



(A Component Unit of the State of New Hampshire)

FINANCIAL STATEMENTS

and

FEDERAL REPORTS IN ACCORDANCE WITH OMB CIRCULAR A-133

June 30, 2013 and 2012

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, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
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, 2013 and 2012, 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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. 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. 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.

Opinion

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 CCSNH as of June 30, 2013 and 2012, and the 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 9, 2013 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 9, 2013

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

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

INTRODUCTION

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

The New Hampshire State Legislature, through the passage of Chapter 361, Laws of 2007, established the 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 serve as its policy making and operational authority.

CCSNH is a statewide system of seven community colleges, two satellite campuses and an office of the Chancellor. It includes the Community Colleges of New Hampshire Foundation as a discretely presented non-major component unit.

CCSNH offers associate degrees, professional training, and transfer pathways to four-year degrees to approximately 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 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. The MD&A includes information only for CCSNH, not its component unit. Complete financial statements of the Foundation can be obtained from CCSNH's administrative 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 of CCSNH are accounted for in the appropriate period.

CCSNH's financial statements include three main documents, a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

STATEMENTS OF NET POSITION

The statements of net position present the financial position of CCSNH at the end of each fiscal year and includes all assets and liabilities of CCSNH, the difference between the two being net position.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

The condensed statements of net position are shown below.

	June 30,		
	2013	2012	2011
Assets			
Current	\$ 27,694,887	\$ 19,840,613	\$ 20,185,123
Net capital	112,010,861	101,664,893	23,079,641
Other noncurrent assets	<u>6,865,038</u>	<u>5,398,696</u>	<u>935,464</u>
Total assets	<u>\$ 146,570,786</u>	<u>\$ 126,904,202</u>	<u>\$ 44,200,228</u>
Liabilities			
Current	\$ 9,948,157	\$ 9,919,398	\$ 10,586,783
Noncurrent	<u>27,860,049</u>	<u>21,531,897</u>	<u>21,701,092</u>
Total liabilities	<u>\$ 37,808,206</u>	<u>\$ 31,451,295</u>	<u>\$ 32,287,875</u>
Net position			
Invested in capital assets, net of related debt	\$ 91,022,904	\$ 85,128,765	\$ 5,080,422
Restricted nonexpendable	150,856	154,697	159,889
Restricted expendable	2,737,447	1,981,581	-
Unrestricted	<u>14,851,373</u>	<u>8,187,864</u>	<u>6,672,042</u>
Total net position	<u>\$ 108,762,580</u>	<u>\$ 95,452,907</u>	<u>\$ 11,912,353</u>

The cash position of CCSNH is stable and sufficient to meet obligations as they come due.

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.

Accrued salary and benefits and bonds payable comprise the majority of current and noncurrent liabilities. 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 experienced a very productive 2013 in terms of its capital projects. Total assets and liabilities increased significantly due to capital activity. Net capital assets increased by \$10.3 million and bonds payable increased by \$4.7 million. Total net position now exceeds \$100 million.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The following condensed statements of revenues, expenses and changes in net position present information showing the results of operations for CCSNH for fiscal years ended June 30, 2013 and 2012:

	<u>Years Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Operating revenues		
Tuition and fees	\$ 70,368,968	\$ 71,113,729
Other revenue	<u>12,377,514</u>	<u>9,392,589</u>
Total operating revenue	82,746,482	80,506,318
Operating expenses		
Employee compensation and benefits	81,317,456	82,984,137
Other operating expenses	<u>30,804,643</u>	<u>25,689,250</u>
Total operating expenses	<u>112,122,099</u>	<u>108,673,387</u>
Operating loss	<u>(29,375,617)</u>	<u>(28,167,069)</u>
Nonoperating revenues (expenses) and other changes		
State appropriations - operating	31,544,352	31,358,244
State appropriations - capital	9,106,223	4,550,488
Capital grants and contracts	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>(805,955)</u>	<u>(861,362)</u>
Nonoperating revenues, net	<u>42,685,290</u>	<u>111,707,623</u>
Increase in net position	13,309,673	83,540,554
Net position at beginning of year	<u>95,452,907</u>	<u>11,912,353</u>
Net position at end of year	<u>\$ 108,762,580</u>	<u>\$ 95,452,907</u>

The majority of operating revenue recorded by CCSNH comes from net tuition and fees which totaled \$70.4 million in 2013 and \$71.1 million in 2012. In 2012, tuition increased from \$195 to \$210 per credit, but held steady at \$210 for 2013.

CCSNH is, like many institutions of higher education, labor intensive and operating expenses are mainly payments to employees for salaries and benefits. CCSNH is aware of the importance of controlling these costs, works to establish the optimal mix of full and part-time employees and concentrates on minimizing yearly increases in benefit costs.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

CCSNH is the recipient of several large US Department of Labor (DOL) grants. In addition, the amount of revenue from grants and contracts increased in 2013. Operating grant revenue increased by \$2.4 million from 2012 to 2013.

Other operating expenses increased by approximately \$5 million from 2012 to 2013. The increase was reflected in several categories of other expenses. Contractual maintenance on buildings increased by \$1.4 million, the TAACCCT 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.

State operating appropriations are recorded as nonoperating revenue but are used, and are essential, for the day to day operations of CCSNH. State operating appropriations totaled \$31.5 million and \$31.4 million in 2013 and 2012, respectively.

Other changes in net position are primarily comprised of increases from the transfer and reclassification of assets mentioned above, State capital appropriations and grants and contracts related to capital asset expenditures.

