

University System of New Hampshire



VICE CHANCELLOR FOR FINANCIAL AFFAIRS
AND TREASURER/ CFO

Dunlap Center
25 Concord Road
Durham, NH 03824-3546
Phone: (603) 862-1620
Fax: (603) 862-0908
www.finadmin.usnh.edu

December 8, 2014

Governor Margaret Wood Hassan
State of New Hampshire
State House
107 North Main Street
Concord, NH 03301

Pursuant to RSA 187-A:25-a, enclosed please find the Annual Report for the University System of New Hampshire for fiscal year ended June 30, 2014. On page 16 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 by presented to and accepted by the Audit Committee of the University System's' Board of Trustees on October 30, 2014. Please feel free to contact me with any questions on the Report or presentation materials.

Respectfully,

Catherine A. Provencher
Vice Chancellor for Financial Affairs and Treasurer

Attachment

20
14

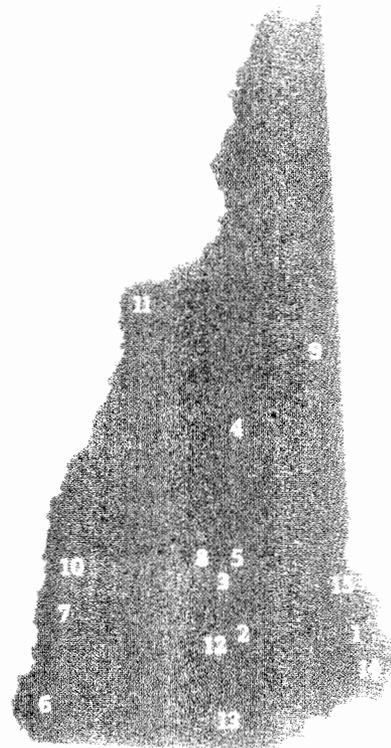
Education is key

to New Hampshire's long-term welfare, economic prosperity, and quality of life. Providing the educational programs and services through teaching, research, and public service that will be critical for New Hampshire residents and our state's future economy is at the heart of the University System of New Hampshire's mission.

The University System of New Hampshire is the state's primary supplier of highly educated citizens and workers. The four institutions of the University System—the University of New Hampshire, Plymouth State University, Keene State College, and Granite State College—annually serve approximately 34,000 students and graduate 7,000 students at the associate, bachelor's, master's, and doctoral levels. The institutions annually award more than half of the state's bachelor's degrees. In addition, more than 88,000 alumni of University System institutions currently live in New Hampshire.

FY14 Highlights

- The USNH Board of Trustees is committed to delivering a plan that would continue an in-state tuition freeze for two more years. If approved by the Legislature, it would be the first time in history that a NH student would pay the same tuition over four years.
- More than 3,200 first-year students entered UNH this fall as members of the class of 2018, including a 6 percent increase in the number of in-state students over last year.
- According to a recent U.S. Department of Education poll, Granite State College is the least expensive 4-year college in New England. "Each day, we see and experience how the average college student is challenged by expensive tuition rates - a predicament that's always a top concern for working adults. This drives students to look at affordable online institutions, like Granite State College. Being cited as the leader in affordability in the Department of Education report is recognition of our access mission," said Dr. Todd Leach, interim CEO of Granite State College.
- Keene State was accepted to partner in I'm First, an online community designed to help first-generation college students plan for and succeed in their college career. Keene State President Anne Huot discovered the I'm First program while researching resources for students. As a first-generation college graduate herself, Huot understands how intimidating and challenging it can be. Keene State College was recognized by *Business NH Magazine* for this achievement.
- A recent PSU survey found that 427 New Hampshire businesses and organizations were assisted by PSU outreach efforts in FY14. These include internships and experiential learning opportunities provided by academic departments across campus as well as contracted projects through the Center for Rural Partnerships, the Center for the Environment and the Center for Active Living and Healthy Communities.



1. University of New Hampshire, Durham
2. University of New Hampshire, Manchester
3. University of New Hampshire School of Law, Concord
4. Plymouth State University
5. Plymouth State University, Concord
6. Keene State College
7. Granite State College, Claremont
8. Granite State College, Concord
9. Granite State College, Conway
10. Granite State College, Lebanon
11. Granite State College, Littleton
12. Granite State College, Manchester
13. Granite State College, Nashua
14. Granite State College, Portsmouth
15. Granite State College, Rochester

The 2014 Annual Report is a publication of the University System of New Hampshire. Prior year University System annual reports are available online at finadmin.usnh.edu.

University System of New Hampshire, Dunlap Center, 25 Concord Road, Durham, NH 03824, 603-862-0918

UNIVERSITY SYSTEM OF NEW HAMPSHIRE

AS OF SEPTEMBER 1, 2014

BOARD OF TRUSTEES

Members of the Board:

Pamela Diamantis (2008-2016)
Chair, Greenland, NH

John W. Small (2010-2015)
Vice Chair, New Castle, NH

Judith E. Blake (2008-2016)
Secretary, Portsmouth, NH

The Honorable Maggie Hassan, ex officio
Governor, State of New Hampshire, Concord, NH

Robert A. Baines (2011-2015)
Manchester, NH

Virginia M. Barry, ex officio
Commissioner of Education, Concord, NH

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

Cathy Furtek Conway (2013-2017)
Jefferson, NH

Frederick C. Dey (2011-2015)
Portland, ME

Chester E. Homer III (2008-2016)
Portsmouth, NH

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

Anne E. Huot, ex officio
President, KSC, Keene, NH

Todd J. Leach, ex officio
Chancellor, USNH, Durham, NH

John H. Lynch, (2013-2017)
Contoocook, NH

Bryan W. Merrill (2014-2015)
UNH Student Trustee, Durham, NH

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

Joseph G. Morone (2013-2014)
Portsmouth, NH

Kenneth C. Moulton (2012-2015)
Bow, NH

Timothy M. Riley (2009-2017)
Bedford, NH

Ryan M. Scrivano (2014-2015)
KSC Student Trustee, Keene, NH

John R. Rist (2013-2017)
Manchester, NH

Henry B. Stebbins (2006-2016)
Portsmouth, NH

Sara Jayne Steen, ex officio
President, PSU, Plymouth, NH

Wallace R. Stevens (2011-2015)
Hampton Falls, NH

ADMINISTRATION

Members of the Administrative Board:

Todd J. Leach (Chair)
Chancellor, University System of New Hampshire
Interim CEO, Granite State College

Mark W. Huddleston
President, University of New Hampshire

Anne E. Huot
President, Keene State College

Sara Jayne Steen
President, Plymouth State University

Members of the Finance

Executive Council:

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

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

Richard J. Cannon
Vice President for Finance and Administration, UNH

Stephen J. Taksar
Vice President for Finance and Administration, PSU

Jay V. Kahn
Vice President for Finance and Planning, KSC

Erik E. Gross
Associate Treasurer, USNH

OTHER OFFICERS

University System Offices

Ronald F. Rodgers
General Counsel and Secretary of USNH

Robin A. Switzer
Director of Human Resource Services

University of New Hampshire

Lisa MacFarlane
Provost and Vice President for Academic Affairs

Jane A. Nisbet
Senior Vice Provost for Research

Mark Rubinstein
Vice President for Student and Academic Services

Deborah Dutton
Vice President for Advancement and Foundation
President

Plymouth State University

Julie N. Bernier
Provost and Vice President for Academic Affairs

Stephen P. Barba
Executive Director of University Relations

Paula Lee Hobson
Vice President for University Advancement

James M. Hundrieser
Vice President for Enrollment Management and Student Affairs

Keene State College

Walter Zakahi
Provost and Vice President for Academic Affairs

Maryann LaCroix Lindberg
Vice President for Advancement

Kemal Atkins
Vice President for Student Affairs and Enrollment Management

Granite State College

Scott Stanley
Interim Provost and Vice President for Academic Affairs

Mary Beth (MB) Lufkin
Vice President of Enrollment Management

Beth Dolan
Vice President for Student and Administrative Services

Lisa L. Shawney
Vice President of Finance, Technology, and Infrastructure

16. Subsequent events

Management has evaluated the impact of subsequent events through October 30, 2014, 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

Schedule of funding progress For the year ended June 30, 2014

(Unaudited)
(\$ in thousands)

Actuarial Variation Date (July 1,)	Actuarial Value of Assets* (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (c)=(b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (d)	UAAL as a % of Covered Payroll (c)/(d)
Postretirement Medical Plan						
2013	\$ -	\$ 52,231	\$ 52,231	-	\$ 224,139	23%
2011	-	50,876	50,876	-	219,357	23%
2009	-	46,852	46,852	-	204,670	23%

*Third party actuaries are used to determine these amounts on a biennial basis. The most recent plan valuation was as of July 1, 2013. The next valuation date will be July 1, 2015.

See accompanying independent auditor's report

14. Net position

The table below details USNH's net position as of June 30, 2014 and 2013 (\$ in thousands):

	<u>2014</u>	<u>2013</u>
Net investment in capital assets	\$ 574,302	\$ 550,778
Restricted financial resources		
Nonexpendable		
Historic gift value of endowment-campus	93,071	87,811
Historic gift value of endowment-affiliated entities	130,776	125,246
Total restricted nonexpendable resources	<u>223,847</u>	<u>213,057</u>
Expendable		
Held by campuses:		
Accumulated net gains on endowment	51,771	36,028
Fair value of restricted funds functioning as endowment	14,198	23,708
Gifts, grants and contracts	29,033	25,313
Life income and annuity funds	45	39
Loan funds	6,851	7,392
Held by affiliated entities:		
Accumulated net gains on endowment	40,052	23,488
Other	31,640	27,983
Total restricted expendable resources	<u>173,590</u>	<u>143,951</u>
Unrestricted financial resources		
Held by campuses:		
Educational and general reserves	50,789	52,140
Auxiliary enterprises	36,157	33,950
Internally designated reserves	85,358	80,331
Unrestricted loan funds	1,566	1,486
Unexpended plant funds	87,288	75,594
Fair value of unrestricted funds functioning as endowment	133,206	88,968
Subtotal	<u>394,364</u>	<u>332,469</u>
Unfunded postretirement medical liability	(51,113)	(54,158)
Total unrestricted net assets held by campuses	<u>343,251</u>	<u>278,311</u>
Held by affiliated entities:		
Fair value of unrestricted funds functioning as endowment	557	496
Other	2,764	2,754
Total unrestricted financial resources	<u>346,572</u>	<u>281,561</u>
TOTAL NET POSITION	<u>\$1,318,311</u>	<u>\$1,189,347</u>

The fair value of unrestricted funds functioning as endowment includes quasi-endowment funds totaling \$64,192,000 as of June 30, 2014 and \$47,058,000 as of June 30, 2013, which are invested to support debt principal payments for bond issues with specific future maturities. A portion of the internally designated reserves balance at June 30, 2014 (\$8,938,000) reflects the balance of board-approved funding for STEM related initiatives, and is expected to be spent in 2015. In addition to the June 30, 2014 unexpended plant balances shown above, \$72,870,000 of internally designated reserves was also approved for funding of campus capital projects. The largest of these projects are the Hamilton-Smith building at UNH (\$37,000,000) and the ALLWell North facility at PSU (\$16,000,000).

15. Component units

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

Condensed Information from the Statements of Net Position as of June 30,			Condensed Information from the Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30,		Condensed Information from the Statements of Cash Flows for the years ended June 30,			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>		
Endowment investments	\$ 190	\$ 153	Gifts and other support	\$ 38	\$ 35	Receipts from gifts and other sources	\$ 15	\$ 24
Other assets	12	9	Investment income	25	17	Payments to UNH and suppliers	(22)	(16)
Total assets	<u>202</u>	<u>162</u>	Total revenues	<u>63</u>	<u>52</u>	Net cash provided by/(used in) operating activities	<u>(7)</u>	<u>8</u>
Annuities payable	3	2	Distributions to UNH	17	16	Net cash provided by (used in) investing/noncapital financing activities	<u>8</u>	<u>(7)</u>
Other liabilities	-	1	Administrative and other expenses	6	8	Change in Cash and Equivalents	<u>\$ 1</u>	<u>\$ 1</u>
Total liabilities	<u>3</u>	<u>3</u>	Total expenses	<u>23</u>	<u>24</u>			
Total Net Position	<u>\$199</u>	<u>\$159</u>	Operating Income & Other Changes in Net Position*	<u>\$ 40</u>	<u>\$ 28</u>			

*Includes the addition of \$14,946,000 of endowment and other gift funds transferred to UNHF in conjunction with the integration of the UNH School of Law. A copy of the complete financial statements for UNHF can be obtained by contacting their Accounting Office at (603) 862-4171.

11. Endowment return used for operations

The majority of endowment funds are invested in one of two investment pools valued using units purchased in the applicable pool at the gift date. The endowment distribution rate as a percentage of the average market value per unit for the twelve quarters from which it was derived was 4.8% for 2014 and 2013 for the USNH endowment pool. For the UNHF endowment pool, the distribution rate was 5.4% for 2014 compared to 5.6% in 2013.

The objective for 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.

The components of endowment return used for operations for 2014 and 2013 are summarized below (*\$ in thousands*):

	<u>2014</u>	<u>2013</u>
Pooled endowment yield - campuses	\$ 3,621	\$ 5,257
Pooled endowment yield - affiliates	2,644	3,028
Trusts, life income and annuities yield	(103)	(67)
Gains utilized to fund distribution	16,086	11,004
Endowment return used for operations	<u>\$22,248</u>	<u>\$19,222</u>

12. Operating expenses by function

The following table details USNH operating expenses by functional classification (*\$ in thousands*):

Campuses – current funds	<u>Compensation</u>	<u>Supplies & Services</u>	<u>Utilities</u>	<u>Internal Allocations</u>	<u>Depreciation</u>	<u>2014 Total</u>	<u>2013 Total</u>
Instruction	\$206,237	\$ 25,123	\$ 10	\$ 98	\$ -	\$231,468	\$222,863
Auxiliary services	50,755	51,961	5,217	45,436	-	153,369	149,475
Research and sponsored programs	69,566	40,282	131	30	-	110,009	121,927
Academic support	45,944	19,974	9	510	-	66,437	62,805
Student services	23,396	12,681	11	(6)	-	36,082	34,425
Institutional support	37,688	12,910	30	(19,173)	-	31,455	30,737
Operations & maintenance	24,325	15,171	16,399	(27,210)	-	28,685	25,031
Fundraising & communications	12,151	5,879	-	3,756	-	21,786	18,811
Public service	6,320	1,574	-	85	-	7,979	7,152
Subtotal-current funds	<u>476,382</u>	<u>185,555</u>	<u>21,807</u>	<u>3,526</u>	<u>-</u>	<u>687,270</u>	<u>673,226</u>
Campuses – other funds	280	8,458	29	-	57,192	65,959	64,287
Affiliated entities	4,237	1,443	-	(3,526)	-	2,154	4,676
Total	<u>\$480,899</u>	<u>\$195,456</u>	<u>\$ 21,836</u>	<u>\$ -</u>	<u>\$ 57,192</u>	<u>\$755,383</u>	<u>\$742,189</u>

13. 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 \$500 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.

As discussed in Note 8, USNH provides self-liquidity for the 2011B Bonds (\$39,450,000 at June 30, 2014 and \$41,045,000 at June 30, 2013). This requires that USNH maintain 1.5 times coverage of the bonds outstanding in same-day liquid investments to insure payment to bondholders in the event the bonds are not successfully remarketed (\$59,175,000 at June 30, 2014 and \$61,568,000 at June 30, 2013).

These derivative instruments meet the criteria established by GASB Statement No. 53 for effective hedges as of June 30, 2014 and 2013 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. Effective interest rates and other key terms of each derivative are described below.

