

# University System of New Hampshire

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November 1, 2016

Her Excellency, Governor Margaret Wood Hassan  
and the Honorable Council  
State House  
Concord, New Hampshire 03301

Your Excellency and Members of the Council:

Pursuant to RSA 187-A:22, enclosed please find the Annual Report for the University System of New Hampshire for fiscal year ended June 30, 2016. On page 21 of the report you will find the Independent Auditor's Report reflecting the unqualified or "clean opinion" issued by KPMG, our external independent auditors. The report was presented to and accepted by the University System's Board of Trustees on October 14, 2016.

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

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

Respectfully,



Catherine A. Provencher  
Vice Chancellor for Financial Affairs and Treasurer

Enclosures

KPMG

# University System of New Hampshire

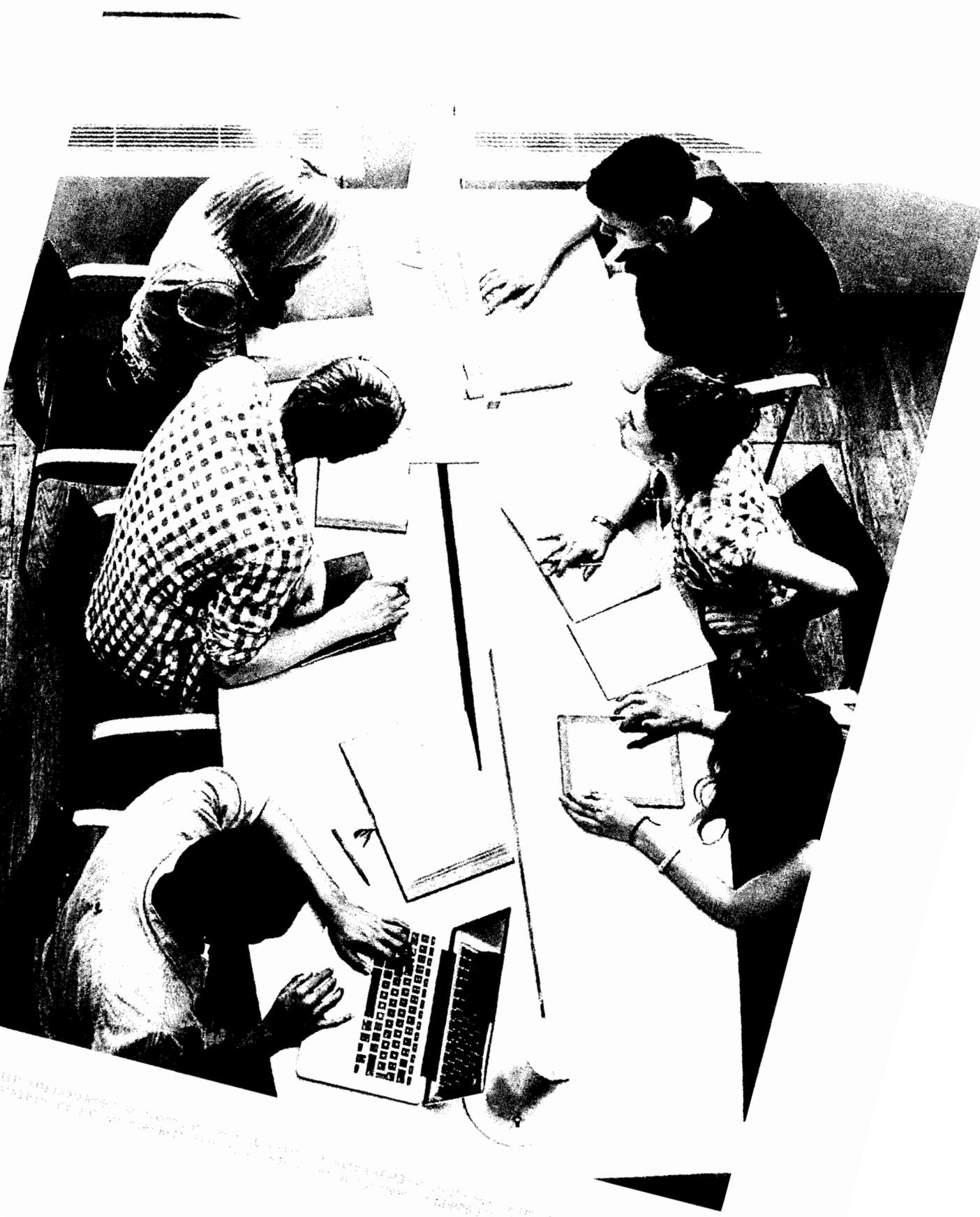
1000 North Main Street, Suite 1000  
Manchester, NH 03102

