(A Component Unit of the State of New Hampshire)

FINANCIAL STATEMENTS

and

REPORTS IN ACCORDANCE WITH THE UNIFORM GUIDANCE

June 30, 2016 and 2015

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 Supplementary Information

June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely-presented component unit of the Community College System of New Hampshire (a Component Unit of the State of New Hampshire) (CCSNH) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise CCSNH's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely-presented component unit of CCSNH as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters - Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 through 9 and the required supplementary information on pages 35 and 36 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 7, 2016 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 7, 2016

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) includes an analysis of the financial position and operations of the Community College System of New Hampshire (CCSNH) for the fiscal years ended June 30, 2016, 2015 and 2014. This discussion is provided by the management of CCSNH and should be read in conjunction with the financial statements and notes.

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

CCSNH is a state-wide system of seven independently accredited institutions including White Mountains Community College, Lakes Region Community College, River Valley Community College, NHTI – Concord's Community College, Manchester Community College, Nashua Community College, and Great Bay Community College, as well as four academic centers in Keene, Littleton, Rochester and Lebanon, New Hampshire.

It includes the Community Colleges of New Hampshire Foundation (the Foundation) as a discretely-presented, non-major component unit.

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

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

FINANCIAL STATEMENTS

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

CHANGE IN ACCOUNTING PRINCIPLE

As disclosed in Note 2 to the basic financial statements, in 2015 CCSNH adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* (an amendment of GASB Statement No. 27), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (an amendment of GASB Statement No. 68) (collectively, the new accounting standards).

The changes made to the basic financial statements to comply with the new accounting standards have been reported as an adjustment as of the beginning of the year ended June 30, 2015. Because it was not practical for CCSNH to determine the amounts of all deferred inflows of resources and outflows of resources related to the pension plan as of June 30, 2014, the beginning balances of deferred inflows of resources and deferred outflows of resources related to pensions have not been reported. The impact of the adoption of the new accounting standards as of the beginning of the year ended June 30, 2015 was an increase in long-term liabilities related to the net pension liability amounting to $63,843,950, an increase in the deferred outflows of resources of $5,035,405, and a decrease in unrestricted net position of $58,808,545.

STATEMENTS OF NET POSITION

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

	June 30,		
	2016	2015	2014
Assets			
Current	**$ 21,086,491**	$ 20,440,581	$ 26,231,520
Net capital	**121,715,102**	119,985,543	117,615,080
Other noncurrent assets	**2,456,683**	3,010,043	3,040,821
Total assets	**145,258,276**	143,436,167	146,887,421
Deferred outflows of resources	**6,992,021**	7,648,806	-
Liabilities			
Current	**11,936,561**	13,094,321	12,230,824
Noncurrent	**85,397,470**	83,532,285	24,865,007
Total liabilities	**97,334,031**	96,626,606	37,095,831
Deferred inflows of resources	**4,396,230**	7,966,777	-
Net position			
Invested in capital assets, net of related debt	**102,487,767**	99,906,311	95,118,753
Restricted nonexpendable	**112,549**	453,155	305,184
Restricted expendable	**2,370,532**	2,370,532	3,784,814
Unrestricted	**(54,450,812)**	(56,238,408)	10,582,839
Total net position	**$ 50,520,036**	$ 46,491,590	$ 109,791,590

The major components of assets are cash and cash equivalents, operating investments, and net property and equipment. In 2016, overall assets increased by $1,822,109 due to an increase in net property and equipment

In 2015, overall assets decreased by $3,451,254 driven by a decrease in cash and cash equivalents. Overall, liabilities increased by $59,530,775 due to the net pension liability recorded in connection with the adoption of the new accounting standards during the year. In total, CCSNH's net position decreased by $63,300,000 as a result of the net pension liability and a decrease in net position of $4,491,455.

The change in deferred outflows of resources related to the pension plan and the deferred inflows of resources is due to the current year activity associated with the net pension liability.

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

Management's Discussion and Analysis (Unaudited) (Continued)

June 30, 2016 and 2015

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

This statement reports total operating revenues, operating expenses, nonoperating revenue and expenses, and the increase in net position for the fiscal years ended June 30, 2016, 2015 and 2014, summarized as follows:

	Years Ended June 30,		
	2016	2015	2014
Operating revenues			
Tuition and fees	**$ 65,906,053**	$ 68,128,857	$ 69,482,905
Other revenue	**14,895,473**	16,166,843	13,582,669
Total operating revenue	**80,801,526**	84,295,700	83,065,574
Operating expenses			
Employee compensation and benefits	**91,802,705**	96,949,756	94,191,293
Other operating expenses	**35,486,621**	34,236,792	36,644,244
Total operating expenses	**127,289,326**	131,186,548	130,835,537
Operating loss	**(46,487,800)**	(46,890,848)	(47,769,963)
Nonoperating revenues (expenses) and other changes			
State appropriations - operating	**42,500,000**	42,155,000	40,000,000
State appropriations - capital	**7,727,797**	3,086,781	7,022,709
Capital grants and contracts	**1,506,179**	209,164	2,771,500
Write-down of note receivable	**(398,310)**	-	-
Loss on sale of capital assets	**-**	(2,174,382)	-
Investment income	**67,272**	62,412	-
Other nonoperating expenses	**(886,692)**	(939,582)	(995,236)
Nonoperating revenues and other changes, net	**50,516,246**	42,399,393	48,798,973
Increase (decrease) in net position	**4,028,446**	(4,491,455)	1,029,010
Net position, beginning of year, as previously stated	**46,491,590**	109,791,590	108,762,580
Cumulative effect of change in accounting principle	**-**	(58,808,545)	-
Net position, beginning of year, as restated	**46,491,590**	50,983,045	108,762,580
Net position, end of year	**$ 50,520,036**	$ 46,491,590	$ 109,791,590

The majority of CCSNH's revenues come from tuition and fees, which decreased in 2016 and 2015 as compared to the year ended June 30, 2014 due to decreased tuition price per credit in 2016 and no growth in the number of credits sold since 2011. Other revenue includes grants and contracts and other auxiliary enterprises. Driven by grant activity, other revenue decreased in 2016 by $1,271,370 and increased by $2,584,174 in 2015. Specifically, the U.S. Department of Labor HIB Job Training Grant and U.S. Department of Labor Trade Adjustment Act – Community College Career and Training programs were in their final years at the campuses for 2016 and will be finished in 2017. Overall, total operating revenue was down in 2016 by $3,494,174 and up in 2015 by $1,230,126.

Like many institutions of higher education, CCSNH is a labor-intensive organization, and operating expenses are primarily composed of employee compensation and benefits. These expenses were up in 2015 by $2,758,463 but were down in 2016 by $5,147,051 due to decreases in the workforce in relation to lower credits sold and the decrease in grant-funded positions.

Other operating expenses increased by $1,249,829 in 2016 due to increases in small equipment spending, off-site rental facilities for student housing at Lakes Region Community College, and software license and maintenance fees.

Other operating expenses were down $2,407,452 in 2015 due to lower utility costs, decreased supply and small equipment spending, and less maintenance and repair expenses.

Nonoperating revenues and other changes in net position increased by $8,116,853 in 2016 due to an increase in capital expenditures paid by the State of New Hampshire and an increase in the capital grant revenue, as well as a loss on sale of capital assets of $2,174,382 in 2015. In addition, CCSNH recorded an allowance for loan losses on its note receivable of approximately $398,000 during the year ended June 30, 2016

In 2015, nonoperating revenues, state operating appropriations increased by $2,155,000, while state capital appropriations decreased by $3,935,928. The state operating appropriation in 2015 increased as the New Hampshire Legislature and Governor worked to return CCSNH state support to pre-recession levels.

The cumulative effect of the change in accounting principle is due the adoption of the new accounting standards during the year ended June 30, 2015.

