

# University System of New Hampshire

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November 7, 2017

His Excellency, Governor Christopher T. Sununu  
and the Honorable Council  
State House  
Concord, New Hampshire 03301

Your Excellency and Members of the Council:

Pursuant to RSA 187-A:22, enclosed please find the Annual Report for the University System of New Hampshire for fiscal year ended June 30, 2017. On page 23 of the report you will find the Independent Auditor's Report reflecting the unqualified or "clean opinion" issued by KPMG, our external independent auditors. The report was presented to and accepted by the University System's Board of Trustees on October 20, 2017.

In addition, also attached pursuant to RSA 187-A:25-a is information provided to the USNH Audit Committee by KPMG, its external auditors.

Please feel free to contact me with any questions on the report.

Respectfully,



Catherine A. Provencher  
Vice Chancellor for Financial Affairs and Treasurer

Enclosures

A scenic view of a city skyline reflected in a body of water under a clear blue sky. The skyline includes several tall buildings, a prominent tower, and a clock tower. The water in the foreground is calm, showing clear reflections of the buildings and the sky. The overall atmosphere is bright and clear, suggesting a sunny day.

# University System *of* New Hampshire

## The Pipeline to New Hampshire's Future

2017  
Annual Report



# University System of New Hampshire

The University System of New Hampshire (USNH) includes the University of New Hampshire (UNH), with campuses in Durham, Manchester and Concord, Plymouth State University (PSU), Keene State College (KSC) and Granite State College (GSC). KSC, PSU and UNH-Durham are the three residential campuses of USNH. The system enrolls 33,000 students and is committed to providing access to affordable, high-quality education, and creating a talented workforce to serve the state's businesses and communities. A 29-member board of trustees is responsible for overseeing the system. The chancellor is the chief executive and academic officer of USNH, and is responsible for developing, recommending and implementing the board's policies and decisions.





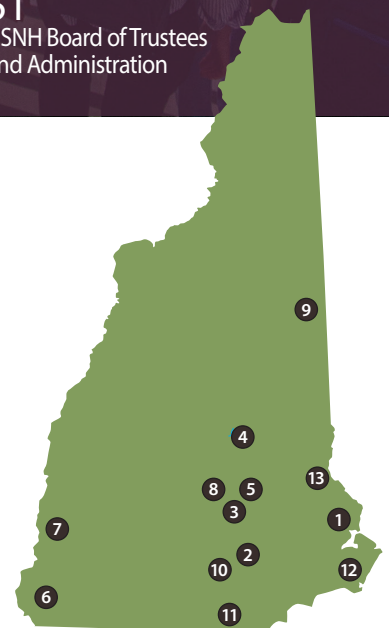


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## University System of New Hampshire

- |  |                                       |
|--|---------------------------------------|
| 1. University of New Hampshire, Durham                   | 7. Granite State College, Claremont   |
| 2. University of New Hampshire, Manchester               | 8. Granite State College, Concord     |
| 3. University of New Hampshire<br>School of Law, Concord | 9. Granite State College, Conway      |
| 4. Plymouth State University                             | 10. Granite State College, Manchester |
| 5. Plymouth State University, Concord                    | 11. Granite State College, Nashua     |
| 6. Keene State College                                   | 12. Granite State College, Portsmouth |
|  | 13. Granite State College, Rochester  |



The 2017 Annual Report is a publication of the University System of New Hampshire. Prior year University System annual reports are available online at [www.usnh.edu/about/usnh-publications](http://www.usnh.edu/about/usnh-publications). University System of New Hampshire, 5 Chenell Drive, Suite 301, Concord, NH 03301 603-862-1800.



## The pipeline to New Hampshire's future.

Over the past year, the University System of New Hampshire has been working with the state's business community to focus on solving New Hampshire's workforce dilemma. We know that business leaders across New Hampshire are increasingly concerned about a growing shortage of highly-skilled and educated workers, and the consequences it will have on our state's economy.

In our outreach efforts to support the state's businesses, the University System of New Hampshire has been meeting with leaders of influential and innovative companies, including Lonza, Medtronic, Fidelity Investments and Albany International, to learn about their workforce needs. The overwhelming feedback from these businesses is that our state must increase its efforts to develop a highly-skilled workforce that matches the unique needs and opportunities in the state's economy.

As a public institution, USNH — comprising the University of New Hampshire, Keene State College, Plymouth State University and Granite State College — honors its core mission to provide accessible and affordable higher education to develop the workforce New Hampshire relies on to remain competitive. With more than 33,000 students, USNH awards 59 percent of the state's bachelor's degrees in engineering and science. We have the highest bachelor's degree completion rate in the Northeast for a public, four-year system and the third highest in the country. We are proud to be one of the most fiscally efficient public systems in New England, with lower administrative overhead cost per student than our competitors.

USNH is dedicated to helping New Hampshire companies flourish. Each year, our outreach programs provide valuable, one-on-one assistance to more than 5,000 businesses and entrepreneurs. The state's success relies on its ability to help existing businesses thrive and to attract new companies by supplying them with the outstanding talent they need to compete in a modern economy.

Working to address New Hampshire's workforce needs is a USNH priority. There are no magic solutions to our dilemma. It will require further investment, as well as continued innovation and expanded partnerships. We look forward to continuing our partnership with the state's business community and elected leaders to address these challenges.



**Todd Leach**  
Chancellor

### 2017 Chancellor's Letter



# Report from the University System of New Hampshire



UNH is a land- sea-and space-grant and community engaged public research university, enrolling more than 14,500 undergraduate and 3,500 graduate students. Recognized as a rising star among research universities, UNH retains the atmosphere of a New England liberal arts college with a faculty dedicated to undergraduate teaching and research. Its commitment to engagement and public service serves not only the Granite State through its many outreach offices such as Cooperative Extension, but nationally and internationally through its public policy expertise in areas as diverse as crimes against children, ocean fisheries management, rural poverty, space science and environmental research.



PSU is a regional comprehensive university with a tradition of meeting the educational aspirations of New Hampshire citizens, communities, and organizations. PSU's educational philosophy is based on academic excellence, experiential learning, applied research, regional service, and leadership. While PSU's rich tradition of "place-based" education was established in 1871, today its horizons have expanded substantially with online programs at the undergraduate and graduate levels. Moreover, its development of academic partnerships across the globe has led to a vibrant student body of over 6,500 students coming from 43 states and 34 countries. The University's motto, *Ut Prosim* (That I may serve), is a credo for faculty, students, and staff, who engage with communities on a local, regional, national, and international scale in ways that are relevant and mutually beneficial. PSU has earned state and national recognition for academic innovation, environmental sustainability, international opportunities, community engagement, and economic partnerships.



Wisdom to make a difference.

KSC is New Hampshire's public liberal arts college, offering more than 40 majors in the arts and sciences, professional programs, and selected graduate degrees. For its 4,600 students, the college provides rigorous academic programs and a tradition of small classes, faculty-student collaborative research, and service learning. Chief among the college's priorities are preparing students for global citizenship and meaningful work, and catalyzing economic development through institutional partnerships across the region and state.

## Granite State College

With a focus on adult students, as well as other individuals who seek a flexible learning environment, GSC provides comprehensive access to higher education. This commitment to access is best illustrated through its statewide locations and 365/24/7 online presence. The ability for GSC to meet students where they are presents the opportunity to achieve an affordable college education while balancing life's other responsibilities such as work, family, and community obligations. With associate, bachelor's and master's degrees, post-baccalaureate programs for teachers, credit for prior learning, and a variety of transfer opportunities, GSC emphasizes practical and relevant areas of study that are responsive to the workforce development needs of New Hampshire's economy.









# Public Colleges for Public Benefit

Public institutions of higher education serve as a unique state resource and are committed to leveraging state dollars for state benefit.

## Public Partner

USNH institutions serve as state partners on important economic and civic priorities and stand ready to work with state leaders to support existing and emerging industries.

## Economic Engine

USNH serves as one of New Hampshire's most significant economic drivers, generating more than \$2 billion each year in direct and indirect economic activity. USNH attracts thousands of long-term visitors to New Hampshire who support businesses across the state and significantly shape several regional economies.

## Workforce Generator

USNH is the single largest pipeline of undergraduate prepared workers in the state. Approximately 30% of all four-year college-going high school graduates from New Hampshire choose to attend a USNH institution.

## Access for New Hampshire Families

Part of the public mission is to ensure broad access to quality higher education that strengthens our citizenry and provides an opportunity for economic advancement that benefits both New Hampshire families and our state. USNH achieves this mission by being highly focused and directing state investment to drive costs down for our residents.

## Public Accountability

USNH is governed by a board that is comprised primarily of individuals in gubernatorial appointments and includes the Governor, Senate President and Speaker of the House. Audited financial information is also provided to lawmakers and USNH is subject to "Right-to-Know" requests as a public system. However, unlike state agencies, USNH does not depend on the state for retirement or health benefits.





### UNHInnovation

For businesses across New Hampshire and around the world, UNHInnovation is the university's front door to cutting-edge UNH research and state-of-the-art labs, dedicated to creating success, building partnerships and connecting clients with faculty experts, staff and students. The center advocates for, manages and promotes UNH's intellectual property, working closely with private businesses ranging from small, local start-ups to world tech leaders such as Cisco, Dell, HP and AT&T.

The InterOperability Laboratory, which is housed at the center, is the only full-scale, non-profit test lab in the world that balances industry expertise with the real-world training of future engineers. More than 100 graduate and undergraduate student employees work full-time at the lab, gaining valuable hands-on experience with developing technologies and products. And when they graduate, these students have a 99 percent job placement rate!



“AS WE CONTINUE TO EXPAND, SO WILL OUR NEED FOR TALENTED GRADUATES AND THE IMPORTANCE OF PARTNERSHIPS WITH UNH FACULTY.

WE WILL CONTINUE TO INVEST IN HIRING THE BEST CANDIDATES, AND OUR HOPE IS THAT THESE CANDIDATES CAN BE RECRUITED LOCALLY FROM THE UNIVERSITY SYSTEM OF NEW HAMPSHIRE.”

SUZANNE FOSTER  
VICE PRESIDENT, GENERAL MANAGER  
MEDTRONIC ADVANCED ENERGY



**5,000+ NH BUSINESSES  
AND ENTREPRENEURS GAIN  
ONE-ON-ONE ASSISTANCE  
FROM USNH OUTREACH  
PROGRAMS EACH YEAR.**





## UNH Manchester at hub of new biotech industry Institute invests nearly \$300 million, predicts major growth

UNH Manchester is playing a leading role in a national public-private institute that aims to launch a new industry that develops bioengineered human tissues and organs. The effort is backed by an \$80 million grant from the US Department of Defense combined with more than \$214 million from 80 industry, education and nonprofit partners that joined to launch the *Advanced Regenerative Manufacturing Institute* (ARMI), led by chairman Dean Kamen of Manchester-based *DEKA Research & Development*.





“WHAT WILL DETERMINE THE ECONOMIC FUTURE OF NEW HAMPSHIRE IN GENERAL, AND SOUTHERN NEW HAMPSHIRE, IN PARTICULAR, IS THE QUANTITY AND QUALITY OF SCIENCE AND ENGINEERING BASED KIDS WHO ARE COMING OUT OF OUR SYSTEM RIGHT NOW.”

DEAN KAMEN  
ENTREPRENEUR, INVENTOR  
CHAIRMAN OF \$300 MILLION ADVANCED REGENERATIVE  
MEDICINE INSTITUTE (ARMI)

Manchester inventor and innovator Dean Kamen expects the project will bring many companies and new jobs to the city as this new industry develops. Dean Mike Decelle of UNH Manchester is leading the national education and workforce development activities for ARMI, drawing on UNH Manchester’s growing life sciences strength as well as its leadership in creating powerful partnerships with industry.

To promote biotech workforce development in this region, UNH is working closely with the Community College System of New Hampshire, Dartmouth College and Boston University, as well as with the Manufacturing Extension Partnerships in New Hampshire, Maine and Massachusetts, and the state Office of Workforce Opportunity and Department of Resources and Economic Development. The New York Times is among the many media outlets that have featured the project for its potential to transform the city as it creates an entirely new, high-tech industry.

### USNH Leads New Hampshire in STEM Education

59%

USNH schools award 59%  
of NH’s engineering and  
science degrees

68%

USNH awards more than  
two-thirds of NH’s K-12  
STEM teacher degrees.



4,300

Extension volunteers



107,000

Residents assisted



43

Lakes protected



205,000

Acres improved

## UNH Cooperative Extension

UNH Cooperative Extension brings information and education into the communities of the Granite State to help make New Hampshire's citizens, businesses and communities more successful and its natural resources healthy and productive. For 100 years, Extension's specialists and its network of dedicated volunteers have been tailoring contemporary, practical education to regional needs, and helping to create a well-informed citizenry, strengthen the economy and support our first-in-the-nation quality of life.

Extension's statewide outreach programs and experts meet Granite Staters where they are by using effective technologies, online learning platforms and face-to-face interactions that match the ways people learn and engage, while continuing to provide customized, in-person programming and assistance.

**In 2016, for every \$1 a county spent, UNH provided \$1.98 of statewide resources.**



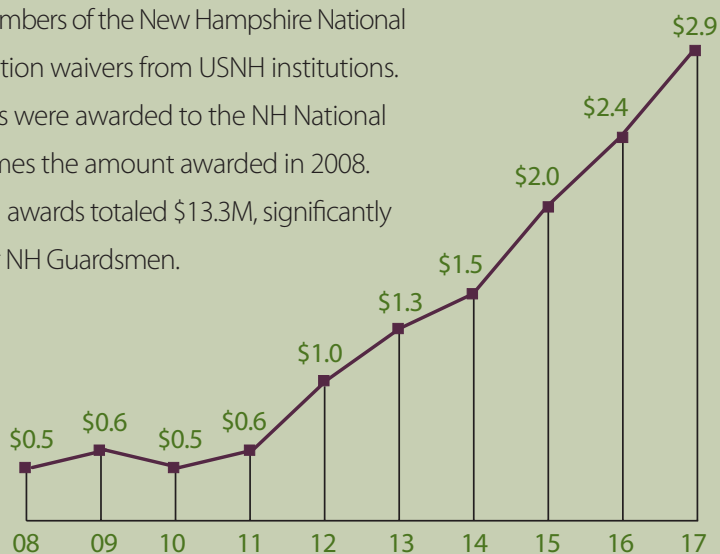


## USNH supports New Hampshire's National Guard

For the past two decades, members of the New Hampshire National Guard have been offered tuition waivers from USNH institutions.

Nearly \$3M in tuition waivers were awarded to the NH National Guard in FY17 - close to 6 times the amount awarded in 2008.

Over the past 10 years, USNH awards totaled \$13.3M, significantly expanding college access for NH Guardsmen.







## **USNH saves millions through health benefits management**

The University System of New Hampshire has realized \$2 million in annual savings thanks to cost-saving measures, including a competitive bid process for its health care administrators to cover the more than 4,000 benefits-eligible employees.

Cigna Healthcare and OptumRx administer medical and pharmacy coverage. Additionally, employees can choose from three plan types, including a high-deductible plan. The changes resulted in an estimated \$3 million in savings for 2017 with further savings anticipated for 2018. These savings are on top of the nearly \$50 million in savings from switching to self insurance five years ago.





**“CONTAINING COSTS WHILE PRESERVING QUALITY AND MAINTAINING COMPETITIVENESS REQUIRES INNOVATION AND EFFICIENCY. USNH DELIVERS AN OUTSTANDING VALUE PROPOSITION, PROVIDING SOME OF THE STRONGEST OUTCOMES ON IMPORTANT MEASURES LIKE GRADUATION RATES AND EMPLOYABILITY, AND PROVIDING THOSE OUTCOMES AT THE LOWEST COST-OF-ATTENDANCE IN NEW HAMPSHIRE.”**

**TODD LEACH**  
**CHANCELLOR**  
**UNIVERSITY SYSTEM OF NEW HAMPSHIRE**

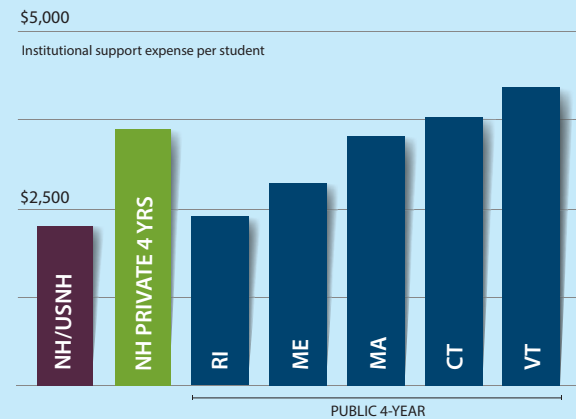
## Procurement

USNH procurement efforts have saved over \$1 million dollars in the past year with more savings expected in the coming fiscal year.

- USNH identified an opportunity to align KSC pricing with UNH pricing for a learning management software. By leveraging the system’s participation, we reduced the KSC contract price for the same product representing a 47% decrease in procurement cost.
- USNH Procurement, working with UNH Dining Services, competitively bid the produce category. Through the competitive process, the resulting agreement, decreased UNH’s cost over the five-year term by up to \$875,000.
- USNH consolidated vehicle rentals into a single agreement with Enterprise Holdings to create a preferred supplier program that should yield \$80,000 in savings.

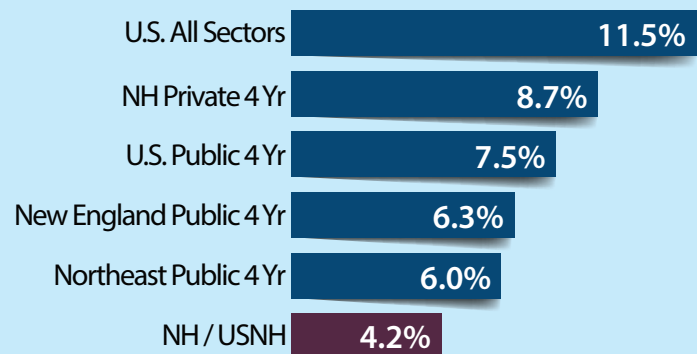
## Administrative Efficiency

USNH is the most fiscally efficient 4-year system in New England (and the Northeast) and is more efficient than NH private institutions.



## Student Loan Default

USNH consistently ranks among the top states with the lowest average loan default in the U.S.





### **400 Pell-eligible NH students attend UNH tuition-free Granite Guarantee enrollments far exceed expectations**

More than 400 New Hampshire students are attending UNH tuition-free this academic year through the Granite Guarantee, a new program aimed at making a four-year UNH education more affordable for families that qualify for need-based federal Pell grants. Beginning in the fall semester, it guarantees that all eligible full-time, first year students from the state pay no tuition for all four years at UNH, providing they continue to meet academic expectations.

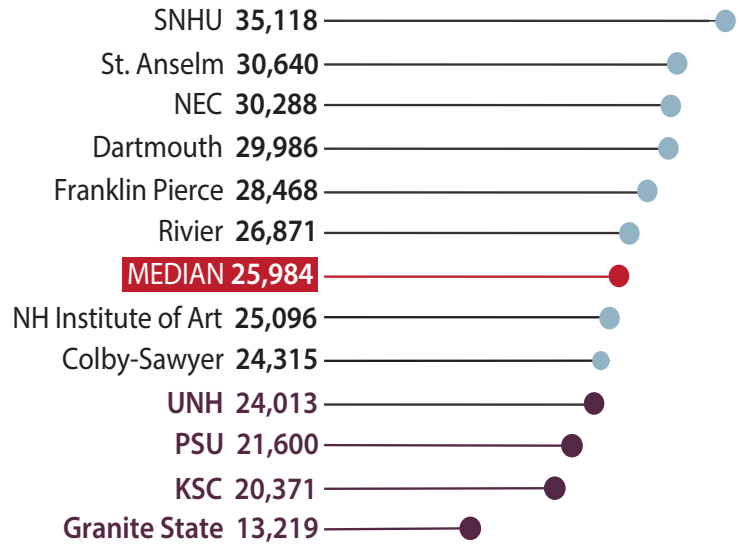
Granite Guarantee enrollments far exceeded initial estimates of 285 students. The program was made possible by the success of UNH's largest private fundraising campaign in history, which aims to raise \$275 million by the end of June 2018.

Overall undergraduate enrollments were also up for the second year in a row, rising about 5 percent; while multicultural student enrollments were up slightly, to 11 percent of the incoming class.



FOR NH STUDENTS, USNH INSTITUTIONS COST LESS TO ATTEND THAN ALL OTHER NH COLLEGES AND UNIVERSITIES.

### Average In-State Cost of Attendance NH 4-Year Colleges and Universities\*

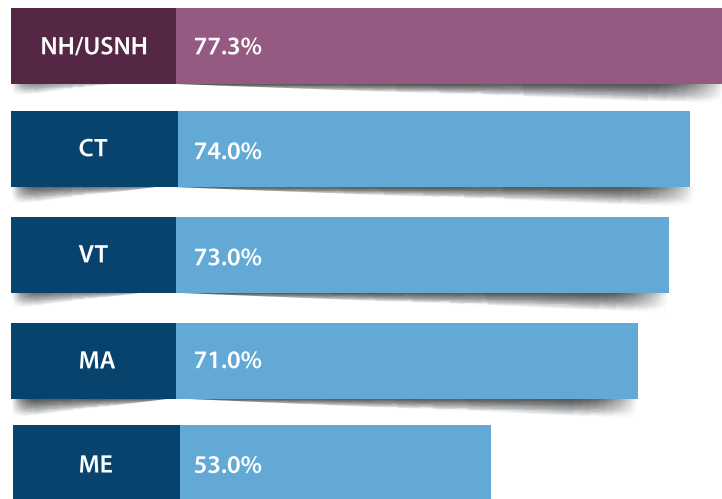


\* After financial aid

AMONG THE NATION'S 4-YEAR PUBLIC INSTITUTIONS, USNH IS A COLLEGE COMPLETION LEADER.