STATEMENTS OF CASH FLOWS

The statements of cash flows provide pertinent information about the cash receipts and cash payments during a certain period of time. The statements provide an additional tool to assess the financial health of the institution. The condensed statements of cash flows for fiscal years ended June 30, 2013 and 2012 are shown below:

	Years Ended June 30.	
	2013	2012
Net cash used - operating activities	\$ (24,249,905)	\$ (22,248,000)
Net cash provided - noncapital financing activities	31,544,352	31,358,244
Net cash used - capital and related financing activities	(178,189)	(9,013,497)
Net increase in cash and cash equivalents	7,116,258	96,747
Cash and cash equivalents, beginning of year	18,349,136	18,252,389
Cash and cash equivalents, end of year	\$ 25,465,394	\$ 18,349,136

CCSNH maintains a strong cash position. 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 increased by \$7.1 million from 2012 to 2013.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

CAPITAL ASSETS AND DEBT

CCSNH has received significant funding as part of the State's capital budget over the past several biennia. The funding has allowed for major construction and renovation at all seven campuses and has changed the look of CCSNH. The construction has allowed CCSNH to accommodate the net growth experienced over the last several years. During the years ended June 30, 2013 and 2012, CCSNH paid \$16,385,713 and \$6,689,044 for capital asset additions, respectively.

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The economic condition of CCSNH is closely tied to the State. CCSNH's State appropriation for 2014 will increase by approximately \$7 million compared to the 2013 appropriation due to an increase in the State's operating budget. The amount of the 2014 appropriation will almost equal the appropriation received in 2011. CCSNH is fortunate for this increase and will continue to work to control costs and lower expenses. In fact, the Board of Trustees has made tuition reduction a priority.

The amount of credits sold has leveled off after growing significantly through 2011. CCSNH is working to increase the percentage of students attending community college which lags behind national levels.

In addition to State funds, CCSNH receives significant federal funds to operate various activities. The largest federal grant, the \$19.9 million US DOL Trade Adjustment Act – Community College Career and Training Program, is in high gear as it begins the last year of the grant. The federal grants are critical to help develop programs that prepare individuals for skilled employment in New Hampshire. CCSNH attempts to match the needs of the State's employers with the skills being taught to New Hampshire citizens.

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

Statements of Net Position

June 30, 2013 and 2012

	Community College System of New Hampshire		Community Colleges of New Hampshire Foundation	
	Years Ended June 30,		Years Ended June 30,	
	2013	2012	2013	2012
Assets				
Current assets				
Cash and cash equivalents	\$ 25,465,394	\$ 18,349,136	\$ 2,125,236	\$ 549,840
Student accounts receivable	378,353	411,018	-	-
Other accounts receivable	335,149	374,028	65,478	71,029
Grants and contracts receivable	<u>1,515,991</u>	<u>706,431</u>	<u>-</u>	<u>-</u>
Total current assets	<u>27,694,887</u>	<u>19,840,613</u>	<u>2,190,714</u>	<u>620,869</u>
Noncurrent assets				
Student loans receivable, net	802,803	848,208	-	-
Due from State of New Hampshire for capital appropriations	3,688,278	4,550,488	-	-
Capital grants and contracts receivable	247,453	-	-	-
Investments	-	-	8,730,242	9,397,255
Capital assets, net	112,010,861	101,664,893	-	-
Assets held for sale	<u>2,126,504</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>118,875,899</u>	<u>107,063,589</u>	<u>8,730,242</u>	<u>9,397,255</u>
Total assets	<u>\$ 146,570,786</u>	<u>\$ 126,904,202</u>	<u>\$ 10,920,956</u>	<u>\$ 10,018,124</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	\$ 1,679,456	\$ 1,156,593	\$ 227,893	\$ 227,867
Accrued salaries and benefits	5,710,794	6,353,970	-	-
Deferred revenue and deposits	791,985	860,664	-	-
Current portion of bonds payable	1,713,205	1,337,409	-	-
Current portion of capital lease obligations	<u>52,717</u>	<u>210,762</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>9,948,157</u>	<u>9,919,398</u>	<u>227,893</u>	<u>227,867</u>
Noncurrent liabilities				
Accounts payable and accrued liabilities	3,593,483	1,338,440	-	-
Accrued salaries and benefits	4,127,431	4,265,000	-	-
Refundable advances	917,100	940,500	-	-
Bonds payable	19,166,745	14,879,950	-	-
Capital lease obligations	<u>55,290</u>	<u>108,007</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>27,860,049</u>	<u>21,531,897</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>37,808,206</u>	<u>31,451,295</u>	<u>227,893</u>	<u>227,867</u>
Commitments and contingencies (Notes 4, 5 and 6)				
Net position				
Invested in capital assets, net of related debt	91,022,904	85,128,765	-	-
Restricted nonexpendable	150,856	154,697	8,507,976	8,418,870
Restricted expendable	2,737,447	1,981,581	1,980,811	1,174,079
Unrestricted	<u>14,851,373</u>	<u>8,187,864</u>	<u>204,276</u>	<u>197,308</u>
Total net position	<u>108,762,580</u>	<u>95,452,907</u>	<u>10,693,063</u>	<u>9,790,257</u>
Total liabilities and net position	<u>\$ 146,570,786</u>	<u>\$ 126,904,202</u>	<u>\$ 10,920,956</u>	<u>\$ 10,018,124</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, 2013 and 2012