Phone: 603.888.1000

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# Audit focus areas

Significant accounts and disclosures	Procedures performed
<b>Cash and investments</b>	<ul style="list-style-type: none"> <li>— Confirmed directly held cash and securities with financial institutions</li> <li>— Tested bank reconciliations</li> <li>— Reviewed audited fund financial statements, fund holdings, benchmarking of fund performance, communications with fund managers, and other monitoring documentation for alternative investments</li> <li>— Price-tested directly held securities</li> <li>— Reviewed accounting for year-end transactions (i.e., unsettled trades)</li> <li>— Reviewed investment derivative activities and related valuation methodology</li> <li>— Tested reasonableness of investment return components</li> <li>— Reviewed classification of cash and cash equivalents and restricted balances</li> <li>— Reviewed financial statement presentation and disclosures, including classifications within the fair value hierarchy in Levels 1, 2 and 3, as well as liquidity and related capital commitments</li> <li>— Considered effects of subsequent events</li> </ul> <p><b>Current year focus area:</b></p> <ul style="list-style-type: none"> <li>— Reviewed application of GASB 72, <i>Fair Value Measurement and Application</i></li> </ul>
<b>Contribution revenue, related receivables, and net assets</b>	<ul style="list-style-type: none"> <li>— Tested controls over new gifts and pledges to ensure proper net asset classification and accrual</li> <li>— Tested roll-forward of endowment activities, including new endowments, reclassifications between net asset categories, and transfers</li> <li>— Reviewed Board approval of endowment spending formula and application to appropriate net asset classes</li> <li>— Reviewed reasonableness of allocation of endowment return between net asset classes</li> </ul>
<b>Debt and related items</b>	<ul style="list-style-type: none"> <li>— Confirmed outstanding debt with financial institutions</li> <li>— Tested compliance with financial debt covenants</li> <li>— Tested reasonableness of interest expense</li> <li>— Reviewed valuation of and accounting for interest rate swap agreements</li> </ul> <p><b>Current year focus area:</b></p> <ul style="list-style-type: none"> <li>— Reviewed accounting for 2016 debt issuances</li> </ul>

# Audit focus areas (continued)

<b>Significant accounts and disclosures</b>	<b>Procedures performed</b>
<b>Capital assets and related depreciation</b>	<ul style="list-style-type: none"> <li>— Tested fixed asset additions</li> <li>— Reviewed construction-in-process accounts</li> <li>— Assessed reasonableness of capitalized interest</li> <li>— Tested reasonableness of depreciation</li> </ul>
<b>Tuition and fees, and related receivables</b>	<ul style="list-style-type: none"> <li>— Performed analytical procedures over tuition revenue, and related institutional student aid</li> <li>— Tested receivable balances through subsequent cash receipts and adequacy of allowance for doubtful accounts</li> </ul>
<b>Grants and contracts revenue; sales of auxiliary services; and NH appropriations</b>	<ul style="list-style-type: none"> <li>— Tested controls and propriety of allowable costs for payroll and non-payroll reimbursements under sponsored grants and contracts</li> <li>— Performed analytical procedures over grants and contracts revenue and indirect cost recovery</li> <li>— Performed analytical procedures over sales of auxiliary services</li> <li>— Considered compliance testing to date under Uniform Guidance of federally funded research</li> <li>— Confirmed State of NH appropriations</li> </ul>
<b>Compensation and benefits and related liabilities</b>	<ul style="list-style-type: none"> <li>— Performed analytical procedures over payroll and benefits expense and related accruals</li> <li>— Reviewed appropriateness of OPEB actuarial calculations and related liabilities and disclosures</li> </ul>
<b>Commitments and contingencies</b>	<ul style="list-style-type: none"> <li>— Obtained legal letters and reviewed any litigation assessments</li> <li>— Reviewed disclosure of other commitments and contingencies</li> <li>— Performed standard tax provision review in relation to financial statements</li> </ul>



# Status of OMB Uniform Guidance (formerly A-133) audit

## Overview:

In addition to auditing the System's 2016 consolidated financial statements, KPMG also performs procedures related to federal compliance requirements to issue the following reports:

- Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*
- Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- The 2016 Single Audit is the first audit performed under the Uniform Guidance
- One major program currently in scope – Research and Development Cluster
- Testing currently in process.
- Audit expected to be completed in December 2016.