Counterparty	Counterparty Most Recent Credit Rating	Variable Interest Rates Paid and Received				Inception-To-Date			
		Interest Rate Paid to USNH Bond Holders as of		Interest Rate Received by USNH from Swap Counterparties as of		Effective Interest Rate	Effective Interest Rate	All-In Synthetically Fixed Interest Rate	
		6/30/2014	6/30/2013	6/30/2014	6/30/2013	6/30/2014	6/30/2013		
Series 2005A swap	Bank of New York Mellon	Aa1/AA-	0.1%	0.1%	0.1%	0.1%	3.6%	3.7%	3.9%
Series 2005B swap	Goldman Sachs Capital Markets	A2/A-	0.1%	0.1%	0.4%	0.4%	2.9%	3.0%	3.7%
Series 2011B swap	Morgan Stanley Capital Services	Ba1/A-	0.1%	0.1%	0.1%	0.1%	4.5%	4.5%	4.7%

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, 2014, 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. Depending on the magnitude and duration of any basis risk shortfall or surplus, the effective rate on the debt will vary. Based on current and historical experience, PFM, USNH's swap advisor, expects payments received under the agreements to approximate the expected 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 diversifying 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 always has the option to terminate a swap at the fair market value 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, by employing strategic indicator targets to maintain financial strength, by monitoring swap market values and counterparty credit ratings, and by diversifying swap counterparties.

Swap Cash Flows

The actual interest payments on the swaps will vary as interest rates vary. The table below shows estimated annual future cash flows of the derivative instruments if interest rates remain unchanged from June 30, 2014 through the end of each swap contract (\$ in thousands):

Fiscal Year	Notional Amortization	Estimated Interest Received	Estimated Interest and Fees Paid	Estimated Swap Outflows, Net
2015	\$ 7,200	\$ (426)	\$ 6,426	\$ 6,000
2016	7,665	(408)	6,172	5,764
2017	7,775	(388)	5,900	5,512
2018	8,275	(368)	5,625	5,257
2019	8,560	(347)	5,331	4,984
2020-2024	47,465	(1,395)	21,892	20,497
2025-2029	41,110	(817)	13,592	12,775
2030-2034	45,145	(348)	6,255	5,907
2035-2036	7,150	(11)	387	376
Total	<u>\$180,345</u>	<u>\$ (4,508)</u>	<u>\$ 71,580</u>	<u>\$ 67,072</u>

10. Pass-through grants

USNH distributed \$194,511,000 and \$204,282,000 of student loans through the U.S. Department of Education Federal Direct Lending program during 2014 and 2013, respectively. These distributions and related funding sources are not included as expenses and revenues, or as cash disbursements and cash receipts, in the accompanying financial

statements. The statements of net position include receivables of \$184,000 and \$86,000 as of June 30, 2014 and 2013, respectively, for direct loans disbursed in excess of U.S. Department of Education receipts.

The associated variable interest rates for both 2005A and 2005B at June 30, 2014 and 2013 were 0.11% and 0.07% respectively. The 2011B associated variable interest rates at June 30, 2014 and 2013 were 0.10% and 0.06%, respectively. Maturity dates and interest terms of each issue 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 2006B-2	7/1/2036	Fixed at 4.5%
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%

*7/1/2016, 2020, 2023

Capital leases

On April 30, 2004, USNH entered into a capital lease agreement in the amount of \$18,387,000 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 \$11,428,000 and \$12,467,000 as of June 30, 2014 and 2013, respectively.

Maturity of Long-term Obligations

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, 2014 over the remaining terms of individual issuances (\$ in thousands):

Fiscal Year	Principal	Interest	Total
2015	\$ 49,922	\$ 18,315	\$ 68,237
2016	12,983	17,265	30,248
2017	38,287	16,907	55,194
2018	13,942	14,985	28,927
2019	60,989	14,585	75,574
2020-2024	134,102	46,537	180,639
2025-2029	47,429	21,966	69,395
2030-2034	49,685	11,253	60,938
2035-2037	17,300	1,470	18,770
	<u>424,639</u>	<u>163,283</u>	<u>587,922</u>
Plus: unamortized discounts/premiums, net	5,930	-	5,930
Total	<u>\$ 430,569</u>	<u>\$ 163,283</u>	<u>\$ 593,852</u>

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.

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, 2014 and 2013 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,	
					2014	2013	2014	2013
Series 2005A swap	October 29, 2008	July 1, 2035	3.6%	67% LIBOR	\$ 55,000	\$ 56,650	\$(10,521)	\$(10,581)
Series 2005B swap	August 1, 2005	July 1, 2033	3.1%	63% LIBOR + 0.29%	85,895	89,785	(9,623)	(9,851)
Series 2011B swap	April 4, 2011	July 1, 2033	4.5%	67% LIBOR	39,450	41,045	(9,684)	(10,199)
				Total	<u>\$ 180,345</u>	<u>\$ 187,480</u>	<u>\$(29,828)</u>	<u>\$(30,631)</u>

The fair value balances shown above represent the estimated amounts USNH would have been required to pay to terminate the swaps as of June 30, 2014 and 2013. The valuations provided are derived from third-party, proprietary models based upon well-recognized principles and estimates about relevant future market conditions. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair 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 on the swaps. USNH intends to hold all swap contracts to maturity.

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 are not required to contribute to the plan. The plan is a single-employer plan and is funded on a pay-as-you-go basis with benefits paid when due. The USNH Board of Trustees holds the authority to change these benefit plans at any time.

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 2014 initial rate of increase in the cost of healthcare services is assumed to be 6.75% for participants age 65 and over and 7.75% for all other participants. The initial increase in the cost of prescriptions is assumed to be 6.75% for participants age 65 and over for 2014. These rates are assumed to decrease gradually to 5.0% by 2021 and remain at approximately that level thereafter. The discount rate used in determining the actuarial accrued liability was 4.75% for both 2013 and 2014. Obligations of the plan are amortized over one year. The actuarial accrued liability as of July 1, 2014, was \$50,209,000. The actuarially determined postretirement benefit expense for the primary plan was \$3,442,000 for 2014 and \$5,022,000 for 2013. These calculations are based on the benefits provided by the plan at the time of the last biennial plan valuation, June 30, 2013, and were developed using the Projected Unit Credit Cost Method. USNH has accrued \$51,113,000 and \$54,158,000

as of June 30, 2014 and 2013, respectively, for obligations of the plan.

Total annual other postemployment benefit (OPEB) cost for the primary post-retirement medical plan for the years ended June 30, 2014 and 2013, and the liability as of June 30, 2014 and 2013 included the following components (\$ in thousands):

	<u>2014</u>	<u>2013</u>
Annual required contribution	\$ 7,530	\$ 8,055
Interest on net OPEB obligation	2,451	3,898
Adjustment to annual required contribution	(8,160)	(4,369)
Annual OPEB cost	1,821	7,584
Contributions made	(4,866)	(5,395)
Increase (decrease) in net OPEB obligation	(3,045)	2,189
Net OPEB obligation at beginning of year	54,158	51,969
Net OPEB obligation at end of year	<u>\$ 51,113</u>	<u>\$ 54,158</u>
Current Portion	<u>\$ 4,861</u>	<u>\$ 5,416</u>

The primary postretirement medical plan holds no assets. An additional postretirement medical plan is maintained by the State of New Hampshire Police which covers safety officers at UNH and PSU. These plans are separate from the primary plan. USNH has accrued \$348,000 as of June 30, 2014 and 2013 for potential obligations under the State of New Hampshire Police Plan.

8. Long-term debt

USNH long-term debt activity, exclusive of deferred losses on refundings, for the years ended June 30, 2014 and 2013 is summarized below (\$ in thousands):

	<u>Balance June 30, 2012</u>	<u>2013 Additions & Other Changes</u>	<u>2013 Retirements</u>	<u>Balance June 30, 2013</u>	<u>2014 Additions & Other Changes</u>	<u>2014 Retirements</u>	<u>Balance June 30, 2014</u>	<u>Current Portion</u>
NHHEFA bonds								
Series 2005A	\$ 58,000	\$ -	\$ (1,350)	\$ 56,650	\$ -	\$ (1,650)	\$ 55,000	\$ 1,500
Series 2005B	93,550	-	(3,765)	89,785	-	(3,890)	85,895	4,030
Series 2006B-2	55,175	-	(1,250)	53,925	-	(1,300)	52,625	1,375
Series 2007	46,570	-	-	46,570	-	-	46,570	-
Series 2009A	105,650	-	-	105,650	-	(21,605)	84,045	-
Series 2011A	6,000	-	-	6,000	-	-	6,000	-
Series 2011B	42,570	-	(1,525)	41,045	-	(1,595)	39,450	39,450
Series 2012	23,260	-	-	23,260	-	(2,605)	20,655	2,655
Series 2014	-	-	-	-	21,760	-	21,760	-
UNH School of Law Bonds	12,046	-	(238)	11,808	-	(11,808)	-	-
Unamortized discounts/premiums, net	6,570	-	(324)	6,246	-	(316)	5,930	324
Capital leases	15,147	-	(1,636)	13,511	-	(872)	12,639	912
Total bonds and leases	<u>\$ 464,538</u>	<u>\$ -</u>	<u>\$(10,088)</u>	<u>\$ 454,450</u>	<u>\$ 21,760</u>	<u>\$(45,641)</u>	<u>\$ 430,569</u>	<u>\$ 50,246</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. USNH is in compliance with all covenants specified in the NHHEFA bonds, the most restrictive of which is maintenance of a debt-service coverage ratio, as defined, of at least 1.1 to 1.0.

As noted above, the UNH School of Law integrated with USNH on January 1, 2014. The proceeds of the UNH School of Law Bonds outstanding at June 30, 2013 had been used to fund construction of academic facilities in 2008 and 2009. Because USNH is authorized to issue bonds only for self-supporting facilities, the terms of the integration agreement required that the UNH School of Law Bonds be redeemed in advance of the integration. Accordingly, the UNH School of Law Bonds (Series 2010) were fully paid off in December, 2013, using proceeds from liquidation of quasi-endowment investments.

USNH's bond portfolio at June 30, 2014 consisted of fixed rate and variable rate issues, with an overall cost of capital of approximately 4.05%. The variable rate demand bonds (Series 2005A, 2005B, 2011B) are fully hedged via interest rate swap agreements (see Note 9 below), with Series 2005A and 2005B each supported by standby bond purchase agreements. Series 2011B is supported by self-liquidity and thus categorized in total as a current liability. During the year ended June 30, 2014, USNH issued Series 2014 Bonds to defease the first bullet payment of the Series 2009A Bonds due on July 1, 2014 in the amount of \$21,605,000. Funds from Series 2014 Bonds were held in escrow in the principal payment investment account for the Series 2009A Bonds on June 30, 2014.

6. Accrued employee benefits

Accrued employee benefits at June 30 were as follows (\$ in thousands):

	2013		2014		2014		2014	
	Balance June 30, 2012	Payments to/ on behalf of participants	Expenses & Other Changes	Balance June 30, 2013	Payments to/ on behalf of participants	Expenses & Other Changes	Balance June 30, 2014	Current Portion
Operating staff retirement plan	\$ 6,170	\$ (691)	\$ 547	\$ 6,026	\$ (664)	\$ 450	\$ 5,812	\$ 665
Additional retirement program	2,339	(96)	1,065	3,308	(261)	330	3,377	179
Employee separation incentives	4,344	(1,058)	115	3,401	(2,655)	6,526	7,272	5,052
Long-term disability	2,908	(696)	1,220	3,432	(582)	288	3,138	582
Workers' compensation	3,502	(1,148)	376	2,730	(467)	2,237	4,500	691
Compensated absences	18,141	(1,455)	1,814	18,500	(1,484)	2,194	19,210	1,300
Other	1,017	-	(730)	287	(50)	104	341	212
Total accrued employee benefits	<u>\$ 38,421</u>	<u>\$ (5,144)</u>	<u>\$ 4,407</u>	<u>\$ 37,684</u>	<u>\$ (6,163)</u>	<u>\$ 12,129</u>	<u>\$ 43,650</u>	<u>\$ 8,681</u>

The operating staff retirement program has been closed to new participants since 1987. At June 30, 2014 there were approximately 214 current annuitants and 56 participants with deferred benefits, all fully vested. This compares to 223 current annuitants and 61 participants with deferred benefits as of June 30, 2013. USNH has accrued \$5,812,000 and \$6,026,000 for the related obligations as of June 30, 2014 and 2013, respectively. The accruals for the operating staff retirement program are based on the last biennial actuarial valuation calculation dated July 1, 2013. The investment return assumptions (discount rates) used in determining the actuarial accrued liabilities was 8.0% for both 2014 and 2013. Obligations of the program are amortized over one year. USNH had cash and unrestricted funds functioning as endowment assets of \$6,651,000 and \$6,310,000 at June 30, 2014 and 2013, respectively, designated to fund the obligations of the program.

The accumulated operating staff retirement program benefit obligation and funded status at June 30 consisted of the following (\$ in thousands):

	2014	2013
Retired participants and beneficiaries	\$ 4,606	\$ 4,732
Active participants	646	658
Other participants	560	636
Accrued pension benefit obligation	5,812	6,026
Less: funds functioning as endowment and other assets available for benefits	(6,651)	(6,310)
Funding in excess of plan liabilities	<u>\$ (839)</u>	<u>\$ (284)</u>

USNH's additional retirement contribution program is mandatory for all newly-hired employees but was optional for employees hired before July 1, 1994. Employees participating in this program have an additional 1% of their salary contributed to their defined contribution retirement plan (see below) by USNH in lieu of postretirement medical benefits. In addition, employees meeting certain service guidelines prior to July 1, 1994 are eligible for a guaranteed minimum retirement contribution. There were 563 and 600 employees meeting these requirements as of June 30, 2014 and 2013, respectively. USNH has accrued \$3,377,000 and \$3,308,000 at June 30, 2014 and 2013, 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, July 1, 2013, and were developed using the Projected Unit Credit Cost Method. The discount rate used in determining the actuarial accrued liabilities was 2.25% for both 2014 and 2013. Obligations of the program are amortized over one year. USNH had designated cash assets of \$3,377,000 and \$3,308,000 for these obligations as of June 30, 2014 and 2013, respectively, to fund the obligations of the program.

Eligible USNH employees may also elect to participate in defined contribution retirement plans administered by others. Contributions by USNH under these plans ranged from 4% to 11% of eligible salaries for enrolled participants and totaled \$24,596,000 and \$22,722,000 in 2014 and 2013, respectively. Contributions by plan members totaled \$23,507,000 and \$22,369,000 in 2014 and 2013, respectively.

Early retirement and employee separation incentive programs were provided to various faculty and staff during 2014 and 2013. 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 \$7,272,000 at June 30, 2014, and \$3,401,000 at June 30, 2013, represent obligations for 60 and 120 participants, respectively, which will be remitted in fiscal years 2015 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, 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 \$51,312,000 and \$48,875,000 for fiscal year 2014 and 2013, respectively. These amounts include \$5,799,000 and \$5,618,000 for estimated claims incurred but not reported as of June 30, 2014 and 2013, 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 \$400,000 per participant in most cases. The liabilities recorded in the financial statements for all USNH self-insured programs are developed by management based on historical claims data, and in the opinion of management are expected to be 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, the Medicare Complementary Plan, was optional for all full-time status employees hired before July 1, 1994 and not offered to new employees after that date. At June 30, 2014 and 2013, there were approximately 320 and 337 active employees who, along with their dependents, may eventually be eligible to receive benefits under this program. Retired employees must have reached age 62, completed

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

	<u>2014</u>	<u>2013</u>
Pledges receivable	\$ 11,041	\$ 8,383
Discounted allowance for doubtful pledges	(3,866)	(1,980)
Total pledges receivable, net	7,175	6,403
Less: noncurrent portion	(5,593)	(4,899)
Current portion	<u>\$ 1,582</u>	<u>\$ 1,504</u>

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

	<u>2014</u>	<u>2013</u>
Perkins loans	\$ 24,780	\$ 25,224
Other loans, restricted and unrestricted	1,538	2,147
Allowance for doubtful loans	(2,105)	(2,127)
Total notes receivable, net	24,213	25,244
Less: noncurrent portion	(19,416)	(20,337)
Current portion	<u>\$ 4,797</u>	<u>\$ 4,907</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. 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%, and global sovereign bonds are limited to 10% of the endowment pool, respectively. No USNH endowment investments were denominated in foreign currencies as of June 30, 2014 or June 30, 2013.