STATEMENTS OF CASH FLOWS

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

	Years Ended June 30,		
	2016	2015	2014
Net cash used - operating activities	**$ (38,336,610)**	$ (41,031,313)	$ (39,063,740)
Net cash provided - noncapital financing activities	**42,500,000**	42,155,000	40,000,000
Net cash used - capital and related financing activities	**(731,827)**	(6,619,158)	(6,688,234)
Net cash provided (used) - investing activities	**1,544,455**	33,273	(9,995,850)
Net increase (decrease) in cash and cash equivalents	**4,976,018**	(5,462,198)	(15,747,824)
Cash and cash equivalents, beginning of year	**4,255,372**	9,717,570	25,465,394
Cash and cash equivalents, end of year	**$ 9,231,390**	$ 4,255,372	$ 9,717,570

CCSNH maintains the cash position necessary to meet its obligations. The amount of cash on-hand fluctuates during the year due to the timing of tuition receipts and federal financial aid payments.

Cash and cash equivalents increased by $4,976,018 during 2016 due to decreased net cash used for operating expenses. This was a direct response to lower tuition and fees revenue which resulted in a smaller workforce.

Cash and cash equivalents decreased by $5,462,198 during 2015 due to increased net cash used for operating expenses due to lower tuition and fee revenue, as well as continued levels of net cash used for capital and related financial activities, driven by the purchase of capital assets funded by CCSNH, payments of principal and interest on bonds payable and the sale of the Stratham property and resulting payback of the other long-term liability to the State of New Hampshire.

CAPITAL ASSETS AND DEBT

CCSNH receives significant funding as part of the State’s capital budget. The funding has allowed for construction and renovation at all seven campuses over the past three years. These projects included major construction at River Valley Community College (Claremont renovations and additional Lebanon campus), Manchester Community College (student center and electrical building), Great Bay Community College (student center) and Lakes Region Community College (automotive building and health and science building). During the years ended June 30, 2016, 2015 and 2014, CCSNH paid $10,521,993, $10,077,294 and $15,739,016 for capital asset additions, respectively.

Most of CCSNH's construction projects are paid for by the State through its capital budget. However, certain projects (i.e., dorms, student centers, etc.), 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. Other projects are financed through outside sources of funding, including federal loans.

During the year ended June 30, 2015, $3,285,882 of CCSNH's bonds payable were advance refunded through the issuance of new general obligation refunding bonds with an original principal amount of $2,762,813 resulting in a gain from advance refunding of $523,069. The gain from advance refunding has been recorded as a deferred inflow of resources and will be amortized as a component of interest expense over the life of the new bond using the interest method.

CCSNH incurred additional debt amounting to $2 million during the year ended June 30, 2014. During the years ended June 30, 2016, 2015 and 2014, CCSNH paid $2,758,278, $3,072,898 and $1,851,606, respectively, in principal payments on bonds payable and capital lease obligations.

ECONOMIC OUTLOOK

After many of years of enrollment growth during the recession, CCSNH's credits sold remain below the 2011 peak as the economy and employment improves. Simultaneously, CCSNH continues to look for new markets for enrollment growth that align with the economic needs of New Hampshire's industries.

Simultaneously, CCSNH is also working to realign its organizational structure and operating expense base to meet new forecasts for revenue growth.

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

In 2015, CCSNH received a slightly higher appropriation from the State of New Hampshire to support a reduction in tuition to $200 per credit from $210 per credit. The CCSNH Board of Trustees froze tuition at $200 per credit hour for the 2016-2017 academic year. The CCSNH Board of Trustees will continue to work with the State of New Hampshire in future budget cycles to support additional tuition freezes and reductions.

By adopting GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (an amendment of GASB Statement No. 27), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (an amendment of GASB Statement No. 68), CCSNH gains a clearer understanding of its proportionate share of the net pension liability and the factors that will impact an increase and decrease in that proportionate share.

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

Statements of Net Position

June 30, 2016 and 2015

	Community College System of New Hampshire		Community Colleges of New Hampshire Foundation	
	As of June 30,		As of June 30,	
	2016	2015	**2016**	2015
Assets				
Current assets				
Cash and cash equivalents	**$ 9,231,390**	$ 4,255,372	**$ 1,009,299**	$ 948,992
Other current assets	**1,164,170**	1,283,651	**3,774**	61,230
Current portion of note receivable	**121,401**	94,605	**-**	-
Grants and contracts receivable	**1,242,889**	2,901,301	**-**	-
Operating investments	**8,547,806**	10,024,989	**-**	-
Due from State of New Hampshire for capital appropriations	**778,835**	1,880,663	**-**	-
Total current assets	**21,086,491**	20,440,581	**1,013,073**	1,010,222
Noncurrent assets				
Student loans receivable, net	**611,488**	669,055	**-**	-
Note receivable, net	**1,845,195**	2,340,988	**-**	-
Investments	**-**	-	**15,616,385**	14,180,497
Capital assets, net	**121,715,102**	119,985,543	**-**	-
Total noncurrent assets	**124,171,785**	122,995,586	**15,616,385**	14,180,497
Total assets	**145,258,276**	143,436,167	**16,629,458**	15,190,719
Deferred outflows of resources - pension	**6,992,021**	7,648,806	**-**	-
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	**1,384,420**	1,926,875	**4,456**	26,928
Accounts payable for capital assets	**295,017**	1,185,028	**-**	-
Accrued salaries and benefits	**6,319,976**	5,823,579	**-**	-
Deferred revenue and deposits	**1,095,423**	1,436,733	**-**	-
Current portion of bonds payable	**1,818,111**	1,776,287	**-**	-
Current portion of other long-term liabilities	**1,023,614**	945,819	**-**	-
Total current liabilities	**11,936,561**	13,094,321	**4,456**	26,928
Noncurrent liabilities				
Due to the State of New Hampshire	**3,339,502**	1,854,293	**-**	-
Accrued salaries and benefits	**4,032,303**	4,513,154	**-**	-
Refundable advances	**684,253**	899,610	**-**	-
Net pension liability	**60,334,154**	58,259,797	**-**	-
Bonds payable	**15,180,554**	16,998,641	**-**	-
Other long-term liabilities	**1,826,704**	1,006,790	**-**	-
Total noncurrent liabilities	**85,397,470**	83,532,285	**-**	-
Total liabilities	**97,334,031**	96,626,606	**4,456**	26,928
Deferred inflows of resources				
Pension	**3,940,397**	7,454,390	**-**	-
Deferred gain from advance refunding of bonds	**455,833**	512,387	**-**	-
Total deferred inflows of resources	**4,396,230**	7,966,777	**-**	-
Net position				
Invested in capital assets, net of related debt	**102,487,767**	99,906,311	**-**	-
Restricted nonexpendable	**112,549**	453,155	**12,905,205**	11,425,698
Restricted expendable	**2,370,532**	2,370,532	**3,330,382**	3,582,854
Unrestricted	**(54,450,812)**	(56,238,408)	**389,415**	155,239
Total net position	**$ 50,520,036**	$ 46,491,590	**$ 16,625,002**	$ 15,163,791