**(Letterhead of Client)**

*October 19, 2016*

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

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the statements of net position of the University System of New Hampshire, a component unit of the State of New Hampshire (the System) as of June 30, 2016 and 2015, the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements for the purpose of expressing opinions as to whether these financial statements present fairly, in all material respects, the financial position, changes in financial position, and cash flows of the System in accordance with U.S. generally accepted accounting principles.

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

We confirm, to the best of our knowledge and belief, as of *October 19, 2016*, the following representations made to you during your audits:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 18, 2016, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.
2. We have made available to you:
  - a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.

- b. Additional information that you have requested from us for the purpose of the audits.
  - c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence.
  - d. All minutes of the meetings of the Board of Trustees, committees of the Board of Trustees, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.
3. Except as disclosed to you in writing, there have been no:
- a. Circumstances that have resulted in communications from the System's external legal counsel to the System reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by the System or any agent thereof.
  - b. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
  - c. False statements affecting the System's financial statements made to the System's internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audits.
4. There are no:
- a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96 – 113.

- d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.
  - e. Side agreements or other arrangements (either written or oral) that have not been disclosed to you.
  - f. Events that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the financial statements.
5. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GASB Statement No. 62, paragraphs 96 – 113.
6. We acknowledge our responsibility for the design, implementation and maintenance of programs and controls to prevent, deter, and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. We understand that the term “fraud” includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.
8. There are no deficiencies, significant deficiencies, or material weaknesses in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the System’s ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a “significant deficiency” and a “material weakness” in accordance with AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.
9. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
10. We have no knowledge of any fraud or suspected fraud affecting the System’s financial statements involving:
- a. Management
  - b. Employees who have significant roles in internal control over financial reporting, or
  - c. Others where the fraud could have a material effect on the financial statements.

11. We have no knowledge of any allegations of fraud or suspected fraud affecting the System's financial statements received in communications from employees, former employees, analysts, regulators, or others.
12. The System has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.
13. We have no knowledge of any officer or trustee of the System, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
14. The following have been properly recorded or disclosed in the financial statements:
  - a. Related party relationships and transactions of which we are aware in accordance with the requirements of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties. <sup>(5)</sup>.
  - b. Guarantees, whether written or oral, under which the System is contingently liable.
  - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit or similar arrangements.
  - d. Agreements to repurchase assets previously sold, including sales with recourse.
  - e. Changes in accounting principle affecting consistency.
  - f. The existence of and transactions with joint ventures and other related organizations.
15. The System has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
16. The System has complied with all aspects of laws, regulations, and contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
17. Management is responsible for compliance with the laws, regulations, donor restrictions, and provisions of contracts and grant agreements applicable to the System. Management has identified and disclosed to you all laws, regulations, donor restrictions, and provisions

of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.

18. The System's reporting entity includes all entities that are component units of the System. Such component units have been properly presented as blended.
19. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.
20. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
21. Amounts advanced to related entities represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.
22. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net position and have been appropriately reduced to their estimated net realizable value.
23. Deposits and investment securities are properly classified and reported.
24. We are responsible for making the fair value measurements and disclosures included in the financial statements in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, including determining the fair value of assets and liabilities for which there has been a significant decrease in the volume and level of activity in relation to the normal market activity for those assets or liabilities (or similar assets or liabilities) or for which transactions are deemed not orderly. As part of fulfilling this responsibility, we have established an accounting and financial reporting process for determining the fair value measurements and disclosures, in accordance with the fair value techniques included in GASB 72, considered the appropriateness of valuation techniques including circumstances in which a practical expedient may be used to estimate fair value, adequately supported any significant assumptions used, and ensured that the presentation and disclosure of the fair value measurements are in accordance with U.S. generally accepted accounting principles, including the disclosure requirements of GASB 72. We believe the assumptions and techniques used by us, including those used by specialists engaged by us, are in accordance with the definition of fair value in GASB 72 and the disclosures adequately describe the level of the inputs used in the fair value measurement, in accordance with the fair value hierarchy in GASB 72.