	Community College System of New Hampshire		Community Colleges of New Hampshire Foundation	
	Years Ended June 30,		Years Ended June 30,	
	2013	2012	2013	2012
Operating revenues				
Tuition and fees	\$ 71,126,126	\$ 71,799,402	\$ -	\$ -
Less scholarships	<u>(757,158)</u>	<u>(685,673)</u>	<u>-</u>	<u>-</u>
Net tuition and fees	70,368,968	71,113,729	-	-
Grants and contracts	5,917,934	3,472,679	-	-
Contributions	-	-	685,300	574,212
Other auxiliary enterprises	2,618,835	2,698,779	-	-
Other operating revenue	<u>3,840,745</u>	<u>3,221,131</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>82,746,482</u>	<u>80,506,318</u>	<u>685,300</u>	<u>574,212</u>
Operating expenses				
Employee compensation and benefits	81,317,456	82,984,137	-	-
Other operating expenses	22,053,013	16,896,671	840,516	616,991
Utilities	2,583,346	2,690,094	-	-
Depreciation	<u>6,168,284</u>	<u>6,102,485</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>112,122,099</u>	<u>108,673,387</u>	<u>840,516</u>	<u>616,991</u>
Operating loss	<u>(29,375,617)</u>	<u>(28,167,069)</u>	<u>(155,216)</u>	<u>(42,779)</u>
Nonoperating revenues (expenses)				
State of New Hampshire appropriations	31,544,352	31,358,244	-	-
Contributions for long-term purposes	-	-	57,950	27,191
Investment gain (loss)	-	-	1,000,072	(154,228)
Interest expense on capital debt	<u>(805,955)</u>	<u>(861,362)</u>	<u>-</u>	<u>-</u>
Nonoperating revenues (expenses), net	<u>30,738,397</u>	<u>30,496,882</u>	<u>1,058,022</u>	<u>(127,037)</u>
Income (loss) before other changes in net position	<u>1,362,780</u>	<u>2,329,813</u>	<u>902,806</u>	<u>(169,816)</u>
Other changes in net position				
State of New Hampshire appropriations for capital expenditures	9,106,223	4,550,488	-	-
Capital grants and contracts	2,840,670	-	-	-
Transfer from the State of New Hampshire	-	71,123,625	-	-
Capital assets received below the State of New Hampshire's capitalization policy	<u>-</u>	<u>5,536,628</u>	<u>-</u>	<u>-</u>
Total other changes in net position	<u>11,946,893</u>	<u>81,210,741</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>13,309,673</u>	<u>83,540,554</u>	<u>902,806</u>	<u>(169,816)</u>
Net position at beginning of year, as previously stated	95,452,907	9,410,017	9,790,257	9,960,073
Prior period adjustments	<u>-</u>	<u>2,502,336</u>	<u>-</u>	<u>-</u>
Net position at beginning of year, as restated	<u>95,452,907</u>	<u>11,912,353</u>	<u>9,790,257</u>	<u>9,960,073</u>
Net position at end of year	<u>\$ 108,762,580</u>	<u>\$ 95,452,907</u>	<u>\$ 10,693,063</u>	<u>\$ 9,790,257</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, 2013 and 2012

	<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>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Cash flows from operating activities				
Tuition and fees	\$ 70,508,506	\$ 71,389,439	\$ -	\$ -
Grants and contracts	4,977,327	3,128,782	-	-
Auxiliary enterprises	2,618,835	2,698,779	-	-
Contributions received	-	-	690,603	639,627
Payments to suppliers	(23,913,695)	(19,766,095)	(840,242)	(678,472)
Payments to employees	(82,298,002)	(82,748,508)	-	-
Other cash receipts	3,857,124	3,049,603	-	-
Net cash used for operating activities	<u>(24,249,905)</u>	<u>(22,248,000)</u>	<u>(149,639)</u>	<u>(38,845)</u>
Cash flows from noncapital financing activities				
State of New Hampshire appropriations	31,544,352	31,358,244	-	-
Contributions for long-term purposes	-	-	57,950	27,191
Net cash provided by noncapital financing activities	<u>31,544,352</u>	<u>31,358,244</u>	<u>57,950</u>	<u>27,191</u>
Cash flows from capital and related financing activities				
Capital appropriations	9,968,433	-	-	-
Capital grants and contracts received	2,593,217	-	-	-
Purchase of capital assets	(16,385,713)	(6,689,044)	-	-
Proceeds from capital debt borrowings	6,000,000	-	-	-
Principal on capital debt and leases	(1,548,171)	(1,463,091)	-	-
Interest on capital debt and leases	(805,955)	(861,362)	-	-
Net cash used for capital and related financing activities	<u>(178,189)</u>	<u>(9,013,497)</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities				
Proceeds from sales and maturities of investments	-	-	8,469,688	11,243,334
Purchase of investments	-	-	(7,078,358)	(11,462,998)
Interest and dividends received	-	-	275,755	261,167
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>1,667,085</u>	<u>41,503</u>
Net increase in cash and cash equivalents	7,116,258	96,747	1,575,396	29,849
Cash and cash equivalents, beginning of year	<u>18,349,136</u>	<u>18,252,389</u>	<u>549,840</u>	<u>519,991</u>
Cash and cash equivalents, end of year	<u>\$ 25,465,394</u>	<u>\$ 18,349,136</u>	<u>\$ 2,125,236</u>	<u>\$ 549,840</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, 2013 and 2012