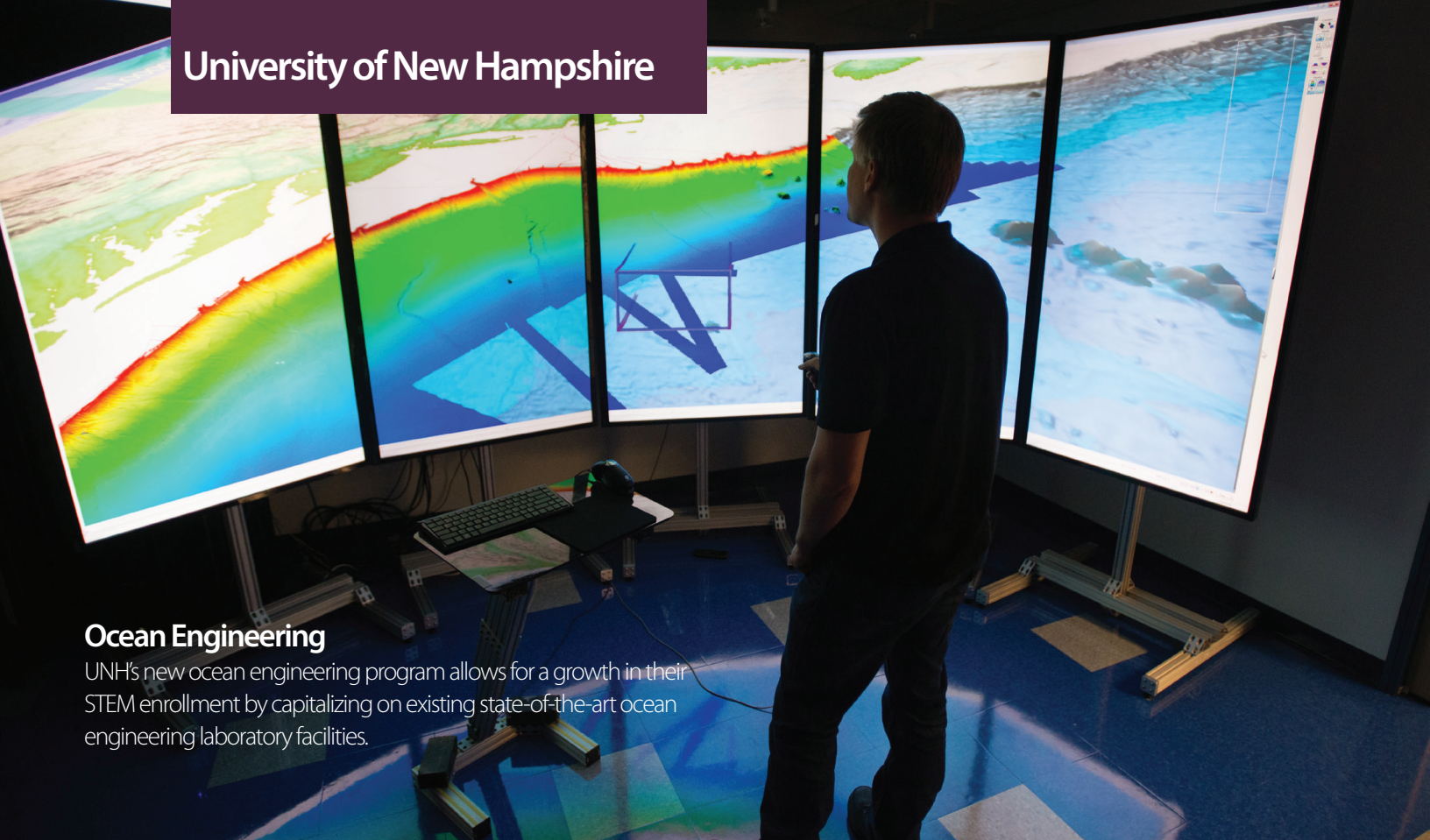
### Degree Completion

USNH students rank 1st in New England (and the Northeast) and 3rd in the U.S. for bachelor's degree completion.



RI omitted by National Student Clearinghouse (data source) for technical reasons.





## Ocean Engineering

UNH's new ocean engineering program allows for a growth in their STEM enrollment by capitalizing on existing state-of-the-art ocean engineering laboratory facilities.

## STEMbassadors: Inspiring K-12 students for a high-tech future

### UNH student volunteers visit all 10 NH counties

Thousands of K-12 New Hampshire students and their teachers are connecting this year with the STEMbassadors, a group of STEM student volunteers from the College of Engineering and Physical Sciences (CEPS). Launched in 2016, the STEMbassadors include 50 UNH engineering and technology students who travel across the state to bring engaging, fun, hands-on science experiences to K-12 schools.

All nine academic departments within CEPS are represented, offering activities ranging from model bridge construction and boat design to robotics and wind energy. In its first year, the group reached 5,000 students at more than a dozen events. The program's goal is to reach 2,500 students annually in all 10 New Hampshire counties.



## UNH FAST FACTS

*\$1.5B economic activity generated in NH each year*

*Top 10 among the State's top employers*

*Top 25 in public colleges for students graduating fastest*

*4,000+ NH businesses assisted directly each year*

*\$100+ million yearly in competitive research grants*

*50%+ students receive need-based financial aid*



## Merrill Place opens at PSU

PSU's continued move toward full implementation of the integrated clusters and open labs model took a leap forward as the first students moved into the Merrill Place Conference Center & Residences on August 2017.

The seven-story, 95,000 square foot building allows PSU to further integrate its academic cluster model into the living-learning experience for students. Offering 288 beds, Merrill Place offers students a state-of-the-art place to live and experience the clusters learning model outside the traditional classroom in a true living-learning community.

# MERRILL PLACE

## Wall Street Journal: Plymouth State ranked top in the nation for critical thinking improvement

In June 2017, The Wall Street Journal reported that Plymouth State University ranked highest in America for improving students' critical thinking skills between the 1st and senior years in college.

The value added by a PSU degree means that graduates are better prepared to enter their careers as leaders in their chosen fields.

The front-page WSJ article detailed how few U.S. colleges teach their students how to think: "At more than half of schools, at least a third of seniors were unable to make a cohesive argument, assess the quality of evidence in a document or interpret data in a table." The report showed that PSU students far outpaced well-known public institutions including the University of Kentucky, the University of Texas, California Polytechnic State University, Ohio State University and The Citadel.

As PSU continues the move to the Integrated Clusters model of education, administrators are confident these critical thinking skills combined with real-world experience will serve students well as they enter the world as PSU alumni.



## PSU FAST FACTS

*43% student body are first-generation students*

*39% of students are low income*

*\$177.4M economic activity generated each year in Lakes Region and North Country*

*1/3 of total enrollment are graduate students*

*125 majors and minors*

*3,000 undergraduates engaged in intergrated cluster projects in Spring 2017*

*35,000+ living alumni*





## Measuring the return on investment of a college degree

Among the many accolades that Keene State College has earned, there are a number that demonstrate the college's commitment to educational leadership and its focus on the value of a college education.

Educate To Career, in their College Rankings Index, named Keene State #86 in the 2017 Top 100 Best Value Colleges out of 1195 institutions surveyed. The independent agency Zippia, ranked Keene State #18 as the best college for getting a job.

In a survey of the Class of 2015, 95% of respondents reported that they were employed or engaged in graduate education a year after graduating from Keene State. Among those who were employed, 76 percent reported that their work was directly related to their academic studies. In addition, 82 percent indicated that Keene State had prepared them well or very well for their employment.



## KSC FAST FACTS

*Top Ranked Regional Universities of the North*

*Top 100 colleges for best value from Educate to Careers*

*#1 in NH for employability - Zippia*

*\$76.2 million added to the region's economy*

*Best list of regional colleges - Princeton Review Guide*

*Awarded National Green Ribbon Schools Postsecondary Sustainability*

*Green recognition by Princeton Review Guide to 375 Green Colleges, and was named as a Sierra Club Cool School*





## Supporting health care

Recognizing the value that an academic credential can add to their training program, leaders at Dartmouth Hitchcock collaborated with GSC to assess their internal training program for college credit. Upon completion of the training program, Dartmouth Hitchcock Surgical Technologists will have earned certification and credits toward a bachelor's degree at GSC.

## Helping NH employers grow through partnerships

With over 90% of its student population currently employed, primarily in full-time jobs, the typical Granite State College student already contributes to the New Hampshire workforce and is pursuing higher education for career development or change. Today, Granite State College is partnering directly with the state's employers to diversify and grow the range of learning opportunities and solutions that can help strengthen the incumbent workforce.



## GSC FAST FACTS

67,000+ students have attended Granite State College

3,374 active students

80% of enrollments are online

#1 in NH Best Colleges for Adult Learners - Washington Monthly

Best Online Programs for Bachelor's & Graduate Business - U.S. News & World Report

80% of students live in NH

94% of students remain in NH

90% work full or part-time jobs while attending college





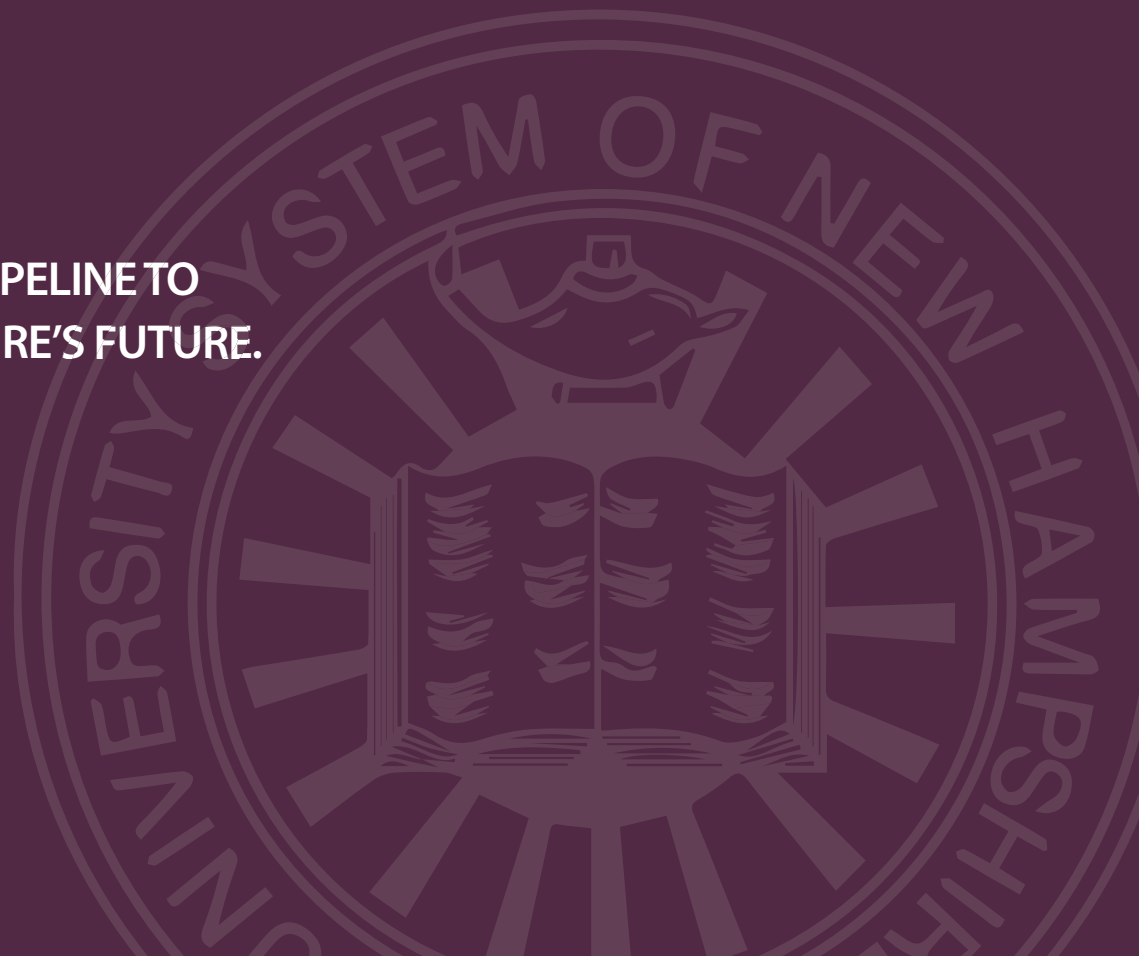
“I LOVE ALL THE BUZZ ABOUT A REVIVAL OF U.S. MANUFACTURING, BUT UNLESS WE GET SERIOUS OVER THE LONG HAUL ABOUT A COMMITMENT TO EDUCATION, IT’S HARD TO SEE THAT AS SUSTAINABLE.”

JOE MORONE  
CEO/PRESIDENT  
ALBANY INTERNATIONAL

“THE BUSINESS & INDUSTRY ASSOCIATION, NEW HAMPSHIRE’S STATEWIDE CHAMBER OF COMMERCE AND LEADING BUSINESS ADVOCATE, WISHES TO ADD OUR VOICE TO THOSE ARTICULATING THE UNIVERSITY SYSTEM OF NEW HAMPSHIRE’S CRITICAL ROLE IN DEVELOPING TOP-CALIBER TALENT FOR NEW HAMPSHIRE’S EMPLOYERS.”

JIM ROCHE  
PRESIDENT NH BIA

**USNH IS THE PIPELINE TO  
NEW HAMPSHIRE’S FUTURE.**







KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## Independent Auditors' Report

The Governor and  
Legislative Fiscal Committee,  
State of New Hampshire; and the  
Board of Trustees,  
University System of New Hampshire:

### Report on the Financial Statements

We have audited the accompanying financial statements of net position of the University System of New Hampshire (the System), a component unit of the State of New Hampshire, as of June 30, 2017 and 2016, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

### 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.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the University System of New Hampshire as of June 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

### Other Matter – Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 24–33 and the schedule of funding progress on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**KPMG LLP**

October 23, 2017

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



# Management's Discussion and Analysis

June 30, 2017 and 2016 (Unaudited)

## I. Introduction

The following Management's Discussion and Analysis summarizes the financial condition and results of activities of the University System of New Hampshire (USNH) for the fiscal years ended June 30, 2017, and 2016. This analysis provides a comparison of significant amounts and measures to prior periods and, where appropriate, presents management's outlook for the future.

USNH is a Section 501(c)(3) corporation organized under the laws of the State of New Hampshire to serve the people of the state as the key provider of public higher education for Bachelor's and advanced degree students. USNH accomplishes its mission by operating four educational institutions that collectively offer a broad array of education, research and public service options for the state. These institutions include the University of New Hampshire (UNH), Plymouth State University (PSU), Keene State College (KSC), and Granite State College (GSC). While select programs are active in other regions as well as abroad, most of USNH's activities take place at the three residential campuses (UNHD, PSU and KSC), UNH's urban campuses (UNHM and UNHL), the eight regional sites of GSC, and the UNH Cooperative Extension and Small Business Development Centers located throughout the state. The accompanying financial statements also include the activities and balances of the University of New Hampshire Foundation, Inc. (UNHF) and the Keene Endowment Association (KEA), two legally separate but affiliated entities. (See Note 1 to the Financial Statements for additional information on affiliated entities.)

## II. Economic Outlook

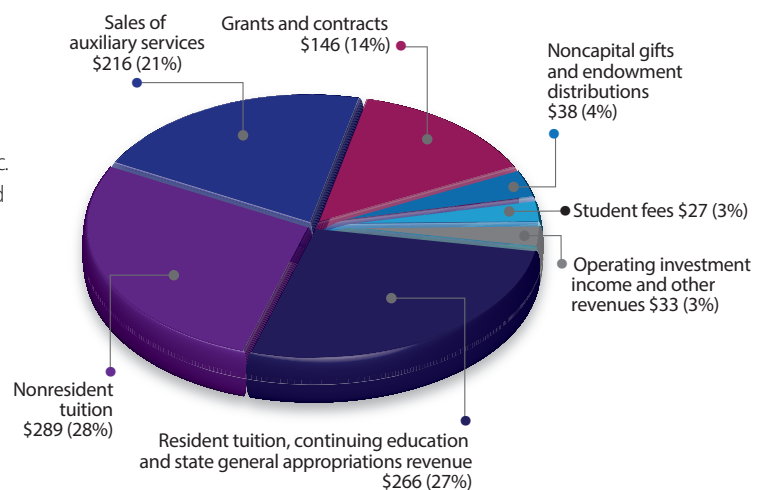
The US Census Bureau projects that through 2030 the number of New Hampshire residents between ages 15 and 19 will drop 7.3% from the current level of 86,070 (approximately 6,300 students). The dip will then be partially recovered over the following ten years to approximately 83,300 in 2040. This is one near-term trend impacting USNH campuses. However, it is mitigated by other trends including increased demand for fifth year programs culminating in graduate degrees, as well as local industry needs for higher education levels of new hires. At 2.9% as of June 2017, New Hampshire has the fourth lowest unemployment rate in the country behind only Colorado, Hawaii and North Dakota. This compares to the national average of 4.4%, and will ease the pathway for our graduates as they transition into the state's workforce. In short, our campuses continue to evolve to meet local and national demands for quality education.

For fiscal years 2018 and 2019, USNH's annual general appropriation from the State was held at \$81 million equal to the prior three years. The USNH Board of Trustees approved tuition increases up to 2.5% for New Hampshire residents attending USNH campuses in FY18, and up to 4.0% for nonresident students. In addition, continuing operating expense increases system-wide were limited to expected inflation levels. Certain nonrecurring expenses budgeted as part of current strategic initiatives were also

approved, and student financial aid increases are budgeted 5% higher than fiscal year 2017 to ensure affordability for our students. USNH has also made a commitment that any increase in the state general appropriation level will go towards freezing or lowering the inflationary increase in tuition for future years. The remainder of this report describes the results of financial operations for the year ended June 30, 2017 with comparisons to prior years.

**Chart 1: Operating Revenue by Source**  
**Total = \$1 Billion**

(\$ in millions)



## III. Financial Highlights

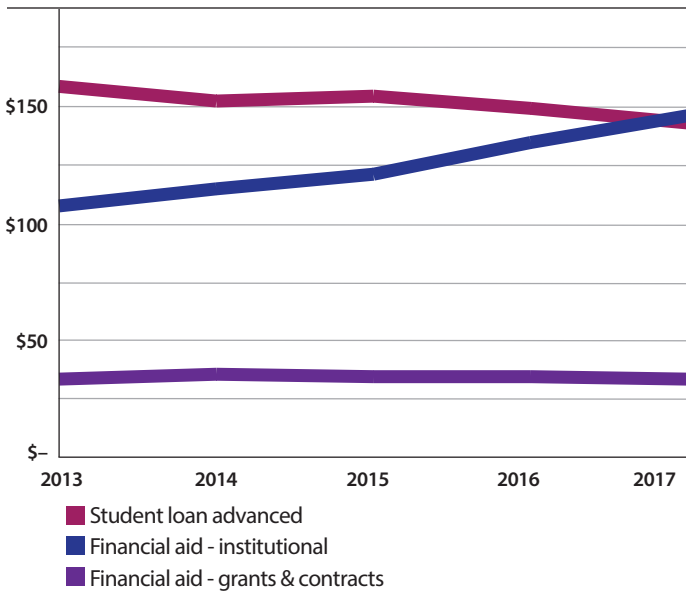
### A. Revenues

Chart 1 above shows USNH's operating revenue streams, which totaled \$1 billion in each of fiscal years 2017 and 2016. Given our tri-fold mission of instruction, research and public service, the vast majority of USNH revenues are used for education, student support, and the delivery of related auxiliary services. Even our research projects increase the knowledge base. As shown in Chart 2, institutional financial aid expenditures increased approximately \$37 million from the 2013 level, while aid from grants remained flat. This resource commitment was made to ensure all qualified students can attend our institutions, and has also allowed our student loan issuances to decrease in support of the State's workforce needs.



**Chart 2: Student Aid Trends**

(\$ in millions)



As seen in Table 1 below, overall enrollment continues to be stable at approximately 26,000 per year for each of the past four years. UNH's Durham campus had large increases in freshmen applications for both 2016 and 2017. Their enrollment strategy remains focused on attracting exemplary students. Approximately 40% of new UNHD students in the fall of 2016 ranked in the top 20% of their high school class reflecting the continued quality of the population. In addition, PSU launched an innovative new learning clusters program in 2017. The clusters group students in related majors to share resources with the goal of providing a holistic educational experience that ensures students are able to provide value to future employers on their first day of work. The sharing of resources is also designed to drive down administrative costs as well as streamline financial transaction processing.

**Table 1: Full-Time Equivalent Credit Enrollment**

For the Fall of Each Fiscal year

	2013	2014	2015	2016	2017
UNH (all campuses)	15,606	15,272	15,406	15,657	15,473
PSU	4,973	4,670	4,346	4,674	4,641
KSC	4,853	4,705	4,751	4,250	4,160
GSC	1,507	1,551	1,685	1,658	1,584
<b>Total USNH FTEs</b>	<b>26,939</b>	<b>26,198</b>	<b>26,188</b>	<b>26,239</b>	<b>25,858</b>
NH Resident	16,212	14,797	14,308	13,742	13,240
Nonresident	10,727	11,401	11,880	12,497	12,618
<b>Total USNH FTEs</b>	<b>26,939</b>	<b>26,198</b>	<b>26,188</b>	<b>26,239</b>	<b>25,858</b>

**Table 2: Freshman Applications, Acceptances and Enrollees at UNH Durham\***

For the Fall of Each Fiscal year

	2013	2014	2015	2016	2017
Freshmen applications received	17,234	17,938	18,420	19,255	20,203
Acceptances as % of applications	78%	78%	80%	71%	76%
Enrolled as % of acceptances	22%	16%	18%	24%	19%

\*Data for the flagship campus is included herein as part of the annual continuing disclosure requirements related to USNH's outstanding bond obligations. Comparable data for other campuses is available upon request.

Auxiliary revenues were up \$1 million at KSC from 2016 to 2017 due to increases for the new Living and Learning Commons which opened in the fall of 2016. UNH also increased student recreation fees by \$3 million to cover the costs of expanding the Hamel Recreation Center. The Center will re-open in the fall of 2017. Additional auxiliary services revenue increases at UNH resulted from athletic post-season ticket sales and royalties, parking revenues and group ticket sales. Offsetting these increases was a decrease of \$1.5 million in renewable energy credits and sales of electricity to the local power grid from UNH's Ecoline system.

Noncapital gifts to UNH in 2017 decreased approximately \$5 million from the 2016 level. This is due to the wind-down of UNH's 150th anniversary campaign which is nearing completion. Noncapital gifts at the other campuses all approximated the prior year. Operating investment income was also down approximately \$2 million from the 2016 level. This is partly due to a reduction in average cash balances as USNH completed several renovation projects funded with internal resources.