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

	<u>Campuses</u>		<u>Affiliated Entities</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Pooled endowments:				
Campuses	\$ 453,447	\$ 382,759	-	-
UNH Foundation	-	-	\$ 184,845	\$ 162,672
Keene Endowment Assoc.	-	-	7,082	6,124
Life income & annuity funds	156	156	5,039	4,270
Funds held in trust	16,286	14,534	-	-
Total	<u>\$ 469,889</u>	<u>\$ 397,449</u>	<u>\$ 196,966</u>	<u>\$ 173,066</u>

A portion of the UNHL endowment pool assets at June 30, 2013 (\$11,151,000), is included in the Campuses pooled endowments balance above since the funds were used to redeem the UNHL bonds outstanding in December, 2013. The remainder of the UNHL endowment pool assets at June 30, 2013 (\$14,729,000), is included in the UNH Foundation balance above. This presentation provides consistency as the UNHL endowment assets were invested in the UNH Foundation pool upon finalization of the integration in January, 2014.

Endowment investments held at June 30, 2014 include the following (\$ in thousands):

	<u>Campuses</u>		<u>Affiliated Entities</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Money market funds	\$ 20,947	\$ 8,279	\$ 16,747	\$ 18,355
Other mutual funds:				
Domestic equity	96,462	85,288	30,392	23,505
International equity	46,422	42,992	12,384	8,040
Domestic & foreign fixed income	25,037	22,635	9,006	18,386
Inflation hedging assets	-	-	3,941	3,082
Common/preferred stocks:				
Domestic equity	13,006	10,396	3,291	2,716
Fixed income securities:				
Domestic & foreign bonds	-	-	1,030	795
Inflation hedging assets	5,983	5,735	2,559	3,082
Commingled funds:				
Domestic equity	35,063	24,301	24,524	19,170
International equity	34,564	27,332	24,962	18,630
Flexible capital	129,710	111,446	44,787	28,391
Domestic & foreign fixed income	10,215	12,074	-	-
Inflation hedging assets	17,490	15,559	6,972	6,370
Private equity	15,068	14,577	7,521	15,017
Non-marketable real assets	3,626	2,291	3,811	3,256
Other investments	16,296	14,544	5,039	4,271
Total endowment and similar investments	<u>\$ 469,889</u>	<u>\$ 397,449</u>	<u>\$ 196,966</u>	<u>\$ 173,066</u>

The fair value of investments is based on quoted market prices when available. The estimated fair value of investments without traditional markets (e.g. private equity and non-marketable real assets) is based on valuations provided by primary fund managers and reviewed by management. 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. Flexible capital investments include various hedge funds holding long/short positions, and investing in special situations, relative value and other strategies. As of June 30, 2014 and 2013, fixed income securities have weighted average maturities up to 30 years and carried ratings ranging from AAA to A2. The mutual fund investments held in the endowment pools are not rated.

Uncalled commitments with various private equity and similar alternative investment funds totaled \$15,586,000 for USNH and \$9,376,000 for UNHF at June 30, 2014. This compares to \$12,848,000 and \$4,982,000, respectively, at June 30, 2013.

5. Property and equipment

Property and equipment activity for the years ended June 30, 2014 and 2013 is summarized as follows (\$ in thousands):

	<u>Balance</u> <u>June 30, 2012</u>	<u>2013</u> <u>Additions</u> <u>& Changes</u>	<u>2013</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>2014</u> <u>Additions</u> <u>& Changes</u>	<u>2014</u> <u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
Land	\$ 12,926	\$ -	\$ -	\$ 12,926	\$ 461	\$ -	\$ 13,387
Buildings and improvements	1,402,925	84,271	(3,334)	1,483,862	68,617	(1,011)	1,551,468
Equipment	97,372	12,256	(2,139)	107,489	10,636	(7,670)	110,455
Construction in progress, net	90,757	35,239	(64,286)	61,710	45,142	(69,068)	37,784
Total property and equipment	1,603,980	131,766	(69,759)	1,665,987	124,856	(77,749)	1,713,094
Less: accumulated depreciation	(633,018)	(52,789)	4,085	(681,722)	(57,191)	8,095	(730,818)
Property and equipment, net	<u>\$ 970,962</u>	<u>\$ 78,977</u>	<u>\$ (65,674)</u>	<u>\$ 984,265</u>	<u>\$ 67,665</u>	<u>\$ (69,654)</u>	<u>\$ 982,276</u>

Contractual obligations for major construction projects totaled \$39,973,000 and \$1,688,000 at June 30, 2014 and 2013, respectively.

are made available from repayments of outstanding principal amounts plus accumulated interest received thereon.

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 totaling \$9,621,000 and \$1,880,000 at June 30, 2014 and 2013, respectively, which are expected to be received over the next ten years, 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.

The System's financial statements include comparative financial information. Certain prior year amounts have been reclassified to conform to the current year presentation.

Integration of UNH School of Law

As noted above, the UNH School of Law fully integrated with USNH as of January 1, 2014. The integration is 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. As a private institution, the School of Law formerly followed guidance of the Financial Accounting Standards Board. Certain adjustments were made to balances of the School to conform to GASB requirements. The largest of these adjustments related to reclassification of fixed asset balances from Unrestricted to Net Investment in Capital Assets net position (\$2,316,000). In addition, USNH reclassified \$18,757,000 of Unrestricted net position to Restricted Expendable funds functioning as endowment net position to ensure that future spending of the funds is limited to support of the Law School. Following is a summary of the related beginning balances for the periods presented herein as restated:

	USNH Original Balances as of 7/1/2012	UNH School of Law Balances as of 7/1/2012*	USNH Restated Balances as of 7/1/2012
Current Assets	\$ 233,224	\$ 5,128	\$ 238,352
Noncurrent Assets	1,473,613	38,223	1,511,836
Total Assets	<u>\$ 1,706,837</u>	<u>\$ 43,351</u>	<u>\$ 1,750,188</u>
Total Deferred Outflows	\$ 50,758	-	\$ 50,758
Current Liabilities	\$ 163,612	\$ 2,708	\$ 166,320
Noncurrent Liabilities	545,058	12,458	557,516
Total Liabilities	<u>\$ 708,670</u>	<u>\$ 15,166</u>	<u>\$ 723,836</u>
Net investment in capital assets	\$ 521,736	\$ 2,316	\$ 524,052
Restricted			
Nonexpendable	200,370	3,135	203,505
Expendable	93,487	20,794	114,281
Unrestricted	<u>233,332</u>	<u>1,940</u>	<u>235,272</u>
Total Net Position	<u>\$ 1,048,925</u>	<u>\$ 28,185</u>	<u>\$ 1,077,110</u>

*as restated to conform to GASB presentation

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. Specific provisions require that banks in which USNH holds investments must have FDIC or FSLIC insurance and be rated at least A1/P1 by Standard & Poor's and Moody's. 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. Money market funds must be rated AAA/Aaa by Standard & Poor's and Moody's Investor Service, and comply with Securities and Exchange Commission Rule 2A-7. Other mutual funds must be affiliated with the largest national fund managers. In addition, USNH investments may not exceed 5% of any institution's total deposits or 20% of any institution's net equity.

Cash and cash equivalents:

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. Cash and cash equivalents at June 30 consisted of the following (\$ in thousands):

	2014		2013	
	Balance	Weighted Average Maturity	Balance	Weighted Average Maturity
Cash balances	\$ 1,837	Less than 1 year	\$ 4,867	Less than 1 year
Repurchase agreement	16,070	Less than 1 year	11,911	Less than 1 year
Money market funds	<u>62,432</u>	Less than 1 year	<u>63,342</u>	Less than 1 year
Total	<u>\$ 80,339</u>		<u>\$ 80,120</u>	

Short-term investments:

Short-term investments are highly liquid amounts held to support specific current liabilities. The components of operating investments at June 30 are summarized below (\$ in thousands):

	2014		2013	
	Balance	Weighted Average Maturity	Balance	Weighted Average Maturity
Obligations of the US Govt.	\$ 2,940	5-10 years	\$ 2,902	5-10 years
Certificates of deposit & money market funds	17,198	Less than 1 year	17,004	Less than 1 year
Other mutual funds	133,976	1-5 years	121,690	1-5 years
Other investments	<u>177</u>	Less than 1 year	<u>899</u>	Less than 1 year
Total	<u>\$ 154,291</u>		<u>\$ 142,495</u>	

Cash, cash equivalents and short-term investments are generally uninsured and uncollateralized against custodial credit risk, and the related mutual funds are not rated.

3. Accounts, pledges and notes receivable

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

	2014	2013
Grants and contracts	\$ 16,017	\$ 18,672
Student and general	6,810	6,303
State of NH capital projects	763	-
Allowance for doubtful accounts	<u>(2,626)</u>	<u>(2,387)</u>
Total accounts receivable, net	<u>\$ 20,964</u>	<u>\$ 22,588</u>

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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."

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 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 outflows and net position of UNHF and KEA are fully blended with those of the campuses in the accompanying financial statements, and all associated intercompany activity has been eliminated.

The University of New Hampshire Foundation, 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. UNHF is governed by its own Board of Directors, the membership of which includes the President of the University of New Hampshire and three other members of the USNH Board of Trustees. The University of New Hampshire funds a portion of the operating expenses of UNHF. UNHF has a separate financial statement audit each year. Condensed financial information for UNHF is included in Note 15. The Keene Endowment Association 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.

On August 31, 2010, UNH and Franklin Pierce Law Center officially affiliated and the Center became known as the UNH School of Law (UNHL). UNH School of Law's affiliation with UNH created new partnerships, particularly in research and commercialization as the only law school in the State of New Hampshire. 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, as described more fully below.

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

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 \$25,000 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 loans to students

UNIVERSITY SYSTEM OF NEW HAMPSHIRE
STATEMENTS OF CASH FLOW
(\$ in thousands)

	For the year ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and fees, net	\$320,968	\$330,512
Receipts from operating grants and contracts	128,411	139,936
Receipts from sales of auxiliary services	203,731	197,143
Receipts from other operating revenues	26,766	22,991
Payments to employees	(364,067)	(353,934)
Payments for employee benefits	(114,017)	(113,399)
Payments for supplies and services	(222,743)	(222,646)
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	(20,951)	603
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State general appropriations	69,000	53,647
Federal Pell and other nonoperating grants	26,278	25,556
Noncapital gifts	10,768	10,931
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	106,046	90,134
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
State appropriations for plant projects	5,233	8,461
Plant gifts and grants	4,148	8,245
Endowment gifts	10,908	11,863
Purchases and construction of property	(53,188)	(72,687)
Proceeds from issuance of debt	22,169	—
Retirement of debt through defeasance	(21,605)	—
Debt principal payments	(23,731)	(9,755)
Interest payments	(19,011)	(19,349)
NET CASH USED IN CAPITAL FINANCING ACTIVITIES	(75,077)	(73,222)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	378,316	428,356
Purchase of investments	(394,679)	(454,069)
Endowment investment income	6,479	8,537
Operating investment income	85	212
NET CASH USED IN INVESTING ACTIVITIES	(9,799)	(16,964)
Increase/(Decrease) in cash and cash equivalents	219	551
Beginning cash and cash equivalents	80,120	79,569
ENDING CASH AND CASH EQUIVALENTS	\$ 80,339	\$ 80,120
Ending cash and cash equivalents, as above	\$ 80,339	\$ 80,120
Short-term investments	154,291	142,495
TOTAL CASH, CASH EQUIVALENTS, & SHORT-TERM INVESTMENTS	\$234,630	\$222,615
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES		
Operating loss	\$ (78,472)	\$ (47,945)
Adjustments to reconcile operating loss to net cash provided by/(used in) operating activities:		
Depreciation and amortization	57,192	52,769
Changes in current assets and liabilities:		
Accounts receivable	2,387	3,087
Notes receivable	1,393	(492)
Prepaid expenses and other current assets	45	(492)
Accounts payable and accrued expenses	(5,727)	(2,928)
Deposits and unearned revenues	(576)	(6,010)
Accrued employee benefits	2,807	2,615
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	\$(20,951)	\$ 604
SIGNIFICANT NONCASH TRANSACTIONS		
Endowment return, net of amount used for operations	\$ 71,886	\$ 38,369
Loss on disposal of capital assets	(587)	(1,388)

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,	
	2014	2013
OPERATING REVENUES		
Resident tuition	\$ 176,872	\$ 185,758
Nonresident tuition	242,437	234,323
Continuing education tuition	19,848	19,359
Student fees revenue	26,108	26,478
Total tuition and fees	465,265	465,918
Less: student financial aid - grants and contracts	(33,654)	(31,897)
Less: student financial aid - all other	(110,561)	(103,153)
Net tuition and fees	321,050	330,868
Grants and contracts - direct revenues	106,317	120,818
Grants and contracts - facilities & administrative recovery	19,756	19,768
Sales of auxiliary services	202,804	197,814
Other operating revenues	26,984	24,976
Total Operating Revenues	676,911	694,244
OPERATING EXPENSES		
Employee compensation - grants and contracts	58,362	59,421
Employee compensation - all other	422,537	405,932
Supplies and services - grants and contracts	36,876	48,810
Supplies and services - all other	158,580	155,536
Utilities	21,836	19,721
Depreciation	57,192	52,769
Total Operating Expenses	755,383	742,189
Operating loss	(78,472)	(47,945)
NONOPERATING REVENUES (EXPENSES)		
State of New Hampshire general appropriations	69,000	53,647
Federal Pell grants	25,915	25,210
Noncapital gifts	11,711	14,797
Endowment and investment income	26,672	21,606
Interest expense, net	(18,786)	(19,453)
Other nonoperating revenue (expense)	363	347
Total Nonoperating Revenues (Expenses)	114,875	96,154
INCREASE IN NET POSITION FROM RECURRING ACTIVITIES	36,403	48,209
OTHER CHANGES IN NET POSITION		
State of New Hampshire capital appropriations	5,997	6,804
Plant gifts, grants and other changes, net	3,791	6,856
Endowment and similar gifts	10,887	11,999
Endowment return, net of amount used for operations	71,886	38,369
Total Other Changes in Net Position	92,561	64,028
INCREASE IN NET POSITION	128,964	112,237
Net position at beginning of year	1,189,347	1,077,110
NET POSITION AT END OF YEAR	\$1,318,311	\$1,189,347

See accompanying notes to the financial statements.