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, 2016 and 2015

	Community College System of New Hampshire		Community Colleges of New Hampshire Foundation	
	Years Ended June 30,		Years Ended June 30,	
	2016	2015	**2016**	2015
Operating revenues				
Tuition and fees	**$ 67,002,881**	$ 68,849,457	**$ -**	$ -
Less scholarships	**(1,096,828)**	(720,600)	**-**	-
Net tuition and fees	**65,906,053**	68,128,857	**-**	-
Grants and contracts	**7,619,684**	8,933,064	**-**	-
Contributions	**-**	-	**1,171,705**	750,171
Other auxiliary enterprises	**3,155,812**	2,990,843	**-**	-
Other operating revenue	**4,119,977**	4,242,936	**-**	-
Total operating revenues	**80,801,526**	84,295,700	**1,171,705**	750,171
Operating expenses				
Employee compensation and benefits	**91,802,705**	96,949,756	**-**	-
Other operating expenses	**24,414,546**	23,496,763	**1,190,471**	1,181,391
Utilities	**2,889,918**	2,808,871	**-**	-
Depreciation	**8,182,157**	7,931,158	**-**	-
Total operating expenses	**127,289,326**	131,186,548	**1,190,471**	1,181,391
Operating loss	**(46,487,800)**	(46,890,848)	**(18,766)**	(431,220)
Nonoperating revenues (expenses)				
State of New Hampshire appropriations	**42,500,000**	42,155,000	**-**	-
Loss on sale of capital assets	**-**	(2,174,382)	**-**	-
Write-down of note receivable	**(398,310)**	-	**-**	-
Contributions for long-term purposes	**-**	-	**1,453,789**	1,535,143
Investment gain	**67,272**	62,412	**26,188**	323,027
Interest expense on capital debt	**(886,692)**	(939,582)	**-**	-
Nonoperating revenues, net	**41,282,270**	39,103,448	**1,479,977**	1,858,170
(Loss) income before other changes in net position	**(5,205,530)**	(7,787,400)	**1,461,211**	1,426,950
Other changes in net position				
State of New Hampshire appropriations for capital expenditures	**7,727,797**	3,086,781	**-**	-
Capital grants and contracts	**1,506,179**	209,164	**-**	-
Total other changes in net position	**9,233,976**	3,295,945	**-**	-
Increase (decrease) in net position	**4,028,446**	(4,491,455)	**1,461,211**	1,426,950
Net position, beginning of year, as previously stated	**46,491,590**	109,791,590	**15,163,791**	13,736,841
Cumulative effect of change in accounting principle	**-**	(58,808,545)	**-**	-
Net position, beginning of year, as restated	**46,491,590**	50,983,045	**15,163,791**	13,736,841
Net position, end of year	**$ 50,520,036**	$ 46,491,590	**$ 16,625,002**	$ 15,163,791

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, 2016 and 2015

	Community College System of New Hampshire		Community Colleges of New Hampshire Foundation	
	Years Ended June 30,		Years Ended June 30,	
	2016	2015	**2016**	2015
Cash flows from operating activities				
Tuition and fees	**$ 65,571,489**	$ 68,484,397	**$ -**	$ -
Grants and contracts	**9,050,984**	7,581,781	**-**	-
Auxiliary enterprises	**3,155,812**	2,990,843	**-**	-
Contributions received	**-**	-	**1,162,652**	469,621
Payments to suppliers	**(27,947,655)**	(26,351,129)	**(1,146,434)**	(1,428,486)
Payments to employees	**(92,570,010)**	(97,768,550)	**-**	-
Other cash receipts	**4,402,770**	4,031,345	**-**	-
Net cash (used for) provided by operating activities	**(38,336,610)**	(41,031,313)	**16,218**	(958,865)
Cash flows from noncapital financing activities				
State of New Hampshire appropriations	**42,500,000**	42,155,000	**-**	-
Contributions for long-term purposes	**-**	-	**1,453,789**	1,535,143
Net cash provided by noncapital financing activities	**42,500,000**	42,155,000	**1,453,789**	1,535,143
Cash flows from capital and related financing activities				
Funds received from the State of New Hampshire for capital expenditures	**10,314,834**	6,892,727	**-**	-
Capital grants and contracts received	**1,506,179**	209,164	**-**	-
Purchase of capital assets	**(10,521,993)**	(10,077,294)	**-**	-
Proceeds from sales of capital assets	**-**	315,000	**-**	-
Payments received on notes receivable	**70,687**	64,407	**-**	-
Proceeds from borrowing on other long-term liabilities	**1,600,000**	-	**-**	-
Principal on bonds payable and other liabilities	**(2,758,278)**	(3,072,898)	**-**	-
Interest on bonds payable and other liabilities	**(943,256)**	(950,264)	**-**	-
Net cash used for capital and related financing activities	**(731,827)**	(6,619,158)	**-**	-
Cash flows from investing activities				
Proceeds from sales and maturities of investments	**1,477,163**	-	**6,841,097**	4,819,120
Purchase of investments	**-**	-	**(8,622,577)**	(5,159,560)
Interest and dividends received	**67,292**	33,273	**371,780**	277,044
Net cash provided by (used for) investing activities	**1,544,455**	33,273	**(1,409,700)**	(63,396)
Net increase (decrease) in cash and cash equivalents	**4,976,018**	(5,462,198)	**60,307**	512,882
Cash and cash equivalents, beginning of year	**4,255,372**	9,717,570	**948,992**	436,110
Cash and cash equivalents, end of year	**$ 9,231,390**	$ 4,255,372	**$ 1,009,299**	$ 948,992

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, 2016 and 2015

	Community College System of New Hampshire		Community Colleges of New Hampshire Foundation	
	Years Ended June 30,		Years Ended June 30,	
	2016	2015	**2016**	2015
Reconciliation of operating loss to net cash used for operating activities				
Operating loss	**$ (46,487,800)**	$ (46,890,848)	$ (18,766)	$ (431,220)
Adjustments to reconcile operating loss to net cash used for operating activities				
Depreciation	**8,182,157**	7,931,158	**-**	-
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources				
Other current assets	**119,481**	(259,247)	**57,456**	32,779
Student loans receivable	**57,567**	170,262	**-**	-
Grants receivable	**1,658,412**	(1,239,921)	**-**	-
Deferred outflows of resources - pension	**656,785**	(184,921)	**-**	-
Accounts payable and accrued expenses	**(542,455)**	(185,164)	**(22,472)**	(560,424)
Accrued salaries and benefits	**15,546**	126,881	**-**	-
Deferred revenue and deposits	**(341,310)**	97,584	**-**	-
Net pension liability	**2,074,357**	(5,584,153)	**-**	-
Refundable advances	**(215,357)**	(38,854)	**-**	-
Deferred inflows of resources - pension	**(3,513,993)**	5,025,910	**-**	-
Net cash used for operating activities	**$ (38,336,610)**	$ (41,031,313)	**$ 16,218**	$ (958,865)
Reconciliation of noncash activity				
Acquisition of capital assets	**$ 9,911,716**	$ 10,339,499	**$ -**	$ -
Less acquisition of capital assets included in accounts payable at year-end	**(295,017)**	(1,185,028)	**-**	-
Less acquisition of capital assets financed by capital leases	**(279,734)**	-	**-**	-
Add payments on short-term trade accounts used to finance acquisition of capital assets	**1,185,028**	922,823	**-**	-
Payments for the acquisition of capital assets	**$ 10,521,993**	$ 10,077,294	**$ -**	$ -

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

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); and
- River Valley Community College (RVCC).

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

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

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared using the economic resources focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

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

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 refundable advances.

Student loans receivable are stated at their unpaid principal balances adjusted for charge-offs and the allowance for loan losses. Interest income on student loans receivable is recorded when received. CCSNH provides for probable uncollectible amounts through a charge to expense and a credit to the allowance for loan losses based on its assessment of the current status of individual accounts. Balances that are still outstanding after the College has used reasonable collection efforts are written off through a charge to the allowance for loan losses and a credit to student loans receivable. Student loans receivable at June 30, 2016 and 2015 are reported net of allowance for loan losses of $500,798 and $450,000, respectively.

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

CCSNH and the Foundation carry investments in marketable securities at their fair value. Fair value is estimated using the methods described in Note 9. 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 the date of donation. In accordance with CCSNH's capitalization policy, only equipment (including equipment acquired under capital leases), capital projects and internally-generated intangibles with a projected cost of $5,000 or more are capitalized. Costs for maintenance, repairs and minor renewals and replacements are expensed as incurred. The costs of library materials are expensed as incurred.

