-	-
Capital grants and contracts received	3,018,953	2,593,217	-	-
Purchase of capital assets	(15,739,016)	(16,385,713)	-	-
Proceeds from capital debt borrowings	2,000,000	6,000,000	-	-
Principal on capital debt and leases	(1,851,606)	(1,548,171)	-	-
Interest on capital debt and leases	<u>(995,236)</u>	<u>(805,955)</u>	<u>-</u>	<u>-</u>
Net cash used for capital and related financing activities	<u>(6,688,234)</u>	<u>(178,189)</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities				
Proceeds from sales and maturities of investments	-	-	10,137,478	8,469,688
Purchase of investments	-	-	(13,487,331)	(7,078,358)
Interest and dividends received	<u>-</u>	<u>-</u>	<u>266,704</u>	<u>275,755</u>
Net cash (used for) provided by investing activities	<u>-</u>	<u>-</u>	<u>(3,083,149)</u>	<u>1,667,085</u>
Net (decrease) increase in cash and cash equivalents	(5,751,974)	7,116,258	(1,689,126)	1,575,396
Cash and cash equivalents, beginning of year	<u>25,465,394</u>	<u>18,349,136</u>	<u>2,125,236</u>	<u>549,840</u>
Cash and cash equivalents, end of year	<u>\$ 19,713,420</u>	<u>\$ 25,465,394</u>	<u>\$ 436,110</u>	<u>\$ 2,125,236</u>

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

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Statements of Cash Flows (Concluded)

Years Ended June 30, 2014 and 2013

	Community College System of New Hampshire		Community Colleges of New Hampshire Foundation	
	Years Ended June 30,		Years Ended June 30,	
	2014	2013	2014	2013
Reconciliation of operating loss to net cash (used for) provided by operating activities				
Operating loss	\$ (47,769,963)	\$ (29,375,617)	\$ (308,479)	\$ (155,216)
Adjustments to reconcile operating loss to net cash (used for) provided by operating activities				
Depreciation	7,609,014	6,168,284	-	-
Impairment loss on asset held for sale	217,276	-	-	-
Changes in assets and liabilities				
Student accounts receivable	347,565	32,665	-	-
Other current assets	(658,467)	38,879	(28,531)	5,303
Student loans receivable	(36,514)	45,405	-	-
Grants receivable	(145,389)	(809,560)	-	-
Accounts payable and accrued liabilities	432,583	522,863	359,459	274
Accrued salaries and benefits	371,627	(780,745)	-	-
Deferred revenue and deposits	547,164	(68,679)	-	-
Refundable advances	21,364	(23,400)	-	-
Net cash (used for) provided by operating activities	\$ (39,063,740)	\$ (24,249,905)	\$ 22,449	\$ (149,639)
Acquisition of capital assets	\$ 13,505,509	\$ 18,640,756	\$ -	\$ -
Less: acquisition of capital assets included in accounts payable at year-end	(922,823)	(3,593,483)	-	-
Acquisition of capital assets financed by other long-term liabilities	(437,153)	-	-	-
Add: payments on short-term trade accounts used to finance acquisition of capital assets	3,593,483	1,338,440	-	-
Payments for the acquisition of capital assets	\$ 15,739,016	\$ 16,385,713	\$ -	\$ -

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

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Financial Statements

June 30, 2014 and 2013

Nature of Business

The Community College System of New Hampshire (CCSNH) is comprised of the following colleges:

- NHTI - Concord's Community College (NHTI)
- Manchester Community College (MCC)
- Nashua Community College (NCC)
- Great Bay Community College (GBCC)
- Lakes Region Community College (LRCC)
- White Mountains Community College (WMCC)
- River Valley Community College (RVCC)

CCSNH's main purpose is to provide a well-coordinated system of public community college education. CCSNH is governed by a single board of trustees with 19 voting members appointed by the Governor and Executive Council. CCSNH funds its operations through tuition, room and board, fees, grants, legacies and gifts, and state appropriations.

Community Colleges of New Hampshire Foundation (the Foundation) is a separate legal entity established as a 501(c)(3) corporation. The Foundation is structured to seek and secure private funds and/or grants in order to supplement the traditional revenue sources of CCSNH. The Foundation's mission is to support CCSNH and make higher education more accessible by providing student scholarship assistance, facility and staff support programs and improved education facilities. These assets and all activity of the Foundation are included in the financial statements of CCSNH as a discretely presented component unit.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared using the economic resources focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, 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.

CCSNH has determined that it functions as a business-type activity, as defined by GASB. The effect of interfund activity has been eliminated from these financial statements.

CCSNH's policy is to define operating activities in the statement of revenues, expenses and changes in net position as those that generally result from exchange transactions such as charges for services provided to students and for the purchase of goods and services. Certain other transactions are reported as nonoperating revenues (expenses). These nonoperating revenues (expenses) include CCSNH's operating appropriations from the State, net investment income (loss), gifts received by the Foundation restricted for capital expenditures, and interest expense.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Financial Statements

June 30, 2014 and 2013

Cash and Cash Equivalents

Cash and cash equivalents in the statement of cash flows include unrestricted cash which is either held in demand deposit or short-term money market accounts, and highly liquid savings deposits and investments with original maturities of three months or less when purchased.

CCSNH maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. It has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash and cash equivalents.

Student Accounts Receivable

CCSNH extends credit to students in the form of accounts receivable. Accounts receivable are stated at the amount management expects to collect from outstanding balances. CCSNH has adopted the direct write-off method for probable uncollectible amounts through a charge to earnings and a credit to student accounts receivable based on its assessment of the current status of individual accounts.

Student Loans Receivable

The Federal Perkins Student Loan Program has provisions for deferment, forbearance and cancellation of the individual loans. Principal payments, interest, and losses due to cancellation are shared by the College and the U.S. Government in proportion to their share of funds provided. Such funds may be reloaned by CCSNH after collection. Amounts advanced by the federal government under this program are ultimately refundable and are classified as federal student loan funds.

Student loans receivable are stated at their unpaid principal balances adjusted for charge offs and the allowance for loan losses. Interest income on student loans receivable is recorded when received. CCSNH provides for probable uncollectible amounts through a charge to expense and a credit to the allowance for loan losses based on its assessment of the current status of individual accounts. Balances that are still outstanding after the College has used reasonable collection efforts are written off through a charge to the allowance for loan losses and a credit to student loans receivable. Student loans receivable at June 30, 2014 and 2013 are reported net of allowance for loan losses of \$450,000.

Collections of the student loans receivable may not be used to pay current liabilities, as the proceeds are restricted for making new loans. Accordingly, the student loans receivable are recorded in the accompanying statements of net position as noncurrent assets.

Grants and Contracts and Capital Appropriations

CCSNH records a receivable and corresponding revenue for these funding sources at the point all eligibility requirements (e.g., allowable costs are incurred) are met.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Financial Statements

June 30, 2014 and 2013

Investments

The Foundation carries investments in marketable securities at their fair value. Fair value is based on unadjusted, quoted prices in active markets for identical assets at the measurement date. Purchased and gifted securities are recorded at fair value on the date of the acquisition or gift, net of any brokerage fees. Realized and unrealized gains and losses on securities in the investment portfolio are allocated on a specific-identification basis.

Capital Assets

Capital assets are recorded at cost when purchased or constructed and at fair value at date of donation. In accordance with CCSNH's capitalization policy, only equipment (including equipment acquired under capital leases), capital projects and internally generated intangibles with a projected cost of \$5,000 or more are capitalized. Cost for maintenance, repairs and minor renewals and replacements are expensed as incurred. The costs of library materials are expensed as incurred.

Depreciation and amortization of assets acquired are recorded on a straight-line basis over the estimated useful lives of the related assets, principally as follows:

Buildings	40 years
Building and land improvements	20 years
Equipment	5 years

When capital assets are retired or otherwise disposed of, the asset and accumulated depreciation accounts are adjusted and any resulting gain or loss is reflected in the statement of revenues, expenses and changes in net position.

Assets Held for Sale

Assets held for sale are carried at the lower of cost or fair value.

During the year ended June 30, 2013, GBCC entered into a contract for the sale of its former Stratham, New Hampshire campus. As a result, the net book value of the campus, amounting to \$2,126,504, was reclassified to assets held for sale. Subsequent to June 30, 2014, the sale of the GBCC property was completed.