	Community College System of New Hampshire		Community Colleges of New Hampshire Foundation	
	Years Ended June 30,		Years Ended June 30,	
	2013	2012	2013	2012
Reconciliation of operating loss to net cash used for operating activities				
Operating loss	\$ (29,375,617)	\$ (28,167,069)	\$ (155,216)	\$ (42,779)
Adjustments to reconcile operating loss to net cash used for operating activities				
Depreciation	6,168,284	6,102,485	-	-
Changes in assets and liabilities				
Student accounts receivable	32,665	664,998	-	-
Other accounts receivable	38,879	(149,028)	5,303	65,415
Student loans receivable	45,405	87,256	-	-
Grants receivable	(809,560)	(74,713)	-	-
Accounts payable and accrued liabilities	522,863	37,411	274	(61,481)
Accrued salaries and benefits	(780,745)	1,095,468	-	-
Due to the State of New Hampshire	-	(1,076,580)	-	-
Deferred revenue and deposits	(68,679)	(736,764)	-	-
Refundable advances	(23,400)	(31,464)	-	-
Net cash used for operating activities	<u>\$ (24,249,905)</u>	<u>\$ (22,248,000)</u>	<u>\$ (149,639)</u>	<u>\$ (38,845)</u>
Acquisition of capital assets	\$ 18,640,756	\$ 8,027,484	\$ -	\$ -
Less: acquisition of capital assets included in accounts payable at year-end	(3,593,483)	(1,338,440)	-	-
Add: payments on short-term trade accounts used to finance acquisition of capital assets	<u>1,338,440</u>	<u>-</u>	<u>-</u>	<u>-</u>
Payments for the acquisition of capital assets	<u>\$ 16,385,713</u>	<u>\$ 6,689,044</u>	<u>\$ -</u>	<u>\$ -</u>

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

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
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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.

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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.

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.

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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 allowance for loan loss 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 loss and a credit to student loans receivable. Student loans receivable at June 30, 2013 and 2012 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.

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, which are Level 1 inputs as defined by Financial Accounting Standards Board Accounting Standards Codification Topic 820, *Fair Value Measurements*. 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 \$3,000 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

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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

During the year ended June 30, 2013, GBCC entered into a contract for the sale of its former Stratham, New Hampshire campus for \$2,750,000. Assets held for sale are carried at the lower of cost or fair value.

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, 2013 and 2012, 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.

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Net Position

GASB Statement No. 34, *Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments*, 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.

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 accounts receivable 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.

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Transfer from the State of New Hampshire

During the year ended June 30, 2012, the State, through legislative action, transferred all functions, powers, duties, books, papers, records, and property of every kind, tangible and intangible, real and personal, possessed, controlled, or used by the former department of regional community-technical colleges 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.

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, 2013, CCSNH uncollateralized uninsured cash and cash equivalents were approximately \$26,170,000. As of 2012, CCSNH had no uncollateralized uninsured cash and cash equivalents balances as the Federal Deposit Insurance Corporation provided unlimited insurance coverage. That coverage expired December 31, 2012. Deposits held in noninterest-bearing transaction accounts are now aggregated with any interest-bearing deposits, and the combined total insured amounts to \$250,000 per financial institution.

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3. Capital Assets

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

	Beginning Balance	Additions	Retirements	Transfers	Transferred to Assets Held for Sale	Ending Balance
Land	\$ 955,729	\$ -	\$ -	\$ -	\$ (225,000)	\$ 730,729
Construction-in-process	<u>4,656,693</u>	<u>15,381,733</u>	<u>-</u>	<u>(5,227,359)</u>	<u>-</u>	<u>14,811,067</u>
Total non-depreciable assets	<u>5,612,422</u>	<u>15,381,733</u>	<u>-</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>-</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>-</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>

Capital asset activity for the year ended June 30, 2012 is summarized below:

	Beginning Balance	Additions, net of Retirements	Transfers	Transferred from State of New Hampshire	Capital assets below the State's capitalization policy	Ending Balance
Land	\$ -	\$ -	\$ -	\$ 955,729	\$ -	\$ 955,729
Construction-in-process	<u>-</u>	<u>4,900,187</u>	<u>(4,118,554)</u>	<u>3,875,060</u>	<u>-</u>	<u>4,656,693</u>
Total non-depreciable assets	<u>-</u>	<u>4,900,187</u>	<u>(4,118,554)</u>	<u>4,830,789</u>	<u>-</u>	<u>5,612,422</u>
Land improvements	-	278,703	211,918	3,577,020	-	4,067,641
Buildings and improvements	30,876,442	1,899,371	3,906,636	107,907,749	3,611,469	148,201,667
Equipment	<u>300,000</u>	<u>684,799</u>	<u>-</u>	<u>6,760,152</u>	<u>3,510,904</u>	<u>11,255,855</u>
Total depreciable assets	<u>31,176,442</u>	<u>2,862,873</u>	<u>4,118,554</u>	<u>118,244,921</u>	<u>7,122,373</u>	<u>163,525,163</u>
Accumulated depreciation	<u>(8,096,801)</u>	<u>(5,838,061)</u>	<u>-</u>	<u>(51,952,085)</u>	<u>(1,585,745)</u>	<u>(67,472,692)</u>
Capital assets, net	<u>\$ 23,079,641</u>	<u>\$ 1,924,999</u>	<u>\$ -</u>	<u>\$ 71,123,625</u>	<u>\$ 5,536,628</u>	<u>\$ 101,664,893</u>

During the year ended June 30, 2012, CCSNH retired capital assets with a cost basis of \$264,424 and a net book value of zero.