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

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

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

Note Receivable

During the year ended June 30, 2013, GBCC entered into a contract for the sale of its former Stratham, New Hampshire campus. As a result, the net book value of the campus, amounting to $2,126,504, was reflected in assets held for sale as of June 30, 2014. During the year ended June 30, 2015, GBCC sold its former Stratham Campus for $2,750,000. The buyer paid cash of $250,000 at closing and signed a note receivable to CCSNH for $2,500,000. The note receivable is expected to be paid in monthly installments of $13,865, including interest at 3%, through September 14, 2024. All outstanding principal and interest is expected to be repaid on October 14, 2024, which is expected to amount to approximately $1,500,000. The note receivable balance as of June 30, 2016 and 2015 was $1,966,596 and $2,435,593, respectively. The balance at June 30, 2016, is shown net of an allowance for loan losses of approximately $398,000.

Under the terms of an agreement with the State of New Hampshire (the State), the total proceeds will be repaid to the State in three installments of $916,666. During the year ended June 30, 2015, CCSNH paid the first installment to the State. During 2016, CCSNH paid $916,667 to the State. The remaining installments are included in other liabilities in the statement of net position. The balance due to the State as of June 30, 2016 and 2015 was $916,666 and $1,833,333, respectively.

Due to the fact that the proceeds from the sale of the GBCC campus will be paid to the State, CCSNH recognized a loss from the sale of the GBCC campus of $2,126,504 during the year ended June 30, 2015.

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 termination of CCSNH's participation in the program. The portion that would be refundable if the programs were terminated as of June 30, 2016 and 2015 has been included in the accompanying statements of net position as a noncurrent liability. The portion of this program that has been funded with institutional funds has been classified as restricted - nonexpendable since these funds can only be used on a revolving basis for loans during the time CCSNH participates in the Federal Perkins Loan Program.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Hampshire Retirement System (NHRS) and additions to/deductions from the NHRS's fiduciary net position has been determined on the same basis as it is reported by the NHRS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Investments in both domestic and non-U.S. securities are valued at current market prices and expressed in U.S. dollars. NHRS uses a trade-date accounting basis for these investments. Investments in non-registered commingled funds are valued at net asset value as a practical expedient to estimate fair value.

Net Position

GASB requires that resources be classified for accounting purposes into the following four net position categories:

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

Restricted - nonexpendable: Net assets subject to externally-imposed conditions that CCSNH must maintain them in perpetuity.

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

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

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

Net Student Fees

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

Contributions

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

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

Income Taxes

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

Use of Estimates in Financial Statement Preparation

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

2. Change in Accounting Principle

During the year ended June 30, 2015, CCSNH adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (an amendment of GASB Statement No. 27), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (an amendment of GASB Statement No. 68) (collectively, the new accounting standards). The changes made to the basic financial statements to comply with the new accounting standards have been reported as an adjustment as of the beginning of the year ended June 30, 2015. Because it was not practical for CCSNH to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to the pension plan as of June 30, 2014, the beginning balances of deferred inflows of resources and deferred outflows of resources related to pensions have not been reported. The impact of the adoption of the new accounting standards as of the beginning of the year ended June 30, 2015 was as follows:

Net pension liability as of the measurement date of June 30, 2013	$ 63,843,950
Contributions made in 2014 after the measurement date included in deferred outflows of resources	(5,035,405)
Cumulative effect of change in accounting principle	$ 58,808,545

3. 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, 2016 and 2015, CCSNH's uncollateralized uninsured cash and cash equivalents were approximately $8,680,000 and $4,100,000, respectively. Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits, and the combined total amounts are insured up to the first $500,000, $250,000 per financial institution.

4. Capital Assets

Capital asset activity for the year ended June 30, 2016 is summarized below:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	**$ 924,340**	**$ -**	**$ -**	**$ -**	**$ 924,340**
Construction-in-process	**12,404,071**	**7,119,810**	**-**	**(16,981,319)**	**2,542,562**
Total non-depreciable assets	**13,328,411**	**7,119,810**	**-**	**(16,981,319)**	**3,466,902**
Land improvements	**5,838,983**	**830,600**	**-**	**57,131**	**6,726,714**
Buildings and improvements	**165,153,141**	**974,372**	**-**	**16,924,188**	**183,051,701**
Equipment	**17,360,775**	**1,068,284**	**(588,292)**	**-**	**17,840,767**
Total depreciable assets	**188,352,899**	**2,873,256**	**(588,292)**	**16,981,319**	**207,619,182**
Accumulated depreciation	**(81,695,767)**	**(8,182,157)**	**506,942**	**-**	**(89,370,982)**
Capital assets, net	**$119,985,543**	**$ 1,810,909**	**$ (81,350)**	**$ -**	**$121,715,102**

Capital asset activity for the year ended June 30, 2015 is summarized below:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	$ 924,340	$ -	$ -	$ -	$ 924,340
Construction-in-process	9,080,561	8,844,576	-	(5,521,066)	12,404,071
Total non-depreciable assets	10,004,901	8,844,576	-	(5,521,066)	13,328,411
Land improvements	5,437,400	595,193	(193,610)	-	5,838,983
Buildings and improvements	159,375,191	256,884	-	5,521,066	165,153,141
Equipment	17,812,023	642,846	(1,094,094)	-	17,360,775
Total depreciable assets	182,624,614	1,494,923	(1,287,704)	5,521,066	188,352,899
Accumulated depreciation	(75,014,435)	(7,931,158)	1,249,826	-	(81,695,767)
Capital assets, net	$117,615,080	$ 2,408,341	$ (37,878)	$ -	$119,985,543

5. Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2016 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued salaries and benefits	**$ 10,336,733**	**$ 15,546**	**$ -**	**$ 10,352,279**	**$ 6,319,976**
Due to the State	**1,854,293**	**1,485,209**	**-**	**3,339,502**	**-**
Refundable advances	**899,610**	**(215,357)**	**-**	**684,253**	**-**
Net pension liability	**58,259,797**	**2,074,357**	**-**	**60,334,154**	**-**
Bonds payable	**18,774,928**	**-**	**(1,776,263)**	**16,998,665**	**1,818,111**
Other long-term liabilities	**1,952,609**	**1,879,724**	**(982,015)**	**2,850,318**	**1,023,614**
Long-term liabilities	**$ 92,077,970**	**$ 5,239,479**	**$ (2,758,278)**	**$ 94,559,171**	**$ 9,161,701**

During the year ended June 30, 2015, CCSNH received $1,854,293 from the State to fund a certain capital project. During the year ended June 30, 2016, CCSNH incurred $1,485,209 of additional costs related to the capital project. When the project is completed, the amount received from the State will be converted to a bond payable.

Changes in long-term liabilities during the year ended June 30, 2015 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued salaries and benefits	$ 10,209,852	$ 126,881	$ -	$ 10,336,733	$ 5,823,579
Due to the State	-	1,854,293	-	1,854,293	-
Refundable advances	938,464	-	(38,854)	899,610	-
Net pension liability	-	58,259,797	-	58,259,797	-
Bonds payable	21,166,741	-	(2,391,813)	18,774,928	1,776,287
Other long-term liabilities	406,763	2,750,000	(1,204,154)	1,952,609	945,819
Long-term liabilities	$ 32,721,820	$ 62,990,971	$ (3,634,821)	$ 92,077,970	$ 8,545,685

Other Long-Term Liabilities

Future minimum payments under other long-term liabilities, which include capital leases, a note payable to the State (as discussed in Note 1), and a note payable to U.S. Department of Agriculture (USDA) as of June 30, 2016 are as follows:

Year ending June 30,	Principal	Interest
2017	$ 1,023,614	$ 79,661
2018	116,035	72,158
2019	93,650	64,567
2021	67,462	59,851
2021	65,251	55,719
Thereafter	1,484,306	1,105,572

During 2016, RVCC entered into an agreement with USDA in the amount of $1,600,000 to finance the purchase a building in Lebanon, New Hampshire. The note payable is to be repaid over 40 years at a fixed interest rate of 3.625%. As of June 30, 2016, the balance due to USDA was $1,584,929.