Subsequent to June 30, 2014, WMCC entered into an agreement to sell a building and its related land for \$75,000. As a result, the net book value of the building and land, amounting to \$282,453, was reclassified from capital assets to assets held for sale. During the year ended June 30, 2014, CCSNH recorded an impairment loss of \$207,453 to adjust the net book value of the asset to fair value.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Financial Statements

June 30, 2014 and 2013

Deferred Revenue and Deposits

Deferred revenue and deposits consist primarily of deposits and advance payments received for tuition and fees related to certain summer programs and tuition received for the following academic year. Revenue from summer programs is recognized ratably over the applicable academic periods.

Compensated Absences

Employees earn the right to be compensated during certain absences. The accompanying statements of net position reflect an accrual for the amounts earned, including related benefits ultimately payable for such benefit. A portion of this liability is classified as current and represents CCSNH's estimate of vacation time that will be paid during the next fiscal year to employees.

Refundable Advances

CCSNH participates in the Federal Perkins Loan Program, which is funded through a combination of federal and institutional resources. The portion of this program that has been funded with federal funds is ultimately refundable to the U.S. Government upon the termination of CCSNH's participation in the programs. The portion that would be refundable if the programs were terminated as of June 30, 2014 and 2013, has been included in the accompanying statements of net position as a noncurrent liability. The portion of this program that has been funded with institutional funds has been classified as restricted - nonexpendable since these funds can only be used on a revolving basis for loans during the time CCSNH participates in the Federal Perkins Loan Program.

Net Position

GASB requires that resources be classified for accounting purposes into the following four net position 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 CCSNH 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 CCSNH or by the passage of time.

Unrestricted: All other categories of net position. Unrestricted net position may be designated by actions of the CCSNH's Board of Trustees.

CCSNH has adopted a policy of generally utilizing restricted, expendable resources, when available, prior to unrestricted resources.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Financial Statements

June 30, 2014 and 2013

Net Student Fees

Student tuition, dining, residence, and other fees are presented net of scholarships applied to students' accounts.

Contributions

Contributions are recorded at their fair value at the date of gift. Promises to donate to the Foundation are recorded as receivables and revenues when the Foundation has met all applicable eligibility and time requirements. Contributions to be used for endowment purposes are categorized as restricted nonexpendable. Other gifts are categorized as currently expendable. Pledges receivable, which are included in other current assets in the statements of net position, are reported net of amounts deemed uncollectible, and after discounting to the present value of the expected future cash flows. Because of uncertainties with regard to their realizability and valuation, bequests and intentions to give and other conditional promises are not recognized as assets until the specified conditions are met.

Contributions of services are recorded if the services create or enhance non-financial assets or the services are performed by individuals possessing specialized skills and those services would normally need to be purchased if not donated. These services are recorded at their fair value at the time of contribution.

Income Taxes

The Internal Revenue Service has determined that CCSNH is a wholly-owned instrumentality of the State, and as such is generally exempt from federal income tax.

Use of Estimates in Financial Statement Preparation

The preparation of financial statements in conformity with U.S. 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of bank failure, CCSNH's deposits may not be returned. Deposits are considered uninsured and uncollateralized if they are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in CCSNH's name.

As of June 30, 2014 and 2013, CCSNH's uncollateralized uninsured cash and cash equivalents were approximately \$20,300,000 and \$26,170,000, respectively. Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits, and the combined total amounts are insured up to the first \$250,000 per financial institution.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Financial Statements

June 30, 2014 and 2013

3. Capital Assets

Capital asset activity for the year ended June 30, 2014 is summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Transferred to Assets Held for Sale</u>	<u>Ending Balance</u>
Land	\$ 730,729	\$ -	\$ -	\$ -	\$ -	\$ 730,729
Construction-in-process	<u>14,811,067</u>	<u>8,675,688</u>	-	<u>(14,406,194)</u>	-	<u>9,080,561</u>
Total non-depreciable assets	<u>15,541,796</u>	<u>8,675,688</u>	-	<u>(14,406,194)</u>	-	<u>9,811,290</u>
Land improvements	5,430,076	200,935	-	-	-	5,631,011
Buildings and improvements	145,279,497	-	-	14,401,049	(305,355)	159,375,191
Equipment	<u>13,546,129</u>	<u>4,628,886</u>	<u>(368,137)</u>	<u>5,145</u>	-	<u>17,812,023</u>
Total depreciable assets	<u>164,255,702</u>	<u>4,829,821</u>	<u>(368,137)</u>	<u>14,406,194</u>	<u>(305,355)</u>	<u>182,818,225</u>
Accumulated depreciation	<u>(67,786,637)</u>	<u>(7,609,014)</u>	<u>358,314</u>	-	<u>22,902</u>	<u>(75,014,435)</u>
Capital assets, net	<u>\$112,010,861</u>	<u>\$ 5,896,495</u>	<u>\$ (9,823)</u>	<u>\$ -</u>	<u>\$ (282,453)</u>	<u>\$117,615,080</u>

Capital asset activity for the year ended June 30, 2013 is summarized below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Transferred to Assets Held for Sale</u>	<u>Ending Balance</u>
Land	\$ 955,729	\$ -	\$ -	\$ -	\$ (225,000)	\$ 730,729
Construction-in-process	<u>4,656,693</u>	<u>15,381,733</u>	-	<u>(5,227,359)</u>	-	<u>14,811,067</u>
Total non-depreciable assets	<u>5,612,422</u>	<u>15,381,733</u>	-	<u>(5,227,359)</u>	<u>(225,000)</u>	<u>15,541,796</u>
Land improvements	4,067,641	234,150	-	1,373,985	(245,700)	5,430,076
Buildings and improvements	148,201,667	317,015	-	3,816,704	(7,055,889)	145,279,497
Equipment	<u>11,255,855</u>	<u>2,735,274</u>	<u>(481,670)</u>	<u>36,670</u>	-	<u>13,546,129</u>
Total depreciable assets	<u>163,525,163</u>	<u>3,286,439</u>	<u>(481,670)</u>	<u>5,227,359</u>	<u>(7,301,589)</u>	<u>164,255,702</u>
Accumulated depreciation	<u>(67,472,692)</u>	<u>(6,168,284)</u>	<u>454,254</u>	-	<u>5,400,085</u>	<u>(67,786,637)</u>
Capital assets, net	<u>\$101,664,893</u>	<u>\$12,499,888</u>	<u>\$ (27,416)</u>	<u>\$ -</u>	<u>\$ (2,126,504)</u>	<u>\$112,010,861</u>

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Financial Statements

June 30, 2014 and 2013

4. Long-term Liabilities

Changes in long-term liabilities during the year ended June 30, 2014 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Accounts payable and accrued liabilities	\$ 5,272,939	\$ 3,034,862	\$(5,272,939)	\$ 3,034,862	\$ 2,112,039
Accrued salaries and benefits	9,838,225	371,627	-	10,209,852	5,700,563
Refundable advances	917,100	21,364	-	938,464	-
Bonds payable	20,879,950	2,000,000	(1,713,209)	21,166,741	1,868,763
Other liabilities	<u>108,007</u>	<u>437,153</u>	<u>(138,397)</u>	<u>406,763</u>	<u>287,487</u>
Long-term liabilities	<u>\$ 37,016,221</u>	<u>\$ 5,865,006</u>	<u>\$(7,124,545)</u>	<u>\$ 35,756,682</u>	<u>\$ 9,968,852</u>

Changes in long-term liabilities during the year ended June 30, 2013 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Accounts payable and accrued liabilities	\$ 2,495,033	\$ 5,272,939	\$(2,495,033)	\$ 5,272,939	\$ 1,679,456
Accrued salaries and benefits	10,618,970	-	(780,745)	9,838,225	5,710,794
Refundable advances	940,500	-	(23,400)	917,100	-
Bonds payable	16,217,359	6,000,000	(1,337,409)	20,879,950	1,713,205
Other liabilities	<u>318,769</u>	<u>-</u>	<u>(210,762)</u>	<u>108,007</u>	<u>52,717</u>
Long-term liabilities	<u>\$ 30,590,631</u>	<u>\$ 11,272,939</u>	<u>\$(4,847,349)</u>	<u>\$ 37,016,221</u>	<u>\$ 9,156,172</u>

Other Long-Term Liabilities

Future minimum payments under capital leases and other long-term liabilities as of June 30, 2014 are as follows:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 287,487	\$ 13,421
2016	29,153	8,488
2017	31,572	6,069
2018	34,193	3,448
2019	24,358	736