25. The System has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows of resources related to hedging derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The System complied with the requirements of GASB Statement No. 53 related to the determination of hedging derivative instruments and the application of hedge accounting. Further, the System has disclosed all material information about its derivative and hedging arrangement in accordance with GASB Statement No. 53.
26. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.
27. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
28. The System has no:
  - a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.
  - b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.
29. For variable-rate demand bond obligations that are reported as general long-term debt or excluded from current liabilities of proprietary funds, we believe all of the conditions described in GASB Interpretation No. 1, *Demand Bonds Issued by State and Local Government Entities*, have been met.
30. The System has complied with all tax and debt limits and with all debt related covenants.
31. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.
32. We believe the actuarial assumptions and methods used to measure financial statement liabilities and costs associated with other post-employment benefits and to determine information related to the System's funding progress related to such benefits for financial

reporting purposes are appropriate in the System's circumstances and the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.

33. Provision has been made in the financial statements for the System's pollution remediation obligations. We believe that such estimate has been determined in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and is reasonable based on available information.
34. The System has identified and properly accounted for and presented all deferred outflows of resources and deferred inflows of resources.
35. Components of net position (net investment in capital assets; restricted; and unrestricted) and fund balance components (nonspendable; restricted; committed; assigned; and unassigned) are properly classified and, if applicable, approved.
36. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
37. The System has identified and properly accounted for all nonexchange transactions.
38. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
39. Special and extraordinary items are appropriately classified and reported.
40. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.
41. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the System's current period financial statements, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.

With respect to the System's practice used to report its endowment return, net of amounts used in operations as other changes in net position, we have adopted this practice because

to do otherwise would cause volatility in the “Increase in net position from recurring activities” measure which may mislead readers of the financial statements. The endowment assets are invested to generate returns over a long-term horizon resulting in gains (losses) which can vary significantly on an annual basis due to prevailing market conditions. We acknowledge that the proper presentation is within non-operating revenues/expenses. We only use the annual payout from these investments to support ongoing expenses and have limited the income included in non-operating revenues to that amount.

42. We agree with the findings of specialists in evaluating the benefit and derivative liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause an instructions to be given to specialists with respect to the values or amount derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
43. We acknowledge our responsibility for the presentation of the required supplementary information, which includes management’s discussion and analysis and the schedules of funding progress, in accordance with the applicable criteria and prescribed guidelines established by the *Governmental Accounting Standards Board*:
  - a. Believe the required supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and prescribed guidelines.
  - b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period.
  - c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate in the circumstances.
44. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.
45. There are no representations provided in connection with your audit of the financial statements as of June 30, 2015 and for the year then ended that requires modification.

Further, we confirm that we are responsible for the fair presentation in the financial statements of net position, changes in net position, and cash flows of the System, and the related notes to the financial statements, in conformity with U.S. generally accepted accounting principles.

Very truly yours,

University System of New Hampshire

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Todd Leach

*Chancellor*

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Catherine Provencher

*Vice Chancellor for Finance/ Treasurer*

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Carol Mitchell

*Controller*



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Annual Report 2016

# University System of New Hampshire



**Granite State College**  
UNIVERSITY SYSTEM OF NEW HAMPSHIRE

**Keene**  
STATE COLLEGE

**Plymouth State**  
UNIVERSITY



**University of  
New Hampshire**

## FY16 Highlights

In June, the **USNH Board of Trustees** unanimously voted Vice Chair **Tim Riley** as the new board chair. Riley replaces **Pamela Diamantis**, who was appointed



to the board in 2008 and served as its chair since 2013. Also elected were Trustee **John Small**, who will return to the role as vice chair and Trustee **Amy Begg** who will serve as secretary. ■

New Hampshire is a national leader in completion rates of students who began their studies at a four-year public institution, according to the National Student Clearinghouse Research Center.