The original cost basis of leased capital assets as of June 30, 2016 and 2015 was $224,734 and $154,700, respectively. Accumulated depreciation includes $94,571 and $61,880 as of June 30, 2016 and 2015 for the leased capital assets, respectively.

Bonds Payable

Bonds payable consisted of the following at June 30:

	2016	2015
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
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%.	**778,856**	1,008,811
2008 Series A General Obligation Bonds (original principal of $7,732,622) Serial bonds maturing through 2027 with annual principal payments from $309,305 to $463,960 and interest rates from 3.375% to 4.00%. During the year ended June 30, 2015, $2,165,134 of the principal balance was refunded early through the issuance of 2014 Series A General Obligation Refunding Bonds.	**927,915**	1,391,872
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%. During the year ended June 30, 2015, $395,748 of the principal balance was refunded early through the issuance of 2014 Series A General Obligation Refunding Bonds.	**257,007**	385,582
2009 Series A General Obligation Bonds (original principal of $5,000,000) Serial bonds maturing through 2029 with annual principal payments from $200,000 to $300,000 and interest rates from 4.00% to 5.50%.	**3,200,000**	3,500,000
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%.	**568,251**	696,872

	2016	2015
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%.	**4,920,000**	5,280,000
2013 Series B General Obligation Bonds (original principal of $2,000,000) Serial bonds maturing through 2033 with annual principal payments from $79,763 to $133,446 and interest rates from 4.00% to 4.68%.	**1,733,107**	1,866,550
2014 Series A General Obligation Refunding Bonds (original principal of $2,762,813) maturing through 2028 with annual principal payments beginning in 2018 ranging from $34,564 to $102,325 and interest rates from 1.50% to 5.00%.	**2,762,813**	2,762,813
	$ 16,998,665	$ 18,774,928

During the year ended June 30, 2015, CCSNH issued $2,762,813 in General Obligation Refunding Bonds with an average interest rate of 4.8% to advance refund $3,285,882 of outstanding 2005 Series A General Obligation Bonds, 2008 Series C General Obligation Bonds, and 2008 Series A General Obligation Bonds with an average interest rate of 4.5%. The difference between the reacquisition price and the net carrying amount of the old debt of approximately $523,000 was recorded as a deferred inflow of resources and will be recognized in the statement of revenues, expenses and changes in net position on an annual basis through the year 2028 using the effective-interest method. CCSNH completed the refunding to reduce its total debt service payments of the next 13 years by approximately $552,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $380,000.

Principal and interest payments on bonds payable for the next five years and in subsequent five-year periods are as follows at June 30, 2016:

Year ending June 30,	Principal	Interest	Total
2017	$ 1,818,111	$ 739,425	$ 2,557,536
2018	1,942,020	658,027	2,600,047
2019	1,941,714	565,145	2,506,859
2021	1,710,355	475,290	2,185,645
2021	1,128,416	407,879	1,536,295
2022 - 2026	5,086,392	1,273,169	6,359,561
2027 - 2031	2,731,962	338,634	3,070,596
2032 - 2036	639,695	23,978	663,673
	$ 16,998,665	$ 4,481,547	$ 21,480,212

Interest expense related to the bonds for the years ended June 30, 2016 and 2015 was $825,200 and $923,319, respectively.

6. Defined Benefit Pension Plan

CCSNH participates in the NHRS, which, as governed by Revised Statutes Annotated (RSA) 100-A, is a public employee retirement system that administers a cost-sharing, multiple-employer pension plan (Pension Plan). 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 the NHRS. The provisions of the Pension Plan can be amended only by legislative action taken by the New Hampshire State Legislature, pursuant to the authority granted it under the New Hampshire State Constitution.

The NHRS pension plan and trust was established in 1967 by 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. Although benefits are funded by member contributions, employer contributions and trust fund assets, NHRS computes benefits on the basis of members' Average Final Compensation (AFC) and years of creditable service. Unlike a defined contribution plan, NHRS benefits provided to members are not dependent upon the amount of contributions paid into the NHRS or the investment return on trust assets.

To qualify for a normal service retirement, members must have attained 60 years of age. However, a member who commenced service on or after July 1, 2011 shall not receive a service retirement allowance until attaining 65 years of age. The member may receive a reduced allowance after age 60 if the member has at least 30 years of creditable service. The allowance shall be reduced based on a formula, for each month by which the date on which benefits commence precedes the month after which the member attains 65 years of age, by ¼ of one percent.

For members retiring prior to the age of 65, the yearly pension amount is 1.67% of AFC multiplied by years of creditable service. For members retiring at 65 or older, the yearly pension amount is 1.52% of AFC multiplied by years of creditable service. For members vested prior to January 1, 2012, AFC is based on the highest three years of creditable service. For members not vested prior to January 1, 2012, or hired on or after July 1, 2011, AFC is based on a member's highest five years of creditable service. At age 65, the yearly pension amount is recalculated with an appropriate graduated reduction based on years and months of creditable service that the member has at the time of retirement.

Contributions Required and Made

The Pension Plan is financed by contributions from the members, CCSNH, and investment earnings. Contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the Pension Plan's actuary. By statute, the Board of Trustees of NHRS is responsible for the certification of employer contribution rates, which are determined through the preparation of biennial valuations of NHRS's assets by NHRS's actuary using the entry-age normal cost method.

Commencing July 1, 2011, all Group I employees are responsible to accrue contributions at 7.00% of covered payroll, while Group II (Police) employees accrue contributions at a rate of 11.55% of covered payroll.

In terms of the employer share of contributions made to the Pension Plan, the pension contribution rate for Group I employees was 10.51% of covered payroll for the two-year period ending June 30, 2015. Effective July 1, 2015, the employer share was increased to 12.50% of covered payroll and will remain fixed through June 30, 2017.

For Group II employees, effective July 1, 2015, the contribution rate increased from 21.45% to 22.54% of covered payroll and will remain fixed through June 30, 2017.

For the years ended June 30, 2016 and 2015, contributions to the Pension Plan were $5,090,600 and $5,220,326, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016 and 2015, respectively, CCSNH reported a liability of $60,334,154 and $58,259,797 for its proportionate share of the net pension liability. The 2016 net pension liability is based on an actuarial valuation performed as of June 30, 2015 and a measurement date of June 30, 2016. The net pension liability was rolled forward from June 30, 2015 to June 30, 2016. CCSNH's proportion of the net pension liability was based on a projection of CCSNH's long-term share of contributions to the Pension Plan relative to the projected contributions of all participating employers, as actuarially-determined. At June 30, 2016 and 2015, CCSNH's proportion of the net pension liability was 1.5230% and 1.5521%, respectively.

During the years ended June 30, 2016 and 2015, CCSNH recognized pension expense of $4,197,027 and $4,477,162, respectively.

At June 30, 2016, CCSNH reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 3,940,397
Changes in proportion and differences between employer contributions and share of contributions	1,901,421	-
Contributions subsequent to the measurement date	5,090,600	-
Balances as of June 30, 2016	$ 6,992,021	$ 3,940,397

At June 30, 2015, CCSNH reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ -	$ 7,454,390
Changes in proportion and differences between employer contributions and share of contributions	2,428,480	-
Contributions subsequent to the measurement date	5,220,326	-
Balances as of June 30, 2015	$ 7,648,806	$ 7,454,390

Amounts reported as deferred outflows related to pensions resulting from CCSNH contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a decrease (increase) in pension expense as follows:

Year ending June 30,	
2017	$ 863,006
2018	863,006
2019	863,006
2020	(758,825)
2021	208,783
	$ 2,038,976

The total pension liability was determined by a roll-forward of the actuarial valuation as of June 30, 2015 using the following actuarial assumptions, which, accordingly, apply to 2016 measurements:

Inflation	3.0%
Salary increases	3.75 - 3.8% average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15% for men and 17% for women for mortality improvements.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the most recent actuarial experience study, which was for the period of July 1, 2005 to June 30, 2010.