The original cost basis of leased capital assets as of June 30, 2014 and 2013, was \$454,700 and \$1,632,235, respectively. Accumulated depreciation includes \$330,940 and \$1,572,235 as of June 30, 2014 and 2013, for the leased capital assets, respectively.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Financial Statements

June 30, 2014 and 2013

Bonds Payable

Bonds payable consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
1994 Series A General Obligation Bonds (original principal of \$850,000) Serial bonds maturing through 2015 with annual principal payments from \$28,058 to \$33,976 and interest rates from 6.15% to 6.20%	\$ 28,058	\$ 57,882
1995 Series A General Obligation Bonds (original principal of \$250,000) Serial bonds maturing in 2016 with a principal payment of \$31,712 and an interest rate of 5.05%	31,712	31,712
2005 Series A General Obligation Bonds (original principal of \$2,300,000) Serial bonds maturing through 2025 with annual principal payments from \$100,000 to \$160,000 and interest rates from 3.50% to 4.25%	835,000	940,000
2006 Series A General Obligation Bonds (original principal of \$1,703,059) Serial bonds maturing through 2021 with annual principal payments from \$17,185 to \$246,814 and interest rates from 4.00% to 4.25%	1,229,888	1,436,793
2008 Series A General Obligation Bonds (original principal of \$7,732,622) Serial bonds maturing through 2027 with annual principal payments from \$309,305 to \$463,960 and interest rates from 3.375% to 4.00%	4,020,961	4,484,921
2008 Series C General Obligation Bonds (original principal of \$2,141,678) Serial bonds maturing through 2028 with annual principal payments from \$0 to \$128,504 and interest rates from 4.00% to 5.00%	909,833	1,038,337
2009 Series A General Obligation Bonds (original principal of \$5,000,000) Serial bonds maturing through 2029 with annual principal payments from \$200,000 to \$300,000 and interest rates from 4.00% to 5.50%	3,800,000	4,100,000
2010 Series A General Obligation Bonds (original principal of \$1,996,995) Serial bonds maturing through 2025 with annual principal payments from \$0 to \$666,111 and coupon interest rates from 2.00% to 5.00%	1,850,716	1,850,716
2010 Series B General Obligation Bonds (original principal of \$1,055,090) Serial bonds maturing through 2020 with annual principal payments from \$115,501 to \$150,526 and interest rates from 3.00% to 4.00%	820,573	939,589
2012 Series B General Obligation Bonds (original principal of \$6,000,000) Serial bonds maturing through 2032 with annual principal payments from \$240,000 to \$360,000 and interest rates from 2.64% to 4.15%	5,640,000	6,000,000
2013 Series B General Obligation Bonds (original principal of \$2,000,000) Serial bonds maturing through 2033 with annual principal payments from \$79,763 to \$133,446 and interest rates from 4.00% to 4.68%	<u>2,000,000</u>	<u>-</u>
	<u>\$ 21,166,741</u>	<u>\$ 20,879,950</u>

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Financial Statements

June 30, 2014 and 2013

Principal and interest payments on bonds payable for the next five years and in subsequent five-year periods are as follows at June 30, 2014:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,868,743	\$ 976,802	\$ 2,845,545
2016	1,891,267	884,784	2,776,051
2017	1,818,111	737,856	2,555,967
2018	1,832,029	656,457	2,488,486
2019	1,811,127	565,986	2,377,113
2020-2024	6,633,129	1,800,853	8,433,982
2025-2029	4,032,778	613,827	4,646,605
2030-2034	<u>1,279,557</u>	<u>89,546</u>	<u>1,369,103</u>
	<u>\$ 21,166,741</u>	<u>\$ 6,326,111</u>	<u>\$ 27,492,852</u>

Interest expense related to the bonds for the years ended June 30, 2014 and 2013 was \$954,625 and \$765,343, respectively.

5. New Hampshire Retirement System

The New Hampshire Retirement System (NHRS) is a public employee retirement system that administers one cost-sharing multiple-employer pension plan (Pension Plan) and four separate cost-sharing multiple-employer postemployment medical subsidy healthcare plans (OPEB Plans). NHRS is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State are eligible and required to participate in NHRS. The provisions of the Pension Plan and OPEB Plans can be amended only by legislative action taken by the New Hampshire State Legislature pursuant to the authority granted them under the New Hampshire State Constitution. The payroll for CCSNH employees covered by NHRS for the years ended June 30, 2014 and 2013 was approximately \$47,442,000 and \$43,413,000, respectively.

All assets of NHRS are held in a single trust and are available to each group. Funding policies, vesting requirements, contribution requirements and plan assets available to pay benefits are disclosed in NHRS's annual report available from NHRS located at 54 Regional Drive, Concord, New Hampshire 03301-8507.

Pension Plan

The NHRS pension plan and trust was established in 1967 by Revised Statutes Annotated (RSA) 100-A:2. The Pension Plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Financial Statements

June 30, 2014 and 2013

Effective July 1, 2011, the required contribution rate to NHRS for eligible employees of CCSNH increased from 5% to 7% of their annual covered compensation. CCSNH makes annual contributions to the NHRS Pension Plan equal to the amount required by RSA 100-A:16, which was 8.4% of covered compensation during the years ended June 30, 2014, 2013, and 2012. CCSNH's contributions to the NHRS Pension Plan for the years ended June 30, 2014, 2013 and 2012 were \$4,923,636, \$3,688,122, and \$3,730,427, respectively, which were equal to its annual required contributions.

Contribution requirements for the Pension Plan for the years ended June 30 were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Employees' contributions	\$ 3,376,660	\$ 3,038,886	\$ 2,926,408
CCSNH contributions	<u>4,923,636</u>	<u>3,688,122</u>	<u>3,730,427</u>
Total	<u>\$ 8,300,296</u>	<u>\$ 6,727,008</u>	<u>\$ 6,656,835</u>

OPEB Plans

Pursuant to RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b, NHRS administers four defined benefit postemployment medical subsidiary healthcare plans designated in statute by membership type. The four plans are Group II Police Officer and Firefighters, Group I Teachers, Group I Political Subdivision Employees and Group I State Employees. Collectively, they are referred to as the OPEB Plans.

The OPEB Plans provide a medical insurance subsidy to qualified retirement members. The medical subsidy is a payment made by NHRS toward the cost of health insurance for a qualified retiree, his/her spouse, and his/her certifiably dependent children with a disability who are living in the household and being cared for by the retiree. Under specific conditions, the qualified beneficiaries of members who die while in service may also be eligible for the medical subsidy.

Plan members are not required to contribute to the OPEB Plans. CCSNH makes annual contributions to the OPEB Plans equal to the amount required by RSA 100-A:52, which was 1.6% of covered compensation during the years ended June 30, 2014, 2013 and 2012. CCSNH's contributions to NHRS for the OPEB Plans for the years ended June 30, 2014, 2013 and 2012 were \$767,909, \$696,535 and \$693,054, respectively, which were equal to its annual required contributions.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Financial Statements

June 30, 2014 and 2013

6. Contingencies and Commitments

Operating Lease Obligations

CCSNH leases certain equipment and real estate under leases with terms exceeding one year. Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2014 are as follows:

<u>Year ending June 30:</u>	
2015	\$ 826,320
2016	469,484
2017	303,561
2018	131,514
2019	<u>10,423</u>
	<u>\$ 1,741,302</u>

Total expense related to operating leases (with initial or remaining lease terms in excess of one year) amounted to \$789,594 and \$877,348 for the years ended June 30, 2014 and 2013, respectively.

Union Contracts

Substantially all of CCSNH's employees are covered by a collective bargaining agreement and are represented by the State Employees' Association of New Hampshire, Inc., which is part of the Service Employees International Union Local 1984, CTW, CLC. The current collective bargaining agreement has a period of August 15, 2013 through June 30, 2015.

Certain adjunct faculty of CCSNH are covered by a collective bargaining agreement, separate from the agreement described in the previous paragraph, and are represented by the State Employees' Association of New Hampshire, Inc., which is part of the Service Employees International Union Local 1984, CTW, CLC. The current collective bargaining agreement has a period of September 25, 2013 through June 30, 2016.

Contingencies

CCSNH participates in various federally funded programs. These programs are subject to financial and compliance audits and resolution of identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time.