UNIVERSITY SYSTEM OF NEW HAMPSHIRE
STATEMENTS OF NET POSITION
(\$ in thousands)

ASSETS	Balance at June 30,	
	2014	2013
Current Assets		
Cash and cash equivalents	\$ 80,339	\$ 80,120
Short-term investments	154,291	142,495
Accounts receivable, net	20,964	22,588
Pledges receivable, net - current portion	1,582	1,504
Notes receivable, net - current portion	4,797	4,907
Prepaid expenses and other current assets	8,815	8,860
Total Current Assets	270,788	260,474
Noncurrent Assets		
Endowment and similar investments - campuses	469,889	397,449
Endowment and similar investments - affiliated entities	196,966	173,066
Pledges receivable, net	5,593	4,899
Notes receivable, net	19,416	20,337
Property and equipment, net	982,276	984,265
Total Noncurrent Assets	1,674,140	1,580,016
TOTAL ASSETS	1,944,928	1,840,490
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of hedging derivatives	29,828	30,631
Accounting loss on debt refinancings, net	5,573	5,661
TOTAL DEFERRED OUTFLOWS OF RESOURCES	35,401	36,292
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	45,989	51,626
Construction services payable	8,141	5,583
Deposits and unearned revenues	32,846	33,925
Accrued employee benefits - current portion	8,681	6,853
Postretirement medical benefits - current portion	4,871	5,425
Long-term debt - current portion	50,246	51,933
Total Current Liabilities	150,774	155,345
Noncurrent Liabilities		
Obligations under life income agreements	2,625	2,486
Refundable government advances	16,909	16,545
Accrued employee benefits	34,969	30,831
Postretirement medical benefits	46,590	49,080
Derivative instruments - interest rate swaps	29,828	30,631
Long-term debt, net of current portion	380,323	402,517
Total Noncurrent Liabilities	511,244	532,090
TOTAL LIABILITIES	662,018	687,435
NET POSITION (see Note 14)		
Net investment in capital assets	574,302	550,778
Restricted		
Nonexpendable	223,847	213,057
Expendable	173,590	143,951
Unrestricted	346,572	281,561
TOTAL NET POSITION	\$1,318,311	\$1,189,347

See accompanying notes to the financial 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.

Cash flows from state general appropriations reflect the \$49 million (49%) reduction in 2012, and the partial appropriation recoveries in 2013 and 2014. This is offset by increases in cash flows from tuition and fees. The \$10 million decrease in cash from tuition and fees in 2014 is attributable to the increase in student financial aid during the year. The reductions in cash flows from noncapital gifts, grants and other revenues in 2014 and 2013 are primarily due to reduced grant activity at UNH as the broadband fiber project discussed above was completed. The net cash used in investing activities total of \$69 million in 2012 includes USNH's investment of \$125 million in the Long-term Treasury Investments quasi-endowment fund to reduce volatility of operating investment income streams, offset by the impact of the related reduction in short-term investments. Similarly, the \$75 million of net cash used in investing activities in 2011 reflects the movement of cash equivalents into short-term investment instruments to increase returns.

D. Financial Indicators

The 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 often 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 7, actual operating margins from 2010 through 2014 ranged from 2.6% to 6.0%. USNH's operating margin was 4.5% for 2014. The average margin over the past five years was 4.0%, reflecting the targeted balance of strategic spending and investment of resources.

The unrestricted financial resources to debt ratio, shown in Chart 8 above, 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 40% or above. The calculated ratio at June 30, 2014 was 80%, compared to 62% as of June 30, 2013. The average of this ratio over the past five years was 54%. As discussed above, a significant portion of the unrestricted net position balance reflects accumulations in unrestricted quasi-endowment funds held for future principal payments due on certain bonds outstanding. These amounts have grown substantially over the past three years as the markets rebounded. The fair value of the related investments increased from \$38 million at June 30, 2012 to \$65 million at June 30, 2014. In addition, approximately \$160 million of the unrestricted net position balance at June 30, 2014 is expected to be spent on approved capital projects in the next few years. Accordingly, this ratio is expected to decrease toward the targeted level as the

Chart 7: Annual Operating Margin

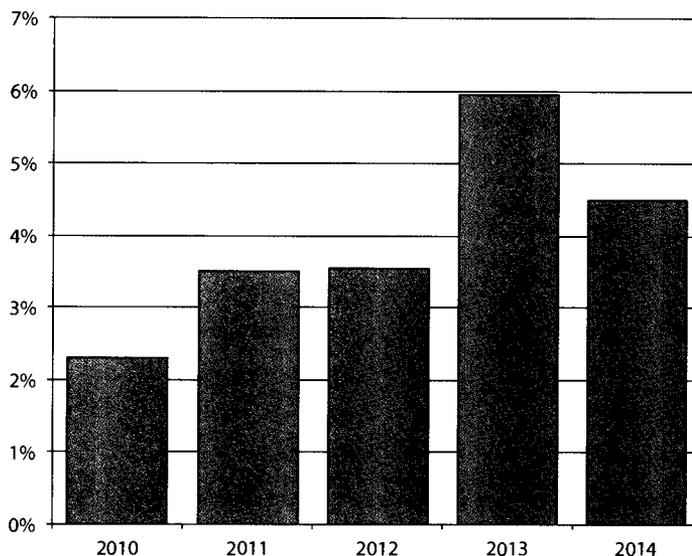
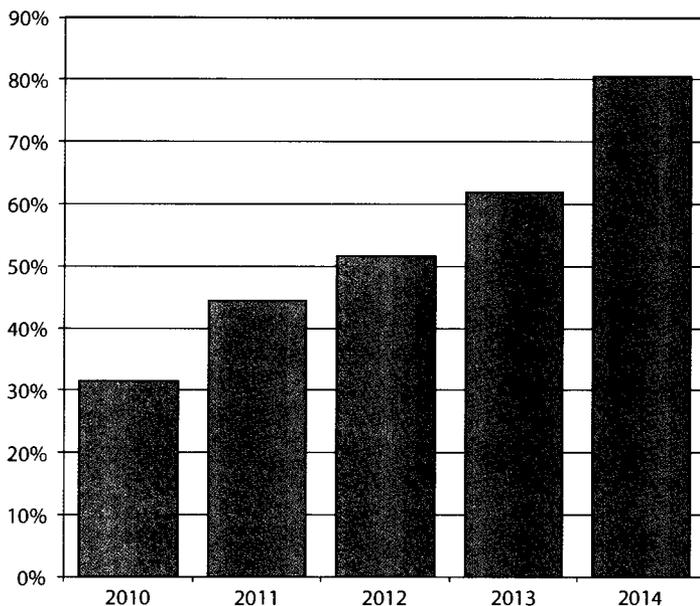


Chart 8: Unrestricted Financial Resources to Total Debt



related cash and short-term investment balances are expended on longer-term plant assets. (See Notes 8 and 14 for additional information in this regard).

There are three major components which management considers separately when analyzing USNH revenues, expenses and changes in net position: net income from recurring activities; endowment gifts and net return; and capital appropriations and other plant changes. Table 4 below shows condensed information from the Statement of Revenues, Expenses and Changes in Net Position for the five years ended June 30, 2014.

The increase in net position from recurring activities (also referred to as operating margin) is further broken down into operating revenues, operating expenses, and nonoperating revenues (expenses).

Table 4: Condensed Information from the Statements of Revenues, Expenses and Changes in Net Position for the Years Ended June 30,
(\$ in millions)

	2010	2011	2012	2013*	2014
Tuition and fees	\$369	\$391	\$428	\$466	\$465
Less: student financial aid	(110)	(121)	(122)	(135)	(144)
Net tuition and fees	259	270	306	331	321
Sales of auxiliary services	188	192	195	198	203
Grants and contracts	144	171	182	166	152
State general appropriations	100	100	51	54	69
Noncapital gifts, investment income and other revenues	57	57	54	61	65
Total Operating and Nonoperating Revenues	748	790	788	810	810
Employee compensation	444	471	460	465	481
Supplies and services	174	202	211	204	195
Utilities, depreciation and interest	87	89	89	93	98
Other expenses	25	-	-	-	-
Total Operating and Nonoperating Expenses	730	762	760	762	774
Increase in Net Position from Recurring Activities	18	28	28	48	36
Endowment gifts and returns, net	25	56	(14)	50	83
State capital appropriations and other changes, net	30	30	27	14	10
Total Other Changes in Net Position	55	86	13	64	93
Total (Decrease) Increase in Net Position	\$ 73	\$114	\$ 41	\$112	\$129

*Beginning balances restated to include UNH School of Law. See Note 1 for more information in this regard.

Operating expenses are defined as costs incurred in the normal operation of USNH, including a provision for estimated depreciation on property and equipment assets (\$57 million and \$53 million in 2014 and 2013, respectively). Operating revenues are generally earned in exchange for providing goods and services. However, GASB reporting standards require certain significant recurring revenues to be shown as nonoperating, including state general appropriations, federal Pell grants, noncapital gifts, operating investment income, and endowment return used in operations. These diversified revenue streams are critically important sources of funds used to supplement tuition and fees revenue in the

delivery of USNH programs. In other words, the regular operating expenses of USNH are funded in part by revenues not shown as operating revenues under GASB formats.

The increase in net position from recurring activities totaled \$36 million in 2014, compared to \$48 million in 2013, and \$28 million in both 2011 and 2012. Endowment gifts and net returns totaled \$83 million in 2014, compared to \$50 million in 2013. In 2014 this includes \$11 million of gifts to endowment funds and endowment gains of \$72 million, net of distributions. By comparison, endowment gifts totaled \$12 million in 2013 and endowment gains totaled \$38 million, net of distributions. Market losses impacted the endowment returns in 2012. USNH also recorded a \$6 million loss on NHPB's disaffiliation from USNH that year which is included in state capital appropriations and other changes.

C. Statement of Cash Flows

The Statement of Cash Flows summarizes transactions affecting cash and cash equivalents during the fiscal period. Table 5 below shows summary information from the Statements of Cash Flows for the five years ended June 30, 2014.

The primary purpose of the Statement of Cash Flows is to provide relevant information about the cash receipts and cash payments of USNH during the year. In addition, it should help readers assess the ability of USNH to generate the future cash flows necessary to meet its obligations and evaluate its potential for additional financing. Cash flows from operating activities will always be different than the operating loss on the Statements

Table 5: Condensed Information from the Statements of Cash Flows for the Years Ended June 30,
(\$ in millions)

	2010	2011	2012	2013*	2014
Cash flows from:					
Receipts from tuition and fees, net	\$260	\$273	\$305	\$331	\$321
Receipts from sales of auxiliary services	187	191	195	197	204
Receipt of state general appropriations	100	100	51	53	69
Noncapital gifts, grants and other receipts	142	203	217	199	192
Payments to and on behalf of employees	(440)	(459)	(462)	(467)	(478)
Payments for supplies and services	(191)	(222)	(227)	(223)	(223)
Net Cash Provided by Operating and Noncapital Financing Activities	58	86	79	90	85
Net Cash Used in Capital Financing Activities	(54)	(35)	(67)	(73)	(75)
Net Cash Provided by/(Used in) Investing Activities	6	(75)	(69)	(16)	(10)
Increase/(Decrease) in Cash and Cash Equivalents	\$ 10	\$(24)	\$(57)	\$ 1	\$ -

*Beginning balances restated to include UNH School of Law. See Note 1 for more information in this regard.

III. Using the Financial Statements

A. Statement of Net Position

The Statement of Net Position (“balance sheet”) depicts the financial position of USNH at one point in time – June 30 – and includes all assets, deferred outflows of resources, and liabilities of USNH. The total net position represents the residual interest in the University System’s assets and deferred outflows after deducting liabilities. Over time, an increase in net position is one indicator of an institution’s improving financial health. Factors contributing to future financial health as reported on the statement of net position include the value and liquidity of financial investments; depreciated values of buildings and equipment; and current balances of related debt obligations. Table 3 below shows condensed information from the Statements of Net Position at June 30 for the past five years.

Table 3: Condensed Information from the Statements of Net Position as of June 30,
(\$ in millions)

	2010	2011	2012	2013*	2014
Cash and short term investments	\$ 262	\$ 301	\$ 200	\$ 223	\$ 235
Endowment and similar investments	291	368	489	571	667
Property and equipment, net	935	931	957	984	982
Other assets and deferred outflows of resources	101	114	112	98	96
Total Assets and Deferred Outflows of Resources	1,589	1,714	1,758	1,876	1,980
Postretirement medical benefits	47	53	52	55	51
Derivative instruments - interest rate swaps	28	25	45	31	30
Long-term debt	472	468	453	454	431
Other liabilities	148	160	159	147	150
Total Liabilities	695	706	709	687	662
Net investment in capital assets	485	491	522	550	574
Restricted financial resources	260	309	294	357	397
Unrestricted financial resources	149	208	233	282	347
Total Net Position	\$ 894	\$ 1,008	\$ 1,049	\$ 1,189	\$ 1,318

*Beginning balances restated to include UNH School of Law. See Note 1 for more information in this regard.

Over the five year period shown, total assets and deferred outflows of resources increased by \$391 million or 25%. The major components of assets are cash and short term investments, endowment and similar investments, and property and equipment. Endowment investments were valued at \$667 million as of June 30, 2014, an increase of \$96 million from 2013 and \$376 million since 2010. The endowment asset values are reflective of prevailing economic conditions each year (see the Investing Activities discussion for additional information). Deferred outflows of resources include the fair value of USNH’s interest rate swap derivatives and the unamortized net book loss on debt refinancings. USNH entered into the swap agreements to reduce effective interest and synthetically fix rates over the term of the respective debt issues. Because the interest-rate swaps are deemed to be effective hedge instruments, the fair value of the derivatives is recorded to offset the interest rate swap liability in its entirety. (See Notes 8 and 9 for further discussion of outstanding debt and related interest rate swaps in place.) USNH’s largest liabilities are long-term debt and postretirement

medical benefits. Long-term debt includes bonds and capital leases payable. A large portion of the reduction in long-term debt from 2013 to 2014 is related to the early payoff of the UNH School of Law bonds (\$12 million) as required by the integration agreement. This payment was funded by liquidation of quasi-endowment investments. (See Notes 1 and 8 for additional information in this regard.) Other liabilities include accounts payable, accrued employee benefits, government advances refundable (amounts provided by the US Government under the Perkins Loan Program that would be refundable should USNH cease operating its revolving loan programs), and interest rate swap liabilities related to derivative instruments. The decline in the swap liabilities in 2013 and 2014 is due to the decline in prevailing interest rates.

The net position is reported in three categories. The net investment in capital assets amount represents the historical cost of property and equipment reduced by total accumulated depreciation and the balance of related debt outstanding. Restricted financial resources include balances expendable for specific purposes, such as scholarships or student loans. Restricted balances also include certain endowment and similar amounts which are required to be invested in perpetuity (\$224 million and \$213 million at June 30, 2014 and 2013, respectively).

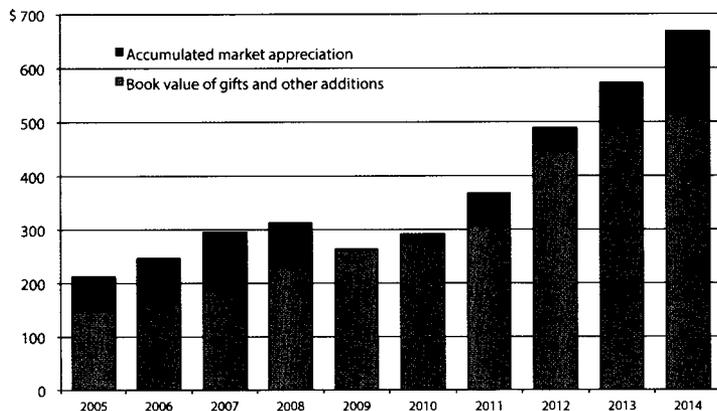
Unrestricted financial resources represent balances that are not subject to externally imposed restrictions governing their use. This includes unrestricted current fund balances, balances in unrestricted loan funds, unrestricted funds functioning as endowment, unexpended plant funds, and unrestricted funds held by affiliated entities. Approximately \$62M of the increase in unrestricted financial resources from 2010 to 2014 represents investment earnings. USNH current fund balances include amounts held for construction and renovation of facilities of approximately \$160 million and \$76 million at June 30, 2014 and 2013, respectively. (See Note 14 for further details on the components of net position.)