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4. Long-term Liabilities

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

	Balance at June 30, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance at June 30, <u>2013</u>	Current <u>Portion</u>
Leases and bonds payable					
Capital lease obligations	\$ 318,769	\$ -	\$ (210,762)	\$ 108,007	\$ 52,717
Bonds payable	<u>16,217,359</u>	<u>6,000,000</u>	<u>(1,337,409)</u>	<u>20,879,950</u>	<u>1,713,205</u>
Total leases and bonds payable	16,536,128	6,000,000	(1,548,171)	20,987,957	1,765,922
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	<u>940,500</u>	<u>-</u>	<u>(23,400)</u>	<u>917,100</u>	<u>-</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>

Changes in long-term liabilities during the year ended June 30, 2012 were as follows:

	Balance at June 30, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance at June 30, <u>2012</u>	Current <u>Portion</u>
Leases and bonds payable					
Capital lease obligations	\$ 576,006	\$ -	\$ (257,237)	\$ 318,769	\$ 210,762
Bonds payable	<u>17,423,213</u>	<u>-</u>	<u>(1,205,854)</u>	<u>16,217,359</u>	<u>1,337,409</u>
Total leases and bonds payable	17,999,219	-	(1,463,091)	16,536,128	1,548,171
Accounts payable and accrued liabilities	1,119,182	2,495,033	(1,119,182)	2,495,033	1,156,593
Accrued salaries and benefits	9,523,502	1,095,468	-	10,618,970	6,353,970
Refundable advances	<u>971,964</u>	<u>-</u>	<u>(31,464)</u>	<u>940,500</u>	<u>-</u>
Long-term liabilities	<u>\$ 29,613,867</u>	<u>\$ 3,590,501</u>	<u>\$ (2,613,737)</u>	<u>\$ 30,590,631</u>	<u>\$ 9,058,734</u>

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Lease Obligations

CCSNH leases certain equipment and real estate under leases with terms exceeding one year. Future minimum lease payments under capital leases and under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2013 are as follows:

<u>Year ending June 30:</u>	<u>Capital Leases</u>		<u>Operating Leases</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2014	\$ 52,717	\$ 5,271	\$ 705,221	\$ 763,209
2015	55,290	2,698	491,604	549,592
2016	-	-	358,419	358,419
2017	-	-	227,857	227,857

Total expense related to operating leases amounted to \$877,348 and \$1,704,939 for the years ended June 30, 2013 and 2012, respectively.

The original cost basis of leased capital assets as of June 30, 2013 and 2012, was \$1,632,235. Accumulated depreciation includes \$1,572,235 and \$1,379,012 as of June 30, 2013 and 2012, for the leased capital assets, respectively.

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Bonds Payable

Bonds payable consist of the following at June 30:

	<u>2013</u>	<u>2012</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%	\$ 57,882	\$ 89,860
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%	940,000	1,040,000
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%	1,436,793	1,634,262
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 \$463,957 and interest rates from 3.375% to 4.00%	4,484,921	4,948,878
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%	1,038,337	1,166,841
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%	4,100,000	4,400,000
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%	939,589	1,055,090
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%	<u>6,000,000</u>	<u>-</u>
	\$ 20,879,950	\$ 16,217,359

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Principal and interest payments on bonds payable for the next five years and in subsequent five-year periods are as follows at June 30, 2013:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,713,205	\$ 954,625	\$ 2,667,830
2015	1,735,297	883,198	2,618,495
2016	1,757,821	797,853	2,555,674
2017	1,684,665	657,596	2,342,261
2018	1,698,583	582,870	2,281,453
2019-2023	6,705,863	1,855,837	8,561,700
2024-2028	4,184,516	667,787	4,852,303
2029-2033	<u>1,400,000</u>	<u>100,400</u>	<u>1,500,400</u>
	<u>\$ 20,879,950</u>	<u>\$ 6,500,166</u>	<u>\$ 27,380,116</u>

Interest expense related to the bonds for the years ended June 30, 2013 and 2012 was \$765,343 and \$810,343, 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 employees covered by NHRS for the years ended June 30, 2013 and 2012 was approximately \$43,413,000 and \$41,774,000, 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.

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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 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, 2013 and 2012. CCSNH's contributions to NHRS Pension Plan for the year ended June 30, 2013 and 2012 were \$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, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Employees' contributions	\$ 3,038,886	2,926,408
CCSNH contributions	<u>3,688,122</u>	<u>3,730,427</u>
Total	<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, 2013 and 2012. CCSNH's contributions to NHRS for the OPEB Plans for the year ended June 30, 2013 and 2012 were \$696,535 and \$693,054, respectively, which were equal to its annual required contributions.

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6. Contingencies and Commitments

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.

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, 2013.

	<u>Expended through June 30, 2013</u>	<u>Committed Future Costs</u>	<u>Total Committed Costs of Project</u>
NHTI	\$ 299,108	\$ 139,868	\$ 438,976
MCC	239,559	1,032,135	1,271,694
NCC	32,819	76,577	109,396
GBCC	1,370,377	35,123	1,405,500
LRCC	3,567,913	2,685,966	6,253,879
RVCC	<u>47,735</u>	<u>208,141</u>	<u>255,876</u>
Total	<u>\$ 5,557,511</u>	<u>\$ 4,177,810</u>	<u>\$ 9,735,321</u>

At June 30, 2013 and 2012, invoices related to construction projects of \$3,593,483 and \$1,338,440, 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, 2013 and 2012

7. Investments - Community Colleges of New Hampshire Foundation

The Foundation has adopted investment and spending policies for endowment assets that attempts 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 are comprised of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Equities		
U.S. large cap	\$ 2,956,273	\$ 2,405,789
U.S. mid cap	984,472	899,946
U.S. small cap	498,739	415,478
International developed	418,095	856,570
Emerging markets	660,174	646,156
Other	5,651	-
Fixed income		
Investment grade taxable	1,416,352	2,599,615
International developed bonds	159,094	353,284
Global high yield taxable	325,200	358,666
Fixed income other	182,077	345,378
Real estate - public REITs	611,001	214,938
Tangible assets - commodities	<u>513,114</u>	<u>301,435</u>
Total	<u>\$ 8,730,242</u>	<u>\$ 9,397,255</u>