CCSNH is involved in various claims and legal actions arising in the ordinary course of business. The ultimate disposition of these matters is indeterminable, but in the opinion of management, the amount of ultimate liability would not have a significant impact on CCSNH's financial condition.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Financial Statements

June 30, 2014 and 2013

CCSNH is also exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. CCSNH manages these risks through a combination of commercial insurance packages purchased in the name of CCSNH.

Commitments

CCSNH has entered into various construction contracts. The following commitments are ongoing projects at June 30, 2014.

	<u>Expended through June 30, 2014</u>	<u>Committed Future Costs</u>	<u>Total Committed Costs of Project</u>
NHTI	\$ 829,104	\$ 682,727	\$ 1,511,831
MCC	654,453	53,338	707,791
NCC	404,145	395,126	799,271
GBCC	216,758	330,029	546,787
LRCC	129,488	519,818	649,306
RVCC	<u>1,913,750</u>	<u>1,183,840</u>	<u>3,097,590</u>
Total	<u>\$ 4,147,698</u>	<u>\$ 3,164,878</u>	<u>\$ 7,312,576</u>

At June 30, 2014 and 2013, invoices related to construction projects of \$922,823 and \$3,593,483, respectively, were included in accounts payable.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Financial Statements

June 30, 2014 and 2013

7. Investments - Community Colleges of New Hampshire Foundation

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the funds if possible. Actual returns may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Investments were comprised of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Equities		
U.S. large cap	\$ 3,835,411	\$ 2,956,273
U.S. mid cap	1,634,421	984,472
U.S. small cap	838,843	498,739
International developed	1,807,492	418,095
Emerging markets	1,229,460	660,174
Other	-	5,651
Fixed income		
Investment grade taxable	1,909,880	1,416,352
International developed bonds	328,411	159,094
Global high yield taxable	553,403	325,200
Fixed income other	17,752	182,077
Real estate - public real estate investment trusts	883,845	611,001
Tangible assets - commodities	<u>755,156</u>	<u>513,114</u>
Total	<u>\$ 13,794,074</u>	<u>\$ 8,730,242</u>

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Financial Statements

June 30, 2014 and 2013

The weighted average maturity of the fixed income securities is 11.3 years as of June 30, 2014. As of June 30, 2014, the Foundation's fixed income securities were rated as follows:

<u>Rating</u>	<u>Rating Organization</u>	<u>Fair Value</u>
Aaa	Moody's	\$ 541,431
Aa	Moody's	69,391
A	Moody's	204,297
Other	Moody's	<u>216,326</u>
		<u>\$ 1,031,445</u>

The fixed income securities rated above include cash equivalents maturing within six months and exclude preferred stocks and fixed income funds.

8. GASB Statement No. 68

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, was issued in June 2012. The primary objective of this Statement is to improve accounting and financial reporting by state and local government employers for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The provisions of this Statement will be effective for CCSNH beginning with its year ending June 30, 2015. Management has not currently determined what impact the implementation of this Statement will have on the financial statements.



**INDEPENDENT AUDITOR'S 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**

Board of Trustees
Community College System of New Hampshire
(A Component Unit of the State of New Hampshire)

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the Community College System of New Hampshire (A Component Unit of the State of New Hampshire) (CCSNH), which collectively comprise CCSNH's basic financial statements, as listed in the table of contents, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2014. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the discretely presented component unit, was based solely on the report of the other auditor. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component unit.

Internal Control Over Financial Reporting

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

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described under findings 2014-001 and 2014-002 in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CCSNH'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*.

CCSNH's Responses to the Findings

CCSNH's responses to the findings identified in our audit are described under findings 2014-001 and 2014-002 in the accompanying schedule of findings and questioned costs. CCSNH's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

Berry Dawn McNeil & Parker, LLC

Manchester, New Hampshire
December 22, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL
OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Board of Trustees
Community College System of New Hampshire
(A Component Unit of the State of New Hampshire)

Report on Compliance for Each Major Federal Program

We have audited the Community College System of New Hampshire's (CCSNH) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of CCSNH's major federal programs for the year ended June 30, 2014. CCSNH's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of CCSNH's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the CCSNH's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We did not audit CCSNH's compliance with the billing, collections and due diligence compliance requirements specified by the Federal Perkins Loan Program and described in the OMB Circular A-133 *Compliance Supplement*. These functions were performed by Heartland Campus Solutions ECSI (ECSI). ECSI's compliance with the billing, collections and due diligence compliance requirements was examined by other independent accountants, as described in the following paragraph. The report of those accountants has been furnished to us, and our opinion, expressed herein, insofar as it relates to CCSNH's compliance with those requirements, is based solely on the report of the other independent accountants.

ECSI's compliance with the requirements governing the functions that it performs for CCSNH was examined by other independent accountants whose report has been furnished to us. The report of the other independent accountants indicates that compliance with those requirements was examined in accordance with the U.S. Department of Education's Audit Guide, Audits (Attestation Engagements) of *Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*.

Based on our review of the service organization's independent accountants' report, we have determined that all of the compliance requirements included in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of the major federal programs in which CCSNH participates are addressed in either our report or the report of the service organization's accountants. Furthermore, based on our review of the service organization's independent accountants' report, we have determined that it does not contain any findings of noncompliance that would have a direct and material effect on each of CCSNH's major federal programs' compliance with the requirements described in the first paragraph of this report.

We believe that our audit and the report of the other independent accountant provide a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of CCSNH's compliance.

Opinion on Each Major Federal Program

In our opinion, based on our audit and the report of other independent accountants, CCSNH complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-003. Our opinion on each major federal program is not modified with respect to this matter.

CCSNH's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. CCSNH's response was not subjected to auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of CCSNH is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CCSNH's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CCSNH's internal control over compliance.

Board of Trustees
Community College System of New Hampshire

We did not consider internal control over compliance with the billing, collections and due diligence compliance requirements specified by the Federal Perkins Loan Program and described in the OMB Circular A-133 *Compliance Supplement*. Internal control over these compliance requirements were considered by the other independent accountants referred to above; and our report, insofar as it relates to CCSNH's internal control over those compliance requirements, is based solely on the report of the other independent accountants.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-003 and 2014-004, that we consider to be significant deficiencies.

CCSNH's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. CCSNH's responses were not subjected to auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditure of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the business-type activities and the discretely presented component unit of CCSNH as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise CCSNH's basic financial statements as listed in the table of contents. We have issued our report thereon dated December 22, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
December 22, 2014

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Passed- Through Identifying Number</u>	<u>Total Federal Expenditures</u>
<u>United States Department of Education:</u>			
<u>Direct:</u>			
<u>Student Financial Aid Cluster:</u>			
Federal Direct Student Loans	84.268		\$ 52,453,803
Federal Perkins Loan Cancellations	84.037		11,280
Federal Perkins Loan Program	84.038		1,380,825
Federal Work-Study Program	84.033		263,686
Federal Pell Grant Program	84.063		20,300,557
Federal Supplemental Educational Opportunity Grant Program	84.007		<u>283,990</u>
Total Student Financial Aid Cluster			74,694,141
Funds for the Improvement of Postsecondary Education	84.116		15,376
<u>Passed-Through:</u>			
<u>New Hampshire Department of Education:</u>			
Carl D. Perkins Career and Technical Education Act of 2006			
8/16/2012 - 8/15/2013	84.048	35039	59,818
8/16/2013 - 8/15/2014	84.048	45039	809,063
College Access Challenge Grant	84.378	P378A100050	<u>84,271</u>
Total United States Department of Education			<u>75,662,669</u>
<u>United States Department of Labor:</u>			
<u>Direct:</u>			
Trade Adjustment Assistance Community College and Career Training	17.282		8,086,444
H-1B Job Training Grants	17.268		1,684,766
<u>Passed-Through:</u>			
<u>University of New Hampshire Institute on Disability:</u>			
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sector: Direct Connect	17.275	DEEE0002087	<u>509</u>
Total United States Department of Labor			<u>9,771,719</u>

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)
Schedule of Expenditures of Federal Awards (Concluded)
Year Ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Passed- Through Identifying Number</u>	<u>Total Federal Expenditures</u>
<u>United States Department of Energy:</u>			
<u>Passed-Through:</u>			
<u>New Hampshire Office of Energy and Planning:</u>			
Renewable Energy Research and Development	81.087	DEEE0005672	_____ 515
Total United States Department of Energy			_____ 515
<u>United States Department of Health and Human Services:</u>			
<u>Passed-Through:</u>			
<u>New Hampshire Department of Health and Human Services:</u>			
Child Care and Development Block Grant: Early Childhood Education	93.575	G1401NHCCDF	157,872
<u>Trustees of Dartmouth College:</u>			
National Center for Research Resources: Idea Network of Biological Research Excellence	93.859	1P20RR030360	_____ 145,088
Total United States Department of Health and Human Services			_____ 302,960
<u>National Science Foundation:</u>			
<u>Direct:</u>			
Education and Human Resources	47.076		111,458
<u>Passed-Through:</u>			
<u>University of New Hampshire</u>			
Experimental Program to Stimulate Competitive Research	47.081	EPS1101245	_____ 69,517
Total National Science Foundation			_____ 180,975
Total Expenditures of Federal Awards			<u>\$ 85,918,838</u>

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Community College System of New Hampshire (CCSNH) under programs of the federal government for the year ended June 30, 2014. The information in the Schedule is presented in accordance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government and Non-Profit Organizations*. Because the Schedule presents only a portion of the operations of CCSNH, it is not intended to and does not present the financial position, changes in net position or cash flows of CCSNH.

2. Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Federal Direct Student Loans

During the fiscal year ended June 30, 2014, CCSNH processed the following new loans under the Direct Loan Program. The loans were made directly through the U.S. Department of Education.

Federal Subsidized Loans	\$ 24,912,583
Federal Unsubsidized Loans	26,616,130
Federal Parents' Loans	<u>925,090</u>
	<u>\$ 52,453,803</u>

4. Federal Perkins Loan Program

The following sets forth certain balances and activities in the Federal Perkins Loan Program for the year ended June 30, 2014.

Perkins cash balance at June 30, 2014	\$ <u>320,320</u>
Perkins loans receivable at June 30, 2013	\$ 1,199,394
New loans made in fiscal year 2014	157,497
Administrative cost allowance in fiscal year 2014	<u>23,934</u>
Perkins expended as presented in the Schedule	1,380,825
Perkins loans collected in fiscal year 2014	128,765
Perkins loans canceled in fiscal year 2014	11,280
Administrative cost allowance in fiscal year 2014	<u>23,934</u>
Perkins loans receivable at June 30, 2014	\$ <u>1,216,846</u>

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

5. Federal Work-Study Program

Federal Work-Study Program award expenditures in 2014 consist of the following:

Current year award	\$ 272,207
Carry forward from fiscal year 2012-2013	16,206
Carry forward to fiscal year 2014-2015	(12,592)
Carry back to fiscal year 2012-2013	(1,429)
Carry back from fiscal year 2014-2015	5,514
Transfer to Federal Supplemental Education Opportunity Grant Program	(15,570)
Unexpended funds	<u>(650)</u>
Total expenditures in fiscal year 2014	<u>\$ 263,686</u>

6. Federal Supplemental Educational Opportunity Grant Program

Federal Supplemental Educational Opportunity Grant Program award expenditures in 2014 consist of the following:

Current year award	\$ 262,995
Carry forward from fiscal year 2012-2013	4,954
Carry back to fiscal year 2012-2013	(188)
Carry back from fiscal year 2014-2015	659
Transfer from Federal Work-Study Program	<u>15,570</u>
Total award expenditures in fiscal year 2014	<u>\$ 283,990</u>

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Section I Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:		<u>Unmodified</u>	
Internal control over financial reporting:			
Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No	
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None reported	
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No	
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None reported	

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133?	<u> X </u> Yes	<u> </u> No
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Identification of Major Programs:

<u>Name of Federal Program or Cluster:</u>	<u>CFDA Number(s)</u>
U.S. Department of Education - Title IV Student Financial Aid Cluster	84.268, 84.037, 84.038, 84.033, 84.063, 84.007
U.S. Department of Education - Carl D. Perkins Career and Technical Education Act of 2006	84.048
U.S. Department of Labor - Trade Adjustment Assistance Community College and Career Training	17.282
U.S. Department of Labor - H-1B Job Training Grants	17.268

Dollar threshold used to distinguish between Type A and Type B programs	\$336,700
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Auditee qualified as low-risk auditee?	<u> </u> Yes	<u> X </u> No
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COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)
Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2014

Section II - Findings Relating to the Financial Statements Which are Required to be Reported in Accordance with Government Auditing Standards

Finding Number: 2014-001

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition Found: We noted that the majority of the trial balance accounts had not been reconciled and therefore the determination of the correct account balance resulted in a significant amount of work by CCSNH's accounting department. In addition, we identified seven significant audit adjustments that resulted in a net increase in net position of approximately \$454,000 that were required to produce financial statements that are in accordance with U.S. generally accepted accounting principles. These conditions were also noted in the audits for the years ended June 30, 2013 and 2012.

Context: During our audit procedures of the financial statements, we noted variances between the amount recorded on the trial balance or reported and the supporting documentation provided by CCSNH.

Cause and Effect: Based on our observations, it appears the primary cause of the issue with untimely or missing account reconciliations related to an under-staffed accounting department. While we noted that the personnel in the accounting department appear to work very well together and understand the transactions that are reported in the accounting software, these issues can be caused by an under-staffed accounting department. In addition, these issues appear to be compounded by the high level of involvement of the accounting department staff in other critical projects needed by CCSNH. As a result, significant variances and adjustments were identified and posted related to specific reports and account reconciliations.

Recommendation: We recommend CCSNH use its account reconciliation matrix to document the procedures to be followed on a monthly/quarterly/annual basis to ensure that all balance sheet accounts are reconciled and reviewed periodically. Although it appears time consuming to implement, a more routine account reconciliation process will help improve efficiency of the financial reporting close process in the future. Of the areas in which we identified significant variances, we believe payroll reconciliations and the accounting for capital assets are two projects that continue to be of significant importance to CCSNH.

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)**

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2014

As noted in the prior audit, it was noted that CCSNH does not prepare a reconciliation of the payroll register to the general ledger for each pay period. We recommend that a process be implemented such that an employee, who is independent of the processing and posting functions, reconciles the payroll register to the general ledger for each pay period.

CCSNH does not capitalize capital asset acquisitions during the year; instead, the expenditures are recorded in various expense accounts and later capitalized when the annual financial statements are prepared. Management records the capital asset acquisitions to expense accounts to make information on the progress on capital projects readily available and to utilize Banner's automatic postings for efficiency purposes. By using the expense accounts, information on actual costs to date, comparisons to budget and amounts encumbered vs. available are easily communicated to staff across the system. In addition, Banner is currently set-up to use the expense accounts to automatically generate the entry to record the receivable and revenue for capital items that will be paid by the State's capital budget, federal grants, or other grant funds.

The challenge is that the expense accounts currently include a combination of expenditures that meet CCSNH's capitalization policy and expenditures below the capitalization policy. As a result, it is difficult to reconcile the amounts that should be capitalized at year-end from the trial balance accounts. In order to separate those purchases that will be capitalized from the purchases below the capitalization threshold of \$5,000, we recommend that all capital asset purchases in excess of the capitalization threshold be coded to separate expense accounts. This will allow management to continue to assess current asset acquisitions using the expense accounts along with identifying significant expenditures that will later be capitalized.

Another issue that we had noted in prior years was the fact that CCSNH tracked capital assets and the related depreciation on Excel spreadsheets that were not reconciled to the trial balance at any point during the year. During the year ended June 30, 2014, CCSNH worked to convert the Excel spreadsheets to a fixed asset program (Vertere), which was previously used to track assets for inventory purposes. Since the initial reporting options provided by Vertere were limited, we received a download of the assets recorded in Vertere in an Excel file to perform our audit procedures.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)
Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2014

We noted that an initial reconciliation and analysis was performed by management that resulted in journal entries that were provided by management during the course of the audit. In addition to the entries provided by management, our audit procedures identified three significant audit adjustments to the trial balance that were required to agree the capital asset accounts to the information maintained in Vertere. Due to the significant volume of capital assets maintained in Vertere and the limitations to Vertere's reporting capabilities, we spent a significant amount of time and effort auditing the information provided by management. We recommend that management continue to make improvements in CCSNH's capital asset accounting by working with Vertere to improve the program's reporting capabilities, including the identification of items included in Vertere that do not meet CCSNH's capitalization threshold, developing a report that separately identifies current year additions and deletions, and adding totals to all of the available reports, such that management can more easily reconcile the activity between Vertere and the trial balance.