B. Statement of Revenues, Expenses and Changes in Net Position

This statement reports total operating revenues, operating expenses, other revenues and expenses, and other changes in net position, as prescribed and defined by the Governmental Accounting Standards Board (GASB). Factors contributing to the health of the institution as shown on the statement below include the size and quality of student enrollments; quality and distinction of the faculty; growth and diversification of revenue streams; and prudence in management of costs.

years for each pool were 10.8% and 12.5%, respectively. Chart 5 below presents the historic book value and market appreciation of USNH's endowment funds for the past ten years. USNH is continuing to build the endowment by investing assets to generate improved total returns while managing risk, and working to foster philanthropic interest to support the endowment with new giving. (See Notes 4 and 11 for further information on endowment and similar investments.)

**Chart 5: Total USNH Endowment & Similar Funds
(includes UNHF & KEA)
Ten-Year Growth
(\$ in millions)**



D. Capital Spending

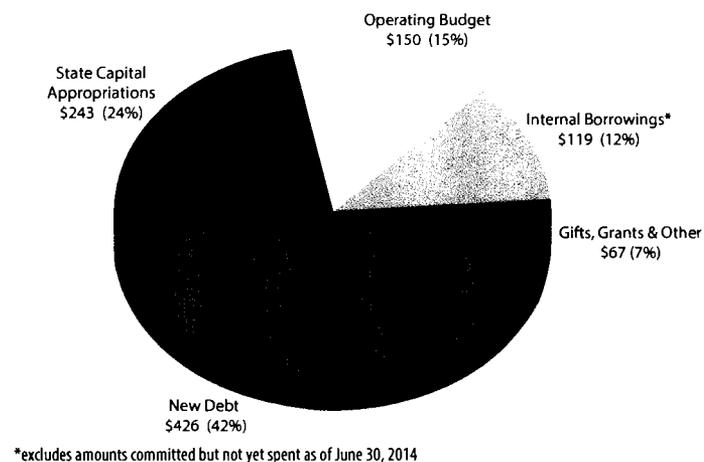
As shown in Chart 6, USNH spent over \$1 billion during the past fourteen years to construct and renovate buildings and infrastructure at all campuses. The largest source of funding for the related projects was debt issuances of \$426 million for student housing, dining and recreation facilities as well as the UNH EcoLine project discussed previously.

Capital appropriations from the state were the second largest source of funding for capital needs during this period. USNH's capital appropriation for the current biennium was reduced to \$8 million from the previous \$35 million level as the state struggled to balance needs of priority projects. However, over the past six biennia USNH was the beneficiary of \$235 million in capital appropriations through a program known as the Knowledge Economy Education Plan for New Hampshire (KEEP-NH). Those appropriations were primarily used to renovate and upgrade key science and technology buildings on all campuses and address infrastructure needs. The projects included ground-up renovations to the Demerritt, James, Kingsbury, Murkland, and Parsons Halls at UNH; Boyd Hall at PSU; Mason Library and the Putnam Science Center at KSC. A portion of the funds also supported the purchase of the Conway Technology Center at GSC.

Many additional projects were funded with institutional resources, including amounts budgeted annually for renovation and adaption of facilities, and funds borrowed from internal reserves.

Certain projects were also made possible through gift and grant awards. UNH completed construction of the new Peter T. Paul College of Business and Economics in 2013 with funds donated by alumnus Peter Paul, other alumni and University supporters, and supplemented by internal borrowings. The facility showcased UNH's commitment to Leadership in Energy and Environmental Design (LEED), and was designed to the LEED Gold standard. In 2013 KSC also opened a new Technology, Design and Safety Center to house its Architecture, Sustainable Product Design and Innovation, and Safety and Occupational Health Sciences programs. The building was designed to the LEED Platinum standard, and the cost (\$16 million) was also supported by donors and campus funds. PSU also converted underutilized student housing, Samuel Read Hall, into academic space supporting its new Nursing program. This innovative change will help meet a key STEM need in the state. The renovation was funded with campus resources and internal borrowings.

**Chart 6: Capital Funding Sources, 2001-2014
Total = \$1 Billion
(\$ in millions)**



Because of the limited capital appropriation in the current biennium, the USNH Administrative Board and Board of Trustees approved several new borrowings from internal reserves in 2014 to fund additional campus construction and renovation projects. The related borrowings at UNH will fund renovations to McConnell Hall (\$8 million) and Hamilton-Smith Hall (\$37 million), as well as several auxiliary projects (\$16 million). At PSU new borrowings will be used to fund infrastructure improvements (\$2 million) and the ALLWell North center (\$16 million). ALLWell North is phase 2 of the Active Living Learning Wellness Complex and will provide space for PSU's Health and Human Performance program, along with a field house and 200-meter indoor track. The total cost of the project is \$32 million, with the remainder supported by donors as well as other external sources and campus funds. An additional borrowing was also approved to fund the purchase of the Gateway Center location at GSC (\$4 million).

UNH (\$13 million). This high-impact project involved running 756 miles of 'dark' fiber thereby providing access to high-speed internet capability for the vast majority of the state. Much of the cost of this project represents subcontracts included in supplies and services expenses. These costs totaled \$3 million in 2014 compared to \$15 million in 2013.

The 2014 increase in other operating revenues was primarily due to \$1 million in additional fees for the Navitas program at UNH. This program recruits international students and brings them to campus each summer to ease their transition into undergraduate programs while also generating housing, dining, and English-as-Second-Language program fees.

The decrease in noncapital gifts of \$3 million from 2013 to 2014 was due to one-time pledges to the UNH Foundation made in the prior year. The endowment and investment income total for 2014 is made up of \$4 million in short-term investment earnings and \$22 million in endowment, trust and annuity distributions for the year. This compares to \$2 million in short-term investment income and \$19 million in endowment, trust and annuity distributions in 2013. The payout from the USNH endowment pool totaled \$13 million in 2014, compared to \$11 million in 2013. After being held constant since 2010, the payout rate for the USNH endowment pool increased by 5% in 2014. The UNH Foundation endowment payout totaled \$8 million and \$7 million in 2014 and 2013, respectively. The UNHF endowment pool payout rate has remained constant since 2009. The endowment administration fee is capped at 1% of the prior calendar year end value per unit for both pools.

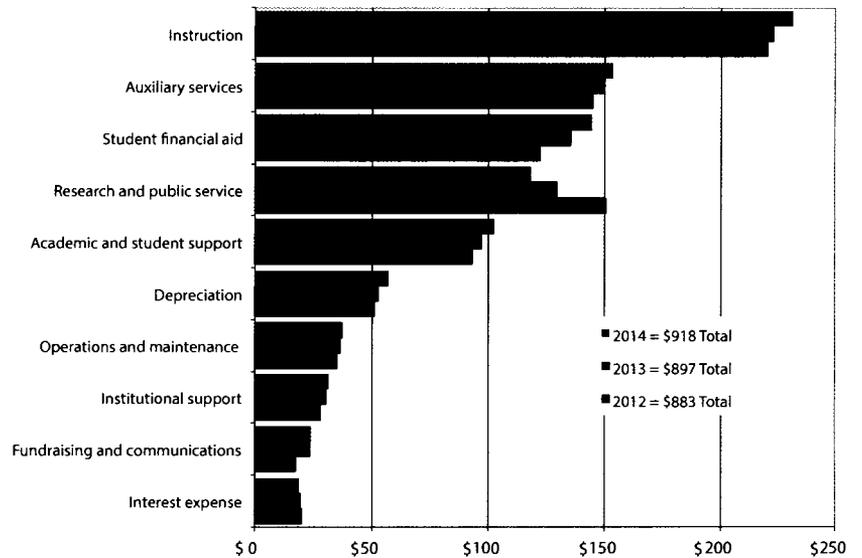
B. Cost Containment

USNH overall expenses increased by \$13 million, or 1.6%, from 2013 to 2014. The majority of the increase relates to the change in nongrant employee compensation of \$17 million or 4.0%. The compensation increase includes separation incentive expenses of \$5 million in 2014 compared to \$1 million in 2013. The three residential campuses are using separation incentives as one part of their strategies to address recent enrollment declines. The remainder of the compensation increase (\$13 million or 3.1% over 2013) represents performance-based salary and benefit cost increases for faculty and staff.

Chart 4 displays USNH's operating expenses for the past three years by functional, rather than natural, classification. As the chart shows, increases in expenses associated with financial aid have far outpaced increases in general overhead expenses in the last several years. The decrease in research and public service costs from 2012 represents the disaffiliation of NHPB from USNH, as well as reductions in the BTOP grant. Utility costs, a component of operations and maintenance, increased \$2 million in 2014 due to the harsh winter. To address these increases, representatives from all campuses worked together during the year to combine our fuel

purchasing power and generate utility cost savings for future years. PSU also recently converted its cogeneration plant from biodiesel to compressed natural gas fuel. The conversion costs had a one year payback. Accordingly, PSU expects to generate additional energy cost savings in the near term, while also reducing its carbon footprint. General administrative overhead, shown as institutional support, is one of the smallest components of USNH expenses and is also well-controlled.

Chart 4: Expenses By Functional Classification
(\$ in millions)



C. Investing Activities

Endowment gifts 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). Most endowment funds are invested in one of two investment pools: the USNH Consolidated Endowment Pool (CEP) for the benefit of several campuses or the UNHF endowment pool for the benefit of UNH only. 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 Board of Trustees has fiduciary responsibility for the CEP, whereas the separate boards of UNHF and KEA have their own investment policies and are responsible for those investments.

The UNH School of Law maintained its own endowment pool through December, 2013. All investments in the UNHL endowment pool were liquidated in the fall of 2013. Per the terms of the integration agreement, a portion of the proceeds was used to redeem the outstanding UNHL bonds in December, 2013 (\$12 million). The remaining proceeds (\$14 million) were transferred to the UNH Foundation, and invested in the UNHF endowment pool in January, 2014.

The two primary pools (USNH and UNHF) returned 17.2% and 16.2% in 2014, respectively. The average returns for the past five

Tuition and student fees accounted for \$465 million or 49% of USNH revenue in both 2014 and 2013. The mix of enrollees was slightly different, however. As shown in Table 1 below, credit-generating programs lost the equivalent of 846 full-time resident students from 2013 to 2014. This is offset by an increase in full-time equivalent (FTE) nonresident students of 254, resulting in a net enrollment reduction of 592 FTE students or 2.1%.

Table 1: Twelve Month Full-Time Equivalent (FTE) Credit-Bearing Enrollment

	2013	2014
UNH*	15,268	14,974
PSU	4,839	4,675
KSC	5,097	4,901
GSC	1,786	1,856
UNHM	921	913
Total USNH FTEs	27,911	27,319
NH Resident	16,537	15,691
Nonresident	11,374	11,628
Total USNH FTEs	27,911	27,319

*excludes UNH School of Law with 2014 enrollment of 326 students

Increases in tuition and fee rates and changes in demographics have resulted in pressure on enrollments. As shown above, most campuses experienced enrollment reductions in 2014. The 2014 twelve month system-wide credit-bearing headcount was 33,607 students in 2014; down 419 from the 34,026 students served in 2013.

As seen in Table 2 below, UNH had a reduction in applications for the fall of 2012 followed by a large increase in applicants for the fall of 2013. While the selectivity ratio was the same as 2013, fewer students matriculated, consistent with the enrollment figures above. Approximately 50% of new UNH students in the fall of 2013 ranked in the top 25% of their high school class reflecting the continued quality of the population.

Table 2: Freshman Applications, Acceptances and Enrollees at UNH at Durham* for the Fall of Each Year

	2009	2010	2011	2012	2013
Freshman applications received	16,132	16,545	17,344	17,234	17,938
Freshman acceptances as % of applications (selectivity ratio)	72%	73%	74%	78%	78%
Freshman enrolled as % of acceptances (matriculation yield)	26%	24%	23%	22%	16%

*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.

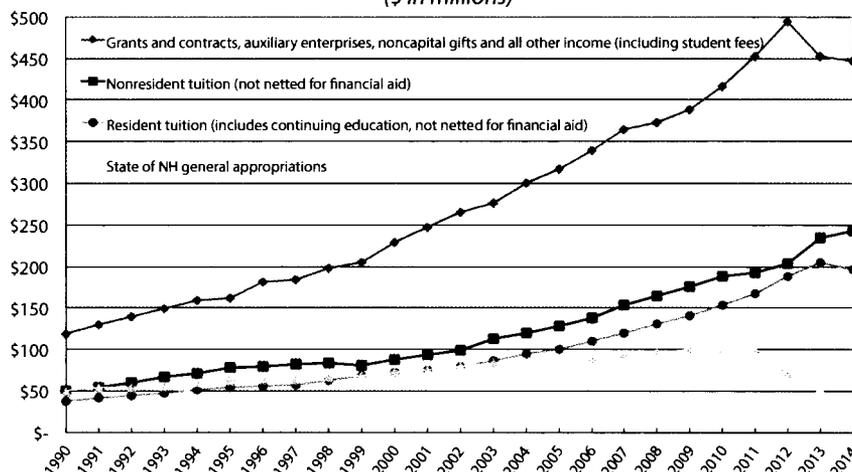
All campuses are implementing multiple strategies to address enrollment declines and generate revenues from facilities usage

over the full year rather than just during the traditional semesters. Along with successful short semesters during the winter break, the USNH campuses are expanding online as well as summer session courses to increase capacity for additional enrollments without adding significant costs. Summer housing opportunities are also being added to complement these programs. The residential campuses are also recruiting more international students to boost revenues and enhance student experiences for the global economy.

Financial aid expenditures in 2014 also increased over 2013 for both resident and nonresident students. Resident student aid increases resulted from the state's replacement of the UNIQUE annual grant awards (\$1 million). UNH also increased need-based institutional financial aid for undergraduate resident and non-resident students by \$1 million and \$4 million over the 2013 levels, respectively.

State general appropriations increased to \$69 million for fiscal year 2014, but remain well below the \$100 million provided from 2009 through 2011. As shown in Chart 3 below, the only revenue stream not keeping pace with inflation over the past 2.5 decades is the general appropriation. The 2015 appropriation is budgeted at \$84 million as USNH continues to partner with the state by freezing resident tuition and increasing student financial aid.

Chart 3: Twenty-five Year Revenue Comparison (not including capital additions/deductions) (\$ in millions)



Auxiliary revenues grew \$5 million from 2013 to 2014. The majority of the increase related to UNH operations. UNH Housing and Dining revenues increased approximately \$2 million over the prior year. In addition, UNH's electricity and renewable energy tax credit sales totaled \$4 million in 2014, \$2 million over the 2013 levels. The energy cost savings and third-party sales generated by the EcoLine project are earmarked to support UNH programs and strategic initiatives, plant renewal and adaption, and an unrestricted quasi-endowment fund also targeted for future plant needs.

Grant revenues were down \$15 million in 2014 or 12% from 2013. The large decrease in 2014 was primarily due to completion of the Broadband Technology Opportunities Program (BTOP) grant at

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013 (Unaudited)

I. Introduction

The following Management's Discussion and Analysis includes an analysis of the financial condition and results of activities of the University System of New Hampshire (USNH) for the fiscal year ended June 30, 2014. 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, with campuses in Durham (UNH), Manchester (UNHM) and beginning in 2013, the UNH School of Law (UNHL) in Concord; 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 (UNH, PSU and KSC), the ten regional sites of GSC, UNH's urban campuses (UNHM and UNHL), 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. The condensed five-year financial statements included also reflect the activities and balances of New Hampshire Public Broadcasting (NHPB) prior to its disaffiliation from USNH on July 1, 2012. (See Note 1 for additional information on affiliated entities.)