**USNH ranked second in the nation and first in the East, with a degree completion rate of 78 percent.** ■

**The University of New Hampshire graduates nearly 4,000 students each year, adding to the more than 90,000 USNH alumni living and working in New Hampshire.** More than 20,000 first-year students applied to UNH in 2016 – an increase of nearly 1,000 from 2015 and an all-time record. Enrollments have been at or near all-time highs the past two years. ■

**Granite State College (GSC) earns top honors in U.S. News & World Report rankings nationwide.** Granite State College ranks at #79th for its online bachelor's programs and #51st for its graduate business programs. In both categories, GSC is the No. 1 ranked institution in New Hampshire. In addition, GSC is featured for its best online programs for veterans. ■



**Keene State College (KSC) teams up with Hitchiner Manufacturing in Milford to strengthen the company's pool of workforce talent.** The college and the company partnered to create the Hitchiner Engineering Certificate Program, a 12-course program available to ambitious Hitchiner employees and taught on-site by Keene State faculty. ■

**Plymouth State University (PSU)** has expanded its regional networks, building valuable collaborations with businesses and non-profits at the **Center for Business and Community Partnerships.** The center helps create open laboratories where students and faculty can bring skills in research and problem solving to the challenges faced by industry and community leaders. The center creates valuable working partnerships and networks between students, faculty and the region's employers. ■

## University System of New Hampshire

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

## Building New Hampshire's Workforce

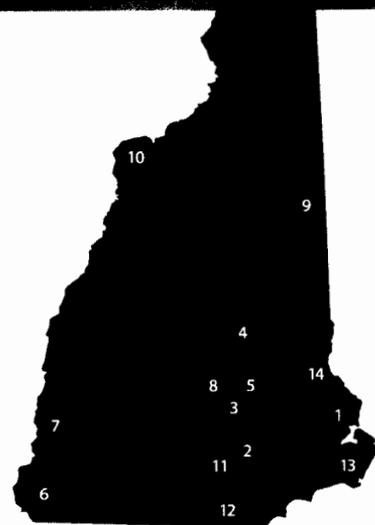
It's all about talent. The strength of New Hampshire's economy has been and will continue to be its people. Relative to other states, our workers are well-educated. New Hampshire's competitiveness going forward will be contingent upon our ability to have the best talent and the right intellectual infrastructure. 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 more than 33,000 students and award 7,500 degrees and certificates 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 90,000 alumni of University System institutions currently live in New Hampshire.

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## University System of New Hampshire

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| 2. University of New Hampshire, Manchester               | 9. Granite State College, Conway      |
| 3. University of New Hampshire<br>School of Law, Concord | 10. Granite State College, Littleton  |
| 4. Plymouth State University                             | 11. Granite State College, Manchester |
| 5. Plymouth State University, Concord                    | 12. Granite State College, Nashua     |
| 6. Keene State College                                   | 13. Granite State College, Portsmouth |
| 7. Granite State College, Claremont                      | 14. Granite State College, Rochester  |



# 2016 Chancellor's Letter

Workforce concerns are emerging as one of the highest priorities among New Hampshire employers and the fact that New Hampshire now exports the highest percentage of four-year college going students in the nation should be a major concern for all New Hampshire citizens. We know that students who stay and study in New Hampshire are more likely to stay and work in New Hampshire. We also know that students who attend USNH institutions are more likely to graduate than those attending any other public system in New England.



**USNH students lead New England in degree completion – and are second among all public 4-year institutions in the U.S.**

**USNH graduates have one of the nation's lowest student loan default rates – indicating that they find great jobs that allow them to pay off their loans.**

**USNH institutions graduate more students with bachelor's degrees in STEM (science, technology, engineering and math) - the educated workers most sought after by New Hampshire employers - than all of the other colleges and universities in the state combined.**

To keep New Hampshire students in New Hampshire, our public institutions have to be both affordable and attractive, and deliver on a commitment to quality and value that both students and employers expect. To help deliver that value, USNH has been highly focused on efficiency. With the lowest administrative cost per student of any public system in New England already, we are committed to finding further savings through shared-services and innovations, such as our Open Education Resources initiative, and through strong fiscal management that has been recognized by the top bond rating agencies.

New Hampshire can be proud of its public colleges, the outcomes we achieve, and the substantial \$2.4 billion in economic activity we generate in the state – all with relatively minimal investment. But to meet New Hampshire's future needs, we will have to work in partnership with business leaders, with educators at all levels, and with lawmakers. The USNH "Workforce 2025" initiative is a multi-pronged approach aimed at addressing our most critical workforce needs. It calls for the state and USNH to invest in STEM (science, technology, engineering, and math) and in affordable access to higher education, both of which are vital if we are to prepare and retain the highly skilled workforce New Hampshire needs to succeed.