Views of a Responsible
Official and Corrective
Action Plan:

CCSNH agrees with the condition found and understands the need to improve its account reconciliation process. Effective the beginning of fiscal year 2015, CCSNH implemented a monthly and quarterly close process that focused on its first quarter bank and payroll reconciliations. CCSNH plans to expand this reconciliation process during its second quarter to include fixed assets. Additionally, CCSNH will implement during its third quarter of fiscal year 2015, a process of performing a tuition reasonableness test and an accounts receivable reconciliation.

As part of CCSNH's implementation of reconciling fixed assets between Vertere and the general ledger, it plans to amend its current fixed asset process to ensure that assets purchased in excess of the capitalization threshold will be coded to separate expense accounts. CCSNH also plans to gain further understanding of its Vertere system and its reporting capabilities in an attempt to separately identify additions and deletions, as well as, adding asset category totals to the reports to make it easier to reconcile activity between Vertere and the general ledger.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)
Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2014

Finding Number: 2014-002

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition Found: During our audit procedures, we noted that the reconciliations tested did not have documented evidence of review and approval by a responsible member of management. This condition was also noted in the audits for the years ended June 30, 2013 and 2012.

Context: During our audit procedures of the financial statements, we discovered the majority of account reconciliations did not include documentation that they had been reviewed.

Cause and Effect: Based on our observations, it appears that the primary cause of the issue with undocumented review and approval of account reconciliations is related to an under-staffed accounting department. As a result, significant variances and adjustments were identified and posted related to specific reports and account reconciliations.

Recommendation: We recommend the adoption of a policy whereby all account reconciliations be approved by an appropriate member of management. All reconciliations should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.

Views of a Responsible Official and Corrective Action Plan: CCSNH agrees with the condition found and understands the need to improve its account reconciliation process. Effective the beginning of fiscal year 2015, CCSNH implemented a monthly and quarterly close process and incorporated with this new close process, an account reconciliation approval sign-off is required to be initialed by the preparer and signed by the Controller to properly document review of account reconciliations.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)
Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2014

Section III - Findings and Questioned Costs for Federal Awards

Finding Number: 2014-003

Information on the
Federal Program:

Federal Agency: U.S. Department of Education
CFDA 84.048
Program Name: Carl D. Perkins Career and Technical Education Act
of 2006
Passthrough Agency: New Hampshire Department of Education
Passthrough Contract Numbers: 35039 and 45039

Federal Agency: U.S. Department of Labor
CFDA: 17.282
Program Name: Trade Adjustment Assistance Community College and
Career Training

Federal Agency: U.S. Department of Labor
CFDA: 17.238
Program Name: H-1B Job Training Grants

Specific Requirement:

Required by 2 CFR, Part 180 for federally funded programs, when an institution enters into a covered transaction with an entity or individual, an institution must verify that the vendor is not suspended or debarred or otherwise excluded from participating in federal programs. Generally, a covered transaction is a transaction expected to equal or exceed \$25,000 and be funded with federal dollars. This verification may be accomplished by checking the System for Award Management (SAM), formerly the Excluded Parties List System, maintained by the General Services Administration, collecting a certification from the vendor, or by adding a clause or condition to the covered transaction.

Condition Found:

During our audit, we noted CCSNH did not review the SAM for vendors meeting the covered transaction threshold.

Context:

In response to the finding, we selected a sample of 60 vendors exceeding \$25,000 funded by all major federal programs, with the exception of the Student Financial Aid Cluster, and noted that none of the applicable vendors were reviewed against the SAM. Based on our testing, we did not identify an expenditure funded by CCSNH's major federal programs paid to a vendor that was included in the SAM.

Questioned Costs:

None

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)**

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2014

Finding Number: 2013-003

Condition Found: During our audit, four contracts were identified which did not comply with CCSNH policies and procedures and Federal procurement standards.

Recommendation: We recommended CCSNH revise its contracting policies and procedures to address sole source procurements and ensure compliance with applicable Federal procurement standards and CCSNH policies. The sole source justification policy should include a requirement to obtain certifications from local industry that a particular brand of equipment is the standard in use for advanced manufacturing. A memorandum specifying the requirement to comply with Federal procurement standards and CCSNH procurement procedures should be issued and provided to all the Colleges and the System Office.

Action Taken: Management disseminated language to all employees involved with procurement procedures to stress the need for supporting documentation related to proper bidding procedures, in particular with the processes and documentation surrounding sole sourcing.

Status: Corrected

Finding Number: 2012-03 and 2013-004

Condition Found: During our audit, we noted CCSNH did not review the Excluded Parties List System (EPLS) for covered transactions, except for vendors of the Trade Adjustment Assistance Community College and Career Training grant.

Recommendation: We recommended CCSNH implement a process to compare all employees and vendors to the EPLS on an annual basis and when a new vendor or employee is entered into the accounting system. CCSNH should maintain documentation that the comparison has been performed.

Action Taken: Management established and implemented a procedure to compare employees to the EPLS and document this comparison and any exceptions noted appropriately. However, no vendors meeting the covered transaction threshold were verified to the EPLS.

Status: Uncorrected; See finding 2014-003

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)
Summary Schedule of Prior Audit Findings (Concluded)

Year Ended June 30, 2014

Finding Number: 2013-005

Condition Found: DELL computers were purchased on October 3, 2012 by Lakes Region Community College for a Math Lab that will not be used as part of the Trade Adjustment Assistance Community College and Career Training grant. The cost of those computers were non-allocable to the grant.

Recommendation: We recommended CCSNH track the use of the funds to properly monitor whether costs charged to the grant were for locations or programs identified under the grant.

Action Taken: Management transferred the cost of the Dell computers from the federal grant, and instead, paid with CCSNH operating funds. Management also established stricter monitoring procedures to properly identify costs associated with the various granting programs received by CCSNH.

Status: Corrected

Finding Number: 2013-006

Condition Found: During our audit, we noted students of NHTI - Concord's Community College who received Federal Direct Loans or Federal Perkins Loans did not receive proper notification of their right to cancel the loan within 14 days of disbursement. In addition, we noted that one student from River Valley Community College selected for testing did not receive proper notification.

Recommendation: We recommended CCSNH change each colleges' notification template letter to include the required "right to cancel" language.

Action Taken: Management incorporated the required "right to cancel" language in each colleges' notification template.

Status: Corrected





The Board of Trustees
Community College System of New Hampshire

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Community College System of New Hampshire (CCSNH) as of and for the year ended June 30, 2014, and have issued our report thereon dated December 22, 2014.

We did not audit the financial statements of the discretely presented component unit, Community Colleges of New Hampshire Foundation (the Foundation), as of and for the year ended June 30, 2014. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditor.

Professional standards require that we provide you with information about our responsibilities under U.S. generally accepted auditing standards, *Government Auditing Standards* and U.S. Office of Management and Budget (OMB) Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our communications dated June 10, 2014. Professional standards also require that we communicate to you the following information related to our audit.

PART I – REQUIRED COMMUNICATIONS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by CCSNH are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014, with the exception of increasing the capitalization threshold for capital assets from \$3,000 to \$5,000, effective on July 1, 2013. We noted no transactions entered into by CCSNH during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The estimated valuation allowance for uncollectible student loans receivable, which is based on an assessment of the collectability of the accounts based on the aging of the outstanding balances.
- The estimated useful lives of capital assets used in the calculation of depreciation expense, which is based on the expected life of the related capital asset.

- The estimated vested accrued sick time earned that is paid out upon an employee's retirement from CCSNH. The estimated liability factors in each employee's estimated retirement date, probability of retirement from CCSNH, and rate of pay, discounted to present value using an interest rate of 3%.

We have evaluated the key factors and assumptions used to develop these estimates to satisfy ourselves of their reasonableness in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are the disclosure of commitments in Note 6 and the disclosure of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, in Note 8 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The material misstatements detected as a result of audit procedures that were corrected by management are summarized on Attachment 1.