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

Notes to Financial Statements

June 30, 2013 and 2012

The weighted average maturity of the fixed income securities is 14.9 years as of June 30, 2013. As of June 30, 2013, the Foundation's fixed income securities were rated as follows:

<u>Rating</u>	<u>Rating Organization</u>	<u>Fair Value</u>
Aaa	Moody's	\$ 979,352
Aa	Moody's	47,578
A	Moody's	181,852
Other	Moody's	<u>95,225</u>
		<u>\$ 1,304,007</u>

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

8. Prior Period Adjustments

Net position as of the beginning of the year ended June 30, 2012 has been restated to correct accounting errors as of June 30, 2011. The restatements as of June 30, 2011 were as follows:

Write-off uncollectible student accounts receivable	\$ (762,984)
Record grant receivable as of June 30, 2011	631,718
Adjust accounts payable to amounts paid subsequent to June 30, 2011 that were for services rendered prior to June 30, 2011	325,470
Adjust accrued salaries and benefits to underlying documentation	1,334,498
Adjust deferred revenue to recognize revenue associated with the summer academic term, net of adjustment to student deposits	2,702,517
Recognize deferred revenue associated with contract with vendor	(202,500)
Recognize deferred grant revenue as of June 30, 2011	(547,445)
Adjust bonds payable to actual	(1,141,794)
Other adjustments, net	<u>162,856</u>
Net prior period adjustment as of June 30, 2011	<u>\$ 2,502,336</u>

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

Notes to Financial Statements

June 30, 2013 and 2012

9. 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, 2014. 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**

To the Board of Trustees of
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, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2013. 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 2013-001 and 2013-002 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 2013-001 and 2013-002 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 Dunn McNeil & Parker, LLC

Manchester, New Hampshire
December 9, 2013



**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**

To the Board of Trustees of
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 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, 2013. 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 Educational Computer Systems, Inc. (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 the Federal Perkins Loan Program 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 CCSNH's major program's 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 direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-003, 2013-004, 2013-005 and 2013-006. Our opinion on each major federal program is not modified with respect to these matters.

CCSNH's responses to the noncompliance 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.

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.

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 certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-003, 2013-004, 2013-005 and 2013-006, 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, 2013, 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 9, 2013, 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

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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

February 4, 2014, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 9, 2013

**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, 2013

<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		\$ 53,489,739
Federal Perkins Loan Cancellations	84.037		3,857
Federal Perkins Loan Program	84.038		1,399,197
Federal Work-Study Program	84.033		238,722
Federal Pell Grant Program	84.063		19,482,883
Federal Supplemental Educational Opportunity Grant Program	84.007		<u>300,008</u>
Total Student Financial Aid Cluster			74,914,406
Funds for the Improvement of Postsecondary Education	84.116		303,654
<u>Passed-Through:</u>			
<u>New Hampshire Department of Education:</u>			
Carl D. Perkins Career and Technical Education Act of 2006			
08/16/2011 - 08/15/2012	84.048	25039	94,945
08/16/2012 - 08/15/2013	84.048	35039	840,580
College Access Challenge Grant	84.378	P378A100050	<u>158,192</u>
Total United States Department of Education			<u>76,311,777</u>
<u>United States Department of Labor:</u>			
<u>Direct:</u>			
Trade Adjustment Assistance Community College and Career Training - ARRA	17.282		4,505,353
H-1B Job Training Grants	17.268		<u>865,828</u>
<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 - ARRA	17.275	DEEE0002087	<u>244,209</u>
Total United States Department of Labor			<u>5,615,390</u>

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
(A Component Unit of the State of New Hampshire)
Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2013

<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>			
State Energy Program - ARRA	81.087	N/A	1,379
Total United States Department of Energy			1,379
<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	102500731	266,616
<u>Trustees of Dartmouth College:</u>			
National Center for Research Resources: Idea Network of Biological Research Excellence (INBRE)	93.389	1P20RR030360	107,909
Total United States Department of Health and Human Services			374,525
<u>United States Department of Commerce:</u>			
<u>Passed-Through:</u>			
<u>New Hampshire Department of Environmental Services:</u>			
Coastal Zone Management Administration Awards: New Hampshire Coastal Monitoring	11.419	N/A	176
Total United States Department of Commerce			176

**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, 2013

<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>National Science Foundation:</u>			
<u>Direct:</u>			
Education and Human Resources	47.076		98,895
<u>Passed-Through:</u>			
<u>University of New Hampshire</u>			
Experimental Program to Stimulate Competitive Research	47.081	EPS1101245	<u>49,119</u>
Total National Science Foundation			<u>148,014</u>
Total Expenditures of Federal Awards			<u>\$ 82,451,261</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, 2013

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, 2013. 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, 2013, 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	\$ 25,126,954
Federal Unsubsidized Loans	27,455,975
Federal Parents' Loans	<u>906,810</u>
	<u>\$ 53,489,739</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, 2013.