II. Economic Outlook and Financial Highlights

For fiscal year 2014, the general appropriation from the state was increased from \$54 million to \$69 million. This allowed USNH to freeze tuition rates for resident undergraduate students, directly impacting costs for our 21,000 New Hampshire students and their families. The USNH Board of Trustees also voted to extend the resident tuition freeze for 2015. Supporting the freeze, our general appropriation will increase to \$84 million in 2015 as we begin to recover from the drastic cuts of the prior biennium. UNH is expected to enroll its largest freshman class to date this fall which will expand the impact of the tuition freeze to even more NH families.

During 2014 USNH also set aside \$10 million for the campuses to invest in Science, Technology, Engineering and Math (STEM) programs and infrastructure. These investments, combined with increases in student financial aid, are being made with NH students and businesses in mind. STEM competencies are an area of high

demand for NH employers, and such skills will position our students to fill these roles, thus extending USNH's impact in the state.

The remainder of this report describes the results of financial operations for the year ended June 30, 2014 with comparisons to prior years. With this strong foundation and the commitment of USNH management and trustees, New Hampshire students will have continued access to affordable, high-quality, higher education.

A. Revenues

The charts below show the diversification of USNH's revenue streams in 2014 which totaled nearly \$1 billion. Note that these amounts are not reduced by student financial aid expenditures. In addition, capital additions and deductions are excluded from the charts.

Chart 1: 2014 Revenues by Source
Total = \$955 Million
(\$ in millions)

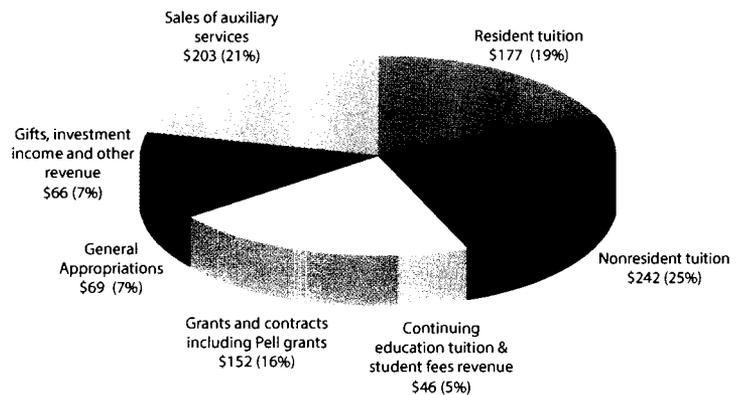
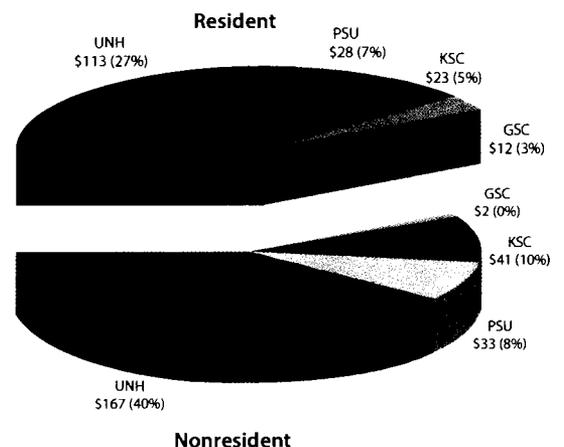


Chart 2: 2014 Tuition by Campus
Total = \$419 Million
(\$ in millions)





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, 2014 and 2013, 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 18 through 24 and the schedule of funding progress on page 37 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 30, 2014



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 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, 2014 and 2013, 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 an opinion 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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. And 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.

CHANCELLOR'S REPORT on Efficiency and Results

USNH continuously finds ways to operate efficiently and effectively to provide an affordable education while maintaining a high level of quality.

For the past three years, USNH total expense has grown at rates below annual inflation – and the institutional support component of USNH total costs is the lowest of the New England public university systems.

Centralized services produce significant efficiencies and cost savings for the system as a whole. Examples include shared finance, HR, and legal services provided by the System Office and technology services provided by UNH.

Efficiencies and cost savings are also achieved through innovative and strategic alternatives as opposed to conducting business as usual.

USNH moved to self-insure employee medical coverage in 2012, reducing costs by \$20 million over two years. The savings were used to support STEM programs and strategic initiatives at the institutions.

Other efforts expected to yield savings in the coming year(s) involve restructured banking services and procurement strategy.

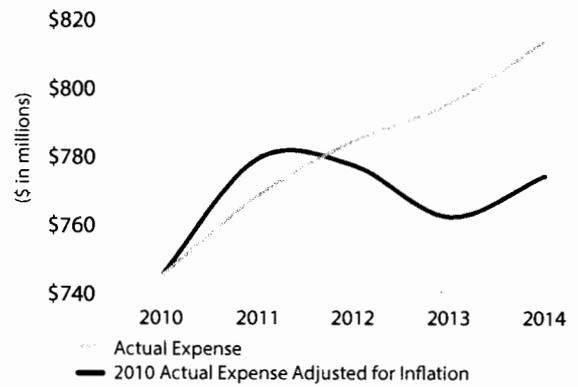
USNH continues to realize efficiencies while reducing System Office staff by 15% over the past five years. Holding support costs low benefits our current and future students.

Recent savings have helped USNH institutions to increase student financial aid, by 39% over the 2010 level. The availability of financial aid is a critical factor for student access to, and success in, higher education.

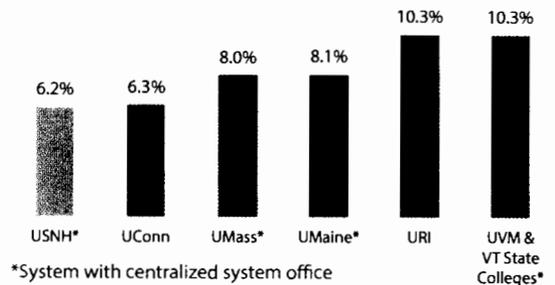
With 70% of our students completing their degree programs, the average USNH graduation rate is the highest among New England state public averages. By graduating in a timely manner, USNH students are well positioned for employment and loan repayment.

Working together, USNH now ranks #1 for the *lowest* average student loan default rate of similar institutions in New England – *and the entire US!*

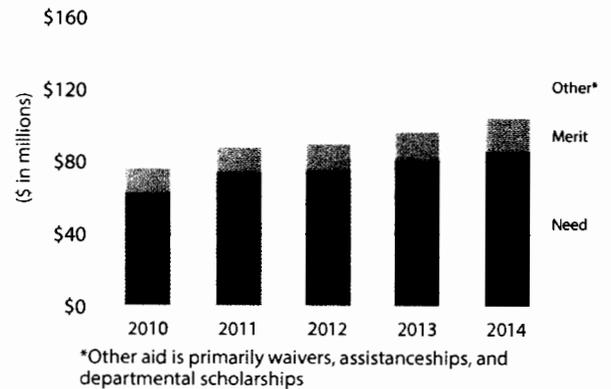
USNH Total Expenses



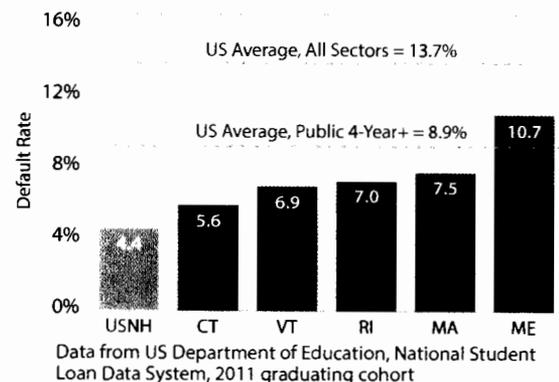
Institutional Support as Percent of Operating Expense



Student Financial Aid



Student Loan 3-Year Default Rates



ABOUT THE NUMBERS

- Total Expenses data from USNH Finance Office. Includes UNH School of Law. Inflation from Bureau of Labor Statistics or Consumer Price Index.
- Institutional support data from F-112 audited financial statements of each system. Includes fundraising and communications expenses. UMaine and UConn include Law School; URI, UVM, and UMass include Medical School, College of Medicine, or College of Pharmacy; UNH School of Law; and UConn Medical School are not included in the financial statements.
- Financial Aid data from USNH Finance Office. Includes all sources. Includes UNH School of Law in all years.
- Default Rate data from US Department of Education, National Student Loan Data System, 2011 graduating cohort, default as of 2013. Public, four-year institution averages by New England state. National comparison refers to public, four-year institution averages by state. Reference to graduation rate comparison refers to New England public bachelors graduation rate averages.



connections, and provides an educational experience that positions young adults for professional opportunities.

This spring, Keene State College joined the I'm First organization as a means of expanding its commitment and outreach to first-generation college students. A popular video featuring Keene State College President Anne E. Huot describes her experience as a first-generation student and offers advice to those seeking to be the first in their families to attend and graduate from college. Keene State College continues to direct resources and programming to support underrepresented students. The college's consistent outreach efforts, through its Diversity Outreach Plan, have successfully brought nearly 250 students from five area high schools for campus visits this past year. First year minority students at the college have increased more than 300 percent from 40 in 2007 to 123 in 2014. Minority students in the college's applicant pool have increased from 4.4 percent in 2007 to 13.3 percent in 2014.

New Dual Admission Program Between UNH and GBCC increases Access to a 4-Year Degree

UNH and Great Bay Community College (GBCC) announced a new dual admission program in August 2014 that will allow students to seamlessly transfer into UNH to complete a bachelor's degree after completing an associate degree at GBCC. Qualified students can earn credits that apply to both their associate degree and bachelor's degree while at GBCC. Upon completion of an associate degree and a cumulative 2.5 grade point average (GPA) or higher, program participants are guaranteed seamless entry into UNH's College of Liberal Arts.

The dual admission program is open to students applying or currently enrolled for the fall semester at Great Bay Community College. The program is intended to serve as a pilot that will eventually include all University System of New Hampshire and Community College System of New Hampshire institutions. GBCC and UNH currently have articulation agreements that guarantee transfer into the university's College of Life Sciences

and Agriculture, College of Engineering and Physical Sciences, and the Peter T. Paul College of Business and Economics.

"This is the next step in a great partnership with UNH. With this new program we are able to provide a wider population of students the opportunity to complete an associate degree at GBCC and move seamlessly to UNH as a junior," said GBCC President Wildolfo Arvelo.

Benefits to GBCC students enrolled in the dual admission program with UNH include having one application fee, access to specialized academic advising to maximize course completion and ensure eligibility, invitations to academic, athletic, cultural and social events at UNH throughout the year, guaranteed university housing upon successful completion of the dual admission program, and eligibility for merit-based scholarships for students who meet GPA requirements.

How USNH Tackles Higher Education Affordability

Granite State College and Plymouth State University are partnering to offer education graduate degrees focused on critical school issues for the 21st century. The Master's in Education (MEd) is designed to advance content-specific learning through a technology rich approach leading to school transformation. The program provides focused, advanced content curriculum in science, english, mathematics and history. It is centered on collaborative, inquiry-based teaching and learning for diverse populations. This degree also models systemic use of technology to enhance teaching and learning for 21st century environments. Specifically geared toward teachers working in public high schools throughout the state, the project will launch state-wide after a pilot launch at Manchester West High School this fall. In addition to specifically meeting the needs of the workforce, this degree is extremely affordable at \$10,000 total cost.

Early Childhood Development Initiative

The Coos County Early Childhood Development Initiative is a multi-year, multi-partner development program dedicated to improving the lives of very young children and their families in Coos County. Funds are provided by the Neil and Louise Tillotson Fund of the NH Charitable Foundation to pay full tuition for five PSU students from Coos County majoring in early childhood education. The initiative's goal is to improve the physical, dental, and mental health, early care and education, and lifelong well-being of children from birth to age five and their families in Coos County. This cohort is one part of the PSU early childhood grant that focuses on professional development and preparation of early childhood teachers and day care directors. Participants seek early childhood positions in the North Country after graduation.

Tackling higher education affordability

Most Affordable 4-Year College in New England

According to recent U.S. Department of Education data, GSC is the least expensive four-year college in New England. "Each day, we see and experience how the average college student is challenged by expensive tuition rates – a predicament that's always a top concern for working adults. This drives students to look at affordable online institutions, like Granite State College. Being cited as the leader in affordability in the Department of Education report is recognition of our access mission," said Dr. Todd Leach, Interim CEO of Granite State College.

UNH Welcomes Largest Incoming Class Ever; Includes 7 Percent Increase in NH students

More than 3,200 first-year students entered UNH this fall as members of the class of 2018, the university's largest incoming class ever, including a 6 percent increase in the number of in-state students over last year. The number of first-year students enrolling in STEM majors increased 13 percent over last year.

"We worked hard to bring in the quantity and quality of this first-year class," said President Mark W. Huddleston. "Offices across the university helped us by raising the visibility of the institution, increasing connection with prospective students through targeted and personalized communication, and supporting more high school visits. We're bucking the trend of declining enrollment due to fewer high school graduates, and we're proud to welcome this new class of Wildcats."

Huddleston credits some of the increase to the partial restoration of state funding in 2013, which allowed USNH institutions to freeze in-state tuition for two years. "The support of Governor Hassan, state lawmakers, and the University System of New Hampshire Board of Trustees was critical and will continue to be so as we work to keep UNH affordable," he said.

Online and Weekend Courses

Plymouth State University is committed to providing access to a valuable educational experience at an affordable cost for students and their families. For many, the traditional four-year residential model is not an option due to cost or time commitment. In response, PSU has created online and hybrid programs and courses (combining online and classroom instruction), as well as weekend-intensive and evening options to better accommodate students' busy home and work-life schedules. This is not new. PSU's Master of Business Administration program has been available online for more than 10 years and undergraduate programs in criminal justice, communications, nursing and business have been available as online degrees for several years.



Last year, PSU had more than 5,000 student enrollments generating 15,000 credit hours in online courses. Some students are earning their degrees fully online while others choose to take a mix of classes on campus and online to provide a more flexible schedule.

New Scholarships Lure High-Achieving NH Students

Up to 25 promising high school students from New Hampshire will share \$50,000 in newly-created scholarships to attend Project SMART, UNH's residential summer institute focused on science, technology, engineering and mathematics (STEM).

The scholarships, which range from \$1,000 to \$3,700 for the four-week institute, will go to high-achieving students entering 10th and 11th grade. Amounts awarded will be based on merit and demonstrated financial need.

"As New Hampshire and the nation strive to meet the growing demand for a STEM-educated workforce, these scholarships will serve to prime the STEM pipeline by removing financial barriers to this outstanding program," says Mark Rubinstein, Vice President for Student and Academic Services at UNH.

Founded in 1992, Project SMART drew students only from New Hampshire for its first five years; they attended the program at no cost. In recent years, however, students from around New England, the nation, and select international schools have far outnumbered those from New Hampshire; just about a quarter of the 45 students have been Granite Staters.

KSC Enters into Partnership with the Young Entrepreneur's Academy

Keene State College is pleased to enter into a partnership with the Young Entrepreneur's Academy (YEA!) as the organization's founding New Hampshire sponsor. The college supports YEA!'s mission to provide instruction and support to assist middle and high school students in developing and launching functioning businesses. The program resonates with Keene State's mission and emphasis on innovation, creative inquiry, community

Spurred by the Neil and Louise Tillotson Foundation, the Business Services North collaboration is driving economic growth in the North Country,” said Mary Collins, state director of the NH Small Business Development Center (NH SBDC), an outreach program of UNH’s Peter T. Paul College of Business and Economics.