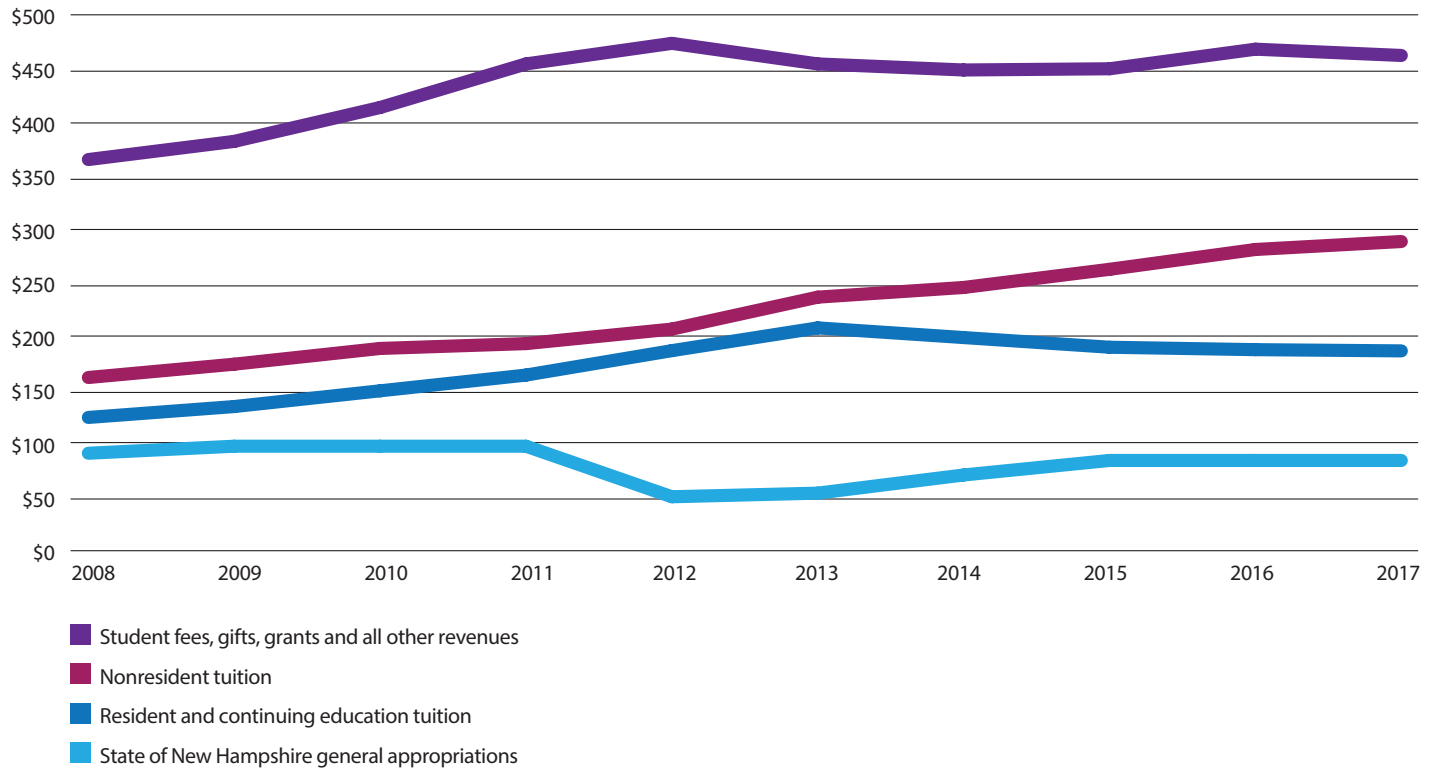
Chart 3, on the following page, shows USNH's major revenue stream trends for the past ten years. As seen in the graph, state appropriation revenues were cut by 50% in 2012, which resulted in a significant increase in resident tuition rates for fiscal years 2012 and 2013. USNH then held resident tuition rates flat through 2015 as the appropriation was partially restored. Inflationary increases in the resident tuition rates were added for 2016 and 2017. As evidenced by the financial aid growth shown in Chart 2, USNH is committed to working with the State to ensure that New Hampshire's students have access to a quality education for an affordable price.



### Chart 3: Ten Year Revenue History

Before application of student financial aid

(\$ in millions)



### B. Operating and Capital Expenditures

USNH's operating expenses (including interest) for FY17 increased approximately \$1 million or 0.1% over FY16. This compares to \$26 million (3.2%) from FY15 to FY16; \$30M (3.9%) from FY14 to FY15; and \$13 million (1.6%) from FY13 to FY14. There have been significant efforts to organize USNH employee groups over the past few years. This has resulted in new unions for certain faculty and staff at the residential and urban campuses. Additional groups are currently engaged in negotiations as well. Nongrant compensation expenditures were down \$8.9 million in 2017, primarily due to employee separation offerings in the prior year as well as a change in USNH's medical insurance provider in calendar year 2017.

The decrease noted above was offset by an increase in nongrant supplies and services costs of \$8 million or 5.0% over the prior year. The latter includes noncapital construction cost increases at UNH of \$2.8 million; a \$1.4 million increase in student health plan claims and other costs at UNH; an increase in maintenance costs of \$1.7 million; as well as increases in consulting costs for information technology and student recruitment totaling approximately \$900,000. During FY17 USNH restructured its Procurement activities to have all campus purchasing personnel report centrally. This new model of local delivery with central oversight is designed to contain costs in future years by combining our purchasing volumes across the state. USNH is focusing on this area for future years and hopes to decrease these costs through consolidated purchasing opportunities across the campuses.



Chart 4 displays USNH's operating expenses for the past three years by functional, rather than natural, classification. The 2016 instruction costs were higher than 2017 due to faculty separation incentive offerings at that time. As the chart shows, increases in financial aid have far-outpaced increases in institutional support (general overhead) expenses in the last several years. (Additional detail of operating expenses by function can be found in Note 13 to the Financial Statements.)

The campuses also have several major capital projects currently underway or nearing completion. These include an addition to KSC's Mason Library for Holocaust study materials funded with gift proceeds; PSU's new Merrill Place residence hall (\$33 million) funded in part with proceeds from bonds issued by USNH in 2016; the ground-up renovation and expansion of the UNH's historic Hamilton-Smith building (\$37 million) funded with internal resources; as well as interior and exterior renovations to GSC's Gateway Center in Concord (\$1 million) funded in part with state capital appropriations.

**Chart 4: Expenses by Functional Classifications**

(\$ in millions)

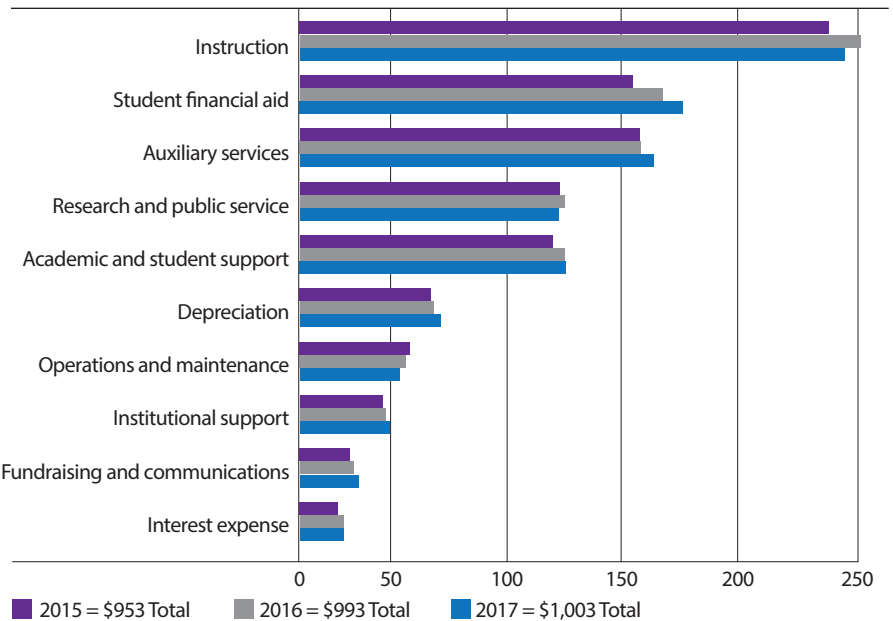
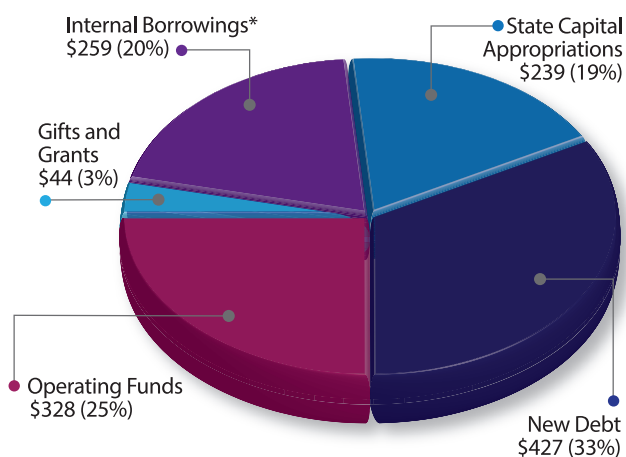


Chart 5 below shows the funding sources for USNH's capital spending over the past fifteen years. USNH spent over \$1 billion during this time to construct and renovate buildings and infrastructure at all campuses. The largest source of funding for the related projects was debt issuances of \$427 million. USNH is authorized to issue debt only for self-supporting, auxiliary projects. The majority of the related debt service is funded by student fees for each type of auxiliary service (housing, dining or recreation).

Debt service for UNH's Ecoline project is funded with electricity usage charges to campus departments as well as proceeds from sales of electricity and renewable energy credits produced by the campus.

**Chart 5: Capital Funding Sources, 2003-2007**  
**Total \$1.3 Billion**

(\$ in millions)



\*Excludes amounts committed but not yet spent as of June 30, 2017

From 2002 to 2013 USNH received significant state capital appropriations to renovate specific science buildings on each campus. During the past ten years operating funds and internal borrowings totaling \$587 million were used to supplement the state appropriations. However, there are still several buildings in need of improvement at each campus to ensure USNH is able to meet the education and experiential needs of the state's future workforce. In 2017 USNH engaged third-party consultants to complete a detailed Facilities Condition Assessment and prioritization of deferred maintenance needs at each campus. Because state capital funding has been significantly reduced over the past 5 years, USNH campuses must strategically prioritize with the limited available funding for capital assets, while at the same time not allowing deferred maintenance needs to escalate. Approximately \$8.8 million of approved internal borrowing amounts not spent as of June 30, 2017 are excluded from the chart above. The remaining funds are for completion of the Hamilton-Smith building and Hamel Recreation Center on the UNH Durham campus. Plant depreciation expenses of \$526 million were recorded during this same fifteen year period. (See Notes 5 and 8 to the Financial Statements for additional information on property and equipment, and debt balances.)

## C. Investing Activities

Cash and short-term investment balances totaled approximately \$213 million on June 30, 2017. This compares to \$228 million on June 30, 2016. The reduction is primarily due to purposeful spending of internal resources for the capital projects noted above. Management of cash and short-term investment balances was outsourced over the past year to improve short-term returns while ensuring sufficient liquidity for near-term obligations. (See Note 2 to the Financial Statements for additional information on cash, cash equivalents and short-term investments.)

USNH's long-term investments are primarily derived from endowment gifts intended to be invested in perpetuity. With Board approval USNH also invests select large, current-use gifts, and unrestricted balances held centrally, as quasi-endowment funds. These amounts are invested in one of three venues depending on whether the donor contributed to a campus, the UNH Foundation (UNHF), or the Keene Endowment Association (KEA). The investment pools are managed to provide the highest rate of return over the long term given an acceptable level of risk as determined by the responsible fiduciaries. The USNH Consolidated Endowment Pool holds funds for the benefit of all campuses. The UNHF endowment pool holds funds for the benefit of UNH only, and the KEA pool holds funds for the benefit of KSC only. The USNH Board of Trustees has fiduciary responsibility for the USNH Pool, whereas the separate boards of UNHF and KEA have their own investment policies and are responsible for those investments. Below is a summary of USNH's endowment and similar investment values for the past three years.

**Table 3: Endowment and Similar Investments Market Value Summary**

(\$ in millions)

	As of June 30,		
	2017	2016	2015
USNH Pool	\$ 498	\$ 444	\$ 457
UNHF Pool	204	185	197
KEA Pool	8	7	7
Funds held in trust	16	15	15
Life Income/Annuity Funds	<u>4</u>	<u>4</u>	<u>4</u>
	<u>\$ 730</u>	<u>\$ 655</u>	<u>\$ 680</u>

As shown in Table 4, all three pools had double digit gains in fiscal year 2017 after payment of fees to the respective investment managers. While the two larger pools are primarily invested in funds, the KEA pool primarily holds individual stock and bond investments.

**Table 4: Pooled Endowment Returns**

	Year -Ended June 30,		Five Year
	2017	2016	Average
<b>USNH Pool</b>			
<b>Gross return</b>	13.4%	(1.4%)	8.5%
<i>Investment management fees</i>	<u>(0.4%)</u>	<u>(0.4%)</u>	<u>(0.4%)</u>
<b>Net return</b>	13.0%	(1.8%)	8.1%
<i>Distributions</i>	<u>(3.5%)</u>	<u>(3.5%)</u>	<u>(3.4%)</u>
<b>Net (utilized) reinvested</b>	<u>9.5%</u>	<u>(5.3%)</u>	<u>4.7%</u>
<b>UNHF Pool</b>			
<b>Gross return</b>	14.1%	(2.6%)	9.2%
<i>Investment management fees</i>	<u>(0.6%)</u>	<u>(0.6%)</u>	<u>(0.6%)</u>
<b>Net return</b>	13.5%	(3.2%)	8.6%
<i>Distributions</i>	<u>(5.7%)</u>	<u>(5.2%)</u>	<u>(5.3%)</u>
<b>Net (utilized) reinvested</b>	<u>7.8%</u>	<u>(8.4%)</u>	<u>3.3%</u>
<b>KEA Pool</b>			
<b>Gross return</b>	11.3%	8.2%	10.0%
<i>Investment management fees</i>	<u>(0.7%)</u>	<u>(0.9%)</u>	<u>(0.7%)</u>
<b>Net return</b>	10.6%	7.3%	9.3%
<i>Distributions</i>	<u>(5.7%)</u>	<u>(4.7%)</u>	<u>(4.1%)</u>
<b>Net reinvested</b>	<u>4.9%</u>	<u>2.6%</u>	<u>5.2%</u>

Distributions from the pools totaled approximately \$27 million in 2017, slightly higher than the prior year. Distributions of \$16 million were made from the USNH pool and trusts, along with \$10 million from the UNHF pool and \$350 thousand from the KEA pool. Distributions represent a smaller percentage of the USNH pool because USNH holds several quasi-endowment funds for future, rather than current, use. Recent volatility in returns has resulted in a limited number of endowment funds having a market values less than the original gift value ("underwater" funds). The 2017 gains have mitigated this in most cases. Of the 1,450 endowment funds maintained in the various endowment pools, only 46 remained underwater at June 30, 2017. This compares to 210 underwater funds at June 30, 2016. The balances underwater at June 30, 2017 totaled \$817 thousand, compared to nearly \$5 million at June 30, 2016. (See Notes 4 and 12 for further information on endowment and similar investments.)



## IV. Using the Financial Statements

The UNH School of Law merged with UNH on January 1, 2014. Accordingly, the fiscal year 2013 beginning balances for the Statements of Net Position and Cash flows presented below were restated in 2014 to reflect the addition of the respective UNH School of Law amounts.

### A. Statements of Net Position

The Statements of Net Position depict all USNH assets, deferred inflows/outflows of resources, liabilities on June 30th each year, and the resulting net financial position. An increase in net position over time is a primary indicator of an institution's financial health. Factors contributing to future financial health as reported on the Statements of Net Position include the value and liquidity of financial and capital investments, and balances of related obligations. Table 5 below shows condensed information from the Statements of Net Position at June 30 for the past five years. Note that we have also included certain condensed information as of June 30, 2017 by campus herein as required by recent regional accreditation standard changes.

June 2017 resulted in the recording of a net pension asset of approximately \$1 million which is also included in other assets. Accordingly, no related pension liabilities are recorded for the plan in 2017.

Deferred outflows of resources include the fair value of USNH's interest rate swap derivatives and accounting losses incurred as a result of refinancing certain bonds outstanding. Because the interest-rate swaps are deemed to be effective hedge instruments, the fair value of the derivatives is recorded to offset the fair value of the interest rate swap liability in its entirety. The accounting losses are expected and are charged to interest expense annually over the term of the new obligations.

The reduction in other assets and deferred outflows of resources in 2017 is due to drawdown of the 2016 bond proceeds for the Hamel Recreation Center renovation at UNH and the Merrill Place project at PSU, as well as an \$11 million reduction in the fair value of our interest rate swap obligations. Approximately \$11 million of the bond

**Table 5: Condensed Information from the Statements of Net Position as of June 30,**

*(\$ in millions)*

	2013*	2014	2015	2016	2017
Cash and short-term investments	\$ 223	\$ 235	\$ 237	\$ 228	\$ 213
Endowment and similar investments	571	667	679	655	730
Property and equipment, net	984	982	1,010	1,077	1,120
Other assets and deferred outflows of resources	<u>98</u>	<u>96</u>	<u>168</u>	<u>162</u>	<u>106</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>1,876</u>	<u>1,980</u>	<u>2,094</u>	<u>2,122</u>	<u>2,169</u>
Derivative instruments - interest rate swaps	31	30	30	37	26
Postretirement medical benefits	55	51	54	56	56
Long-term debt	454	431	500	519	501
Other liabilities and deferred inflows of resources	<u>147</u>	<u>150</u>	<u>160</u>	<u>169</u>	<u>151</u>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<u>687</u>	<u>662</u>	<u>744</u>	<u>781</u>	<u>734</u>
Net investment in capital assets	550	574	598	630	651
Restricted financial resources	357	397	413	405	455
Unrestricted financial resources	<u>282</u>	<u>347</u>	<u>339</u>	<u>306</u>	<u>329</u>
<b>Total Net Position</b>	<u>\$ 1,189</u>	<u>\$ 1,318</u>	<u>\$ 1,350</u>	<u>\$ 1,341</u>	<u>\$ 1,435</u>

\*Beginning balances for fiscal year 2013 restated to include UNH School of Law

As shown above, cash balances were lower in 2017. This is the result of spending of internal resources for the Hamilton-Smith and Hamel Recreation Center projects discussed previously. The spending also increased the value of the related property assets. In 2017 endowment returns rebounded after net losses in the prior two years. This increased both the restricted and unrestricted net position, as well as the investment asset balances. The other assets balance for the last three years shown above includes investments held by our bond trustee related to our Series 2015 and 2016 bond issuances of \$69 million, \$57 million, and \$11 million, for 2015 through 2017, respectively. In 2017 USNH also transferred assets related to our Operating Staff Retirement Program into a trust, and applied the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*. The actuarial review completed for the plan in

proceeds were unspent at June 30, 2017, and will be drawn over the summer as construction is completed for the fall 2017 occupancy. (See Notes 8 and 9 to the Financial Statements for further discussion of outstanding debt and related interest rate swaps in place.) USNH has large liabilities related to long-term debt and postretirement medical benefits. Bond and capital lease principal payments of approximately \$18 million reduced the related liabilities in 2017. The postretirement obligations represent the actuarially-determined value of medical benefits provided to certain current and former employees for various periods, including the remaining life of the participants in some cases. (See Note 7 to the Financial Statements for additional information in this regard.)

Like most businesses, USNH also records smaller liabilities related to payroll costs and vendor services rendered, as well as accrued vacation, retirement and medical benefit costs for current employees. Accrued payroll and employee retirement liabilities were lower in 2017 because the last day of the month of June coincided with the last salary payment date for our faculty and professional employees. Other USNH liabilities are specific to the higher education industry. These include unearned advance payments received for academic year 2018 programs; obligations to donors for a portion of the interest on certain gift balances (obligations under life income agreements); and amounts provided by the US Government for student Perkins Loans that would have to be repaid if the program is closed (refundable government advances). At the end of 2017 these other liabilities all approximated the prior year balances.

In 2017 USNH also adopted the provisions of GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, with respect to the accounting for our Additional Retirement Contributions plan. The actuarial review completed for this plan in June, 2017 resulted in the recording of a deferred inflow for the related obligations of approximately \$698 thousand in 2017. The remaining balance of deferred inflows in 2016 and 2017 represents unamortized accounting gains on debt refinancing.

Net position is reported in three categories. The net invested in capital assets amount represents the historical cost of property and equipment reduced by total accumulated depreciation and the balance of related debt outstanding for certain auxiliary buildings. Restricted financial resources include balances of current and prior year gifts for specified purposes such as scholarships or student loans, as well as the majority of campus endowment balances which were requested to be invested in perpetuity by the original donors (\$257 million and \$270 million at June 30, 2016 and 2017, respectively). Unrestricted financial resources represent net assets that are available for any future use without restriction. This includes unrestricted current fund balances, balances in unrestricted loan funds, unrestricted funds functioning as endowment, unexpended plant funds, and unrestricted funds held by affiliated entities. While not restricted, a significant portion of the unrestricted net position each year is held for future construction and renovation of facilities and other Board-designated purposes.

See Note 14 to the Financial Statements for further details on the components of net position. A breakdown of asset, liability and net position balances by campus as of June 30, 2017 is shown below.

**Table 5A: Condensed Information from the Statement of Net Position as of June 30, 2017 Presented by Campus**

(\$ in millions)

	University of New Hampshire Campuses & Foundation	Plymouth State University	Keene State College & Endowment Association	Granite State College	Chancellor's Office	Total University System of New Hampshire
Cash and short-term investments	\$ 248	\$ 85	\$ 60	\$ 19	\$ (199)	\$ 213
Endowment and similar investments	367	24	34	7	298	730
Property and equipment, net	746	176	188	8	2	1,120
Other assets and deferred outflows of resources	<u>(30)</u>	<u>(3)</u>	<u>(4)</u>	<u>(2)</u>	<u>145</u>	<u>106</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>1,331</u>	<u>282</u>	<u>278</u>	<u>32</u>	<u>246</u>	<u>2,169</u>
Derivative instruments - interest rate swaps	–	–	–	–	26	26
Postretirement medical benefits	40	7	7	1	1	56
Long-term debt	211	141	107	–	42	501
Other liabilities and deferred inflows of resources	<u>81</u>	<u>13</u>	<u>9</u>	<u>1</u>	<u>47</u>	<u>151</u>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<u>332</u>	<u>161</u>	<u>123</u>	<u>2</u>	<u>116</u>	<u>734</u>
Net investment in capital assets	455	60	75	5	56	651
Restricted financial resources	384	22	42	7	–	455
Unrestricted financial resources	<u>160</u>	<u>39</u>	<u>38</u>	<u>18</u>	<u>74</u>	<u>329</u>
<b>Total Net Position</b>	<u>\$ 999</u>	<u>\$ 121</u>	<u>\$ 155</u>	<u>\$ 30</u>	<u>\$ 130</u>	<u>\$1,435</u>



## B. Statements of Revenues, Expenses and Changes in Net Position

Operating revenues are generally earned in exchange for providing goods and services. However, GASB reporting standards require that some of USNH's recurring revenues be shown as nonoperating. This includes state general appropriations, federal Pell grants, noncapital gifts, operating investment income, and the portion of endowment returns used to fund the related programs. These revenue streams are important sources of funds used to supplement tuition and fees revenue. Accordingly, we have grouped the operating and nonoperating revenues together in the condensed statement below to allow readers to better understand which revenues support our operating expense streams.