Perkins cash balance at June 30, 2013	\$ <u>323,162</u>
Perkins loans receivable at June 30, 2012	\$ 1,263,620
New loans made in fiscal year 2013	103,775
Administrative cost allowance in fiscal year 2013	<u>31,802</u>
Perkins expended as presented in the Schedule	1,399,197
Perkins loans collected in fiscal year 2013	164,144
Perkins loans canceled in fiscal year 2013	3,857
Administrative cost allowance in fiscal year 2013	<u>31,802</u>
Perkins loans receivable at June 30, 2013	<u>\$ 1,199,394</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, 2013

5. Federal Work-Study Program

Federal Work-Study Program award expenditures in 2013 consist of the following:

Current year award	\$ 285,873
Carry forward from fiscal year 2011-2012	8,546
Carry forward to fiscal year 2013-2014	(15,603)
Carry back to fiscal year 2011-2012	(6,648)
Carry back from fiscal year 2013-2014	1,429
Transfer to Federal Supplemental Education Opportunity Grant Program	(31,448)
Unexpended funds	<u>(3,427)</u>
 Total expenditures in fiscal year 2013	 \$ <u>238,722</u>

6. Federal Supplemental Educational Opportunity Grant Program

Federal Supplemental Educational Opportunity Grant Program award expenditures in 2013 consist of the following:

Current year award	\$ 271,266
Carry forward from fiscal year 2011-2012	4,024
Carry forward to fiscal year 2013-2014	(4,954)
Carry back from fiscal year 2013-2014	188
Transfer from Federal Work-Study Program	31,448
Unexpended funds	<u>(1,964)</u>
 Total award expenditures in fiscal year 2013	 \$ <u>300,008</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, 2013

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

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 - Funds for the Improvement of Postsecondary Education	84.116
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 - ARRA	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	\$300,000
Auditee qualified as low-risk auditee?	<u> </u> Yes <u> X </u> No

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, 2013

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

Finding Number:	2013-001
Condition Found:	We noted that there were a significant number of trial balance accounts that had not been reconciled and therefore determination of the correct account balance resulted in a significant amount of work by CCSNH's accounting department. In addition, we identified a large number of significant audit adjustments that were required to produce financial statements that are in accordance in U.S. generally accepted accounting principles. These conditions were also noted in the prior year audit.
Criteria:	Management is responsible for establishing and maintaining effective internal control over financial reporting.
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 work very well together and understand the transactions that are reported in the accounting software, Banner, the only certified public accountant (CPA) in the department is the Director of Finance. Issues that can be caused by an under-staffed accounting department 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 newly developed account reconciliation matrix and 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 and accounting for capital assets are the two areas of the financial statements that should have priority in developing procedures to properly reconcile to the trial balance.

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, 2013

We also recommend that CCSNH consider adding the role of a financial analyst or controller to the accounting department. Ideally, that role should be filled by a CPA with financial reporting experience. The addition of this position would help resolve the staffing issues and allow CCSNH to generate accrual based financial statements in accordance with U.S. generally accepted accounting principles.

Views of a Responsible
Official and Corrective
Action Plan:

CCSNH agrees with the condition found. By the end of FY 14, CCSNH will hire a new CFO to strengthen the accounting staff. The current CFO will be moved to a controller position to increase focus on the day to day accounting with emphasis on the reconciliations. In addition, CCSNH will continue to use its account reconciliation matrix to ensure that periodic procedures are performed timely. We made progress from the last audit, particularly in the area of clearing accounts, and will continue to work on this finding. We will be making accrual entries as of December 31 which we anticipate will improve the year end closing process. With over 1,500 funds and 600 accounts the number of account reconciliations is significant.

Finding Number:

2013-002

Condition Found:

We noted that the account reconciliations that had been prepared as well as some of the journal entries tested did not have documented evidence of review and approval by a responsible member of management.

Criteria:

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

Context:

During our audit procedures of the trial balance we discovered there were numerous instances of undocumented review of account reconciliations and journal entries.

Cause and Effect:

Based on our observations, it appears the primary cause of the issue with undocumented review and approval of reconciliations and journal entries 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 and journal entries be approved by an appropriate member of management. All reconciliations and entries should be initialed by the preparer and the individual approving them in order to attribute accountability to the appropriate individuals.

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, 2013

Views of a Responsible
Official and Corrective
Action Plan:

CCSNH agrees with the condition found. During FY 13 we expanded the electronic signature system in Banner Finance to document the approval of journal vouchers related to banking transactions, transfers of revenue and transfers of expenses. We will continue this process to include all transactions/reconciliations.

Section III - Findings and Questioned Costs for Federal Awards

Finding Number: 2013-003

Federal Program: Trade Adjustment Assistance Community College and Career Training (17.282)

Specific Requirement: In accordance with 29 CFR 95.43, "All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition."

Furthermore, 29 CFR 95.46 requires that "Procurement records and files for purchases in excess of the simplified acquisition threshold shall include the following at a minimum: (a) basis for the contractor selection, (b) justification for the lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price."

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

Context: In connection with our audit of the expenditures funded by the Trade Adjustment Assistance Community College and Career Training, we selected 11 purchases of capital assets for testing. We noted that 5 of the 11 purchases selected met the Federal procurement threshold of \$25,000 or more. Of those 5, 4 did not have documentation that a bidding process was completed.

Questioned Costs: None

Cause and Effect: Each of the four contracts identified were procured on the basis of sole source which is defined as only one individual or company can provide the contractual services needed, so any attempt to obtain bids would only result in that individual or company bidding on the transaction. Procurement records should document the justification for the lack of competition when competitive bids or offers are not obtained.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
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Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2013

Recommendation: We recommend 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.

Views of a Responsible Official and Corrective Action Plan: CCSNH agrees with the condition found. The bids in question were brand specific based on advice from our advanced manufacturing industry partners. Once the brand was determined, we contacted the manufacturer and received documentation that the brand could be purchased at the most advantageous terms from the local distributor and that led to the sole source purchase. Our enabling legislation, policies and procedures do allow for sole source bids and we will increase our supporting documentation surrounding them in the future.