In addition, there were uncorrected misstatements of the financial statements that are summarized on Attachment 2. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 22, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to CCSNH's financial statements or a determination of

the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the CCSNH's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

PART II – CURRENT YEAR INTERNAL CONTROL MATTERS

In planning and performing our audit of the financial statements of the business-type activities and the aggregate discretely presented component unit of CCSNH as of and for the year ended June 30, 2014, in accordance with U.S. generally accepted auditing standards, we considered CCSNH'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 CCSNH's internal control. Accordingly, we do not express an opinion on the effectiveness of CCSNH's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 CCSNH's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in CCSNH's internal control to be material weaknesses:

General Ledger Analysis and Account Reconciliations

During our audit of the financial statements, we noted that the majority of the trial balance accounts that had not been reconciled and therefore the determination of the correct account balance resulted in a significant amount of work by CCSNH's accounting department. In addition, we identified seven significant audit adjustments that resulted in a net increase in net position of approximately \$454,000 that were required to produce financial statements that are in accordance with U.S. generally accepted accounting principles. These conditions were also noted in the audits for the years ended June 30, 2013 and 2012.

We recommend CCSNH use its account reconciliation matrix to document the procedures to be followed on a monthly/quarterly/annual basis to ensure that all balance sheet accounts are reconciled and reviewed periodically. Although it appears time consuming to implement, a more routine account reconciliation process will help improve efficiency of the financial reporting close process in the future.

We believe that there are two projects that continue to be of significant importance to CCSNH:

Reconciliations of Payroll:

As noted in the prior audit, during our audit procedures for payroll and our review of the internal audit report of the payroll function it was noted that CCSNH does not prepare a reconciliation of the payroll register to the general ledger for each pay period. We recommend that a process be implemented such that an employee, who is independent of the processing and posting functions, reconciles the payroll register to the general ledger for each pay period.

Accounting for Capital Assets:

CCSNH does not capitalize capital asset acquisitions during the year; instead, the expenditures are recorded in various expense accounts and later capitalized when the annual financial statements are prepared. Management records the capital asset acquisitions to expense accounts to make information on the progress on capital projects readily available and to utilize Banner's automatic postings for efficiency purposes. By using the expense accounts, information on actual costs to date, comparisons to budget and amounts encumbered vs. available are easily communicated to staff across the system. In addition, Banner is currently set-up to use the expense accounts to automatically generate the entry to record the receivable and revenue for capital items that will be paid by the State's capital budget, federal grants, or other grant funds.

The challenge is that the expense accounts currently include a combination of expenditures that meet CCSNH's capitalization policy and expenditures below the capitalization policy. As a result, it is difficult to reconcile the amounts that should be capitalized at year-end from the trial balance accounts. In order to separate those purchases that will be capitalized from the purchases below the capitalization threshold of \$5,000, we recommend that all capital asset purchases in excess of the capitalization threshold be coded to separate expense accounts. This will allow management to continue to assess current asset acquisitions using the expense accounts along with identifying significant expenditures that will later be capitalized.

Another issue that we had noted in prior years was the fact that CCSNH tracked capital assets and the related depreciation on Excel spreadsheets that were not reconciled to the trial balance at any point during the year. During the year ended June 30, 2014, CCSNH worked to convert the Excel spreadsheets to a fixed asset program (Vertere), which was previously used to track assets for inventory purposes. Since the initial reporting options provided by Vertere were limited, we received a download of the assets recorded in Vertere in an Excel file to perform our audit procedures. We noted that an initial reconciliation and analysis was performed by management that resulted in journal entries that were provided by management during the course of the audit. In addition to the entries provided by management, our audit procedures identified three significant audit adjustments to the trial balance that were required to agree the capital asset accounts to the information maintained in Vertere. Due to the significant volume of capital assets maintained in Vertere and the limitations to Vertere's reporting capabilities, we spent a significant amount of time and effort auditing the information provided by management. We recommend that management continue to make improvements in CCSNH's capital asset accounting by working with Vertere to improve the program's reporting capabilities, including the identification of items included in Vertere that do not meet CCSNH's capitalization threshold, developing a report that separately identifies current year additions and deletions, and adding totals to all of the available reports, such that management can more easily reconcile the activity between Vertere and the trial balance.

Documented Review and Approval of Reconciliations

During our audit procedures, we noted that the reconciliations tested did not have documented evidence of review and approval by a responsible member of management.

We recommend the adoption of a policy whereby all account reconciliations be approved by an appropriate member of management. All reconciliations should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.

PART III – CURRENT YEAR ADVISORY COMMENT

H-1B Job Training Grant - Public Announcements

In accordance with the H-1B Job Training Grant agreement, Section IV.9, when CCSNH issues any type of statement-press release, request for proposal, bid solicitation, or other documents-describing the projects or programs funded in whole or in part by the H-1B Job Training Grant, such statement shall clearly state: (1) the percentage of the total cost of the program or project which will be financed with Federal money, and (2) the dollar amount of Federal funds for the project or program.

During our audit, we noted that CCSNH has general language that is included in any type of statement-press release, request for proposal, bid solicitation, or other documents-describing its H-1B Job Training Grant; however, this language does not include all of the information stipulated by the H-1B Job Training Grant agreement. We recommend CCSNH revisit the language included in the aforementioned documents to match the requirements set by the United States Department of Labor.

PART IV – UNRESOLVED PRIOR YEAR ADVISORY COMMENTS

Documented Policies and Procedures Manual

During our prior year audits, we noted that CCSNH does not have documented policies and procedures related to the various accounting systems in place. Without documented policies and procedures, turnover within the accounting department may result in significant inefficiencies as it would be difficult for new employees to gain an understanding of their roles and responsibilities. In addition, documenting the approved policies and procedures could improve the consistency of the operation of the policies and procedures among the various campuses and within the CCSNH offices.

We recommended that CCSNH institute a program to methodically identify and document its significant operation and accounting processes. Processes include activities and procedures involved in repeatable operation or accounting transactions or events, such as hiring employees, paying invoices, processing payroll, posting cash receipts, preparing journal entries, etc.

Documenting a process involves identifying and gaining an understanding of the events or transactions that trigger performance of the process, the automated or manual procedures used in performing the process, the person(s) or position(s) responsible for performing the procedures, the source documents used or generated, the procedures for approval and review and correction of any errors detected, and the financial or operational entries or reports summarizing the result of the process.

Procedures that may be used to gain an understanding of the workflow or flow of transactions include inquiry of CCSNH personnel; observation of them performing their duties; inspection of documents, forms, and records used in or produced in the process; tracing transactions through the system; and performing a walk-through of the procedures performed in the process.

Documentation may include policy manuals, process models, flowcharts, job descriptions, documents, and forms, and can be in paper form, electronic files, or other media.

In addition to documenting policies and procedures over significant transaction classes, other policies that should be considered include:

- Documented policy related to addressing potential impairment on capital assets
- Documented policy regarding taking at least a biennial inventory on all capital assets, including specifically identifying those capital assets purchased through federal funding
- Documented policy regarding review of subrecipient reports submitted to CCSNH related to federal grant funding
- Documented policy requiring vacations and the implementation of cross training for employees to cover for certain functions for instances of extended absences

Current Status:

During our audit as of and for the year ended June 30, 2014, we noted that documentation of the policies and procedures recommended above has been started by CCSNH. While progress has been made, there is still significant work to complete the project.

Accounting for Retainage Payable

During our testing of capital assets and related liabilities in prior years, we noted that CCSNH does not record the retainage associated with the projects under construction during the construction stage. The retainage component of the contracts is recorded by CCSNH when it is paid at the conclusion of the project. We recommended CCSNH record the retainage component of vendor invoices during the construction phase to capture the full amount of the committed costs associated with each project.

Current Status:

CCSNH recorded an initial accrual of \$269,291 for retainage payable for construction in progress as of June 30, 2014. As a result of our search for unrecorded liabilities, we identified additional invoices for retainage payable that should have been recorded as of June 30, 2014. As a result of our procedures, we proposed an audit adjustment to increase the retainage payable for construction in process and the related appropriation revenue by \$93,337 as of June 30, 2014.

Floating Budget Approval

During our review of CCSNH's budget to actual analysis in prior years, we noted that CCSNH utilizes a floating budget to adjust for any changes to the originally adopted budget. These adjustments are made by the Chief Financial Officers of the Colleges and/or the Budget Director; however, none of these adjustments had a formal approval by the Board of Directors or the Director of Finance.

We recommended CCSNH consider obtaining formal approval for any budget changes over a certain threshold which are outside the normal day-to-day operations of CCSNH.

Current Status:

During our audit as of and for the year ended June 30, 2014, we noted no changes to the budgetary process and use of floating budgets.