Table 6 shows condensed information from the Statements of Revenues, Expenses and Changes in Net Position for the five years ended June 30, 2017.

As noted previously, employee compensation costs were high in 2016 due to separation incentive offerings. The resulting expense decrease in 2017 is offset by an increase in supplies and services costs related to noncapital construction and maintenance costs, student health plan claims and consulting for certain activities, particularly student enrollment and technology initiatives.

The increase in net position from recurring activities reflects USNH's operating margin each year. Total operating and nonoperating revenues in 2017 were approximately 4% higher than 2013, while operating and nonoperating expenses were approximately 9% higher than 2013. The resulting margin has decreased from 6.0% to 1.5% over the last five years. USNH changed its medical insurance provider in 2017 to further reduce compensation expense, our largest cost base. USNH is also

**Table 6: Condensed Information from the Statements of Revenues, Expenses and Changes in Net Position for the Years Ended June 30,**

*(\$ in millions)*

	2013*	2014	2015	2016	2017
Tuition and fees	\$ 466	\$ 465	\$ 472	\$ 491	\$ 501
Less: student financial aid	(135)	(144)	(149)	(162)	(172)
Net tuition and fees	331	321	323	329	329
Sales of auxiliary services	198	203	206	211	216
Grants and contracts	166	152	149	149	146
State general appropriations	54	69	81	81	81
Noncapital gifts, investment income and other revenues	61	65	66	79	71
<b>Total Operating and Nonoperating Revenues</b>	<b>810</b>	<b>810</b>	<b>825</b>	<b>849</b>	<b>843</b>
Employee compensation	465	481	503	529	521
Supplies and services	204	195	203	203	210
Utilities, depreciation and interest	93	98	98	99	100
<b>Total Operating and Nonoperating Expenses</b>	<b>762</b>	<b>774</b>	<b>804</b>	<b>831</b>	<b>831</b>
<b>Increase in Net Position from Recurring Activities</b>	<b>48</b>	<b>36</b>	<b>21</b>	<b>18</b>	<b>12</b>
Endowment gifts and returns, net	50	83	6	(30)	70
State capital appropriations and other changes, net	14	10	5	3	11
<b>Total Other Changes in Net Position</b>	<b>64</b>	<b>93</b>	<b>11</b>	<b>(27)</b>	<b>81</b>
<b>Total Increase (Decrease) in Net Position</b>	<b>\$ 112</b>	<b>\$ 129</b>	<b>\$ 32</b>	<b>\$ (9)</b>	<b>\$ 93</b>

\*Balances for fiscal year 2013 restated to include UNH School of Law

The net tuition and other revenue values on these statements reflect the size and type of student enrollments, student quality and financial need, and growth of supporting revenue streams. Total operating and nonoperating revenues were down \$5 million in 2017, primarily due to a decrease in noncapital gifts of \$6 million. This is attributable to the wind-down of UNH's 150th anniversary fundraising campaign which generated large gift volumes in the past three years. Expenses were approximately equal to the prior year in total, but differing trends by expense type.

concentrating on containing the cost of supplies and services through near-term spending on new technologies. During 2017 the first phase of an Enterprise Performance Management System was completed to enhance financial projections and modeling for future years. Additional phases will be completed over the next two to three years. In addition, we are moving to a cloud-based platform for our Enterprise Resources and Planning system, and the student systems for most campuses. That work should be completed for the beginning of 2019. The USNH Board of Trustees is monitoring all of these initiatives, as well as our move to more electronic procurement, as we work to lower our administrative cost structures.

Endowment gifts totaled \$13 million in 2017, and \$11 million in 2016. The endowment funds distributed \$27 million in 2017 and 2016. The investment return after distributions totaled \$57 million in 2017. This compares to a net loss of \$41 million in 2016. The volatility of endowment returns is a significant driver of the change in total net position each year. Table 6A below provides condensed information from the Statement of Revenues, Expenses and Changes in Net Position presented by campus for the year ended June 30, 2017.

The 2017 reduction in cash flows from operating and noncapital financing activities is related to timing of employee separation payments accrued in 2016, as well as the lower noncapital gift levels discussed previously. The net cash used in investing activities in 2015 reflects the purchase of investments from proceeds of the new construction bonds totaling \$81 million. Approximately \$80 million of cash was provided by the issuance bonds in 2015, and approximately \$71 million of that total was invested in 2015. The construction spending related to bond Series 2015 and 2016 is reflected in the capital financing outflows in both 2016 and 2017.

**Table 6A: Condensed Information from the Statement of Revenues, Expenses and Changes in Net Position for the Year Ended June 30, 2017 Presented by Campus**

*(\$ in millions)*

	University of New Hampshire Campuses & Foundation	Plymouth State University	Keene State College & Endowment Association	Granite State College	Chancellor's Office	Total University System of New Hampshire
Tuition and fees	\$ 344	\$ 71	\$ 70	\$ 16	\$ –	\$ 501
Less: student financial aid	(121)	(23)	(22)	(6)	–	(172)
Net tuition and fees	223	48	48	10	–	329
Sales and auxiliary services	149	30	37	–	–	216
Grants and contracts	125	9	7	5	–	146
State general appropriations	55	12	11	3	–	81
Noncapital gifts, investment income and other revenues	55	5	5	1	5	71
<b>Total Operating and Nonoperating Revenues</b>	<b>607</b>	<b>104</b>	<b>108</b>	<b>19</b>	<b>5</b>	<b>843</b>
Employee compensation	377	56	65	13	10	521
Supplies and services	150	27	28	4	1	210
Utilities, depreciation and interest	64	17	18	–	1	100
<b>Total Operating and Nonoperating Expenses</b>	<b>591</b>	<b>100</b>	<b>111</b>	<b>17</b>	<b>12</b>	<b>831</b>
<b>Change in Net Position from Recurring Activities</b>	<b>16</b>	<b>4</b>	<b>(3)</b>	<b>2</b>	<b>(7)</b>	<b>12</b>
Endowment gifts and returns, net	34	5	4	1	26	70
State capital appropriations and other changes, net	6	1	1	–	3	11
<b>Total Other Changes in Net Position</b>	<b>40</b>	<b>6</b>	<b>5</b>	<b>1</b>	<b>29</b>	<b>81</b>
<b>Total Increase in Net Position</b>	<b>\$ 56</b>	<b>\$ 10</b>	<b>\$ 2</b>	<b>\$ 3</b>	<b>\$ 22</b>	<b>\$ 93</b>

### C. Statements of Cash Flows

The Statements of Cash Flows summarize transactions affecting cash and cash equivalents during the fiscal period. Table 7 on the following page shows summary information from the Statements of Cash Flows for the five years ended June 30, 2017.

These statements provide information about cash collections and cash payments made by USNH each year to help readers assess our ability to generate the future cash flows necessary to meet current and future obligations. Cash flows from operating activities will always be different than the operating results on the Statements of Revenues, Expenses and Changes in Net Position because of the inclusion of noncash items, such as depreciation expense, and because the latter statement is prepared on the accrual basis of accounting, meaning that it shows revenues when earned and expenses as incurred.



**Table 7: Condensed Information from the Statements of Cash Flows for the Years Ended June 30,**

*(\$ in millions)*

	2013*	2014	2015	2016	2017
<b>Cash flow from:</b>					
Receipts from tuition and fees, net	\$ 331	\$ 321	\$ 324	\$ 331	\$ 332
Receipts from sales of auxiliary services	197	204	206	208	217
Receipts of state general appropriations	53	69	81	81	81
Noncapital gifts, grants and other receipts	199	192	190	193	188
Payments to and on behalf of employees	(467)	(478)	(499)	(518)	(543)
Payments for supplies, services and utilities	<u>(223)</u>	<u>(223)</u>	<u>(224)</u>	<u>(222)</u>	<u>(227)</u>
<b>Net Cash Provided by Operating and Noncapital Financing Activities</b>	90	85	78	73	48
<b>Net Cash Used in Capital Financing Activities</b>	(73)	(75)	(5)	(110)	(120)
<b>Net Cash (Used in)/Provided by Investing Activities</b>	<u>(16)</u>	<u>(10)</u>	<u>(73)</u>	<u>26</u>	<u>69</u>
<b>Increase/(Decrease) in Cash and Cash Equivalents</b>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11)</u>	<u>\$ (3)</u>

\*Balances for fiscal year 2013 restated to include UNH School of Law

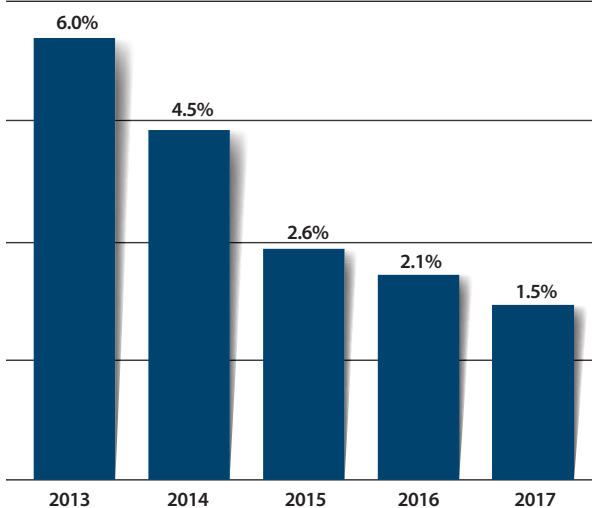
## D. Financial Indicators

Two key performance indicators used by USNH are the operating margin and the unrestricted financial resources (net position) to total debt ratios. Management monitors these ratios closely and considers them primary indicators of USNH's financial health. The operating margin ratio uses the increase in net position from recurring activities as the numerator and total revenue from recurring activities as the denominator. USNH's targeted annual operating margin range is 3% to 5% per year. As shown in Chart 6, actual operating margins have declined steadily from the high of 6% in 2013 to 1.5% for 2017 as we invest in enhancing the student experience for the future. The average margin over the past five years was 3.3%, reflecting the targeted balance of strategic spending and investment of resources.

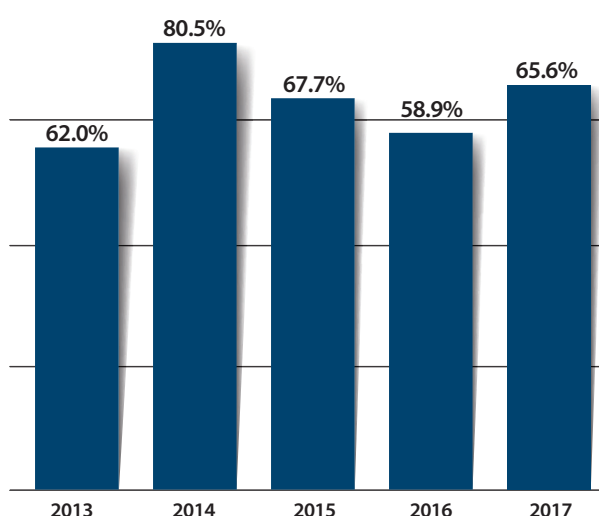
The unrestricted financial resources to debt ratio, shown in Chart 7, uses the unrestricted net position balance as the numerator and the total long-term debt balance outstanding as the denominator. USNH's targeted unrestricted financial resources to debt ratio is 50% or above. The average of this ratio over the past five years was 66% reflecting sufficient support of our ongoing initiatives. (See Notes 8 and 14 to the Financial Statements for additional information in this regard).



**Chart 6: Annual Operating Margin**



**Chart 7: Unrestricted Financial Resources to Total Debt**



# University System of New Hampshire

## Statements of Net Position

(\$ in thousands)

	Balance at June 30,	
	2017	2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 66,069	\$ 69,154
Short-term investments	146,588	158,413
Accounts receivable, net	21,729	20,288
Pledges receivable, net - current portion	3,187	3,471
Notes receivable, net - current portion	3,293	3,507
Prepaid expenses and other current assets	7,811	8,758
Total Current Assets	248,677	263,591
<b>Noncurrent Assets</b>		
Debt proceeds held by bond trustee for construction purposes	10,718	56,584
Endowment and similar investments - campuses	514,162	459,419
Endowment and similar investments - affiliated entities	216,346	195,890
Pledges receivable, net of current portion	7,106	8,697
Notes receivable, net of current portion	18,094	18,617
Pension assets	993	-
Property and equipment, net	1,119,628	1,077,051
Total Noncurrent Assets	1,887,047	1,816,258
<b>TOTAL ASSETS</b>	<b>2,135,724</b>	<b>2,079,849</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>33,067</b>	<b>44,552</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	57,238	69,425
Deposits and unearned revenues	37,682	32,686
Accrued employee benefits - current portion	7,407	14,826
Postretirement medical benefits - current portion	6,018	6,745
Long-term debt - current portion	20,064	17,666
Total Current Liabilities	128,409	141,348
<b>Noncurrent Liabilities</b>		
Obligations under life income agreements	2,126	2,204
Refundable government advances	16,643	16,685
Accrued employee benefits, net of current portion	27,178	34,049
Postretirement medical benefits, net of current portion	50,251	48,934
Derivative instruments - interest rate swaps	25,759	36,769
Long-term debt, net of current portion	481,401	501,333
Total Noncurrent Liabilities	603,358	639,974
<b>TOTAL LIABILITIES</b>	<b>731,767</b>	<b>781,322</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>2,206</b>	<b>1,879</b>
<b>NET POSITION</b> (see Note 14)		
Net investment in capital assets	650,968	630,442
Restricted		
Nonexpendable	270,089	256,513
Expendable	184,842	148,681
Unrestricted	328,919	305,564
<b>TOTAL NET POSITION</b>	<b>\$1,434,818</b>	<b>\$1,341,200</b>

See accompanying notes to the financial statements



# University System of New Hampshire

## Statements of Revenues, Expenses and Changes in Net Position

(\$ in thousands)

	For the year ended June 30,	
	2017	2016
<b>OPERATING REVENUES</b>		
Resident tuition	\$ 164,406	\$ 165,972
Nonresident tuition	288,702	277,046
Continuing education tuition	21,110	20,933
Student fees revenue	26,901	27,182
Total tuition and fees	501,119	491,133
Less: student financial aid - grants and contracts	(31,533)	(32,723)
Less: student financial aid - all other	(140,069)	(129,780)
Net tuition and fees	329,517	328,630
Grants and contracts - direct revenues	101,033	103,114
Grants and contracts - facilities & administrative recovery	20,060	19,969
Sales of auxiliary services	215,554	210,699
Other operating revenues	29,800	29,675
<b>TOTAL OPERATING REVENUES</b>	<b>695,964</b>	<b>692,087</b>
<b>OPERATING EXPENSES</b>		
Employee compensation - grants and contracts	59,324	58,218
Employee compensation - all other	461,372	470,285
Supplies and services - grants and contracts	31,342	32,539
Supplies and services - all other	178,511	170,033
Utilities	17,949	19,886
Depreciation	62,942	59,919
<b>TOTAL OPERATING EXPENSES</b>	<b>811,440</b>	<b>810,880</b>
Operating loss	(115,476)	(118,793)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State of New Hampshire general appropriations	81,000	81,000
Federal Pell grants	24,603	25,565
Noncapital gifts	11,424	17,564
Endowment and investment income	29,970	31,710
Interest expense, net	(19,521)	(19,432)
Other nonoperating revenue	241	369
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>127,717</b>	<b>136,776</b>
<b>INCREASE IN NET POSITION BEFORE OTHER CHANGES</b>	<b>12,241</b>	<b>17,983</b>
<b>OTHER CHANGES IN NET POSITION</b>		
State of New Hampshire capital appropriations	3,611	1,389
Plant gifts, grants and other changes, net	7,828	1,287
Endowment and similar gifts	13,429	11,405
Endowment return, net of amount used for operations	56,509	(41,221)
<b>TOTAL OTHER CHANGES IN NET POSITION</b>	<b>81,377</b>	<b>(27,140)</b>
<b>INCREASE(DECREASE) IN NET POSITION</b>	<b>93,618</b>	<b>(9,157)</b>
Net Position at Beginning of Year	1,341,200	1,350,357
<b>NET POSITION AT END OF YEAR</b>	<b>\$ 1,434,818</b>	<b>\$1,341,200</b>

See accompanying notes to the financial statements

# University System of New Hampshire

## Statements of Cash Flows

(\$ in thousands)

	For the year ended June 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from tuition and fees, net of student financial aid	\$ 331,935	\$ 331,049
Receipts from sales of auxiliary services	216,831	208,467
Receipts from grants, contracts and other operating revenues	150,932	151,170
Payments to employees	(402,840)	(387,329)
Payments for employee benefits	(139,960)	(130,813)
Payments for supplies, services and utilities	(226,957)	(222,086)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(70,059)</b>	<b>(49,542)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State general appropriations	81,000	81,000
Federal Pell and other nonoperating grants	24,844	25,934
Noncapital gifts	12,516	14,943
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>118,360</b>	<b>121,877</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
State appropriations for plant projects	3,973	1,022
Plant gifts and grants	10,614	5,974
Endowment gifts	13,429	11,405
Proceeds from issuance of debt and sale of property	66	60,398
Purchases and construction of property	(112,843)	(129,740)
Retirement of debt through defeasance	16	(25,349)
Debt principal payments	(16,089)	(14,740)
Interest payments	(19,874)	(18,851)
<b>NET CASH USED IN CAPITAL FINANCING ACTIVITIES</b>	<b>(120,708)</b>	<b>(109,881)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	507,248	813,043
Purchase of investments	(445,502)	(793,391)
Investment income	7,576	6,609
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>69,322</b>	<b>26,261</b>
Decrease in Cash and Cash Equivalents	(3,085)	(11,285)
Beginning cash and cash equivalents	69,154	80,439
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$ 66,069</b>	<b>\$ 69,154</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>		
Operating loss	\$ (115,476)	\$ (118,793)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	62,942	59,919
Changes in current assets and liabilities:		
Accounts receivable	(1,803)	(709)
Notes receivable	695	921
Prepaid expenses and other current assets	947	544
Accounts payable and accrued expenses	(8,103)	3,331
Deposits and unearned revenues	4,970	(1,432)
Accrued employee benefits	(14,231)	6,677
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>\$ (70,059)</b>	<b>\$ (49,542)</b>
<b>SIGNIFICANT NONCASH TRANSACTIONS</b>		
Endowment return, net of amount used for operations	\$ 56,509	\$ (41,211)
Loss on disposal of capital assets	(1,978)	(4,063)
Construction services payable balance	10,642	15,988

See accompanying notes to the financial statements



# Notes to the Financial Statements

June 30, 2017 and 2016

## 1. Summary of significant accounting policies and presentation

The University System of New Hampshire (USNH) is a not-for-profit institution of higher education created in 1963 as a body politic and corporate under the laws of the State of New Hampshire (the State) and is generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. USNH is considered a component unit of the State for financial reporting purposes. The accompanying financial statements include the accounts of the University of New Hampshire (UNH), Plymouth State University (PSU), Keene State College (KSC), and Granite State College (GSC) as well as certain affiliated entities discussed below. UNH, PSU, KSC and GSC are collectively referred to in the accompanying financial statements as "campuses."

On August 31, 2010, UNH and Franklin Pierce Law Center officially affiliated and the Center became known as the UNH School of Law (UNHL). During 2013, the USNH Board of Trustees and the UNH School of Law Board of Directors each approved a full integration agreement between the two entities with an effective date of January 1, 2014. The integration was treated as a merger in accordance with GASB Statement No. 69, *Governmental Combinations and Disposals of Government Operations*. Accordingly, the activities and balances of the UNH School of Law were merged with those of USNH, and are included in these financial statements as of July 1, 2012.

### Affiliated entities and related parties

Governmental accounting standards require that all potential component units be evaluated for inclusion in the financial statements of the primary government of the reporting entity. USNH's policy on 'Foundations Established for the Benefit of USNH or its Component Institutions' states that the USNH Board of Trustees retains control over the activities of any affiliated foundation. The USNH policy further states that USNH has the legal authority to terminate the existence of any affiliated foundation, at which time ownership of the related assets would revert to USNH. Two legally separate affiliated foundations are impacted by this policy and, accordingly, are considered blended component units of USNH. The University of New Hampshire Foundation, Inc. (UNHF) and the Keene Endowment Association (KEA) are collectively referred to in the accompanying financial statements as "affiliated entities." The associated revenues, expenses, assets, liabilities, deferred inflows, deferred outflows and net position of UNHF and KEA are fully consolidated with those of the campuses in the accompanying financial statements, and all associated interentity activity has been eliminated.

UNHF, Inc. was incorporated in 1989 as a not-for-profit, tax-exempt organization. Its purpose is to solicit, collect, invest and disburse funds for the sole benefit of the University of New Hampshire. The University of New Hampshire funds a portion of the operating expenses of UNHF. UNHF is governed by its own Board of Directors, the membership of which includes the President of the University of New Hampshire and up to three other members of the USNH Board of Trustees. UNHF has a separate financial statement audit each year. Condensed financial information for UNHF is included in Note 16. The KEA was organized in 1957 as a separate charitable entity to provide financial assistance to deserving students at Keene State College. Income is distributed at the discretion of the Trustees of KEA.

### Basis of accounting

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

USNH follows the requirements of the "business-type activities" (BTA) model as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis for Public Colleges and Universities*. BTAs are defined as those that are financed in whole or in part by fees charged to external parties for goods or services. The Statement requires that resources be classified into the following net position categories, as more fully detailed in Note 14.