Long-Term Rates of Return

The long-term expected rate of return on pension plan investments was selected from a best-estimate range determined using the building-block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation.

The following table presents target allocations and the geometric real rates of return for 2014 and 2015:

Asset Class	Target Allocation 2014	Target Allocation 2015	Weighted Average Long-Term Expected Real Rate of Return 2014	Weighted Average Long-Term Expected Real Rate of Return 2015
Large cap equities	22.50 %	22.50 %	3.25 %	3.00 %
Small/mid cap equities	7.50	7.50	3.25	4.00
Total domestic equity	30.00	30.00		
International equities (unhedged)	13.00	13.00	4.25	4.00
Emerging international equities	7.00	7.00	6.50	6.00
Total international equities	20.00	20.00		
Core bonds	18.00	4.50	(0.47)	(0.70)
Short duration	-	2.50	-	(1.00)
Global multi-sector fixed income	-	11.00	-	0.28
Unconstrained fixed income	-	7.00	-	0.16
High-yield bonds	1.50	-	1.50	-
Global bonds (unhedged)	5.00	-	(1.75)	-
Emerging market debt (external)	0.50	-	2.00	-
Total fixed income	25.00	25.00		
Private equity	5.00	5.00	5.75	5.50
Private debt	5.00	5.00	5.00	4.50
Real estate	10.00	10.00	3.25	3.50
Opportunistic	5.00	5.00	2.50	2.75
Total alternative investments	25.00	25.00		
Total	100.00 %	100.00 %		

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially-determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the pension plan's actuarial funding policy and as required by RSA 100-A:16. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following presents CCSNH's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what CCSNH's proportionate share of the pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
CCSNH's proportionate share of the net pension liability	$ 79,421,945	$ 60,334,154	$ 44,061,522

Pension Plan Fiduciary Net Position

Detailed information about the Pension Plan's fiduciary net position is available in the separately-issued NHRS annual report available from the NHRS website at https://www.nhrs.org.

7. Other Post-Employment Benefits

Pursuant to RSA 100-A:52, RSA 100-A:52-a and RSA 100-A:52-b, NHRS administers four defined benefit, post-employment, 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, 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, 2016, 2015 and 2014. CCSNH's contributions to NHRS for the OPEB Plans for the years ended June 30, 2016, 2015 and 2014 were $738,178, $788,991 and $767,909, respectively, which were equal to its annual required contributions.

8. Contingencies and Commitments

Operating Lease Obligations

CCSNH leases certain equipment and real estate under leases with terms exceeding one year. Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2016 are as follows:

Year ending June 30,	
2017	$ 835,526
2018	620,852
2019	337,880
2021	203,600
2019	186,198
	$ 2,184,056

Total expense related to operating leases (with initial or remaining lease terms in excess of one year) amounted to $901,837 and $789,594 for the years ended June 30, 2016 and 2015, respectively. CCSNH signed additional operating leases after June 30, 2016 with total commitments of approximately $340,000 with various expiration dates ranging through the year ending June 30, 2021.

Union Contracts

Substantially all of CCSNH's employees are covered by a collective bargaining agreement, except for those executive officers and confidential personnel, and are currently represented by the State Employees' Association of New Hampshire, Inc. (SEA), which is part of the Service Employees International Union Local 1984, CTW, CLC (SEIU). The current collective bargaining agreement for full-time and part-time staff has a period of December 14, 2015 through June 30, 2017. The collective bargaining agreement for full-time faculty expired on June 30, 2015, however, the provisions of the collective bargaining agreement remain in place due to an evergreen provision.

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

CCSNH, SEA and SEIU are currently engaged in contract negotiations with the full-time faculty bargaining unit and the adjunct faculty bargaining unit.

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, 2016:

	Expended through June 30, 2016	Committed Future Costs	Total Committed Costs of Project
NHTI	$ 463,582	$ 176,415	$ 639,997
MCC	538,149	172,862	711,011
RVCC	1,540,831	576,702	2,117,533
Total	$ 2,542,562	$ 925,979	$ 3,468,541

At June 30, 2016 and 2015, invoices related to construction projects of $295,017 and $1,185,028, respectively, were included in accounts payable.

9. Investments

Fair Value Measurement

GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a fair value hierarchy for investments that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date. The types of assets carried at Level 1 fair value generally are securities listed in active markets. The Foundation has valued its investments, listed on national exchanges, at the last sales price as of the day of the valuation.
- Level 2 – Inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets which are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the asset of liability.
- Level 3 – Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include discounted cash flow models and similar techniques.

The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with those investments.

CCSNH

CCSNH holds an investment in a short-term bond mutual fund. The fund targets a dollar-weighted average maturity of 0.75 years or less and invests in U.S dollar-denominated money market and high-quality, investment-grade debt securities, primarily in the financial service industry. The fund's investments in fixed-rate securities have a maximum maturity of two years and investments in floating-rate securities have a maximum maturity of three years.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, CCSNH will not be able to recover the value of the investment or collateral securities that are in possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of CCSNH, and are held by either the counterparty or the counterparty's trust department or agency, but not in CCSNH's name.

CCSNH does not have a written investment policy. As of June 30, 2016 and 2015, CCSNH's investments included in the statements of net position were exposed to custodial credit risk. The investments were held by the counterparty, not in the name of CCSNH.

Investments held by CCSNH were comprised of the following at June 30, 2016 and 2015:

	2016	**Fair Value Level**	2015	Fair Value Level
Fixed income funds	**$ 8,547,806**	**2**	$ 10,024,989	2

Community Colleges of New Hampshire Foundation

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

Investments held by the Foundation were comprised of the following at June 30, 2016:

	Level 1	Level 2	Level 3
Equities	**$ 10,694,664**	**$ -**	**$ -**
Fixed-income	**1,671,093**	**1,513,162**	**-**
Real estate - public real estate investment trusts	**1,246,034**	**-**	**-**
Tangible assets - commodities	**491,432**	**-**	**-**
Total	**$ 14,103,223**	**$ 1,513,162**	**-**

Investments held by the Foundation were comprised of the following at June 30, 2015:

	Level 1	Level 2	Level 3
Equities	$ 9,702,284	$ -	$ -
Fixed-income	1,981,025	1,095,878	-
Real estate - public real estate investment trusts	938,572	-	-
Tangible assets - commodities	462,738	-	-
Total	$ 13,084,619	$ 1,095,878	$ -

The weighted average maturity of the fixed-income securities is 11.10 years as of June 30, 2016. As of June 30, 2016, the Foundation's fixed-income securities were rated as follows:

Rating	Rating Organization	Fair Value
Aaa	Moody's	$ 609,517
Aa	Moody's	72,070
A	Moody's	215,024
Other	Moody's	183,878
		$ 1,080,489

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

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Foundation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

10. Risk Management

CCSNH is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and natural disaster for which CCSNH carried insurance.

CCSNH has insurance coverage that includes automotive, crime, employment practices, fire, general liability, pollution, theft, and workers' compensation. There have been no significant changes in insurance coverage during the past fiscal year. Settlements did not exceeds coverage amounts during fiscal years 2016 and 2015.

11. Subsequent Events

GASB Statement No. 75

GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*, was issued in June 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pension (other post-employment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing accounting and financial standards reported for all OPEB with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement will be effective for CCSNH beginning with the year ending June 30, 2018. Management has not currently determined what impact the implementation of this Statement will have on the financial statements.