Centers of Excellence

In 2014, 427 New Hampshire businesses and organizations were assisted by PSU outreach efforts in FY14. These include internships and experiential learning opportunities provided by academic departments across campus as well as contracted projects through the Center for Rural Partnerships, the Center for the Environment and the Center for Active Living and Healthy Communities.

Through PSU’s Zamzow Small Business Institute (SBI), teams of graduate students have won dozens of statewide, regional, and national awards in small business development competitions – including 10 national first place awards. Previously, the SBI has been named the best small business institute in America.

The Institute for New Hampshire Studies (INHS) maintains the official state tourism database and conducts tourism research for numerous clients including the New Hampshire Division of

Travel and Tourism Development. INHS conducts innovative education, research, and outreach in topic areas including tourism, archaeology, and regional history. INHS projects support state and regional tourism marketing efforts, heritage preservation, as well as the planning and development initiatives of communities and independent accommodations and attractions.

Small Business Development Center

Each year, 3,000 small businesses in some 200 communities benefit from NH SBDC programs. Since 1984, more than 39,000 entrepreneurs representing 18,000 businesses have been assisted.

After five years, 80 percent of businesses that receive counseling from the Small Business Development Center at UNH are still in business – that’s quite a contrast with the 44 percent survival rate of businesses that don’t receive counseling.

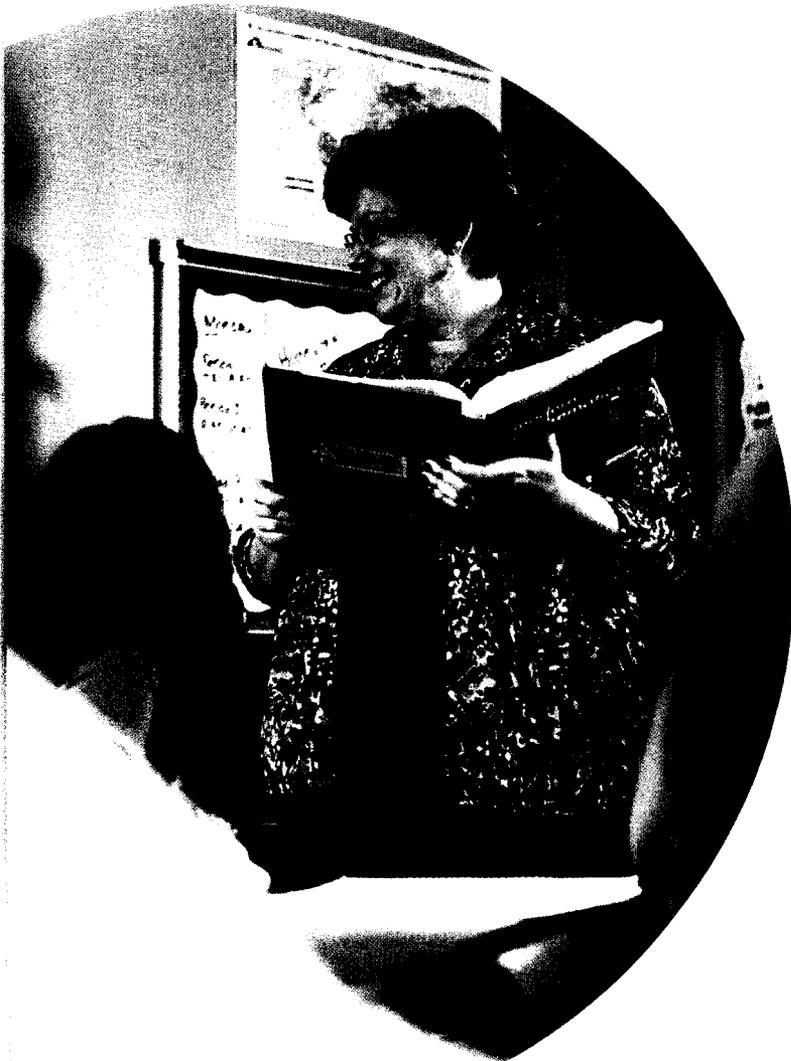
NH SBDC’s full-time certified business advisors provide one-on-one, long-term management advising to small businesses at no cost through regional offices and satellite locations.

Client companies come from all sectors seeking advice on financing, improving operations, bringing new products to market, and where to start in launching a new business or purchasing an existing one.

Teacher Certification Program

The North Country Teacher Certification Program (NCTCP) is an exciting collaboration between PSU and White Mountains Community College designed to provide first-of-its-kind opportunities for higher education to place-bound students in remote regions of New Hampshire. Rural citizens now can earn a bachelor’s degree and K-8 teacher certification. The program runs on a two-year cycle with three semesters of course work and one semester of student teaching. PSU classes taught in Berlin are offered evenings and weekends to accommodate non-traditional students who work in the day.

For many students, leaving home to attend college is not an option because of family and work responsibilities. The goals of the NCTCP are to provide aspiring North Country residents the chance to become teachers and to benefit local school systems by having dependable, well-trained teachers who want to live and work in rural New Hampshire. Thirty-two residents have graduated and are actively working, of which 25 are teaching in North Country schools – with one alumnus recently promoted to principal.



Keene State College students, working through the college's management program, serve as consultants to local business and non-profit organizations. The program has been recognized with more than 30 district, regional, and national awards for contributions made to the vitality of the region's small businesses. Building on its exemplary history of training five generations of forward-thinking educators, Keene State College provides ongoing career support and professional development through the Southwestern New Hampshire Educational Support Center.

Computer Science Innovation

GSC launched the BS in Computer Science Innovation with Manchester Community College for their students who earn an Associate Degree in Computer Science and Innovation. This program is in direct response to workforce demand for students with critical thinking, innovation and problem-solving skills. The degree is already earning the attention of high-profile local employers such as Dyn, inc., a leading internet performance solutions company.

UNHInnovation

Underscoring its growing role in fostering innovation and entrepreneurship across New Hampshire's tech-based economy, UNH launched UNHInnovation and introduced a new website – <http://innovation.unh.edu> – to create a hub for accessing UNH research, expertise, equipment and facilities.

"We are excited for this next step in rolling out the UNHInnovation initiative," said Marc Sedam, executive director of UNHInnovation. "We began the website redesign with the key objectives of promoting UNH intellectual property and providing a centralized location where members of the business community can gain access to our equipment, facilities, talent, and expertise."

The new website is designed to not only promote UNH research and assist in bringing research results to market, but also to consolidate all of the business resources available at the university. From student and alumni recruitment options to the executive development programs, the website is an information center that provides the contact information to learn more about the various opportunities to connect with the university.

Enterprise Center

Since October 2013, ten small businesses are getting started or have re-started at PSU's Enterprise Center at Plymouth (ECP). This business incubator-accelerator is a partnership between Plymouth State University and the Grafton County Economic Development Council. The center has reached the capacity of available space, and new offices are being built to accommodate additional businesses.

PSU's experienced executive director manages the ECP and its

entrepreneurial programs, and PSU faculty assist businesses by providing expert professional counsel and a steady cohort of student interns. Since last October, 21 PSU students have engaged with ECP business members, gaining valuable experience as they assisted new and emerging companies dealing with real-world issues. Six graduates have been hired full time, an anchor company is owned by a PSU alumnus, and many jobs are being created in the region.

Literacy Project

Granite State College is leading a collective impact effort to effect social change in Sullivan County. A new partnership with other postsecondary education, K-12, social service, business, and community partners has formed to promote literacy, the chief barrier to economic empowerment. Granite State College is sponsoring an AmeriCorps VISTA volunteer to manage collaboration and communications for the partnership as it determines a common agenda and progress measures. Each member organization will contribute its special expertise as the partnership builds literacy to achieve positive social change.

North Country Engagement

Businesses and entrepreneurs across New Hampshire's North Country now have access to a streamlined, one-stop entry created through a unique public-private partnership supported by UNH.

In January 2014, Business Services North unveiled a new branding campaign at the Coos County Business Expo and launched a new website, www.businessservicesnorth.org. Three North Country organizations joined to form Business Services North: White Mountains Community College, Northern Community Investment Corporation, and the NH Small Business Development Center at UNH.

"For years our three organizations worked with the same clients, often duplicating efforts. Now, Business Services North conserves resources and triples the support for businesses.



Supporting NH businesses

Manchester Expansion

The UNH Manchester campus will have a new home in spring 2015 as a result of its partnership with DEKA Research and Development Corporation. The building trade will allow UNH to expand and respond to area business needs. UNH's strategic Mill Yard move will bolster Manchester's "college town" reputation and pave the way for sustained job growth.

The move is part of the forward-looking transformation the college is undertaking for students interested in experiential learning through internships, research and community engagement.

The University System of New Hampshire Board of Trustees, with the full support of the UNH administration, voted unanimously to support the sale of UNH's current building at 400 Commercial Street to DEKA in exchange for a long-term lease with the option to buy the Pandora building at the corner of Commercial and Granite streets.

"This is a rare opportunity for the university, for DEKA, and for the city of Manchester," said UNH President Mark W. Huddleston. "It signals the university's commitment to its role in Manchester and to Merrimack Valley area businesses who count on work-ready UNH graduates, and the expansion will allow us to grow and develop new programs to meet their needs. This partnership benefits everyone."

Meteorology

The Plymouth State University Meteorology program prepares graduates to contribute to businesses, state agencies, and non-profit organizations in a variety of productive ways. Professor James Koermer and a graduate student collaborated with

Milford-based Airmar Technology Corporation to develop a compact lightning detection system. This system can be used by golf courses and amusement parks to improve the safety of their guests and staff.

For 10 years, Professor Eric Hoffman and his students have worked with Public Service of New Hampshire to better understand the weather conditions that contribute to power outages. Professor Sam Miller and his students also work closely with the National Weather Service to improve wind forecasts in the Gulf of Maine to help fishermen and recreational boaters.

PSU's Meteorology Department also has a 10-year agreement with the New Hampshire Department of Transportation to deploy more than 50 weather observation stations throughout the state to measure road surface and subsurface temperature and ozone concentrations.

Partnerships

Keene State College's significant contribution to a robust New Hampshire economy is measured in several important ways. The college's direct and indirect economic impact to the state of New Hampshire exceeds \$350 million. Nearly half of Keene State College's graduates remain in New Hampshire, building the state's workforce and enhancing its social and economic capital. Five years after graduation, 95 percent of Keene State graduates are employed and 76 percent of those are engaged in fields related to their areas of study.

Keene State College has developed more than 144 partnerships with communities, non-profits, government agencies, and businesses across the state. The college leverages these relationships to attract additional resources to the college, create experiential learning opportunities for its students, enhance its academic programming, and develop a sustainable source of internship opportunities that benefit both students and business partners. Keene State students have received internships or have been hired at nearly 40 New Hampshire companies including businesses in the fields of biotechnology, construction, internet-related services, film production, metal castings, insurance, printing systems, and precision manufacturing.

Keene State College's commitment to workforce development is also demonstrated through a variety of partnerships that provide business development and consulting services to small, emerging, and entrepreneurial ventures. The Regional Consortium for Advanced Manufacturing (RCAM) draws on the resources of consortium partners to link businesses and employees with educational resources that further the region's prominence in advanced manufacturing through a highly skilled workforce. The OSHA Training Institute at Keene State College, recognized by the U.S. Department of Labor, provides critical expertise in safety and health that reduces workplace hazards and the accompanying human and financial costs.

Discovery Lab

Seeing teenagers hunched over smartphones may not seem unusual, but 14 New Hampshire high school students who gathered at the STEM Discovery Lab at UNH Manchester last summer were doing something extraordinary – using computer science to build their own mobile applications.

During the Ecosystem Computing Challenge (ECC) Summer Camp, led by Mihaela Sabin, Associate Professor of Computer Science, students were introduced to computer science using the App Inventor programming environment.

Dave Dewitt, CEO and founder of Phase65, Inc., attended the first day of the camp as a manufacturing industry partner. “As a 67-year-old retired mechanical engineer, I am well aware of how important STEM is to bridging the growing ‘skills gap’ of our K-12 student population,” said Dewitt, who worked alongside the students.

The camp also served as a professional development opportunity for teachers from the Manchester School of Technology, Pinkerton Academy, Timberlane Regional, and Dover High School.

RN to BSN Program Partnership

GSC’s RN to BSN degree completion pathway offers an innovative outlet for GSC to create thriving partnerships with education and health care institutions across New England. As a workforce-oriented college with a mission focused on degree completion for adults, the RN to BSN program maximizes the valuable experience of a practicing registered nurse. This program augments the student’s experience with college-level learning emphasizing quality in emerging areas of the nursing field, such as genetics, aging populations, and leadership. The response is enthusiastic and partnerships have been developed with hospitals across the region including Holy Family Hospital, Dartmouth-Hitchcock in Manchester, Portsmouth Regional Hospital, Exeter Hospital, St. Joseph’s Hospital, and more.

Engaging Local High Schoolers

Some 100 Winnacunnet High School freshman biology students gained valuable research skills as they witnessed harmless bacteria divide before their eyes this spring – with the help of a program created by UNH faculty and public school teachers to promote STEM skills and improve K-12 science education.

Winnacunnet science teachers Mike Handwork ('98) and Shani Scarponi have been working with UNH for more than a year to bring innovative projects and sophisticated new equipment into their classrooms. Handwork spent last summer at the Leitzel Center at UNH, learning how to gather data with his students for Forest Watch, a program that trains K-12 students and teachers to collect data used in studying the health of New Hampshire’s white pine and sugar maple trees.



UNH has also loaned Winnacunnet equipment, hosted students on campus and connected the high school’s science faculty with research expertise throughout the university.

“It’s basically renewed what science teaching is for me,” Handwork said. The idea for the evolution project came from UNH Associate Professor of Microbiology and Genetics Vaughn Cooper, who has been working with graduate student Taylor Warren ('13) to develop a simple, hands-on method of teaching teenagers about the complexities of evolution.

EPSCoR Summer Teacher Conference

In August 2014, conference organizer and PSU Research Professor Doug Earick brought together on campus more than 40 Granite State middle, high school and college science teachers to hone their classroom skills with a series of workshops and hands-on training in using large amounts of data.

“This is a different way of doing science,” Earick said. “Science is moving in a different direction; the focus is on data literacy, how to collect large amounts of data, analyze it using computer software and ask the question, ‘what does that data mean?’ Does it lead to other questions? That’s what scientists have to do and that’s how we want students to start thinking... We hope the teachers here can take this data back to their classrooms and have their students work with it...” Earick added.

The teacher training conference is part of NH EPSCoR (Experimental Program to Stimulate Competitive Research), which seeks to advance New Hampshire’s competitiveness in science and engineering by strategically investing in research infrastructure; promoting education in STEM; and partnering with businesses that enhance job creation and economic development.

Addressing the state's need for a STEM educated workforce

Talent Pipeline

More than 1,000 first-year students at UNH entered science, technology, engineering and mathematics (STEM) majors in fall 2014, an increase of 13 percent over last year.

UNH graduates 59.1 percent of New Hampshire's baccalaureate degrees and 59.6 percent of its graduate degrees in the fields of engineering, engineering technology, computer science and information technology—all of which are in high demand and short supply. The university is also the sole source of research-based agricultural expertise in the state.

In 2012, officials from the University System of New Hampshire and the Community College System of New Hampshire committed to double the number of STEM-educated graduates from their institutions by 2025.

As the largest public institution in the state, UNH will be the primary driver of that increase. In 2013, UNH graduated nearly 1,300 students in STEM majors.