PART V – CORRECTED PRIOR YEAR ADVISORY COMMENTS

Automate the Calculation of Depreciation Expense

CCSNH calculates depreciation expense on capital assets in an Excel spreadsheet. It is our understanding that CCSNH's inventory management software used to track the capital assets is capable of calculating depreciation expense. We recommended that CCSNH explore the functionality of this software to help automate the calculation of depreciation expense.

Current Status:

During our audit as of and for the year ended June 30, 2014, we noted that the project recommended above was completed by CCSNH as depreciation is now calculated by Vertere. During our testing of the depreciation calculation performed by Vertere, we noted that Vertere calculates a full twelve months of depreciation in the year that the capital asset is acquired. This methodology is consistent with the calculation of depreciation expense previously done in the Excel spreadsheets. We recommend management investigate whether Vertere can utilize a mid-year or mid-month depreciation methodology in the fiscal year that the capital asset is placed in service.

Federal Perkins Loan Program Notifications

During our testing of new loans advanced through the Federal Perkins Loans Program in prior years, we noted that NHTI – Concord's Community College and Manchester Community College did not provide all borrowers notification of their right to cancel the disbursement of aid in accordance with federal guidelines (34 CFR 674) and the Student Financial Aid Handbook.

It is our understanding that upon initial input of the students' awards into Banner, a miscoding occurred that resulted in notifications not being distributed to these students. Since the process of notifications is automated, there was no report generated to review students that did not receive notifications; as a result, there was a greater risk of students not being sent the proper notifications. We noted that, after identification of this miscoding, CCSNH corrected the error and notifications, although late, were subsequently mailed to the students. It was our recommendation that CCSNH implement a procedure to identify students that do not receive the required notification.

Current Status:

During our audit as of and for the year ended June 30, 2014, we noted no instances where a school did not provide all borrowers with the required notification described above.

Procurement Process

When an organization incurs, or expects to incur, expenditures of \$25,000 or greater with one particular vendor that is funded by federal money, there must be written documentation that a procurement process was performed that complies with the applicable federal requirements. It is our understanding that CCSNH has implemented a more strict policy in that any expenditure of \$10,000 or greater is required to go through a bidding process.

During our testing of the Carl D. Perkins Career and Technical Education Act grant during the year ended June 30, 2012, we tested five of 19 capital asset acquisitions, and identified one acquisition for \$10,530 that did not go through a bidding process as required by CCSNH's policy.

We recommended that CCSNH adhere to its written policy regarding the procurement process and be sure to disseminate that information to the responsible employees within CCSNH that are involved with the acquisition of any capital assets so that all employees are aware of CCSNH's policy for requiring a bid process for expenditures in excess of \$10,000.

In connection with our 2013 audit of the expenditures funded by the Trade Adjustment Assistance Community College and Career Training, we noted that 9 of the 11 purchases selected did not have documentation that a bidding process was completed. Based on our discussions with management and review of the underlying invoices, these 9 purchases were for specialized equipment. It is our understanding that the CCSNH procurement policy provides an exemption to the bidding process for specialized equipment. However, there was no documentation attached to the invoice that provides an explanation as to why these purchases met the exemption criteria. There were no other exceptions noted during our 2013 testing of the procurement process in connection with our compliance audit of the major programs included in the schedule of expenditures of federal awards.

Current Status:

There were no such exceptions noted during our current year testing of the procurement process in connection with our compliance audit of the major programs included in the schedule of expenditures of federal awards.

PART VI – EMERGING ISSUES

Pension Plan Accounting

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* (GASB 68). The primary objective of GASB 68 is to improve accounting and financial reporting by governmental entities for pensions. It also improves information provided by governmental entities about financial support for pensions that is provided by other entities. GASB 68 requires the liability of employers and nonemployer contributing entities to employees for defined benefit pension benefits (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to the employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary assets.

A cost-sharing employer is required to recognize a liability for its proportionate share of the net pension liability of all employers for benefits provided through the pension plan – the collective net pension liability. The employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates related to separate portions of the collective net pension liability. There are additional disclosure requirements that will have an impact on cost-sharing employers.

GASB 68 will be effective for the financial statements as of and for the year ending June 30, 2015. The financial impact of the adoption of GASB 68 will likely be significant to CCSNH as an additional liability will be required to be reflected in the financial statements equal to CCSNH's proportionate share of the underfunded status of the pension plan component of the New Hampshire Retirement System (NHRS). We recommend that management discuss this pronouncement with NHRS to determine the potential impact on CCSNH's financial statements.

Changes in OMB Uniform Guidance Administrative Requirements

There are significant changes to the rules governing over how organizations are to spend and administer federal grant funds. The new requirements are effective for any new federal grants or additional funding to existing federal grants on December 26, 2014. Below is a summary of some of the key changes in the administrative requirements:

Must vs. should

- The new Uniform Guidance uses the terms "must" and "should" throughout the document
- "Must" means "required"
- "Should" indicates best practices or the recommended approach

Definition of supplies

- Computing devices will be considered a supply if "the acquisition cost is less than the lesser of the capitalization level established by the non-federal entity for financial statement purposes or \$5,000"

Internal controls

- Language related to internal controls over sensitive information was added, which explicitly states that organizations are responsible for establishing measures to safeguard protected personally identifiable information as well as any other information designated as sensitive consistent with all applicable laws regarding privacy and obligations of confidentiality

Reforms to procurement standards

- Increased burden of awarding contracts to vendors that are essential to the federal grant
- Revised language requires entities to maintain "oversight" rather than a "system"
- Conflict-of-interest guidance was expanded to require "strong policies preventing organization conflicts of interest which will be used to protect the integrity of procurements under federal awards and subawards"
- Purchases under \$3,000 may be awarded without soliciting competitive quotes if the nonfederal entity considers the price reasonable
- The procurement implementation has been given a grace period of one full fiscal year after December 26, 2014

Subrecipient monitoring and management

- Pass-through entities are required to evaluate the risk associated with a recipient before making awards by considering the financial stability, quality of management systems, recipient's performance history, reports and findings from audits, among other factors
- The uniform guidance lists several data elements that pass-through entities must include at the time of a subaward

Changes to the cost principles

- Allows administrative costs to be charged directly when they are specifically allocated to one award, if the nonfederal entity has prior approval from the awarding agency (The regulations include four conditions that need to be met in order to charge these costs as direct costs)
- Under new guidance, federal agencies must accept a negotiated indirect cost rate unless a statute or regulation requires an exception or unless the head of the agency approves it based on publicly documented justification
- Nonfederal entities that have never negotiated indirect cost rate may use a de minimus rate of 10 percent of modified total direct costs

Additional guidance is available on the Council of Financial Assistance Reform's website. As some of these changes are likely applicable to your federal grants, it is critical to have an understanding of how the new requirements will impact CCSNH's policies and procedures to ensure that you are in compliance on December 26, 2014.

In conclusion, we would like to express our appreciation to the management of CCSNH for their efforts during our audit. It is a pleasure working with management and staff of CCSNH.

This letter is intended solely for the information and use of the Audit Committee, Board of Trustees, and management of CCSNH and is not intended to be, and should not be, used by anyone other than these specified parties.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
December 22, 2014

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
SIGNIFICANT AUDIT ADJUSTMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	Increase (Decrease) in Net Position for the Year Ended June 30, 2014
To record the expected loss on the sale of WMCC building held for sale	\$ (207,453)
To record accounts payable identified through the search for unrecorded liabilities and the corresponding State appropriation	183,280
To reconcile capital assets to detail from Vertere Capital Asset module	431,084
To reverse depreciation expense recorded for the GBCC asset held for sale	192,573
To reverse accounts payable entry as of June 30, 2013 related to prior year audit	355,542
To reverse grants receivable entry as of June 30, 2013 related to prior year audit	(757,044)
To reverse the write-off of a receivable in 2014 that was written off in 2013	<u>256,010</u>
	<u>\$ 453,992</u>

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
UNRECORDED AUDIT ADJUSTMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

**Increase (Decrease)
in Net Position for
the Year Ended
June 30, 2014**

To record the net impact of capital asset and related note payable for WMCC property not recognized in prior years as a prior period adjustment

\$ 205,279

To record the unidentified variance in the student clearing and student deposit liability accounts as of June 30, 2014

(60,000)

\$ 145,279