Finding Number: 2013-004

Federal Program: Funds for the Improvement of Postsecondary Education (84.116), Carl D. Perkins Career and Technical Education Act of 2006 (84.048), Trade Adjustment Assistance Community College and Career Training (17.282), and H-1B Job Training Grants (17.268)

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 or prospective employee 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 Excluded Parties List System (EPLS) 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 EPLS for covered transactions, except for vendors of the Trade Adjustment Assistance Community College and Career Training grant.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
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Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2013

Context: We selected a sample of 57 vendors and employees 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 or employees were reviewed against the EPLS, with the exception of vendors funded by the Trade Adjustment Assistance Community College and Career Training grant. Based on our testing, we did not identify an expenditure funded by CCSNH's major federal programs paid to a vendor or employee that was included in the EPLS.

Questioned Costs: None

Cause and Effect: CCSNH was aware of the requirement to verify employees and/or vendors against the EPLS, but had only implemented a process during the year ended June 30, 2013 to verify EPLS of vendors funded by the Trade Adjustment Assistance Community College and Career Training grant; no other program vendors or employees were verified. Since this process is not performed on all federal grant programs, there is a greater risk of employees or vendors that are included on the EPLS being disbursed funds through federal funding.

Recommendation: We recommend 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.

Views of a Responsible Official and Corrective Action Plan: CCSNH agrees with the condition found and is now checking all federal fund vendors against the list when a requisition is made. We did check the excluded parties list for TAACCCT purchases but not for the other federal programs.

We have since checked all vendors and all employees against the list and found that no vendors or employees were on the list. In addition to checking all federal fund bids against the list we are developing procedures to determine the most efficient way to check employees against the list before they are hired.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
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Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2013

Finding Number:	2013-005
Federal Program:	Trade Adjustment Assistance Community College and Career Training (17.282)
Specific Requirement:	Pursuant to 2 CFR 230 Appendix A, "A cost is allocable to a particular cost objective, such as a grant contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it is incurred specifically for the award."
Condition Found:	DELL computers were purchased on October 3, 2012 by Lakes Region Community College (LRCC) for a Math Lab that will not be used as part of the project. The cost of these computers is non-allocable to the grant.
Context:	The unallowable costs were identified in connection with a compliance review performed by the U.S. Department of Labor on the Trade Adjustment Assistance Community College and Career Training grant covering the period from October 1, 2011 to February 1, 2013. The report on this review was provided to us in the course of our audit planning.
Questioned Costs:	\$18,000
Cause and Effect:	The computers purchased to support the LRCC Math Lab were overlooked when charging the program expenditures to be used as part of the project. As a result, the program was charged for \$18,000 of unallowable costs
Recommendation:	We recommend CCSNH tracking the use of the funds to properly monitor whether costs charged to the grant are for locations or programs identified under the grant.
Views of a Responsible Official and Corrective Action Plan:	CCSNH agrees with the condition found. The issue related to a misinterpretation of the regulations and the \$18,000 expenses has been transferred from the federal grant, and instead, paid with CCSNH operating funds.

COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
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Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2013

Finding Number:	2013-006
Federal Program:	Federal Direct Student Loans (84.268), Federal Perkins Loan Cancellations (84.037) and Federal Perkins Loan Program (84.038)
Specific Requirement:	Pursuant to 34 CFR 668.165, an institution is required to notify a student or the parent of a student their right to cancel all or a portion of their federally disbursed aid within 14 days of disbursement.
Condition Found:	During our audit, we noted students of NHTI - Concord's Community College (NHTI) 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 (RVCC) selected for testing did not receive proper notification.
Context:	We selected a sample of 24 loan disbursements (20 Federal Direct Loans and 4 Federal Perkins Loans). Of the 24 loan disbursements tested, nine did not receive proper notification (8 students from NHTI and 1 from RVCC). Upon further testing, we noted that the lack of notification of the right to cancel the loan at RVCC was isolated to the 1 student. The lack of notification of a student's right to cancel a loan at NHTI was systemic. NHTI had a total of 2,888 students who received Federal Direct Loans and 15 students who received Federal Perkins Loans without receiving proper notification of their right to cancel their loan.
Questioned Costs:	None
Cause and Effect:	Prior to the start of the 2012 fall semester, the NHTI Bursar's Office re-designed the loan notification letters to help students understand the check handling process. Inadvertently, the required language notifying students of their right to cancel all or a portion of their federally disbursed aid within 14 days of disbursement was removed from NHTI's standard disbursement notification letter. As a result of this removal, students who received federal loans while attending NHTI were not notified in a timely manner.
Recommendation:	We recommend CCSNH change NHTI's notification template letter to include the required "right to cancel" language.

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
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Schedule of Findings and Questioned Costs (Concluded)**

Year Ended June 30, 2013

Views of a Responsible
Official and Corrective
Action Plan:

Management is in agreement with the condition found. Each year an annual review of the loan notification letter template will be conducted between each college student financial aid office and Bursar's office to ensure proper language. Subsequent to year end, NHTI identified the removal of the required "right to cancel" language and amended the notification template to include the required language. All 2012-2013 students who received Federal Direct Loans or Perkins Loans were sent a modified letter including the right to cancel language. Students were provided an extended time frame to cancel all or a portion of their federal loans.

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
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Summary Schedule of Prior Audit Findings

Year Ended June 30, 2013

Finding Number: 2012-03

Condition Found: During our audit, we noted that CCSNH does not review Excluded Parties List System (EPLS) for covered transactions as required by 2 CFR, Part 180.

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 vendors funded by the Trade Adjustment Assistance Community College and Career Training grant to the EPLS and document this comparison and any exceptions noted appropriately. However, no employees funded by the Trade Adjustment Assistance Community College and Career Training grant meeting the covered transaction threshold was verified to the EPLS as well as no vendors or employees funded by any other federal fund was verified to the EPLS.

Status: Uncorrected; 2013-004