Meteorology Program

For three weeks in January and February, the Plymouth State University Meteorology program featured on campus a Doppler-On-Wheels (DOW) mobile radar unit. The DOW spent several days on campus for students to get experience using mobile forecasting technology. Then, the DOW went on the road with PSU faculty to communities and schools throughout the

Lakes Region, introducing students and citizens to the science of weather. More than 1,000 people of all ages participated in these programs. Among the PSU professors participating was Dr. Lourdes Aviles, whose 2014 award-winning book, *Taken by Storm, 1938: A Social and Meteorological History of the Great New England Hurricane*, combined science and history to tell a compelling story of nature's terrific power.

Workforce Development

Twenty percent of Keene State College's 1,100 annual bachelor's graduates complete degrees in science, technology engineering, and math (STEM) disciplines.

In order to meet the increasing demand for talented graduates in STEM disciplines, Keene State College has instituted the "Building Excellence in Science and Technology" (BEST) program that began recruiting students into specialized programming for the fall of 2014. The program focuses on student recruitment and retention in STEM disciplines including computer science, biology, math, chemistry, geology, and physics. Highlights of the program include a living-learning community, peer mentoring, and undergraduate research opportunities throughout a student's academic experience at Keene State. The college seeks to increase the number of BEST graduates by 50 percent by 2019.

Majors in 10 of the College's STEM-related disciplines made up 28 percent of all declared majors at the undergraduate level in 2013. The disciplines include architecture, biology, chemistry, computer science, environmental studies, geology, math, nursing, safety, and sustainable product design innovation. The growth in STEM-related disciplines at Keene State College since 2008 represents a 66 percent increase in the number of declared majors in these areas.

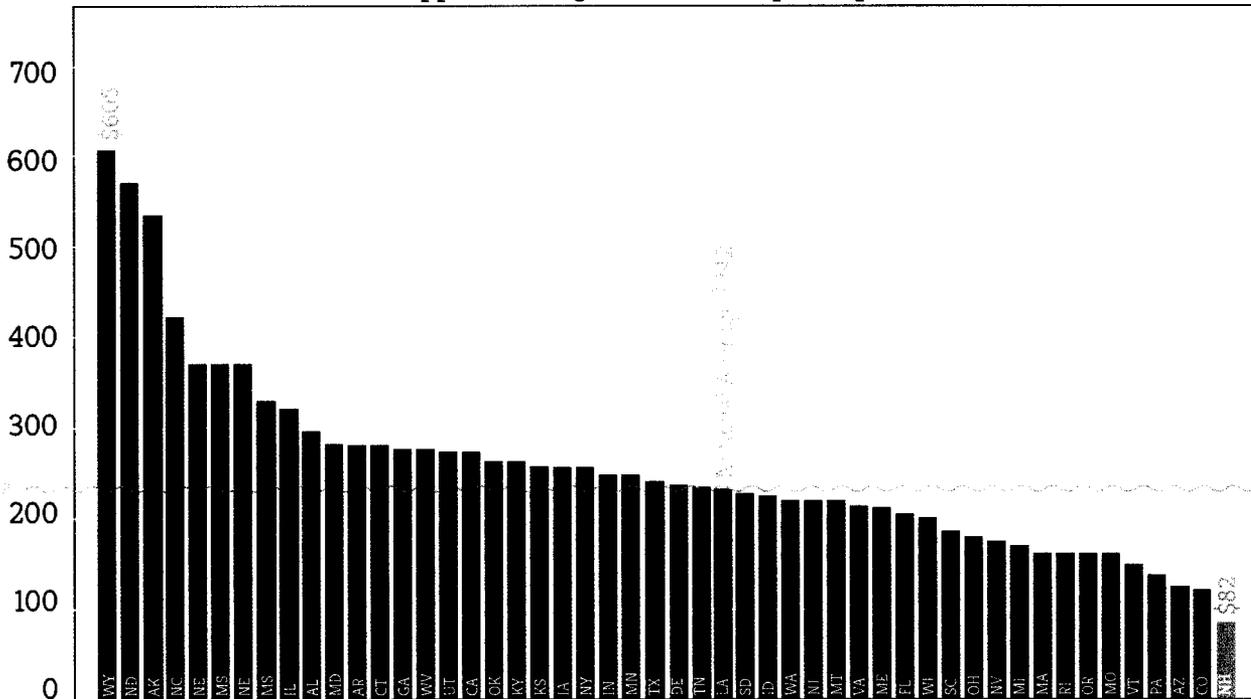
STEAM Ahead Project

Granite State College is a partner with Manchester West High School, Manchester Community College, UNH Manchester, New Hampshire Department of Education and local businesses to facilitate a high school redesign model, focused on science, technology, engineering, arts, and mathematics (STEAM) initiatives, early college experiences and work force development. It is anticipated that this model will be replicated across New Hampshire. It is the first collaboration in New Hampshire that brings together high school and higher education educators and the business community to address the long-term demand for more high school graduates to study science, technology, engineering, arts and mathematics. Creativity is a critical component for STEM careers and is included in the project with an enhanced collaboration in the arts with West High School and its higher education partners.



NH Ranks 50th in State Support

State Support for Higher Education per Capita, FY2014



"If technology is going to be a central part of the New Hampshire advantage then business needs to have the talent, and to have the talent we must have a strong university system."

— Governor Chris Sununu
 NH State of the State 2014

"The greatest challenges facing higher education are access and affordability."

— Governor Chris Sununu
 NH State of the State 2014

Over a full year, approximately

34,000



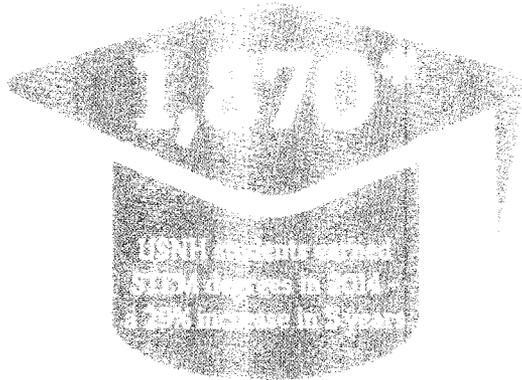
students enroll at
 USNH institutions

USNH Enrollment Fall 2014

University of New Hampshire	16,311
Plymouth State University	4,826
Keene State College	4,957
Granite State College	2,209
Total	28,303*

*Includes preliminary graduate student counts

STEM Talent



*Preliminary figures

USNH graduates
more than half
of NH's bachelor's degrees in STEM

USNH and the Community College System of NH set a goal to **double** the number of STEM grads by 2025

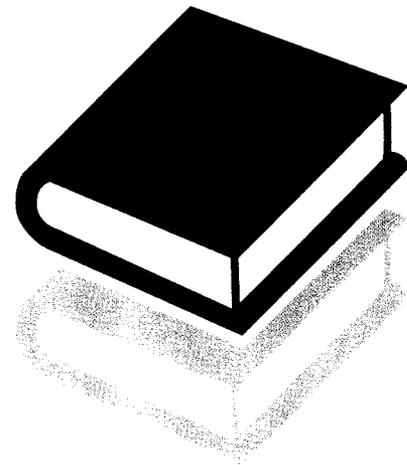


Building NH's Future

NH residents
enrolled exclusively online
at USNH - more than any other public institution in NH

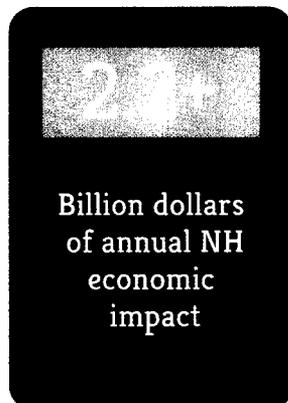


USNH alumni
live in NH



NH's Economic Partner

NH businesses assisted
directly by USNH partners each year



85%

Increase in sponsored
research funding
2003-2013

REPORT FROM THE University System of New Hampshire

The University System of New Hampshire (USNH) includes the University of New Hampshire (UNH) at 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 University System is directed by a 27-member Board of Trustees. Administration of the University System is the responsibility of the chancellor, functioning as the executive agent of the Board of Trustees. The chancellor is the chief executive and academic officer of the University System Office, and is responsible for developing, recommending, and implementing the Board's policies and decisions.

University of New Hampshire

UNH is a land-, sea-, space-grant and community-engaged public research university, enrolling more than 14,000 undergraduate and more than 3,000 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.

Plymouth State University

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 7,000 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. Recently PSU has earned state and national recognition for academic innovation, environmental sustainability, international opportunities, community engagement, and economic partnerships.

Keene State College

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 5,500 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.

A leader in applying the principles of a liberal arts education to today's challenges, Keene State's innovative curriculum and focus on high-impact practices have won national praise, with the *Princeton Review* again



naming it a Green College and *U.S. News & World Report* ranking it as one of the Top Public Regional Universities in the North. The *Princeton Review* has consistently listed Keene State as one of the 224 best colleges in the Northeast.

Granite State College

GSC empowers students to reach their ultimate academic and career goals by providing comprehensive access to higher education. With a focus on adults and other students who seek the flexibility of online courses or convenience of a regional campus, GSC offers affordable tuition and degree programs that can be earned while balancing life's other responsibilities such as work, family, and community obligations. Offering associate, bachelor's and master's degrees, post-baccalaureate programs for teachers, and a variety of transfer opportunities, GSC is known for its supportive and enriching environment. Supported by a faculty of expert practitioners who help to illustrate the real-life application of their curriculum through innovative education technology, GSC emphasizes practical and relevant areas of study that are responsive to the workforce development needs of New Hampshire's economy.

SEPTEMBER 2014

Dear Stakeholder:

Our state's four-year public universities and colleges are proud to offer a high quality education experience to 34,000 students each year. Our partnerships with New Hampshire's elected leaders, businesses, citizens and communities are central to the ability of University System of New Hampshire institutions to provide world-class research, critical workforce talent and outreach that support the Granite State's economy and outstanding quality of life.

The University System of New Hampshire provides a tremendous return on investment to our state. In fact, USNH is the most efficient public four-year system in New England, with less than 10-percent of our operating budget coming from state appropriations. In addition, the institutions within the University System also have the highest graduation rates of any public system in New England. Graduates of USNH institutions also have the lowest average student loan default rates of any public four-year system in the nation! That means our graduates are getting jobs and paying back their student loans.

We have a unique public higher education system in New Hampshire with four distinct institutions providing affordable access and being focused on the long-term workforce needs of the state. Through these four institutions, USNH provides local and national research; business incubation; agricultural support; high quality education in the classroom and online; and the most affordable four-year access in the region, with average tuition nearly half the price of private institutions.

Achieving these outcomes has required our institutions, and the system itself, to be highly efficient and innovative. Through our centralized shared-service model we are able to minimize operating costs and maintain a strong financial position as evidenced by our debt ratings. Recent changes, such as a shift to healthcare self-insurance, have resulted in further savings, and that drive for efficiency is a key focus for the University System.

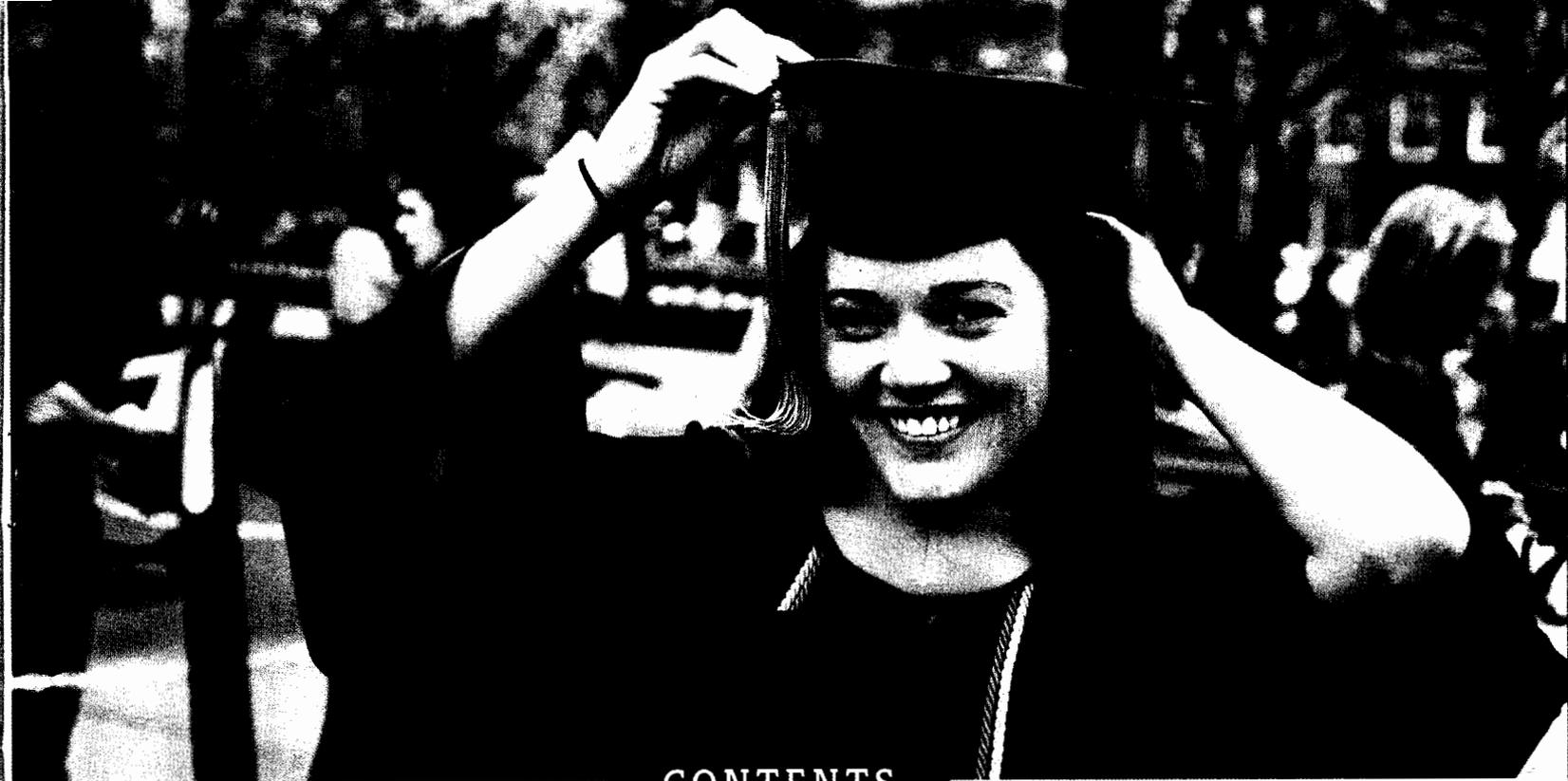
Through our partnership with lawmakers we were able to implement a tuition freeze for our in-state students in this most recent biennium. Given that the funding provided by the state remained below 2009 funding levels, that freeze would not have been possible without efficiencies and savings at both the system and institutional level. We will continue to seek further ways to hold down costs.

Our economy depends on an educated and highly skilled workforce, and USNH institutions are focused on addressing the most pressing state workforce needs. That includes our continuing commitment to expand the number of STEM (science, technology, engineering and math) graduates in the state, and that number has steadily increased, with USNH institutions providing more STEM graduates than any other institutions in the state.

Public higher education is a wise and important investment for New Hampshire. It supports our industries and supports our economy, in addition to providing New Hampshire students and their families with access to affordable high quality education.



TODD LEACH
CHANCELLOR



CONTENTS

4

Letter from the Chancellor

5

Report from the University System of New Hampshire

15

Chancellor's Report on Efficiency and Results

16

Report of Independent Auditors

18

Management's Discussion and Analysis

25

Financial Statements

28

Notes to the Financial Statements

38

University System of New Hampshire
Board of Trustees and Administration