- **Net investment in capital assets:** Property and equipment at historical cost or fair value on date of acquisition, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition or construction of those assets.
- **Restricted Nonexpendable:** Resources subject to externally imposed stipulations that they be maintained permanently by USNH. These funds include the historical gift value of restricted true endowment funds.
- **Restricted Expendable:** Resources whose use by USNH is subject to externally imposed stipulations. Such funds include the accumulated net gains on donor-restricted "true" endowment funds; the fair value of restricted funds functioning as endowment; restricted funds loaned to students; restricted gifts and endowment income; and other similarly restricted funds.
- **Unrestricted:** Resources that are not subject to externally imposed stipulations. Substantially all unrestricted net position funds are designated to support academic, research, or auxiliary enterprises; invested to function as endowment; or committed to capital construction projects.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. The most significant areas that require management estimates relate to valuation of certain investments and derivative instruments, useful life and related depreciation of capital assets, and accruals for postretirement medical and other employee-related benefits.

Investments are maintained with established financial institutions whose credit is evaluated by management and the respective governing boards of USNH and its affiliated entities. Investments of operating cash in money market and other mutual funds are generally recorded as cash equivalents. These amounts are invested for purposes of satisfying current operating liabilities and generating investment income to support ongoing operations. Short-term investments represent highly liquid amounts held for other current liabilities.

Property and equipment are recorded at original cost for purchased assets or at fair value on the date of donation in the case of gifts. Equipment with a unit cost of \$5,000 or more is capitalized. Building improvements with a cost of \$50,000 or greater are also capitalized. Net interest costs incurred during the construction period for major, debt-funded capital projects are added to the cost of the underlying asset. The value of equipment acquired under capital leases is recorded at the present value of the minimum lease payments at the inception of the lease. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the respective assets. The cost of certain research buildings is componentized for the purpose of calculating depreciation. Buildings and improvements are depreciated over useful lives ranging from 10 to 50 years. Depreciable lives for equipment range from 3 to 30 years. (See Note 5 for additional information on depreciation.) USNH does not record donated works of art and historical treasures that are held for exhibition, education, research and public service. Library collections are recorded as an expense in the period purchased, with the exception of UNH School of Law library collections which are capitalized annually and depreciated over a ten year period on a straight-line basis.

Deposits and unearned revenue consist of amounts billed or received in advance of USNH providing goods or services. Advances from the US Government for Federal Perkins Loans to students are reported as government advances refundable. Future Perkins loans to students are made available from repayments of outstanding principal amounts plus accumulated interest received thereon. Federal Direct Loan proceeds are posted to student accounts as approved and drawn weekly.

Operating revenues include tuition and fees, grants and contracts, sales of auxiliary services, and other operating revenues. Tuition and fee revenues are reported net of student financial aid discounts and allowances. Operating expenses include employee compensation and benefits, supplies and services, utilities, and depreciation. Operating expenses also include early retirement and other separation incentive stipends and benefits promised to certain employees in exchange for termination of employment. All such termination benefits are accrued as of the date the termination agreement is signed, and are presented at net present value at year end. Nonoperating revenues (expenses) include all other revenues and expenses except certain changes in long-term plant, endowment and other net position funds, which are reported as other changes in net position. Operating revenues are recognized when earned and expenses are recorded when incurred. Restricted grant revenue is recognized only to the extent of applicable expenses incurred or, in the case of fixed-price contracts, when the contract terms are met or completed.

Unconditional pledges of nonendowment gifts are presented net of estimated amounts deemed uncollectible after discounting to the present value of expected future cash flows. Because of uncertainties with regard to their realization and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met. In accordance with GASB requirements, endowment pledges expected to be received over the next ten years, totaling \$8,227,000 and \$9,508,000 at June 30, 2017 and 2016, respectively, have not been reported in the accompanying financial statements. USNH generally uses restricted funds first when an expense is incurred where both restricted and unrestricted funds are available.

Endowment return used for operations per application of the Board-approved endowment spending policy is reported as nonoperating revenue. Net realized and unrealized gains/losses and interest/dividend income earned on endowment and similar investments, together with the excess (deficiency) of these earnings over the return used for operations, are reported as other changes in net position.

In fiscal year 2016, the System adopted GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 establishes general principles for measuring fair value and requires enhanced disclosures about fair value measurements of certain assets and liabilities, such as investments and interest-rate swaps. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 requires that USNH categorize these assets and liabilities measured at fair value using a three-tiered hierarchy based on the valuation methodologies employed. The hierarchy is defined as follows:

**Level 1** — Value based on quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.

**Level 2** — Value based on inputs other than quoted prices that are observable for an asset or liability, either directly or indirectly; and

**Level 3** — Value based on unobservable inputs for an asset or liability.

The components of cash, cash equivalents and short-term investments are summarized below (*\$ in thousands*):

	Balances and Terms as of June 30, 2017				Balances and Terms as of June 30, 2016			
	Level 1	Level 2	Total	Weighted Average Maturity	Level 1	Level 2	Total	Weighted Average Maturity
Cash balance	\$ 3,803	\$ —	\$ 3,803	Less than 1 year	\$ 4,058	\$ —	\$ 4,058	Less than 1 year
Repurchase agreements	—	25,475	25,475	Less than 1 year	—	28,847	28,847	Less than 1 year
Money market funds	36,791	—	36,791	Less than 1 year	36,249	—	36,249	Less than 1 year
<b>Subtotal cash and cash equivalents</b>	<u>40,594</u>	<u>25,475</u>	<u>66,069</u>		<u>40,307</u>	<u>28,847</u>	<u>69,154</u>	
Money market funds	28,118	—	28,118	Less than 1 year	24,224	—	24,224	Less than 1 year
Domestic equity	276	—	276	Less than 1 year	205	—	205	Less than 1 year
Mutual funds	91,947	—	91,947	1-5 years	133,458	—	133,458	1-5 years
Corporate bonds	—	16,404	16,404	1-5 years	—	—	—	1-5 years
US government and agencies	—	7,689	7,689	1-5 years	—	526	526	1-5 years
Municipal bonds	—	2,149	2,149	1-5 years	—	—	—	1-5 years
Convertible note	—	5	5	1-5 years	—	—	—	1-5 years
<b>Subtotal short-term investments</b>	<u>120,341</u>	<u>26,247</u>	<u>146,588</u>		<u>157,887</u>	<u>526</u>	<u>158,413</u>	
<b>Total cash, cash equivalents and short-term investments</b>	<u>\$ 160,935</u>	<u>\$ 51,722</u>	<u>\$ 212,657</u>		<u>\$ 198,194</u>	<u>\$ 29,373</u>	<u>\$ 227,567</u>	

In determining fair value, USNH utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. As described in Note 4, certain investments are measured at net asset value as a practical expedient to estimate fair value and are not categorized in the fair value hierarchy. The System's financial statements include comparative financial information. Certain prior year amounts have been reclassified to conform to the current year presentation.

### New reporting standards

The System's financial statements and notes for fiscal 2017 and 2016 as presented herein reflect GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*. The application modified the presentation of certain pension related assets and obligations, and resulted in new and enhanced disclosures related to pension plans.

## 2. Cash, cash equivalents and short-term investments

Cash, cash equivalents, and short-term investments are recorded at fair value. USNH's investment policy and guidelines specify permitted instruments, durations, required ratings and insurance of USNH cash, cash equivalents and short-term investments. The investment policy and guidelines are intended to mitigate credit risk on investments individually and in the aggregate through restrictions on investment type, liquidity, custodian, dollar level, maturity, and rating category. Money market funds are placed with the largest national fund managers. These funds must be rated AA/Aa by Standard & Poor's and Moody's Investor Service and comply with Securities and Exchange Commission Rule 2A-7. Repurchase agreements must be fully collateralized at 102% of the face value by US Treasuries, or 103% of the face value by US Government-backed or guaranteed agencies or government sponsored enterprises. In addition, USNH investments may not exceed 5% of any institution's total deposits or 20% of any institution's net equity.

Cash equivalents represent amounts invested for the purpose of satisfying current operating liabilities and include repurchase agreements, money market funds and other mutual funds. Repurchase agreements are limited to overnight investments only. Short-term investments are highly liquid amounts held to support specific current liabilities. Cash, cash equivalents and short-term investments are generally uninsured and uncollateralized against custodial credit risk, and the related mutual funds are not rated. Cash and cash equivalents totaled \$66,069,000 and \$69,154,000 at June 30, 2017 and 2016, respectively, and short-term investments totaled \$146,588,000 and \$158,413,000 at June 30, 2017 and 2016, respectively.



### 3. Accounts, pledges and notes receivable

Accounts receivable at June 30 consisted of the following (\$ in thousands):

	2017	2016
Grants and contracts	\$ 18,847	\$ 16,330
Student and general	6,095	6,680
State of NH capital projects	–	362
Allowance for doubtful accounts	<u>(3,213)</u>	<u>(3,084)</u>
Total accounts receivable, net	<u>\$21,729</u>	<u>\$20,288</u>

Pledges receivable at June 30 consisted entirely of unconditional nonendowment promises to pay as follows (\$ in thousands):

	2017	2016
Pledges receivable	\$ 13,884	\$ 16,311
Discounts and allowance for doubtful pledges	<u>(3,591)</u>	<u>(4,143)</u>
<b>Total pledges receivable, net</b>	10,293	12,168
Less: noncurrent portion	<u>(7,106)</u>	<u>(8,697)</u>
Current portion	<u>\$ 3,187</u>	<u>\$ 3,471</u>

Notes receivable at June 30 consisted primarily of student loan funds as follows (\$ in thousands):

	2017	2016
Perkins loans	\$ 22,481	\$ 23,134
Other loans, restricted and unrestricted	874	1,067
Allowance for doubtful loans	<u>(1,968)</u>	<u>(2,077)</u>
<b>Total notes receivable, net</b>	21,387	22,124
Less: noncurrent portion	<u>(18,094)</u>	<u>(18,617)</u>
Current portion	<u>\$ 3,293</u>	<u>\$ 3,507</u>

### 4. Investments

USNH's investment policy and guidelines specify permitted instruments, duration and required ratings for pooled endowment funds. The policy and guidelines are intended to mitigate risk on investments individually and in the aggregate while maximizing total returns and supporting intergenerational equity of spending levels. Illiquid investments are limited to 20% of the USNH consolidated endowment pool. Credit risk is mitigated by due diligence in the selection and continuing review of investment managers as well as diversification of both investment managers and underlying investments. No more than \$50 million may be invested in any single fund and no more than \$75 million or 10% of the pool may be invested with any single bank, fund manager, or investment group unless approved by the USNH Board of Trustees' Finance Committee for Investments. Foreign currency risk is mitigated by limiting global equity investments in publicly traded international and emerging market funds to 25% of the endowment pool. Private global equity investments are limited to 15% of the endowment pool. No USNH endowment investments were denominated in foreign currencies as of June 30, 2017 or June 30, 2016.

The endowment and similar investment holdings of the campuses and affiliated entities as of June 30, 2017 and 2016, respectively are summarized below (\$ in thousands):

	Campuses		Affiliated Entities	
	2017	2016	2017	2016
Pooled endowments:				
Campuses	\$ 497,885	\$ 444,196		
UNH Foundation	–	–	\$ 204,468	\$ 184,606
Keene Endowment Association	–	–	7,820	7,424
Life income and annuity funds	85	104	4,058	3,860
Funds held in trust	<u>16,192</u>	<u>15,119</u>	–	–
Total	<u>\$ 514,162</u>	<u>\$ 459,419</u>	<u>\$ 216,346</u>	<u>\$ 195,890</u>

Endowment and similar investments are reported at estimated fair value. The fair value of these investments is based on quoted market prices when available. If an investment is held directly by USNH and an active market with quoted prices exists, the market price of an identical security is used to determine its fair value. Fair values of shares in registered mutual funds are based on published share prices. Registered mutual funds and directly held equity securities are classified in Level 1 of the fair value hierarchy. Investments classified in Level 2 consist of directly held investments that have valuations based on inputs other than quoted prices. There were no transfers between levels in 2017 and 2016.

As a practical expedient to estimate the fair value of USNH's interests, certain investments in commingled funds and limited partnerships are reported at the net asset value (NAV) determined by the fund managers, without adjustment when assessed as reasonable by USNH, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. Because these investments are not readily marketable, their estimated fair values may differ from the values that would have been assigned had a ready market for such investments existed, and such differences could be material. As of June 30, 2017 and 2016, USNH had no plans or intentions to sell such investments at amounts different from NAV.

The following table summarizes the fair value of USNH's investments by type (\$ in thousands):

	Balances as of June 30, 2017				Balances as of June 30, 2016			
	Investments Classified in Fair Value Hierarchy		Investments Measured at NAV	Total	Investments Classified in Fair Value Hierarchy		Investments Measured at NAV	Total
	Level 1	Level 2			Level 1	Level 2		
<b>Endowment and similar investments—campuses</b>								
Money market	\$ 13,694	\$ –	\$ –	\$ 13,694	\$ 8,653	\$ –	\$ –	\$ 8,653
Global fixed income	17,865	29,214	–	47,079	16,154	20,568	47	36,769
Inflation hedging assets	–	8,041	9,593	17,634	–	6,090	17,962	24,052
International equity	53,145	–	42,996	96,141	43,772	–	35,698	79,470
Domestic equity	106,689	–	50,323	157,012	103,401	–	39,505	142,906
Hedge funds:								
Equity Hedge	–	–	44,479	44,479	–	–	40,510	40,510
Event-Driven	–	–	29,775	29,775	–	–	27,206	27,206
Fund of Funds	–	–	56,640	56,640	–	–	52,805	52,805
Distressed/Restructuring	–	–	12,236	12,236	–	–	10,388	10,388
Private equity and non-marketable real assets	–	–	23,280	23,280	–	–	21,541	21,541
Funds held in trust	–	16,192	–	16,192	–	15,119	–	15,119
Total endowment and similar investments – campuses	<u>\$ 191,393</u>	<u>\$ 53,447</u>	<u>\$ 269,322</u>	<u>\$ 514,162</u>	<u>\$ 171,980</u>	<u>\$ 41,777</u>	<u>\$ 245,662</u>	<u>\$ 459,419</u>
<b>Endowment and similar investments—affiliated entities</b>								
Money market	\$ 3,303	\$ –	\$ –	\$ 3,303	\$ 9,205	\$ –	\$ –	\$ 9,205
Global fixed income	12,795	720	1,342	14,857	9,223	1,786	1,261	12,270
Inflation hedging assets	2,785	3,799	3,352	9,936	2,813	3,873	3,681	10,367
International equity	15,788	–	29,918	45,706	13,319	–	24,019	37,338
Domestic equity	37,240	–	34,635	71,875	34,715	–	29,080	63,795
Hedge funds:								
Equity Hedge	–	–	21,216	21,216	–	–	16,698	16,698
Distressed/Restructuring	–	–	26,075	26,075	–	–	21,232	21,232
Diversified	–	–	9,797	9,797	–	–	12,991	12,991
Private equity and non-marketable real assets	–	–	13,581	13,581	–	–	11,994	11,994
Total endowment and similar investments – affiliated entities	<u>\$ 71,911</u>	<u>\$ 4,519</u>	<u>\$ 139,916</u>	<u>\$ 216,346</u>	<u>\$ 69,275</u>	<u>\$ 5,659</u>	<u>\$ 120,956</u>	<u>\$ 195,890</u>
<b>Total endowment and similar investments</b>	<u>\$ 263,304</u>	<u>\$ 57,966</u>	<u>\$ 409,238</u>	<u>\$ 730,508</u>	<u>\$ 241,255</u>	<u>\$ 47,436</u>	<u>\$ 366,618</u>	<u>\$ 655,309</u>

The majority of USNH's investments are units of institutional commingled funds and limited partnerships invested in equity, fixed income, hedge, natural resources, private equity, or real estate strategies. Hedge strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedge strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments which are valued by the investment manager. To the extent quoted prices exist the manager would use those; when these are not available, other

methodologies maximizing observable inputs would be used for the valuation, such as discounted cash flow analysis, capitalization of current or stabilized net operating income, replacement costs, or sales contracts and recent sales comparable in the market. Private equity funds employ buyout, growth and venture capital, and distressed security strategies. Real asset funds generally hold interests in private real estate. As of June 30, 2017 and 2016, fixed income securities had maturities up to 30 years and carried ratings ranging from AAA to A3. The mutual fund investments held in the endowment pools are not rated.



Investment liquidity for the past two years is aggregated below based on redemption terms or availability (\$ in thousands):

Liquidity Terms as of June 30, 2017								
	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid	Total	Redemption Notice Period
<b>Endowment and similar investments – campuses</b>								
Money market	\$ 13,694	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 13,694	Same day
Global fixed income	47,079	–	–	–	–	–	47,079	Same day
Inflation hedging assets	8,041	9,593	–	–	–	–	17,634	1-30 days
International equity	53,145	42,996	–	–	–	–	96,141	1-30 days
Domestic equity	106,689	–	50,323	–	–	–	157,012	1-60 days
Hedge funds:								
Equity Hedge	13,974	–	–	6,243	24,137	125	44,479	1-60 days, Illiquid
Event-Driven	–	–	16,460	13,254	–	61	29,775	60-65 days, Illiquid
Fund of Funds	–	–	21,278	–	34,772	590	56,640	65-91 days, Illiquid
Distressed/Restructuring	–	–	–	–	12,236	–	12,236	90 days
Private equity and non-marketable real assets	–	–	–	–	–	23,280	23,280	Illiquid
Funds held in trust	–	–	–	–	–	16,192	16,192	Illiquid
Total endowment and similar investments – campuses	<u>\$242,622</u>	<u>\$ 52,589</u>	<u>\$ 88,061</u>	<u>\$ 19,497</u>	<u>\$ 71,145</u>	<u>\$ 40,248</u>	<u>\$ 514,162</u>	
<b>Endowment and similar investments–affiliated entities</b>								
Money market	\$ 3,297	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 3,297	Same day
Global fixed income	13,440	1,342	–	–	–	–	14,782	Same day
Inflation hedging assets	6,584	3,352	–	–	–	–	9,936	1-35 days
International equity	16,121	29,428	–	–	–	–	45,549	1-60 days
Domestic equity	39,131	–	32,982	–	–	–	72,113	1-60 days
Hedge funds:								
Equity Hedge	–	–	3,189	–	10,801	7,226	21,216	45-60 days, Illiquid
Distressed/Restructuring	–	–	16,379	–	9,696	–	26,075	45-90 days
Diversified	–	–	–	4,747	–	5,050	9,797	65-95 days, Illiquid
Private equity & non-marketable real assets	–	–	–	–	–	13,581	13,581	Illiquid
Total endowment and similar investments - affiliated entities	<u>\$ 78,573</u>	<u>\$ 34,122</u>	<u>\$ 52,550</u>	<u>\$ 4,747</u>	<u>\$ 20,497</u>	<u>\$ 25,857</u>	<u>\$ 216,346</u>	
<b>Total endowment and similar investments</b>	<u>\$321,195</u>	<u>\$ 86,711</u>	<u>\$ 140,611</u>	<u>\$ 24,244</u>	<u>\$ 91,642</u>	<u>\$ 66,105</u>	<u>\$ 730,508</u>	

As of June 30, 2017, UNHF had one equity hedge fund with lock-up periods for multiple share classes ranging from 2 to 17 months, one distressed hedge fund with a lock-up period set to expire in 13 months, and one diversified fund with a lock up period ending in 18 months. As of June 30, 2017, USNH had no funds in an active lock-up period. Hedge funds, private equity and real estate funds classified as illiquid have no ability to be redeemed. For USNH, of the 28 funds classified as illiquid, nine are currently in liquidation; five are expected to start liquidation within the next year; five are expected to start liquidation in 2 to 9 years, and nine currently have no expected liquidation dates. For UNHF, fourteen funds are classified as illiquid and are expected to be liquidated over the next 2 months to 14 years. As of June 30, 2017, USNH has three outstanding investment liquidation requests which have been

limited by the respective fund managers. Management of the fund in which USNH has the largest of these balances has approved a plan to fully liquidate all balances by the end of 2018. USNH's balance in that fund was \$482,000 and \$656,000 as of June 30, 2017 and 2016, respectively. Plans have not been communicated for the remaining two funds. USNH's balance in the remaining funds totaled \$233,000 and \$246,000 as of June 30, 2017 and 2016, respectively. The fair values based on 6/30 NAV of all three investments at June 30, 2017 and 2016 are \$714,000 and \$901,000, respectively. It is uncertain when, or if, the funds will be fully collected at the NAV recorded. Unfunded commitments with various private equity and similar alternative investment funds totaled \$15,351,000 for USNH and \$17,421,000 for UNHF at June 30, 2017. This compares to \$15,839,000 and \$21,550,000, respectively, at June 30, 2016.