I invite you to learn more about the great opportunities that USNH offers – and the tremendous return on investment we contribute to New Hampshire.

**Todd Leach**  
Chancellor

# Report from the University System of New Hampshire



## University of New Hampshire

UNH is the state's public research university, providing comprehensive, high-quality academic programs of distinction and enrolling more than 13,000 undergraduate and 2,000 graduate students. Its students collaborate with faculty in teaching, research, creative expression and service. UNH has a national and international agenda and holds federally-recognized land-, sea-, and space-grant charters. From its main campus in Durham, its urban campus in Manchester and the UNH School of Law in Concord, the university serves New Hampshire and the region through continuing education, cooperative extension, cultural outreach, economic development activities and applied research.

## Plymouth State UNIVERSITY

PSU serves the state of New Hampshire and the world beyond by transforming our students through advanced practices where engaged learning produces well-educated undergraduates and by providing graduate education that deepens and advances knowledge and enhances professional development. With distinction, we connect with community and business partners for economic development, technological advances, healthier living, and cultural enrichment with a special commitment of service to the North Country and Lakes Region of New Hampshire.



Wisdom to make a difference.

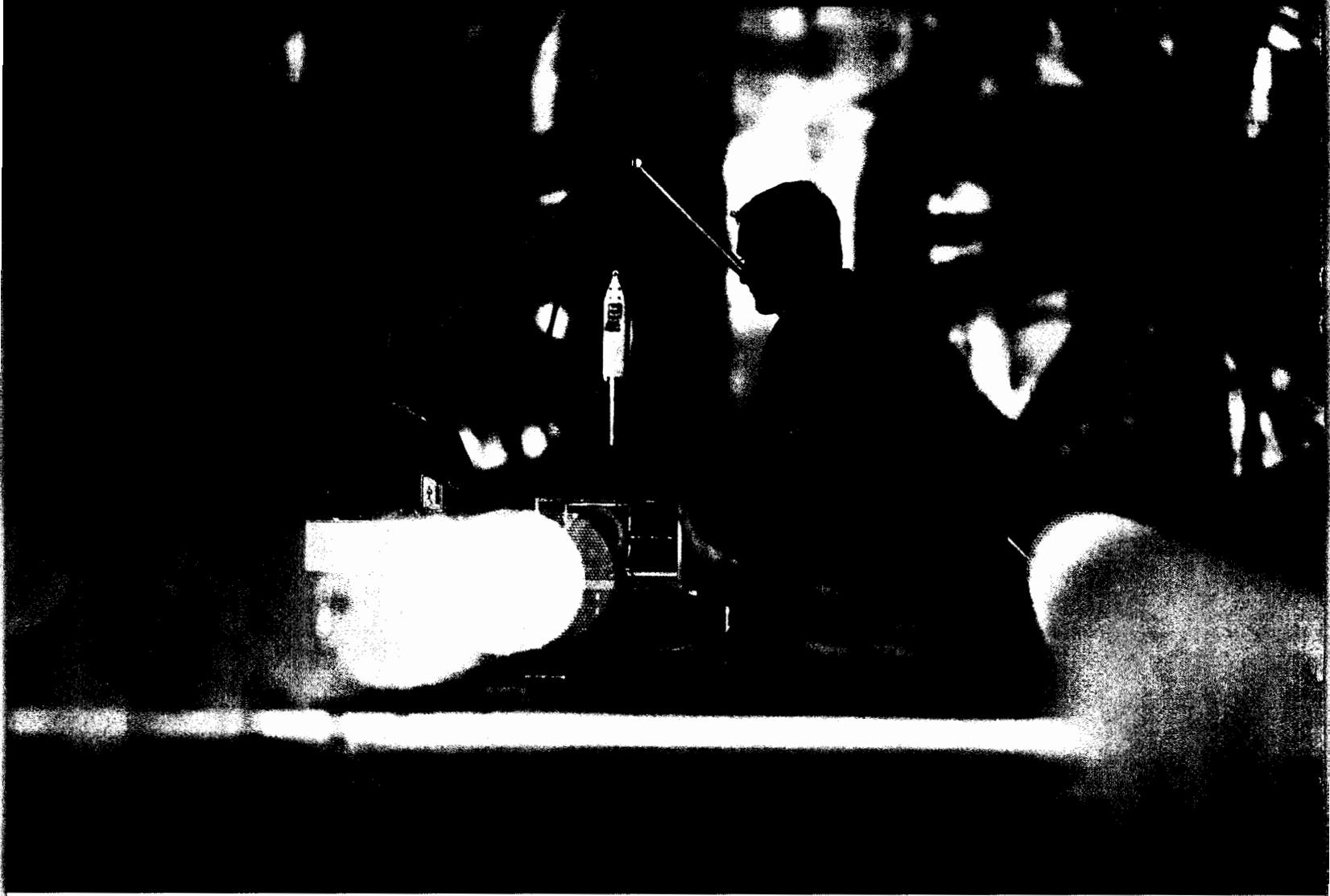
KSC is New Hampshire's public liberal arts college, offering more than 50 areas of study in the arts and sciences, professional programs, and selected graduate degrees. For its 4,900 students, the college provides rigorous academic programs and a tradition of small classes, faculty-student collaborative research, and service learning. Chief among the college's priorities are preparing students for global citizenship and meaningful work, and catalyzing economic development through institutional partnerships across the region and state.

