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

Dear Board Members:

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Community College System of New Hampshire (a Component Unit of the State of New Hampshire) (CCSNH) as of and for the year ended June 30, 2017, and have issued our report thereon dated November 28, 2017.

As stated in our engagement letter dated June 7, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We did not audit the financial statements of the discretely-presented component unit, Community Colleges of New Hampshire Foundation (the Foundation), as of and for the year ended June 30, 2017. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditor.

Professional standards require that we provide you with information about our responsibilities under U.S. generally accepted auditing standards, *Government Auditing Standards* and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our communications dated June 14, 2017. Our audit of the financial statements does not relieve you or management of your responsibilities.

Professional standards also require that we communicate to you the following information related to our audit.

PART I – REQUIRED COMMUNICATIONS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by CCSNH are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by CCSNH during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- The estimated useful lives of capital assets used in the calculation of depreciation expense, which is based on the perceived life of the related capital assets.
- The estimates used in the calculation of the net pension liability, deferred inflows of resources and deferred outflows of resources related to the pension plan, which are based on actuarial information provided by the New Hampshire Retirement System and audited by KPMG.

We have evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of the allowance for loan losses related to the note receivable on the Stratham Property in note 1.
- The disclosure in footnote 1 regarding the new accounting pronouncement, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes new accounting and financial reporting requirements for governmental entities whose employees are provided with other post-employment benefits (OPEB). In general, the provisions relating to reporting OPEB liabilities are effective for fiscal year 2018.
- The disclosure of the cost-sharing multiple-employer defined benefit pension plan required by the GASB Statement No. 68 in Note 5.
- The disclosure of the prior period adjustment in Note 10.

The financial statements are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

The following misstatement was identified as a result of a review of Unique Endowment Allocation Program (Unique) funds transferred from the Foundation, as requested by the System, and was corrected by management:

- To record a prior period adjustment to increase restricted nonexpendable net position and investments by $12,199,217 in order to bring Unique funds onto the books of the System. During 2017 when management had the Unique funds returned in order to manage them internally, it was noted that the original agreement was an agency agreement between CCSNH and the Foundation. Therefore an asset should have remained on the general ledger of CCSNH, and no net assets should have been reflected on that of the Foundation. Investment income and contributions for 2016 were also reclassified from the Foundation to CCSNH in the statement of revenues, expenses and changes in net position resulting in an addition to the increase in net position of $984,674 CCSNH.

We noted two adjustments that management determined were immaterial to the financial statements taken as a whole. The attached schedule summarizes these uncorrected adjustments.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 28, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to CCSNH's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

We applied certain limited procedures to the Management's Discussion and Analysis and the supplementary information related to the System's retirement plans, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We have been engaged to report on the Schedule of Activities and the Schedule of Expenditures of Federal Awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, we make certain inquiries of management and evaluate the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles or Uniform Guidance, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. Our procedures include comparing and reconciling the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

INTERNAL CONTROL MATTER

In planning and performing our audit of the financial statements of the business-type activities and the aggregate discretely-presented component unit of CCSNH as of and for the year ended June 30, 2017, in accordance with U.S. generally accepted auditing standards, we considered CCSNH’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCSNH’s internal control. Accordingly, we do not express an opinion on the effectiveness of CCSNH’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and 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 have not been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of CCSNH’s financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control to be a significant deficiency:

Payroll System

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.

As a result, all changes made to the ADP Payroll software are monitored by one employee 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.

We recommend that the payroll change report be reviewed by an individual without access to the ADP Payroll software, and that the report to be reviewed not be provided by the Payroll Manager as is current practice, to help ensure that all changes are properly authorized. We also recommend that this review be documented and retained with each monthly payroll reconciliation.

RECENT ACCOUNTING PRONOUNCEMENTS

Fiduciary Activities

In January 2017, GASB Statement No. 84, *Fiduciary Activities* (GASB No. 84), was issued to provide guidance on identifying fiduciary activities for accounting and financial reporting purposes and how those should be reported. The focus will be on who controls the assets and who the beneficiaries are in the relationship. The statement describes 4 fiduciary funds that should be reported, if applicable:

- Pension trust fund,
- Investment trust fund,
- Private purpose trust funds, and
- Custodial funds (if held for more than 3 months).

The requirements of GASB No. 84 are effective for financial statement periods beginning after June 15, 2018.

Omnibus 2017

In March 2017, GASB Statement No. 85, *Omnibus 2017* (GASB No. 85), was issued to address issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). Specific to MCCS, under GASB No. 85:

- Payroll measures included in the financial statements required supplementary information should be covered payroll (payroll on which contributions are based) otherwise, total payroll for employees covered by the plan should be included.
- Employer contributions made to cover amounts which the Plan document specifies should be the responsibility to contribute, these should be reported as employee contributions.

The requirements of GASB No. 85 are effective for financial statement periods beginning after June 15, 2017.

Leases

In June 2017, GASB Statement No. 87, *Leases* (GASB No. 87), was issued to improve accounting and financial reporting for leases by governments. GASB No. 87 requires recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under GASB No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset. The requirements of GASB No. 87 are effective for financial statement periods beginning after December 15, 2019.

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

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

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
November 28, 2017