Liquidity Terms as of June 30, 2016								
	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid	Total	Redemption Notice Period
<b>Endowment and similar investments – campuses</b>								
Money market	\$ 8,653	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 8,653	Same day
Global fixed income	24,052	–	–	–	–	–	24,052	Same day
International equity	36,722	47	–	–	–	–	36,769	1-10 days
Inflation hedging assets	43,771	35,699	–	–	–	–	79,470	1-30 days
Domestic equity	103,401	–	39,505	–	–	–	142,906	1-60 days
Hedge funds:								
Equity Hedge	12,064	–	–	5,170	23,166	110	40,510	1-60 days, Illiquid
Event-Driven	–	–	15,189	11,956	–	61	27,206	60-65 days, Illiquid
Fund of Funds	–	–	20,058	–	31,956	791	52,805	65-91 days, Illiquid
Distressed/Restructuring	–	–	–	–	10,388	–	10,388	90 days
Private equity and non-marketable real assets	–	–	–	–	–	21,541	21,541	Illiquid
Funds held in trust	–	–	–	–	–	15,119	15,119	Illiquid
Total endowment and similar investments – campuses	<u>\$228,663</u>	<u>\$ 35,746</u>	<u>\$ 74,752</u>	<u>\$ 17,126</u>	<u>\$ 65,510</u>	<u>\$ 37,622</u>	<u>\$ 459,419</u>	
<b>Endowment and similar investments–affiliated entities</b>								
Money market	\$ 9,205	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 9,205	Same day
Global fixed income	11,009	1,261	–	–	–	–	12,270	Same day
International equity	13,772	23,566	–	–	–	–	37,338	1-10 days
Inflation hedging assets	6,686	3,681	–	–	–	–	10,367	1-35 days
Domestic equity	36,262	–	27,533	–	–	–	63,795	1-60 days
Hedge funds:								
Equity Hedge	–	–	–	6,839	9,859	–	16,698	45-60 days
Distressed/Restructuring	–	–	13,952	–	7,280	–	21,232	45-90 days
Diversified	–	–	230	4,800	7,961	–	12,991	65-95 days
Private equity & non-marketable real assets	–	–	–	–	–	11,994	11,994	Illiquid
Total endowment and similar investments - affiliated entities	<u>\$ 76,934</u>	<u>\$ 28,508</u>	<u>\$ 41,715</u>	<u>\$ 11,639</u>	<u>\$ 25,100</u>	<u>\$ 11,994</u>	<u>\$ 195,890</u>	
<b>Total endowment and similar investments</b>	<u>\$ 305,597</u>	<u>\$ 64,254</u>	<u>\$116,467</u>	<u>\$ 28,765</u>	<u>\$ 90,610</u>	<u>\$ 49,616</u>	<u>\$ 655,309</u>	

## 5. Property and equipment

Property and equipment activity for the years ended June 30, 2017 and 2016 is summarized as follows (\$ in thousands):

	2016			2017			
	Balance June 30, 2015	Additions	Retirements & Changes	Balance June 30, 2016	Additions	Retirements & Changes	Balance June 30, 2017
Land	\$ 15,789	\$ 2	\$ (11)	\$ 15,780	\$ 85	\$ –	\$ 15,865
Buildings and improvements	1,555,154	68,199	(30,262)	1,593,091	96,333	(8,763)	1,680,661
Equipment	118,717	12,894	(8,524)	123,087	12,603	(3,075)	132,615
Construction in progress, net	67,490	119,567	(68,700)	118,357	94,894	(96,418)	116,833
<b>Total property and equipment</b>	<u>1,757,150</u>	<u>200,662</u>	<u>(107,497)</u>	<u>1,850,315</u>	<u>203,915</u>	<u>(108,256)</u>	<u>1,945,974</u>
Less: accumulated depreciation	<u>(747,565)</u>	<u>(59,919)</u>	<u>34,220</u>	<u>(773,264)</u>	<u>(62,942)</u>	<u>9,860</u>	<u>(826,346)</u>
<b>Property and equipment, net</b>	<u>\$ 1,009,585</u>	<u>\$ 140,743</u>	<u>\$ (73,277)</u>	<u>\$ 1,077,051</u>	<u>\$ 140,973</u>	<u>\$ (98,396)</u>	<u>\$ 1,119,628</u>

Contractual obligations for major construction projects totaled approximately \$26,794,000 and \$63,702,000 at June 30, 2017 and 2016, respectively.



## 6. Accrued employee benefits

Accrued employee benefit obligations at June 30 are summarized below (\$ in thousands):

	2016			2017			Balance June 30, 2017	Current Portion
	Balance June 30, 2015	Payments to/ on Behalf of Participants	Expenses & Other Changes	Balance June 30, 2016	Payments to/ on Behalf of Participants	Expenses & Other Changes		
Operating Staff Retirement Plan	\$ 6,545	\$ (610)	\$ 410	\$ 6,345	\$ (590)	\$ (5,755)	\$ –	\$ –
Additional retirement program	3,377	(116)	(308)	2,953	(455)	(175)	2,323	455
Employee separation incentives	7,611	(4,578)	9,315	12,348	(8,977)	923	4,294	2,763
Long-term disability	2,777	(583)	423	2,617	(571)	320	2,366	571
Workers' compensation	4,161	(1,106)	846	3,901	(1,089)	1,388	4,200	1,089
Compensated absences	19,377	(2,099)	2,958	20,236	(2,689)	3,219	20,766	2,000
Other benefits	363	–	112	475	–	161	636	529
<b>Total accrued employee benefits</b>	<b>\$ 44,211</b>	<b>\$ (9,092)</b>	<b>\$ 13,756</b>	<b>\$ 48,875</b>	<b>\$ (14,371)</b>	<b>\$ 81</b>	<b>\$ 34,585</b>	<b>\$ 7,407</b>

**The Operating Staff Retirement Plan** has been closed to new participants since 1987. At June 30, 2017 there were approximately 190 current annuitants and 35 participants with deferred benefits, all fully vested. This compares to 197 current annuitants and 47 participants with deferred benefits as of June 30, 2016. On June 29, 2017, USNH created and fully funded a trust to hold assets set aside for operating staff retirement obligations. Accordingly, USNH applied GASB Statement No. 68, *Accounting and Reporting for Pensions*, for its June 30, 2017 financial statements. Fiscal year 2016 balances and activities have not been restated to reflect this application based on immateriality. The determination of total pension liability for this program was based on the last biennial actuarial valuation calculation dated June 30, 2017, and was developed using the Entry Age Normal Cost Method. The RP-2016 employee mortality tables with Scale MP-2016 and single discount rate of 5.5% based on long term expected rate of investment return was used in determining the 2017 actuarial accrued liabilities. A discount rate of 7.5% and the RP-2014 employee mortality table with Scale MP-2014 were used for the 2016 calculations. The actuarially-determined liability for the program was \$5,707,000 and \$6,345,000 for June 30, 2017 and 2016, respectively. The plan fiduciary net position was \$6,700,000 as of June 30, 2017 which resulted in the recording of a net pension asset of \$993,000. The trust assets were held in cash and classified in Level 1 of the GASB fair value hierarchy as of June 30, 2017. If the discount rate were to increase by 1%, the net pension asset at June 30, 2017 would be \$1,386,000. Similarly, if the discount rate were to decrease by 1%, the net pension asset at June 30, 2017 would be \$526,000. The operating staff retirement program pension expense was \$317,000 and \$66,000 for fiscal years 2017 and 2016, respectively.

**The Additional Retirement Contribution Program** is a single employee plan administered by USNH and offered to eligible employees hired between July 1, 1994 and June 30, 2011. Under this plan, staff meeting certain voluntary defined benefit plan contribution levels receive an additional 1% of their salary contributed to their defined contribution retirement plan (see below) by USNH in lieu of postretirement medical benefits. Employees meeting certain service guidelines prior to July 1, 1994 are also eligible for a guaranteed minimum employer retirement contribution of \$10,000 plus an additional \$1,000 for each year of service in excess of 20 less 1% of the participant's salary account. There were 386 and 407 active employees meeting the requirements for the guaranteed minimum employer contribution as of June 30, 2017 and 2016, respectively.

USNH adopted GASB Statement No. 73, *Accounting and Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68*, for its June 30, 2017 financial statements. Fiscal year 2016 balances and activities have not been restated to reflect this adoption based on immateriality. USNH accrued \$2,323,000 and \$2,953,000 at June 30, 2017 and 2016, respectively, for the related obligations. The calculations for the Additional Retirement Contribution program are based on the benefits provided by the program at the time of the last biennial actuarial valuation, December 31, 2016, and were developed using the Entry Age Normal Cost Method. The discount rate used in determining the actuarial accrued liabilities was 3.78% for 2017 and is based on Bond Buyer Go 20-Year Municipal Bond Index as of the measurement date. The discount rate used in 2016 was 2.25% based on expected related earnings at the time. Inflation and salary increase rates of 3% were used to determine the liability along with the RP-2014 employee Mortality Table. If the discount rate were to increase by 1%, the total liability at June 30, 2017 would be \$2,234,000. Similarly, if the discount rate were to decrease by 1%, the total liability at June 30, 2017 would be 2,412,000. The Additional Retirement Contribution program expense was \$81,000 and \$153,000 for fiscal years 2017 and 2016, respectively.

USNH had designated cash assets to fully fund the Additional Retirement Contribution obligations at June 30, 2017 and 2016. These assets are not administrated through a trust. The Additional Retirement Contribution program is not available to employees hired after June 30, 2011. Eligible employees hired after June 30, 2011 may elect to participate in USNH's defined contribution retirement plans administered by others. Retirement contributions by USNH for employees enrolled in the defined contribution plans range from 4% to 10% of eligible salaries for enrolled participants. USNH additions to the defined contribution plans totaled \$26,283,000 and \$26,375,000 in 2017 and 2016, respectively. Retirement contributions by plan members totaled \$28,771,000 and 25,735,000 in 2017 and 2016, respectively.

Early retirement and employee separation incentive programs were provided to various faculty and staff during 2017 and 2016. Such incentives include stipends, as well as medical, educational and other termination benefits. The net present value of future costs associated with these incentive options is accrued as of the date of acceptance into the program. The liability balances of \$4,294,000 and \$12,348,000 at June 30, 2017 and 2016 represent obligations for 94 and 271 participants, respectively, which will be remitted in fiscal years 2018 through 2021.

USNH sponsors other benefit programs for its employees, including long-term disability, workers' compensation, and compensated absences. Long-term disability payments are provided through an independent insurer. The associated medical benefits are accrued and paid by USNH until age 65, at which point the postretirement medical plan takes over, if applicable. Workers' compensation accruals include amounts for medical costs and annual stipends. A small number of chronic workers' compensation cases will require stipends and regular employee medical benefits for life. Coverage for such claims is provided through an independent insurer. USNH also accrues amounts for compensated absences as earned. These accrued balances at June 30 represent vacation and earned time amounts payable to employees upon termination of employment.

USNH is self-insured for a portion of certain risks, including workers' compensation, employee long-term disability, and certain student health insurance claims. Most employee and retiree medical and dental coverage provided by USNH is also self-insured. The costs of self-insured medical and dental claims and administrative fees totaled \$56,649,000 and \$59,627,000 for fiscal year 2017 and 2016, respectively. These amounts include \$5,572,000 and \$6,575,000 for estimated claims incurred but not reported as of June 30, 2017 and 2016, respectively. In conjunction with the primary medical plan offering for active employees, USNH purchases stop-loss coverage which limits the USNH cost of claims to \$500,000 per participant in most cases. The liabilities recorded in the financial statements for all USNH self-insured programs are developed by third party claim administrators and based on historical claims data. Management reviewed the calculations for reasonableness and believes the liabilities are sufficient to cover the actual claims incurred.

The UNH School of Law currently maintains separate medical and retirement programs for its faculty and staff which are administered by third party providers. In accordance with terms of the integration agreement, employees under these plans will be migrated to the USNH primary plans over the next few years. The USNH Board of Trustees holds authority to change individual programs or terms of employee benefit offerings at any time.

## 7. Postretirement medical benefits

The primary defined benefit postretirement medical plan has two components. The first offering known as the Medicare Complementary Plan (MCP), was optional for full-time status employees hired before July 1, 1994 and not offered to new employees after that date. At January 1, 2017 and 2016, respectively, there were 798 and 956 former employees receiving benefits under this program along with their dependents. As of January 1, 2017 and 2016, respectively, there were 202 and 232 active employees who, along with their dependents, may eventually be eligible to receive benefits under this program. The MCP provides limited medical coverage for the remaining life of the participants. There are no costs to participate in the plan, but retirees must pay a portion of the actual costs of services rendered.

Employees hired on July 1, 1994 or later are eligible for the current offering which provides bridge coverage only for retirees aged 62-65. Retired employees must have reached age 62, completed at least 10 years of benefits eligible service, participated in the active retirement plans during their last 10 years of service, and participated in USNH's active medical plan at the time of retirement in order to be eligible for the plan. Retirees contribute to the current plan at then-current employee medical rates during the bridge period. As of January 1, 2017 and 2016, respectively, there were 125 and 146 retirees receiving benefits under this program along with their dependents. As of January 1, 2017 and 2016, respectively, there were also 3,687 and 3,913 active employees who, along with their dependents, may eventually be eligible to receive benefits under this program.

Together, the above offerings constitute the primary post-retirement medical plan. This is a single-employer plan and funded on a pay-as-you-go basis with benefits paid when due. Third party actuaries are used to determine the postretirement benefit obligation and annual expense amounts. Actuarial calculations reflect a long-term perspective. By definition such calculations involve estimates and, accordingly, are subject to revision. The healthcare cost trend and discount rate assumptions have a significant effect on the amounts reported. For measurement purposes the 2017 initial rate of increase in the cost of healthcare services was assumed to be 7.0% for participants and decreasing 0.5% each year thereafter until reaching an ultimate rate of 4.5% per year. The initial increase in the cost of prescriptions was assumed to be 10.0% for 2017 and decreasing by 0.5% each year thereafter to an ultimate rate of 4.5% per year. The discount rate used in determining the actuarial accrued liability was 2.5% for 2016 and 2017. The actuarially determined postretirement benefit expense for the plan was \$7,516,000 and \$8,721,000 for June 30, 2017 and 2016, respectively. These calculations are based on the benefits provided by the plan at the time of the last biennial plan valuation, December 31, 2016, and were developed using the Projected Unit Credit Cost Method. The primary postretirement medical plan holds no assets. USNH accrued \$56,166,000 and \$55,332,000, respectively, for obligations of the plan as of June 30, 2017 and 2016.

Total annual other postemployment benefit (OPEB) costs for the primary post-retirement medical plan for the years ended June 30, 2017 and 2016, and the liability as of June 30, 2017 and 2016 included the following components (*\$ in thousands*):

	2017	2016
Annual required contribution	\$ 13,886	\$ 14,422
Interest on net OPEB obligation	1,383	1,334
Adjustment to annual required contribution	(8,417)	(9,193)
Annual OPEB cost	6,852	6,563
Claims paid	(6,018)	(4,578)
<b>Increase in net OPEB obligation</b>	834	1,985
Net OPEB obligation at beginning of year	55,332	53,347
<b>Net OPEB obligation at end of year</b>	<b>\$ 56,166</b>	<b>\$ 55,332</b>
<b>Current portion</b>	<b>\$ 6,018</b>	<b>\$ 6,736</b>

USNH also accrued \$103,000 and \$347,000 as of June 30, 2017 and 2016, respectively, for potential obligations related to postretirement care of certain USNH police personnel. The USNH Board of Trustees holds the authority to change these benefit plans at any time.



## 8. Long-term debt

USNH long-term debt activity, exclusive of deferred losses or gains on refunding, for the years ended June 30, 2017 and 2016 is summarized below (\$ in thousands):

	2016				2017			
	Balance June 30, 2015	Additions & Other Changes	Retirements	Balance June 30, 2016	Additions & Other Changes	Retirements	Balance June 30, 2017	Current Portion
<b>NHHEFA bonds</b>								
Series 2005A	\$ 53,500	\$ -	\$ (1,750)	\$ 51,750	\$ -	\$ (1,650)	\$ 50,100	\$ 1,900
Series 2005B	81,865	-	(4,165)	77,700	-	(4,295)	73,405	4,450
Series 2006B-2	2,925	-	(1,425)	1,500	-	(1,500)	-	-
Series 2007	46,570	-	-	46,570	-	-	46,570	-
Series 2009A	84,045	-	(25,000)	59,045	-	-	59,045	-
Series 2011A	6,000	-	-	6,000	-	-	6,000	-
Series 2011B	37,780	-	(1,750)	36,030	-	(1,830)	34,200	1,925
Series 2012	18,000	-	(2,735)	15,265	-	(2,815)	12,450	2,930
Series 2014	21,760	-	(1,955)	19,805	-	(2,030)	17,775	2,070
Series 2015	116,970	-	-	116,970	-	(1,100)	115,870	2,610
Series 2016	-	53,890	-	53,890	-	-	53,890	1,675
Unamortized discounts/premiums, net	19,333	5,494	(1,127)	23,700	-	(1,450)	22,250	1,449
<b>Capital leases</b>	11,727	-	(953)	10,774	149	(1,013)	9,910	1,055
<b>Total bonds and leases</b>	<u>\$ 500,475</u>	<u>\$ 59,384</u>	<u>\$ (40,860)</u>	<u>\$ 518,999</u>	<u>\$ 149</u>	<u>\$ (17,683)</u>	<u>\$ 501,465</u>	<u>\$ 20,064</u>

### New Hampshire Health and Education Facilities Authority (NHHEFA) Bonds

NHHEFA is a public body corporate and an agency of the State of New Hampshire whose primary purpose is to assist New Hampshire not-for-profit educational and health care institutions in the construction and financing (or refinancing) of related facilities. NHHEFA achieves this purpose primarily through the issuance of bonds. Since 1989 all USNH bonds have been issued through NHHEFA. None of USNH's NHHEFA bonds provide for a lien or mortgage on any property. USNH is obligated under the terms of the NHHEFA bonds to make payments from revenues received from certain housing, dining, union, recreational, and other related revenue generating facilities financed by the bonds. The state is not liable for the payment of principal or interest on the NHHEFA bonds, nor is the state directly, indirectly or contingently obligated to levy or pledge any form of taxation whatsoever or to make any appropriation for their payment. Management believes they are in compliance with all covenants specified in the NHHEFA bonds agreements, the most restrictive of which is maintenance of a debt-service coverage ratio, as defined, of at least 1.0 to 1.0.

USNH's bond portfolio at June 30, 2017 consisted of fixed rate and variable rate issues. The variable rate demand bonds (Series 2005A, 2005B, 2011B) are fully hedged via interest rate swap agreements (see Note 9 below), with all three issues supported by standby bond purchase agreements as of June 30, 2017. Series 2011B was supported by self-liquidity as of June 30, 2015 and, accordingly, the entire balance was categorized in total as a current liability at that time. The variable interest rates for the Series 2005A, 2005B and 2011B Bonds at June 30, 2017 and 2016 were 0.73% and 0.36% respectively.

USNH issued the Series 2016 Bonds in the amount of \$53,890,000 to defease a portion of the Series 2009A Bonds (\$25,000,000), and fund a new student housing development (\$32,715,000) during the year ended June 30, 2016. During the year ended June 30, 2015, USNH issued Series 2015 Bonds in the amount of \$116,970,000 to defease a portion of the Series 2006B-2 Bonds (\$48,325,000), and fund student housing, dining and recreation facility projects at the three residential campuses (\$71,865,000). Construction proceeds of \$10,718,000 and \$56,584,000 were unspent as of June 30, 2017 and June 30, 2016, respectively, and held in reserve in accordance with the related debt agreements. The related investments are classified in Level 1 of the GASB fair value hierarchy because the underlying securities held by the bond trustee are valued based on quoted market prices. The Series 2009A refunding proceeds of \$25,379,000 were held in escrow in the principal payment investment account on June 30, 2016.

Maturity dates and interest terms of outstanding debt issues are summarized below:

NHHEFA Bonds	Maturity Date	Interest Terms and Rates
Series 2005A	7/1/2035	Variable with daily pricing
Series 2005B	7/1/2033	Variable with daily pricing
Series 2007	7/1/2018	Fixed at 5.1%
Series 2009A	Periodic Maturities*	Fixed at rates of 4.0-5.5%
Series 2011A	7/1/2021	Fixed at 5.0%
Series 2011B	7/1/2033	Variable with daily pricing
Series 2012	7/1/2020	Fixed at 1.7%
Series 2014	7/1/2024	Fixed at 2.0%
Series 2015	7/1/2045	Fixed at 3.8%
Series 2016	7/1/2046	Fixed at 2.7%

\* 7/1/2020, 2023

### Capital leases

On April 30, 2004, USNH entered into a capital lease agreement in the amount of \$18,292,000 to finance a portion of the costs of equipment housed in UNH's utility cogeneration facility. The related lease payments are due quarterly through June 2025, including principal as well as interest at a fixed rate of 4.5%. The carrying value of the related equipment was \$9,910,000 and \$10,774,000 as of June 30, 2017 and 2016, respectively.

### State of NH general obligation bonds

The state, through acts of its legislature, provides funding for certain major plant facilities on USNH campuses. The state obtains its funds for these construction projects from general obligation bonds, which it issues from time to time. Debt service is funded by the general fund of the state, which is in the custody of the State Treasurer. The state is responsible for all repayments of these bonds in accordance with bond indentures. USNH facilities are not pledged as collateral for these bonds and creditors have no recourse to USNH. Accordingly, the state's debt obligation attributable to USNH's educational and general facilities is not reported as debt of USNH. As construction expenditures are incurred by USNH on state-funded educational and general facilities, amounts are billed to the state and recorded as State of New Hampshire capital appropriations.

## Maturity of Long-term Debt Obligations

USNH Long-term debt obligations are scheduled to mature as follows using the associated fixed, estimated synthetic fixed, and expected variable rates in effect as of June 30, 2017 over the remaining terms of the individual issuances (\$ in thousands):

Fiscal Year	Principal	Interest	Total
2018	\$ 18,615	\$ 20,672	\$ 39,287
2019	66,512	19,886	86,398
2020	20,567	16,630	37,197
2021	50,594	15,987	66,581
2022	24,778	13,458	38,236
2023-2027	120,529	50,399	170,928
2028-2032	69,315	31,884	101,199
2033-2037	60,180	17,481	77,661
2038-2042	23,490	8,631	32,121
2043-2047	24,635	2,899	27,534
Plus: unamortized discounts/premiums, net	22,250	—	22,250
<b>Total</b>	<b>\$ 501,465</b>	<b>\$ 197,927</b>	<b>\$ 699,392</b>

## 9. Derivative instruments – interest rate swaps

USNH uses hedging derivatives to artificially fix interest rates on variable rate bonds outstanding. The terms and fair market value of swap contracts in place as of June 30, 2017 and 2016 were as follows (\$ in thousands):

	Effective Date	Termination Date	Payable Fixed Swap Rate	Receivable Variable Swap Rate	Notional Amount at June 30,		Swap Fair Value at June 30,	
					2017	2016	2017	2016
Series 2005A swap	October 29, 2008	July 1, 2035	3.6%	67% LIBOR	\$ 50,100	\$ 51,750	\$ (9,775)	\$ (13,709)
Series 2005B swap	August 1, 2005	July 1, 2033	3.1%	63% LIBOR+0.29%	73,405	77,700	(8,256)	(12,602)
Series 2011B swap	April 4, 2011	July 1, 2033	4.5%	67% LIBOR	34,200	36,030	(7,728)	(10,458)
				<b>Total</b>	<b>\$ 157,705</b>	<b>\$ 165,480</b>	<b>\$ (25,759)</b>	<b>\$ (36,769)</b>

USNH utilized interest rate swap agreements with counterparties to effectively convert its variable rate debt to fixed rates. The swaps' fair values and changes therein are recognized in USNH's financial statements. Differences between the fixed and variable rates in effect at each interest due date are settled net under each swap, increasing or decreasing interest expense. The fair value of the swap instruments considers the estimated benefit or cost to the USNH to cancel the agreements as of the reporting dates, and is based on option pricing models that consider interest rates and other market factors, as well as the credit risks of the parties to the agreements. Interest rate volatility, remaining outstanding principal, and time to maturity will affect the swaps' fair values at subsequent reporting dates. The values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment. Because the swap fair values are based predominantly on observable inputs corroborated by market data, they are classified in Level 2 of the GASB fair value hierarchy. USNH intends to hold all swap contracts to maturity.