## Granite State College

UNIVERSITY SYSTEM OF NEW HAMPSHIRE

GSC provides comprehensive access to higher education for adult students and individuals who seek a flexible learning environment to reach their academic and career goals. Affordable tuition and the flexibility of online courses or nine convenient regional campuses allows students to earn degrees while balancing life's other responsibilities of work, family and community obligations. GSC offers associate, bachelor's and master's degrees, post-baccalaureate programs for teachers, credit for prior learning, and a variety of transfer opportunities. Supported by a faculty of expert practitioners who help 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 needs of New Hampshire's economy.

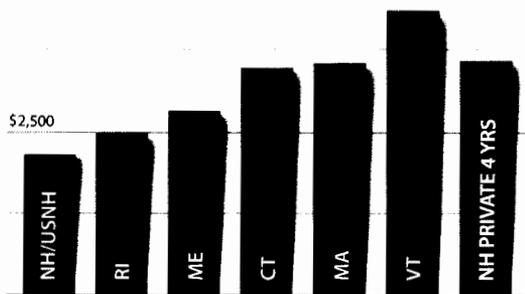
# Workforce and Economic Development



## Administrative Efficiency

\$5,000

Administrative expense per student



USNH is the **MOST fiscally efficient** 4-year public higher ed system in **New England**

## USNH launches open education initiative

System collaborates to make higher ed more affordable, relevant and student-centered

USNH has launched a year-long, cutting-edge open education initiative that is expected to substantially lower textbook costs for students, improve access to course materials and promote new, collaborative approaches to learning.

Open education draws on three interrelated concepts currently revolutionizing higher education: **Open Educational Resources** (OER) are free, openly licensed digital textbooks that are not bound by traditional copyright restrictions, which can save students hundreds of dollars; **Open Pedagogy** promotes dynamic collaborations between faculty and students that evolve throughout the learning process; and **Open Access** is the push to publish academic research online, making it freely accessible to the public.



## USNH receives high marks from rating agencies

Ratings agencies cite stability and positive operations for the boost in approval and rating upgrade

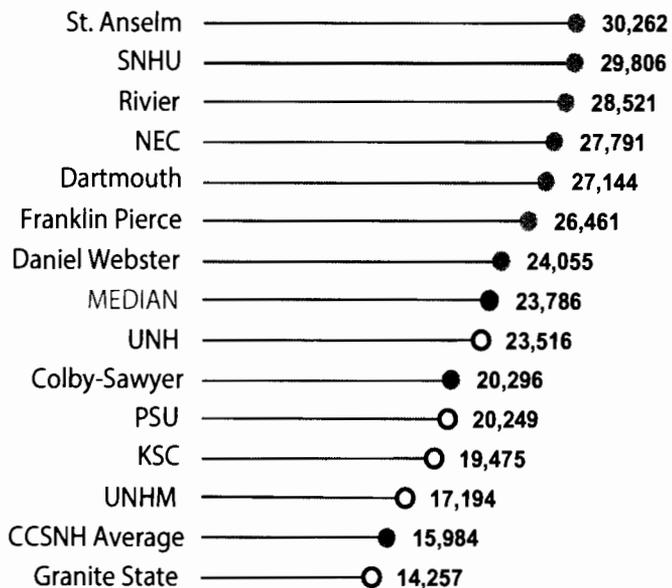
Standard & Poor's Ratings Services raised its long-term rating to AA- from A+ on USNH New Hampshire Health and Education Facilities Authority's (NHHEFA) rated debt. In its report, **Standard & Poor's "assessed USNH's financial profile as very strong,** with positive operations despite significant swings in state support."