NHRS

On July 1, 2016, the Board of Trustees of NHRS announced a change to adopt revised actuarial assumptions based on the results of a five-year experience study conducted by the retirement systems consulting actuary. Included in these changes will be the lowering of the assumed rate of return from 7.75% to 7.25%. This rate will be used in September to set employer contribution rates for fiscal years 2018 and 2019. This information will also be used to determine the June 30, 2017 net pension liability.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of Funding Progress (Unaudited)

June 30, 2016

Schedule of Collective Net Pension Liability *

	June 30, 2015	June 30, 2014	June 30, 2013
Employer proportion of the collective net pension liability	1.5230 %	1.5521 %	1.4834 %
Employer's proportionate share of the collective net pension liability	$ 60,334,154	$ 58,259,797	$ 63,843,950
Employer's covered-employee payroll	$ 38,602,845	$ 47,442,000	$ 43,413,000
Employer's proportionate share of the collective net pension liability as a percentage of the employer's covered employee-payroll	156 %	123 %	147 %
Plan fiduciary net position as a percentage of the total pension liability	65.47 %	66.32 %	59.81 %

** Schedule is intended to show 10 years. Additional years will be added as they become available.*

Schedule of Employer Contributions *

	June 30 2016	2015	2014	2013
Required employer contribution	$ 5,090,600	$ 5,109,493	$ 4,923,636	$ 3,688,122
Actual employer contribution	$ 5,090,600	$ 5,109,493	$ 4,923,636	$ 3,688,122
Excess/(deficiency) of employer contributions	$ -	$ -	$ -	$ -
Employer's covered-employee payroll	$39,462,000	$38,602,845	$47,442,000	$43,413,000
Employer contribution as a percentage of the employer's covered-employee payroll	12.90 %	13.24 %	10.38 %	8.50 %

** Schedule is intended to show 10 years. Additional years will be added as they become available.*

Schedule of Funding Progress (Unaudited) (Concluded)

June 30, 2016

Notes to the Required Supplementary Information

Valuation date:	June 30, 2009 for determining the Fiscal Year 2013 contributions June 30, 2011 for determining the Fiscal Year 2014 contributions June 30, 2013 for determining the Fiscal Year 2015 contributions June 30, 2014 for determining the Net Pension Liability
Notes:	The roll-forward of total pension liability from June 30, 2014 to June 30, 2015 reflects expected service cost and interest reduced by actual benefit payments and administrative expenses. Actuarial determined contribution rates for the 2012-2013 biennium were determined based on the June 30, 2009 actuarial valuation. Actuarial determined contribution rates for the 2014-2015 biennium were determined based on the June 30, 2011 actuarial valuation. Actuarial determined contribution rates for the 2015-2016 biennium were determined based on the June 30, 2013 actuarial valuation.

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

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

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely-presented component unit of the Community College System of New Hampshire (a Component Unit of the State of New Hampshire) (CCSNH), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise CCSNH's basic financial statements, and have issued our report thereon dated December 7, 2016. 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 compliance 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.

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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we not did identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs under finding number 2016-001, that we considered to be a significant deficiency.

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 Response to Finding

CCSNH’s response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. CCSNH’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 7, 2016

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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 THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Community College System of New Hampshire's (CCSNH) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of CCSNH's major federal programs for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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 Uniform Guidance. These functions were performed by Heartland ECSI (ECSI). ECSI’s compliance with the billing, collections and due-diligence compliance requirements was examined by other independent accountants, as described in the following paragraph. The report of those accountants has been furnished to us, and our opinion, expressed herein, insofar as it relates to CCSNH's compliance with those requirements, is based solely on the report of the other independent accountants.

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

Based on our review of the service organization's independent accountants' report, we have determined that all of the compliance requirements included in the Uniform Guidance that are applicable to the major programs in which CCSNH participates are addressed in either our audit or the report of the service organization's accountants. Further, 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 one or more of CCSNH's major federal programs' compliance with the requirements described in the first paragraph of this report.

We believe that our audit and the report of the other independent accountants 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 the other independent accountants, CCSNH complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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 the Uniform Guidance, 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 the 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 Uniform Guidance. Internal control over these compliance requirements was 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 upon 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditure of Federal Awards Required by the Uniform Guidance

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, 2016, and the related notes to the financial statements, which collectively comprise CCSNH's basic financial statements. We issued our report thereon dated December 7, 2016, which contained an unmodified opinion 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 the Uniform Guidance 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
December 7, 2016

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, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
United States Department of Education			
Student Financial Aid Cluster - Direct			
Federal Direct Student Loans	84.268		$ 44,882,789
Federal Perkins Loan Program	84.038		1,208,844
Federal Work-Study Program	84.033		266,870
Federal Pell Grant Program	84.063		18,286,865
Federal Supplemental Educational Opportunity Grant Program	84.007		374,393
Total Student Financial Aid Cluster			65,019,761
New Hampshire Department of Education - Passed-Through			
Career and Technical Education - Basic Grants to States			
8/16/2014 - 8/15/2015	84.048	55039	76,503
8/16/2015 - 8/15/2016	84.048	65039	919,229
Total CFDA number 84.048			995,732
Mathematics and Science Partnerships	84.366	S366B140030	99,487
Total United States Department of Education			66,114,980
United States Department of Energy			
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		10,213
United States Department of Housing and Urban Development-Passed-Through			
City of Lebanon			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	15-094-CDED	475,000
Japan U.S. Friendship Commission - Passed Through			
Northern Border Regional Commission			
Northern Border Regional Development	90.601	NBRC-15-G-NH-0005	145,476

Schedule of Expenditures of Federal Awards (Continued)

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
United States Department of Labor			
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282		3,307,192
WIA Dislocated Worker Formula Grants	17.278		74,664
H-1B Job Training Grants	17.268		2,778,285
Total United States Department of Labor			6,160,141
Department of Agriculture			
Community Facilities Loans and Grants Cluster	10.766		1,600,000
Research and Development Cluster			
United States Department of Health and Human Services			
Trustees of Dartmouth College - Passed-Through			
Biomedical Research and Research Training	93.859	8P20GM103506	153,984
National Science Foundation			
Direct			
Engineering Grants	47.041		19,653
Education and Human Resources	47.076		19,977
University of New Hampshire - Passed-Through			
Office of Experimental Program to Stimulate Competitive Research	47.081	EPS1101245	119,512
Office of International Science and Engineering	47.079	EPS1101245	26,632
Total National Science Foundation			185,774
Total Research and Development Cluster			339,758

Schedule of Expenditures of Federal Awards (Concluded)

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
United States Department of Health and Human Services - Passed Through			
New Hampshire Department of Health and Human Services			
Child Care and Development Block Grant	93.575	G1401NHCCDF	149,950
Total Expenditures of Federal Awards			$ 74,995,518

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

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) for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the audit requirements of Title 2 U.S *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions*, for federal agreements entered into before December 26, 2014, and the Uniform Guidance for federal agreements entered into on or after December 26, 2014, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

CCSNH has not elected to use the 10% de minimis indirect cost rate.