These derivative instruments meet the criteria established by GASB Statement No. 53 for effective hedges as of June 30, 2017 and 2016 and, therefore, their accumulated changes in fair value are reflected as deferrals on the Statements of Net Position. The notional amount of each swap is tied to the outstanding balance of the related bonds throughout the life of the swap. Under the terms of each swap, USNH makes fixed rate interest payments to the counterparty and receives a variable rate payment from the counterparty. USNH makes variable rate payments to bondholders on the related bonds. None of the derivatives require collateralization by USNH at any level of negative fair market value.

## Risk Disclosure

**Counterparty Risk** – This is the risk that the counterparty will fail to perform under the terms of the swap agreement. As of June 30, 2017, USNH was exposed to no counterparty credit risk relative to its swaps as all swap market values were negative. The swaps require collateralization of any positive fair value of the swap should the counterparty's credit rating fall below thresholds identified in the swap contracts. USNH mitigates counterparty risk by spreading the swap exposure among various counterparties, by monitoring bond ratings continuously, and by requiring collateralization in certain circumstances.

**Basis Risk** – This is the risk of a mismatch between the variable rate received from the swap counterparty and the variable rate paid by USNH to bondholders on the underlying variable rate debt. The effective rate on the debt will vary depending on the magnitude and duration of any basis risk shortfall or surplus. Based on current and

historical experience, USNH's financial advisors expect payments received under the agreements to approximate the related bond payments over the life of the swaps. USNH manages basis risk by closely monitoring daily and monthly rates paid and received on each transaction, by diversifying bond remarketing agents, and by varying swap terms (e.g., 67% of LIBOR vs. 63% of LIBOR + 29 bps).

**Termination Risk** – This is the risk that the swaps could be terminated as a result of any of several events, which may include rating downgrades below specified levels for USNH or the swap counterparty; covenant violation; swap payment default or bankruptcy by either party; or default events under a bond resolution or trust indenture. Under the terms of each agreement, USNH has the option to terminate a swap at the fair market value at any time by providing notice to the counterparty, while the counterparty may only terminate the swap upon certain termination events. USNH manages termination risk by adhering to bond covenant requirements, employing strategic indicator targets to maintain financial strength, monitoring swap market values and counterparty credit ratings, and diversifying swap counterparties. Effective interest rates and other key terms of each derivative are described on the following page.



	Counterparty's Most Recent Credit Rating	Variable Interest Rates Paid and Received				Inception-To-Date		
		Interest Rate Paid by USNH to Bondholders as of		Interest Rate Received by USNH from Swap Counterparties as of		Effective Interest Rate Through		All-in Synthetically Fixed Interest
		6/30/2017	6/30/2016	6/30/2017	6/30/2016	6/30/2017	6/30/2016	
Series 2005A swap	Aa2/AA-	0.9%	0.4%	0.7%	0.3%	4.2%	3.6%	4.0%
Series 2005B swap	A1/A+	0.9%	0.4%	1.0%	0.6%	3.4%	2.9%	3.6%
Series 2011B swap	A3/BBB+	0.9%	0.4%	0.7%	0.3%	5.1%	4.5%	4.8%

## Swap Cash Flows

Actual interest payments on the swaps vary as market rates vary. The table below shows estimated annual future cash flows of the derivative instruments if interest rates remain unchanged from June 30, 2017 through the end of each swap contract (*\$ in thousands*):

Fiscal Year	Notional Bonds Amortization	Estimated Interest Received	Estimated Interest and Fees Paid	Estimated Swap Net Outflows
2018	\$ 8,275	\$ (1,218)	\$ 5,331	\$ 4,113
2019	8,560	(1,147)	5,027	3,880
2020	8,720	(1,074)	4,718	3,644
2021	9,215	(997)	4,390	3,393
2022	9,385	(919)	4,056	3,137
2023-2027	45,435	(3,398)	15,135	11,737
2028-2032	41,875	(1,725)	7,807	6,082
2033-2036	26,240	(204)	993	789
<b>Total</b>	<b>\$ 157,705</b>	<b>\$ (10,682)</b>	<b>\$ 47,457</b>	<b>\$ 36,775</b>

## 10. Deferred inflows and outflows of resources

The components of Deferred Inflows and Outflows of Resources as of June 30, 2017 and 2016 were as follows (*\$ in thousands*):

	2017	2016
<b>Deferred Outflows of Resources</b>		
Accumulated decrease in fair value of hedging derivatives	\$ 25,759	\$ 36,769
Accounting loss on debt refinancing, net	7,308	7,783
<b>Total Deferred Outflows of Resources</b>	<b>\$ 33,067</b>	<b>\$ 44,552</b>
<b>Deferred Inflows of Resources</b>		
Deferred inflows of resources related to retirement	\$ 698	\$ -
Accounting gain on debt financing, net	1,508	1,879
<b>Total Deferred Inflows of Resources</b>	<b>\$ 2,206</b>	<b>\$ 1,879</b>

The accumulated decrease in fair value of hedging derivatives is recorded to offset the value of USNH's interest-rate swap liabilities which qualify for treatment as an effective hedge based on historic interest flows. USNH does not expect to terminate any of the swap agreements at this time. Deferred inflows of resources related to retirement consist of experience and assumptions gains that reduced the pension liability. These amounts will be recognized as a component of pension expense in future reporting periods. The accounting gain on debt refinancing relates to the Series 2005B, 2011B, and 2015 bond issuances while the accounting loss on debt refinancing relates to the Series 2009A, 2012 and 2016 bond issuances. These costs will be amortized as a component of interest expense over the remaining term of the new debt.

## 11. Pass-through grants

USNH distributed \$176,765,000 and \$181,980,000 of student loans through the US Department of Education Federal Direct Lending program during 2017 and 2016, respectively. These distributions and related funding sources are not included as expenses and revenues, or cash disbursements and cash receipts, in the accompanying financial statements. The Statements of Net Position include receivables of \$192,000 and \$1,337,000 as of June 30, 2017 and 2016, respectively, for direct loans disbursed in excess of US Department of Education receipts.

## 12. Endowment return used for operations

The objective of the annual spending formula for endowment return used for operations is to provide sustainable continued future support for ongoing programs at current levels assuming moderate inflation. To the extent that endowment yield is insufficient in any one year to meet the required spending distribution; accumulated net gains are utilized to fund the distribution. For the USNH pool, the distribution rate is established annually by the USNH Board of Trustees. The rate was 4.7% for 2017 and 4.5% for 2016 calculated as a percentage of the pool market value per unit as of December 31, 2015 and December 31, 2014 respectively. For the UNHF primary pool, the distribution rate was 5.2% and 5.3% for 2017 and 2016 calculated as a percentage of the average market value per unit for the previous twelve quarters. The components of endowment return used for operations for 2017 and 2016 are summarized below (*\$ in thousands*):

	2017	2016
Pooled endowment yield - campuses	\$ 6,252	\$ 5,238
Pooled endowment yield - affiliates	983	971
Trusts, life income and annuities yield	(114)	(91)
Gains utilized to fund distribution	19,700	20,507
<b>Endowment return used for operations</b>	<b>\$ 26,821</b>	<b>\$ 26,625</b>

### 13. Operating expenses by function

The following tables summarize USNH's operating expenses by functional classification for the past two years (\$ in thousands):

	Compensation	Supplies & Services	Utilities	Internal Allocations	Depreciation	2017 Total
<b>Campuses – current funds</b>						
Instruction	\$ 219,804	\$ 24,157	\$ 7	\$ –	\$ –	\$ 243,968
Auxiliary services	53,716	54,499	3,029	47,234	–	158,478
Research and sponsored programs	71,499	34,865	137	–	–	106,501
Academic support	51,782	23,107	37	247	–	75,173
Student services	29,533	14,503	11	(74)	–	43,973
Institutional support	45,678	15,483	68	(21,114)	–	40,115
Operations and maintenance	23,925	17,664	14,499	(26,247)	–	29,841
Fundraising and communications	12,813	7,258	–	3,247	–	23,318
Public service	7,487	1,821	–	–	–	9,308
Subtotal current funds	516,237	193,357	17,788	3,293	–	730,675
<b>Campuses - other funds</b>	(484)	15,567	161	(450)	62,942	77,736
<b>Affiliated entities</b>	4,943	929	–	(2,843)	–	3,029
<b>Total</b>	<u>\$ 520,696</u>	<u>\$ 209,853</u>	<u>\$ 17,949</u>	<u>\$ –</u>	<u>\$ 62,942</u>	<u>\$ 811,440</u>

	Compensation	Supplies & Services	Utilities	Internal Allocations	Depreciation	2016 Total
<b>Campuses – current funds</b>						
Instruction	\$ 225,411	\$ 25,358	\$ 2	\$ 507	\$ –	\$ 251,278
Auxiliary services	52,617	43,478	4,009	52,745	–	152,849
Research and sponsored programs	72,403	35,355	119	187	–	108,064
Academic support	52,807	22,870	19	462	–	76,158
Student services	28,681	13,680	15	(141)	–	42,235
Institutional support	44,890	13,865	66	(20,398)	–	38,423
Operations and maintenance	26,385	25,408	15,638	(33,685)	–	33,746
Fundraising and communications	12,497	5,506	–	3,237	–	21,240
Public service	8,324	1,985	–	234	–	10,543
Subtotal current funds	524,015	187,505	19,868	3,148	–	734,536
<b>Campuses - other funds</b>	(48)	14,146	18	(314)	59,919	73,721
<b>Affiliated entities</b>	4,536	921	–	(2,834)	–	2,623
<b>Total</b>	<u>\$ 528,503</u>	<u>\$ 202,572</u>	<u>\$ 19,886</u>	<u>\$ –</u>	<u>\$ 59,919</u>	<u>\$ 810,880</u>

## 14. Net position

Below details USNH's net position as of June 30, 2017 and 2016 (\$ in thousands):

	2017	2016
<b>Net investments in capital assets</b>	<b>\$ 650,968</b>	<b>\$ 630,442</b>
<b>Restricted financial resources</b>		
<b>Nonexpendable</b>		
Historic gift value of endowment - campuses	114,876	106,724
Historic gift value of endowment - affiliated entities	155,213	149,789
<b>Total restricted nonexpendable resources</b>	<b>270,089</b>	<b>256,513</b>
<b>Expendable</b>		
Held by campuses:		
Accumulated net gains on endowment	50,919	38,893
Fair value of restricted funds functioning as endowment	14,060	12,947
Gifts, grants and contracts	43,213	34,320
Life income and annuity funds	8	11
Loan funds	6,868	6,852
Held by affiliated entities:		
Accumulated net gains on endowment	35,507	22,512
Other	34,267	33,146
<b>Total restricted expendable resources</b>	<b>184,842</b>	<b>148,681</b>
<b>Unrestricted financial resources</b>		
Held by campuses:		
Education and general reserves	35,913	47,163
Auxiliary enterprises	42,320	41,868
Internally designated reserves	10,841	32,285
Unrestricted loan funds	1,495	1,646
Unexpended plant funds	127,057	111,421
Fair value of unrestricted funds functioning as endowment	163,253	122,203
Operating Staff Retirement Program Trust	993	–
Subtotal	381,872	356,586
Unfunded postretirement medical liability	(56,166)	(55,332)
<b>Total unrestricted net assets held by campuses</b>	<b>325,706</b>	<b>301,254</b>
Held by affiliated entities:		
Fair value of unrestricted funds functioning as endowment	1,280	501
Other	1,933	3,809
<b>Total unrestricted financial resources</b>	<b>328,919</b>	<b>305,564</b>
<b>Total Net Position</b>	<b>\$ 1,434,818</b>	<b>\$ 1,341,200</b>

In addition to the June 30, 2017 unexpended plant balance shown above, \$8,808,000 of internally designated reserves was approved for funding of campus capital projects. The largest of these projects is the Hamilton Smith building renovation and expansion project at UNH (\$6,234,000).

## 15. Commitments and contingencies

USNH holds insurance for losses related to real property, as well as professional, environmental and general liability claims. Property coverage is limited to \$100 million in the aggregate with varying deductible levels. Liability coverage and deductible levels are based on management's assessments of the risks of related losses. Settlements below the relevant deductible amounts are funded from unrestricted net position.

USNH makes expenditures in connection with restricted government grants and contracts, which are subject to final audit by government agencies. Management is of the opinion that the amount of disallowances, if any, sustained through such audits would not materially affect the financial position, results of operations, or cash flows of USNH.

USNH is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot presently be determined, management is of the opinion that the eventual liability, if any, will not have a material effect on USNH's financial position, results of operations or cash flows.

## 16. Component units

Condensed information from the audited financial statements of the University of New Hampshire Foundation, Inc. (UNHF) is presented below (\$ in millions):

	2017	2016
<b>Condensed information from the Statements of Net Position as of June 30,</b>		
Endowment investments	\$ 209	\$ 188
Other assets	17	17
<b>Total Assets</b>	<b>226</b>	<b>205</b>
Annuities payable	3	2
Other liabilities	3	1
<b>Total Liabilities</b>	<b>6</b>	<b>3</b>
<b>Total Net Position</b>	<b>\$ 220</b>	<b>\$ 202</b>
	<b>2017</b>	<b>2016</b>
<b>Condensed information from the Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30,</b>		
Gifts and other support	\$ 23	\$ 27
Investment income	25	(6)
<b>Total Revenues</b>	<b>48</b>	<b>21</b>
Distributions to UNH	22	24
Administrative and other expenses	8	7
<b>Total Expenses</b>	<b>30</b>	<b>31</b>
<b>Increase/(Decrease) in Net Position</b>	<b>\$ 18</b>	<b>\$ (10)</b>
	<b>2017</b>	<b>2016</b>
<b>Condensed information from the Statements of Cash Flows for the years ended June 30,</b>		
Receipts from gifts and other sources	\$ 16	\$ 17
Payments to UNH and suppliers	(23)	(26)
<b>Net Cash Used in Operating Activities</b>	<b>(7)</b>	<b>(9)</b>
Net cash provided by (used in) investing activities	5	6
Net cash provided by noncapital financing activities	5	3
<b>Change in Cash and Equivalents</b>	<b>\$ 3</b>	<b>\$ –</b>

A copy of the complete financial statements for UNHF can be obtained on their website at <https://www.unh.edu/give/financial-reports> or by contacting their Advancement Finance and Administration Office at (603) 862-1584.

## 17. Subsequent events

Management has evaluated the impact of subsequent events through October 23, 2017, which is the date that the financial statements were available for issuance, and concluded that no material events have occurred which would require recognition or disclosure.



# Required Supplemental Information

(Unaudited)

## Postretirement Medical Plan

Schedules of Funding Progress for the year ended June 30, 2017 (\$ in thousands):

Actuarial Valuation* Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (c)	Funded Ratio (a)/(b)	Covered Payroll (d)	UAAL as a % of Covered Payroll (c)/(d)
December 31, 2016	–	\$ 111,913	\$ 111,913	–	\$ 227,918	49%
December 31, 2014	–	129,717	129,717	–	229,211	57%
July 1, 2013	–	52,231	52,231	–	224,139	23%
July 1, 2011	–	50,876	50,876	–	219,357	23%

\*Third party actuaries are used to determine these amounts on a biennial basis.

## Operating Staff Retirement Plan

Schedules of Changes in Total Pension Liability for the year ended June 30, 2017 (\$ in thousands):

	2017
<b>Total Pension Liability</b>	
Service Cost	\$ 20
Interest	298
Benefit payments*	(956)
Net change in total pension liability	(638)
Total pension liability at beginning of year	6,345
<b>Total pension liability at end of year</b>	<u>\$ 5,707</u>
Covered payroll	\$ 1,007
Net Pension Asset as a Percentage of Covered Payroll	98.6%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	117.4%
<b>Plan Fiduciary Net Position</b>	
Employer contributions	\$ 6,700
Net investment income	–
Benefit payments	–
Fiduciary net position	\$ 6,700
Total pension liability	(5,707)
<b>Net Pension Asset</b>	<u>\$ 993</u>

## Additional Retirement Contribution Program

Schedule of Changes in Total Pension Liability for the year ended June 30, 2017 (\$ in thousands):

	2017
<b>Total Pension Liability</b>	
Service Cost	\$ 103
Interest	118
Benefit payments	(518)
Differences between expected and actual experience	(328)
Changes of assumptions	(5)
Net change in total ARC obligation	(630)
Total ARC obligation at beginning of year	2,953
<b>Total ARC obligation at end of year</b>	<u>\$ 2,323</u>
Current portion	\$ 455
Covered payroll	\$ 29,409
Total Pension liability as a Percentage of Covered Payroll	7.9%

\*Reflects payments and other adjustments made before the establishment of the trust on 6/26/17.

See accompanying independent auditor's report.

# University System of New Hampshire

As of September 1, 2017

## Board of Trustees

### Members of the Board:

**The Honorable Christopher T. Sununu**,  
ex officio Governor, State of New Hampshire,  
Concord, NH

**John W. Small** (2010-2019)  
Chair, New Castle, NH

**Joseph G. Morone** (2013-2018)  
Vice Chair, Newcastle, NH

**Amy B. Begg** (2015-2019)  
Secretary, Watertown, MA

**Kassandra Spanos Ardinger** (2016 – 2020)  
Concord, NH

**Robert A. Baines** (2011-2019)  
Manchester, NH

**Donald L. Birx**, ex officio  
President, PSU, Plymouth, NH

**Todd R. Black** (2014-2018)  
Dover, NH

**James P. Burnett, III** (2017 -2018)  
Concord, NH

**Frederick C. Dey** (2011-2019)  
Portland, ME

**M. Jacqueline Eastwood** (2017-2021)  
Durham, NH

**Frank L. Edelblut**, ex officio  
Commissioner of Education, Concord, NH

**Ricky Fife** (2016-2018)  
GSC Student Trustee

**Suzanne M. Foster** (2017 -2020)  
Newfields, NH

**Adam W. Geddis** (2017-2018)  
KSC Student Trustee

**Cathy J. Green** (2017 -2021)  
Dunbarton, NH

**Mark W. Huddleston**, ex officio  
President, UNH, Durham, NH

**Shawn N. Jasper** (2015–2018)  
Speaker of the House (ex-officio, non-voting)

**Todd J. Leach**, ex officio  
Chancellor, USNH, Concord, NH

**Scott R. Mason** (2017 -2021)  
Stratford, NH

**Lorraine Stuart Merrill**, ex officio  
Commissioner of Agriculture, Concord, NH

**Charles W. Morse** (2015–2018)  
Senate President (ex-officio, non-voting)

**Kenneth C. Moulton** (2012-2019)  
Concord, NH

**Christopher M. Pope** (2015-2021)  
Concord, NH

**Mark Rubinstein** ex officio  
President, GSC, Concord, NH

**J. Morgan Rutman** (2016- 2020)  
Chappaqua, NY

**Wallace R. Stevens** (2011-2021)  
Exeter, NH

**Melinda D. Treadwell**, ex officio  
Interim President, KSC, Keene, NH

**Alexander J. Walker, Jr** (2016 – 2020)  
Manchester, NH

## Administration

### Members of the Administrative Board:

**Todd J. Leach** (Chair)  
Chancellor, University System of New Hampshire

**Donald L. Birx**  
President, Plymouth State University

**Mark W. Huddleston**  
President, University of New Hampshire

**Mark Rubinstein**  
President, Granite State College

**Melinda D. Treadwell**  
Interim President, Keene State College

### Members of the Finance

#### Executive Council:

**Catherine A. Provencher** (Chair)  
Vice Chancellor and Treasurer, USNH

**Lisa L. Shawney** (Vice Chair)  
Vice President of Finance, Technology,  
and Infrastructure, GSC

**Karen L. Benincasa**  
Associate Treasurer, USNH

**Tracy Claybaugh**  
Interim Vice President for Finance  
and Administration, PSU

**Christopher D. Clement**  
Vice President for Finance  
and Administration, UNH

## Other Officers

### University System Officers:

**James A. McGrail**  
Chief Human Resources Officer

**Catherine A. Provencher**  
Vice Chancellor and Treasurer/CFO, USNH

**Ronald F. Rodgers**  
General Counsel and Secretary of USNH

### University of New Hampshire:

**Christopher D. Clement**  
Vice President for Finance and Administration

**Victoria S. Dutcher**  
Vice President for Enrollment Management

**Deborah Dutton**  
Vice President for Advancement  
and Foundation

**Nancy Targett**  
Provost and Vice President for Academic Affairs

### Plymouth State University:

**Tracy Claybaugh**  
Interim Vice President for Finance  
and Administration, PSU

**Mark J. Fischler**  
Interim Vice President for Student Affairs

**Paula Lee Hobson**  
Vice President for University Advancement

**Gail F. Mears**  
Dean, College of Education, Health  
and Human Services

**Jason R. Moran**  
Dean of Enrollment Management Affairs

**Robyn E. Parker**  
Dean, College of Business Administration

**Cynthia Vascak**  
Dean, College of Arts and Sciences

### Keene State College:

**Kemal Atkins**  
Vice President for Student Affairs and  
Enrollment Management

**William Seigh**  
Provost and Vice President for Academic Affairs

### Granite State College:

**Tara Payne**  
Vice President of Enrollment  
Management

**Lisa L. Shawney**  
Vice President for Finance and Administration

**Scott Stanley**  
Provost and Vice President for Academic Affairs



# University System of New Hampshire

5 Chenell Drive, Suite 301, Concord, NH 03301  
603-862-1800 [www.usnh.edu](http://www.usnh.edu)



Photo courtesy of Concord Housing + Redevelopment





# University System of New Hampshire

**Report to the audit committee**

**Results of our audit of the  
financial statements for the  
year ended June 30, 2017**

October 19, 2017

This presentation to the Audit Committee is intended solely for the information and use of the Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties. This presentation is not intended for general use, circulation, or publication and should not be published, circulated, reproduced, or used for any purpose without our prior written permission in each specific instance.



# Introduction

## **To the Audit Committee of University System of New Hampshire:**

We are pleased to have the opportunity to meet with you on October 19, 2017 to discuss the results of our audit of the financial statements of the University System of New Hampshire (the System) as of and for the year ended June 30, 2017.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is substantially complete and we expect to be in a position to sign our audit opinion on the System's financial statements before the System's October 31, 2017 reporting deadline to the State of New Hampshire.

We expect to issue an unmodified Auditors' Report.

We draw your attention to the following communications included in the appendix to this report:

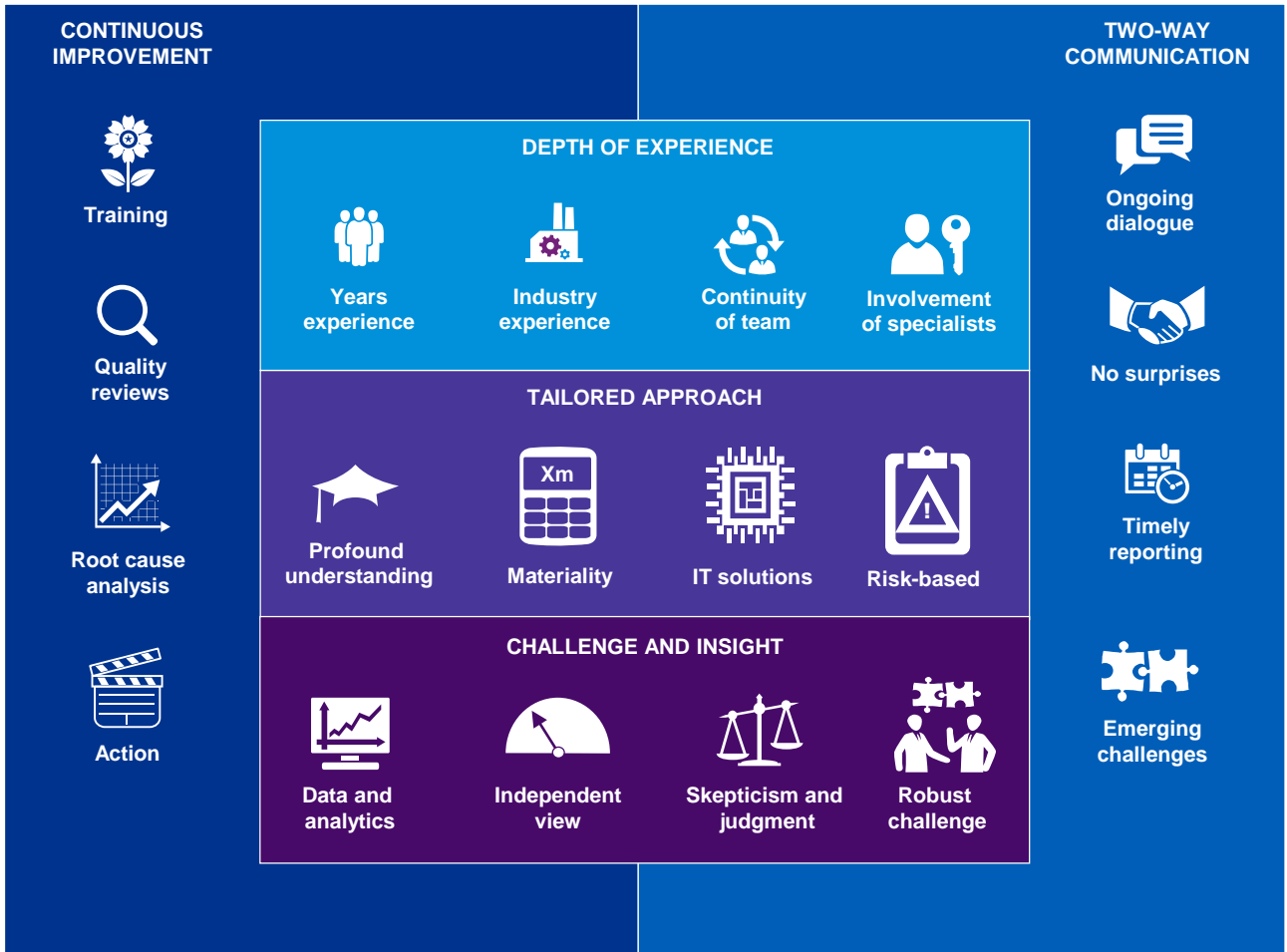
- Audit responsibilities (slides 17-24)
- Update on Accounting and Auditing Issues (slide 25)
- Recent GASB Pronouncements (slide 26)
- Management representation letter – DRAFT (slides 27-33)
- Report on the financial statements – DRAFT (slides 34-35)
- Report in accordance with *Government Auditing Standards* – DRAFT (slides 36-37)

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# How we delivered audit quality

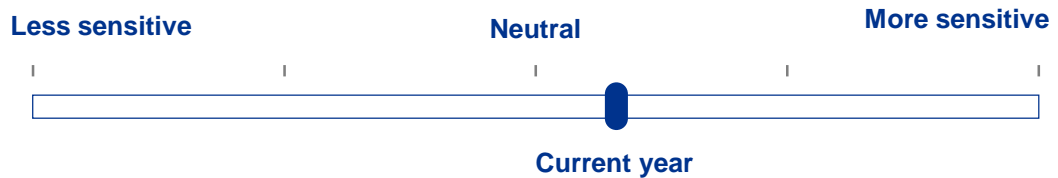


# Audit summary

## Significant changes to our audit strategy or initial risk assessment

There have been no significant changes to our audit strategy as compared to prior year. We did not have any changes to our initial risk assessment in the current year.

## Accounting judgments related to estimates



Our assessment of the risk associated with valuation estimates has not changed from the prior year as there have been no modifications in the accounting judgments made by management

## Control deficiencies

Material weaknesses	None
Significant deficiencies	None
Control deficiencies	None

# Audit results

Findings at a glance	Number of:		
	Uncorrected misstatements	Corrected misstatements	Control deficiencies
<b>Significant risks</b>			
① Management override of controls*	–	–	–
<b>Significant audit areas</b>			
② Cash and investments	–	–	–
③ Contribution revenue, related receivables, and Net assets	–	–	–
④ Debt and related items	–	–	–
⑤ Capital assets and related depreciation	–	–	–
⑥ Tuition and fees, and related receivables	–	–	–
⑦ Grants and contracts revenue; sales of auxiliary Services; and NH appropriations	–	–	–
⑧ Compensation and benefits and related liabilities	–	–	–
⑨ Commitments and contingencies	–	–	–

“–” indicates no findings; \*Management override of controls is an inherent significant risk in all entities



## 1 Management override of controls

Management is in a position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that appear to be operating correctly.

### Significant risk of fraud

#### The risk

- Management is in a position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

### Our response

#### Internal controls

- Assessed management's design and implementation of controls over journal entries and post-closing adjustments
- Assessed management's design and implementation of controls over recording of investment results

#### Procedures

- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Performed risk –assessment procedures to determine existence of any high-risk entries
- Performed procedures over material manual post-closing adjustments to ensure accuracy and appropriateness of the entries.
- Performed procedures over the completeness, existence, accuracy, and valuation of the investment portfolio at the System, which includes benchmarking comparisons for alternative investments.

#### Results

Based on our procedures performed, no significant findings were noted.

## 1 Management override of controls, continued

Management is in a position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that appear to be operating correctly.

### Significant risk of fraud

#### The risk

- Management is in a position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

#### Our response

##### Internal controls

- Assessed management's design and implementation of controls over compliance with debt covenants

##### Procedures

- Performed procedures to determine the System's compliance with debt covenants

#### Results

*Based on our procedures performed, no significant findings were noted.*

## 2 Cash and Investments

### Procedures performed

- Gained an understanding of management cash and investment processes
- Confirmed directly held cash and securities with financial institutions
- Tested bank reconciliations
- Reviewed audited fund financial statements, fund holdings, benchmarking of fund performance, communications with fund managers, and other monitoring documentation for alternative investments
- Price-tested directly held securities
- Reviewed accounting for year-end transactions (i.e., unsettled trades)
- Reviewed investment derivative activities and related valuation methodology
- Tested reasonableness of investment return components
- Reviewed classification of cash and cash equivalents and restricted balances
- Reviewed financial statement presentation and disclosures, including classifications within the fair value hierarchy in Levels 1, 2 and 3, as well as liquidity and related capital commitments to ensure compliance with GASB standards and U.S. GAAP
- Considered effects of subsequent events

#### **Significant accounting estimate(s):**

Alternative Investments: Real estate, Hedge, Private Equity, and Collective

Refer to above for procedures performed by the audit team over these significant accounting estimates.

#### **Observations:**

No significant matters noted.



## 3 Contribution revenue, related receivables, and net assets

### Procedures performed

- Gained an understanding of management’s processes surrounding gifts, pledges and distributions
- Tested a sample of new gifts to determine whether they are properly recognized and classified
- Audited pledge allowances and discounts to ensure proper accounting treatment
- Tested roll-forward of endowment activities, including new endowments, reclassifications between net position categories, and transfers
- Reviewed Board approval of endowment spending formula, recalculate endowment unitization and spend
- Reviewed required financial statement disclosures to ensure presentation was in compliance with GASB standards and U.S. GAAP

#### **Significant accounting estimate(s):**

- Pledges receivable, net
- Refer to above for procedures performed by the audit team over this significant accounting estimate.

#### **Observations:**

- No significant matters noted.

## 4 Debt and related items

### Procedures performed

- Gained an understanding of management’s processes surrounding debt and related items
- Confirmed outstanding debt with financial institutions
- Tested compliance with financial debt covenants
- Tested reasonableness of interest expense
- Reviewed valuation of and accounting for interest rate swap agreements
- Reviewed required financial statement disclosures to ensure presentation was in compliance with GASB standards and U.S. GAAP

#### **Significant account estimates:**

- Valuation of interest rate swaps

#### **Observations:**

- No significant matters noted.

## 5 Capital assets and related depreciation

### Procedures performed

- Gained an understanding of management’s processes surrounding capital assets and related depreciation
- Tested fixed asset additions
- Reviewed construction-in-process accounts
- Assessed reasonableness of capitalized interest
- Tested reasonableness of depreciation
- Reviewed required financial statement disclosures to ensure presentation was in compliance with GASB standards and U.S. GAAP

#### **Significant accounting estimate(s):**

- Estimated useful lives of capital assets.

#### **Observations:**

- No significant matters noted.



## 6 Tuition and fees, and related receivables

### Procedures performed

- Gained an understanding of management’s processes surrounding tuition and fees
- Performed detailed procedures over tuition revenue, and analytical procedures over related student aid
- Tested receivable balances through subsequent cash receipts and adequacy of allowance for doubtful accounts
- Reviewed required financial statement disclosures to ensure presentation was in compliance with GASB standards and U.S. GAAP

### **Observations:**

- No significant matters noted. No significant accounting estimates related to this audit area.

# Audit results (continued)



## 7 Grants and contracts revenue, sales of auxiliary services, and NH appropriations

### Procedures performed

- Gained an understanding of management’s processes surrounding these revenue streams
- Tested propriety of allowable costs for payroll and non-payroll reimbursements under sponsored grants and contracts
- Performed analytical procedures over grants and contracts indirect cost recovery
- Performed analytical procedures over sales of auxiliary services
- Confirmed State of NH appropriations
- Reviewed required financial statement disclosures to ensure presentation was in compliance with GASB standards and U.S. GAAP

### Observations:

- No significant matters noted. No significant accounting estimates related to this audit area.

## 8 Compensation and benefits and related liabilities

### Procedures performed

- Gained an understanding of management’s processes surrounding compensation and benefits and related liabilities
- Tested a sample of payroll expenses for proper recording and classification
- Performed analytical procedures over benefits expense and related accruals
- Reviewed appropriateness of OPEB actuarial calculations and related liabilities
- Reviewed required financial statement disclosures to ensure presentation was in compliance with GASB standards and U.S. GAAP

#### **Significant accounting estimate(s):**

- OPEB liability
- Refer to above for procedures performed by the audit team over this significant accounting estimate.

#### **Observations:**

- No significant matters noted.



# Audit results (continued)



## 9 Commitments and contingencies

### Procedures performed

- Obtained legal letters and reviewed any litigation assessments
- Reviewed disclosure of other commitments and contingencies
- Performed standard tax provision review in relation to financial statements

#### **Observations:**

- No significant matters noted.

# Other significant items



## Financial statement presentation

- No material disclosure omissions noted

## Concerns regarding application of new accounting pronouncements

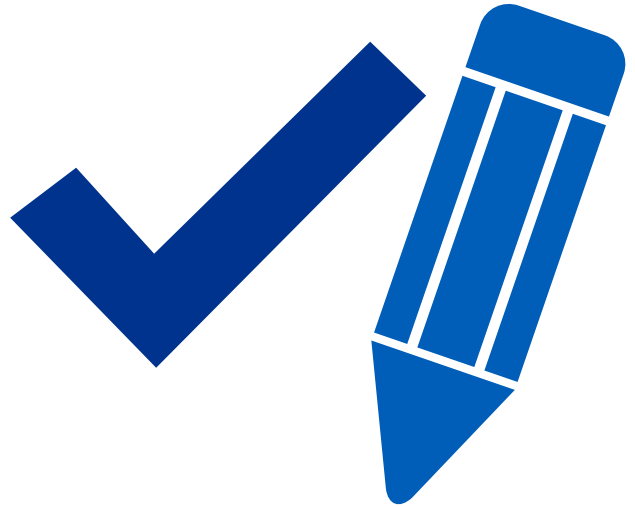
- None noted

## Alternative accounting treatments







- No matters to report







## Unusual transactions

- Application of GASB 68



# Required communications and other matters

Type		Response
Related parties		No matters to report.
Illegal acts or fraud		No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.
Noncompliance with laws and regulations		None noted.
Modifications to auditors' report		None.
Subsequent events		None noted.
Independence		We hereby confirm that as of October 19, 2017, we are independent accountants with respect to the System under all relevant professional and regulatory standards.

Type		Response
Significant difficulties encountered during the audit		No matters to report.
Disagreements with management or scope limitations		No matters to report.
Management's consultation with other accountants		No matters to report, of which we are aware.
Significant issues discussed, or subject to correspondence with management		No matters to report.
Difficult or contentious matters for which the auditors consulted		No matters to report.
Material written communications between KPMG and management		Engagement letter & management representation letter.





# Appendix

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# Responsibilities



# Responsibilities

## Management is responsible for:

- Preparation and fair presentation of the financial statements, including disclosures, in conformity with generally accepted accounting principles (GAAP)
- For 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
- Ensuring that the System's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the System's financial statements, and for informing the auditor of any known material violations of such laws and regulations
- To provide access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, additional information that we may request from management for the purpose of the audit, and unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- Adjusting the financial statements to correct material misstatements and affirming that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but is not limited to, management's:
  - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the System's financial reporting
  - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud.



# Responsibilities (continued)

## **The Audit Committee is responsible for:**

- Oversight of the financial reporting process and oversight of ICOFR
- Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud.

## **Management and the Audit Committee are responsible for:**

- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards.

**The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.**

# Responsibilities (continued)

## **KPMG is responsible for:**

- Planning and performing our audit, with an attitude of professional skepticism, to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Accordingly, there is some risk that a material misstatement of the financial statements will remain undetected. Although not absolute assurance, reasonable assurance is a high level of assurance. Our audit is not designed to detect error or fraud that is immaterial to the financial statements.
- Conducting the audit in accordance with professional standards and complying with the rules and regulations of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the ethical standards of relevant CPA societies, and relevant state boards of accountancy
- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with GAAP
- An audit of the financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting.
- Communicating to the Audit Committee all required information, including significant matters, that are in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.
- Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management's attention. The objective of our audit of the financial statements is not to report on the System's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements.
- Communicating to the Audit Committee circumstances that affect the form and content of the auditors' report, if any.

# Responsibilities for other information in documents containing audited financial statements

- The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information.
- The auditors' responsibility is to make appropriate arrangements with management or the Audit Committee to obtain the other information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact.
- Any material inconsistencies or misstatements of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement.
- We have performed the following procedures with respect to other information in documents:
  - We read Management's Discussion and Analysis, which is required supplementary information under U.S. GAAP.
  - We did not audit Management's Discussion and Analysis, but we noted no material inconsistencies between it and the financial statements.



# KPMG independence quality controls

**KPMG maintains a comprehensive system of quality controls designed to maintain our independence and to comply with regulatory and professional requirements.**

- Pre-approval of all worldwide engagements by the audit engagement team through Sentinel, a KPMG independence and conflict checking system (includes services for/relationships with the audit client, its affiliates, and its affiliated persons)
- Tracking partner rotation requirements using PRS, the firm's automated partner rotation tracking system
- Automated investment tracking system used by all KPMG member firms (KICS)
- Training and awareness programs, including a required annual independence training deployed globally
- Annual independence confirmation required for all partners and employees and for all new joiners to the firm
- Compliance testing programs
- Formal disciplinary policy and process
- Annual reporting to the audit committee regarding independence

# Update on Emerging Industry Audit and Accounting Matters

# Update on Emerging Industry Audit and Accounting Matters

- Gramm Leach Bliley Act – cybersecurity protocol, potential audit requirement
- Department of Education – requirement for SFA Cluster to be audited as a major program annually

# Recent GASB Pronouncements





# GASB statements effective in future years

June 30, 2018

- No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- No. 81, *Irrevocable Split Interest Agreements*
- No. 85, *Omnibus 2017*
- No. 86, *Certain Debt Extinguishment Issues*

June 30, 2019

- No. 83, *Certain Asset Retirement Obligations*

June 30, 2020

- No. 84, *Fiduciary Activities*

June 30, 2021

- No. 87, *Leases*

# Management Representation Letter

**(Letterhead of Client)**

[Date]

KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

Ladies and Gentlemen:

We are providing this letter in connection with your audits of the statements of net position of the University System of New Hampshire, a component unit of the State of New Hampshire (the System), as of and for the years ended June 30, 2017 and 2016, the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements for the purpose of expressing an opinion as to whether these financial statements present fairly, in all material respects, the net position, changes in net position, and cash flows of the System in accordance with U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of (date of auditors' report), the following representations made to you during your audits:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 27, 2017, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.
2. We have made available to you:

- a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.
  - b. Additional information that you have requested from us for the purpose of the audit;
  - c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence; and
  - d. All minutes of the meetings of The Board of Trustees, committees of the Board of Trustees, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.
3. Except as disclosed to you in writing, there have been no:
- a. Circumstances that have resulted in communications from the System's external legal counsel to the System reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by the System or any agent thereof.
  - b. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
  - c. False statements affecting the System's financial statements made to the System's internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audits.
4. There are no:
- a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
  - c. Side agreements or other arrangements (either written or oral) that have not been disclosed to you.



- d. Events that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the financial statements.
5. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
6. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
7. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule(s) are immaterial, both individually and in the aggregate, to the financial statements.
8. We acknowledge our responsibility for the design, implementation, and maintenance of programs and controls to prevent, deter, and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. We understand that the term “fraud” includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.
9. There are no deficiencies, significant deficiencies, or material weaknesses in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the System’s ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a “significant deficiency” and a “material weakness” in accordance with the definitions in AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.
10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
11. We have no knowledge of any fraud or suspected fraud affecting the System involving:
  - a. Management

- b. Employees who have significant roles in internal control over financial reporting, or
  - c. Others where the fraud could have a material effect on the financial statements.
- 12. We have no knowledge of any allegations of fraud or suspected fraud affecting the System's financial statements received in communications from employees, former employees, regulators, or others.
- 13. The System has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.
- 14. We have no knowledge of any officer or trustee of the System, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
- 15. We have no loans to executive officers, non-accrued loans, or zero-interest rate loans.
- 16. Significant assumptions used by us in making accounting estimates are reasonable.
- 17. We have disclosed to you the identity of our related parties and all the related party relationships and transactions of which we are aware.
- 18. The following have been properly recorded or disclosed in the financial statements:
  - a. Related party relationships and transactions of which we are aware in accordance with U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the System is contingently liable.
  - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit or similar arrangements.
  - d. Agreements to repurchase assets previously sold, including sales with recourse.
  - e. Changes in accounting principle affecting consistency.
  - f. The existence of and transactions with joint ventures and other related organizations.

19. The System has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
20. The System has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
21. The System's reporting entity includes all entities that are component units of the System.
22. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the System's current period financial statements, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.

With respect to the System's practice used to report its endowment return, net of amounts used in operations as other changes in net position, we have adopted this practice because to do otherwise would cause volatility in the "Increase in net position from recurring activities" measure which may mislead readers of the financial statements. The endowment assets are invested to generate returns over a long-term horizon resulting in gains (losses) which can vary significantly on an annual basis due to prevailing market conditions. We acknowledge that the proper presentation is within non-operating revenues/expenses. We only use the annual payout from these investments to support ongoing expenses and have limited the income included in non-operating revenues to that amount.

23. We acknowledge our responsibility for the presentation of the required supplementary information which includes management's discussion and analysis and the schedules of funding progress, in accordance with the applicable criteria and prescribed guidelines established by the *Governmental Accounting Standards Board* and:
  - a. Believe the required supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and prescribed guidelines.
  - b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period.
  - c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate in the circumstances.

24. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.
25. We agree with the findings of specialists in evaluating the financial statement liabilities and costs associated with other post-employment benefits and to determine information related to the System's funding progress related to such benefits for financial reporting purposes and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the basic financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
26. The projected employer contributions in the discount rate calculation are prepared in accordance with paragraphs 27-29 of GASB Statement 68.
27. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.
28. There are no representations provided in connection with your audit of the financial statements as of June 30, 2016 and for the year then ended that require modification.

Very truly yours,

University System of New Hampshire

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Todd Leach

*Chancellor*

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Catherine Provencher

*Vice Chancellor for Finance/Treasurer*

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Carol Mitchell

*Controller*

# Audit Reports – Report on the Financial Statements

## **Independent Auditors' Report**

The Governor and  
Legislative Fiscal Committee,  
State of New Hampshire; and the  
Board of Trustees,  
University System of New Hampshire:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of net position of the University System of New Hampshire (the System), a component unit of the State of New Hampshire, as of June 30, 2017 and 2016, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

### ***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.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the University System of New Hampshire as of June 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

***Other Matter - Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages XX–XX and the schedule of funding progress on page YY be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*[Auditors' signature]*

October xx, 2017



# Audit Reports – Report in Accordance with *Government Auditing Standards*

**Independent Auditors' 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**

The Governor and  
Legislative Fiscal Committee,  
State of New Hampshire; and the  
Board of Trustees,  
University System of New Hampshire:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the University System of New Hampshire (the System), a component unit of the State of New Hampshire, which comprise the statement of net position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October xx, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 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 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.

Our consideration of 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

**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 the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*[Auditors' signature]*

October xx, 2017



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