3. Federal Direct Student Loans

During the year ended June 30, 2016, 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	$ 20,841,072
Federal unsubsidized loans	23,117,546
Federal Parents' loans	924,171
	$ 44,882,789

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, 2016:

Perkins cash balance at June 30, 2016	$	212,711
Perkins loans receivable at June 30, 2015	$	1,123,255
New loans made in fiscal year 2016		60,832
Administrative cost allowance in fiscal year 2016		24,757
Perkins expended as presented in the Schedule		1,208,844
Perkins loans collected in fiscal year 2016		94,167
Perkins loans canceled in fiscal year 2016		5,137
Administrative cost allowance in fiscal year 2016		24,757
Perkins loans receivable at June 30, 2016	$	1,084,783

5. Federal Work-Study Program

Federal Work-Study Program award expenditures in 2016 consist of the following:

Current-year award	$	318,032
Carry-forward from fiscal year 2014-2015		18,138
Carry-forward to fiscal year 2016-2017		(16,234)
Transfer to Federal Supplemental Educational Opportunity Grant Program		(46,680)
Unexpended funds		(6,386)
Total expenditures in fiscal year 2016	$	266,870

6. Federal Supplemental Educational Opportunity Grant Program

Federal Supplemental Educational Opportunity Grant Program award expenditures in 2016 consist of the following:

Current-year award	$	322,347
Carry-forward from fiscal year 2014-2015		6,757
Carry-forward to fiscal year 2016-2017		(1,391)
Transfer from Federal Work-Study Program		46,680
Total award expenditures in fiscal year 2016	$	374,393

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

Section I. Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?	_____	Yes	X	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	Yes	X	None reported
Type of auditor's report issued on compliance for major programs:		Unmodified		
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	_____	Yes	X	No

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.268, 84.038, 84.033, 84.063, 84.007	U.S. Department of Education Student Financial Aid Cluster
14.228	U.S. Department Housing and Urban Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
10.766	U.S. Department of Agriculture Community Facilities Loans and Grants Cluster

Dollar threshold used to distinguish between Type A and Type B programs:		$750,000		
Auditee qualified as low-risk auditee?	_____	Yes	X	No

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

Finding Number 2016-001

Criteria

Management is responsible for designing, implementing and maintaining effective internal controls over payroll.

Condition Found and Context

We noted during our payroll testing that the Payroll Manager has full access to the ADP Payroll software, which includes adding and removing employees, and changing rates and deductions of existing employees. The Payroll Manager is also the primary control over the payroll changes through her review of the payroll change report each pay period.

Cause and Effect

CCSNH did not consider segregation of duties when assigning roles and responsibilities surrounding the payroll cycle. All changes made to the ADP Payroll software are monitored by one employee who is also the individual that makes all of the changes to the payroll software. Although CCSNH performs compensating controls related to the overall review of the monthly payroll registers, there is an increased risk that an employee is not being paid the proper rate or does not have the proper withholdings and deductions. In addition, there is a risk that a fictitious employee could be used to perpetrate fraudulent activity.

Recommendation

We recommend that the payroll change report be reviewed by an individual without access to the ADP Payroll software to help ensure that all changes are properly authorized. We also recommend that this review be documented and retained with each monthly payroll reconciliation.

Views of a Responsible Official and Corrective Action Plan

Management agrees with the significant deficiency and the recommendations. See Corrective Action Plan on page 52.

Responsible parties: John Harrington, Controller and Ann-Marie Hartshorn, Internal Auditor

Section III. Findings and Questioned Costs for Federal Awards

NONE

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2016

Finding Number 2015-001

Condition Found

While we noted improvements over prior years, we continued to identify instances in which trial balance accounts had not been reconciled throughout the year and, therefore, the determination of the correct account balance resulted in a significant amount of work by CCSNH's accounting department. We also noted a lack of documented review of the ADP payroll reconciliations. We received numerous entries as of and for the year ended June 30, 2015 that were provided by management during our fieldwork, some of which were received in December. In addition, we identified several significant audit adjustments identified in Attachment 1 that were required to produce financial statements that are in accordance with U.S. generally accepted accounting principles. There were approximately 40 journal entries posted during the course of our audit procedures. These conditions were also noted in the audits for the years ended June 30, 2014, 2013 and 2012.

Recommendation

We recommend that, as part of the ongoing process to correct issues caused by the Banner Revitalization project, management determine the cause of the Registrar errors and begin a regular reconciliation process in which Registrar reports are reconciled to actual student billing recorded in the general ledger for each semester.

We recommend CCSNH continue the efforts to establish a process by which an account reconciliation matrix is used to document the procedures to be followed on a monthly, quarterly, or annual basis to ensure that all balance sheet accounts are reconciled and reviewed periodically. A more routine account reconciliation process will help improve efficiency of the financial reporting close process in the future and minimize the need for significant audit entries. If the process cannot be completed with the current staffing levels, we recommend that CCSNH consider engaging a consultant to assist with the development and implementation of a process to perform the required reconciliations on a regular basis.

Action Taken

CCSNH developed procedures to reconcile all Accounts Receivable accounts with the Banner Student Accounts Receivable database. This reconciliation is done monthly. CCSNH has also implemented a process to review tuition reasonableness periodically. This review is done through utilizing reports from the registrars for the credits sold and reconciling to the activity in the general ledger. This was done for both the Fall 2015 and Spring 2016 semesters. CCSNH has implemented a quarterly fixed asset reconciliation process to ensure that assets are properly capitalized, transferred into service and depreciation. CCSNH has implemented a process to ensure that clearing accounts are reconciled timing. Details surrounding these clearing accounts are provided to the Business Managers to properly reconcile the amounts.

Status Corrected

Finding Number 2015-002

Condition Found

CCSNH completed an Information Technology (IT) Security Risk Assessment (Assessment) to identify gaps in security practices and establish a baseline for future audit and operational planning, including future IT Assessment efforts. The Assessment included all seven colleges that comprise CCSNH, as well as the Chancellor's Office. The Assessment addressed IT security risk areas that are most prevalent to higher education institutions and key control areas from the ISO 27002 information security standards. The Assessment identified 38 areas of risk (10 ranked as high risk, 15 ranked as medium risk, and 13 ranked as low risk). The majority of the areas of the risk could have an impact on the design, implementation and maintenance of internal control over financial reporting. CCSNH has a complex IT system that is used across all seven colleges and the Chancellor's Office. CCSNH did not have a process in place for monitoring and managing IT security risk across the organization. As a result, CCSNH is exposed to a variety of IT security risks that could have a detrimental impact on its financial reporting.

Recommendation

We recommended that management and the Audit Committee should work collaboratively to review, prioritize, and implement the recommendations described in the Assessment report. The individual colleges should also have responsibility for understanding recommendations and working with the Chancellor's Office to develop plans to remediate risks and adopt changes associated with addressing common risk areas. The Chancellor's Office should be available to support the individual colleges in navigating changes and improving their security practices. To facilitate effective change, it may be necessary to allocate additional resources towards strengthening the level of IT security support services that are available to colleges.

Action Taken

CCSNH agreed with the risks and recommendations in the IT Security Risk Assessment Report and worked with Chancellor's Office IT, the Technical Users Group (College IT Directors) and the Audit Committee to review, prioritize, and implement the changes. Targeted improvements were made with regard to the recommendations in conjunction with improvements made in finding 2015-001.

Status Corrected

COMMUNITY COLLEGE
system of New Hampshire

<u>Management response and corrective action plan</u>

It was noted during payroll testing that the Payroll Manager has full access to the ADP Payroll software, which includes adding and removing employees and changing rates and the deductions of existing employees. The Payroll Manager is also the primary control over the payroll changes through her review of the payroll change report each pay period.

Since all changes made to the ADP Payroll software are monitored by one employee who is also the individual that makes all of the changes to the payroll software and, in spite of compensating controls related to the overall review of the monthly payroll registers, there is risk that an employee is not being paid their proper rate or does not have the proper withholdings and deductions.

It is recommended that the payroll change report be reviewed by an individual without access to the ADP Payroll software to ensure that all changes are properly authorized. We also recommend that this review be documented and retained with each monthly payroll reconciliation.

CCSNH management agrees with the audit comment that the individual(s) who have control over changing employee payroll information should not also have the responsibility for reviewing said changes. Therefore, CCSNH will implement a procedure whereby the CCSNH internal auditor will independently review the bi-weekly payroll change reports and document said review. The internal auditor will have inquiry capability only into the ADP software. The reviews will be noted by the internal auditor via signature and maintained with payroll records.

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