Moody's Investors Service affirmed its USNH Aa3 rating for the fixed rate Series 2016 Revenue Bonds which sold through NHHEFA on May 4. In its report, **Moody's credited the Aa3 rating as a reflection of USNH's "solid liquidity,** manageable leverage, and consistently positive operations."

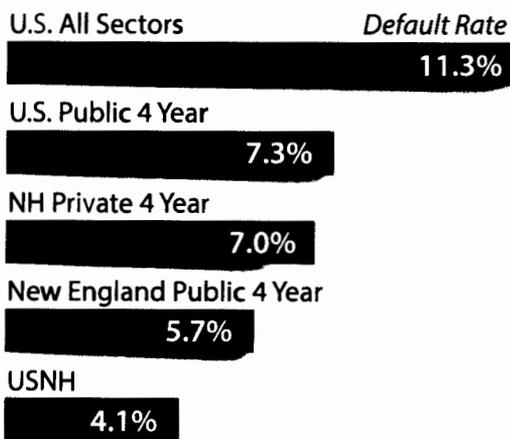
For the first time, USNH and NHHEFA used an electronic bidding platform to competitively sell its bonds. PFMFA, financial advisors to USNH, estimates that the electronic bidding, coupled with the rating upgrade and favorable market conditions, saved USNH over \$3 million in interest cost over the life of the bonds.

## U.S. College Scorecard average net price of attendance NH colleges and universities

Average undergraduate net price after all financial aid. For public schools this is the average price for in-state students. Price includes tuition, mandatory fees, books and supplies, room and board, and other expenses as calculated for financial aid. **All USNH institutions are below the median.**



## Student Loan Default



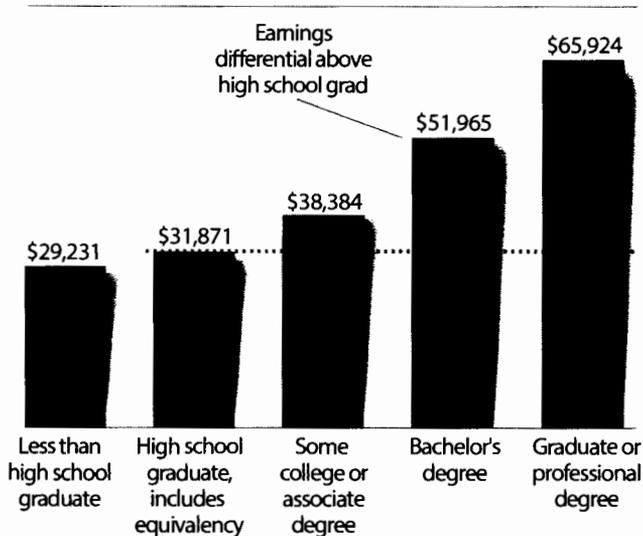
USNH consistently ranks among the top states with the **LOWEST average loan default in the U.S.** for public 4-year colleges



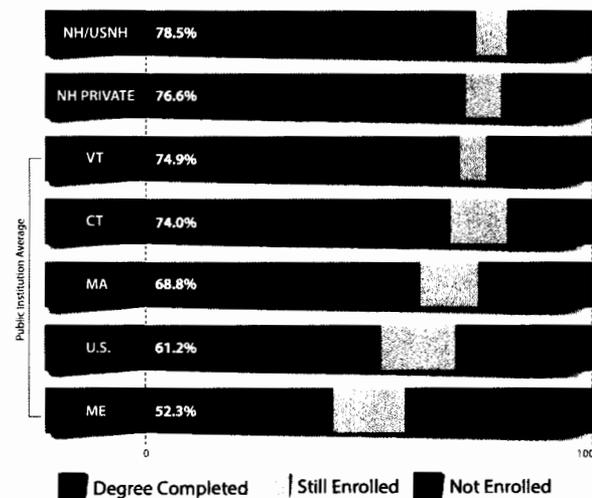
## Addressing the state's workforce challenges

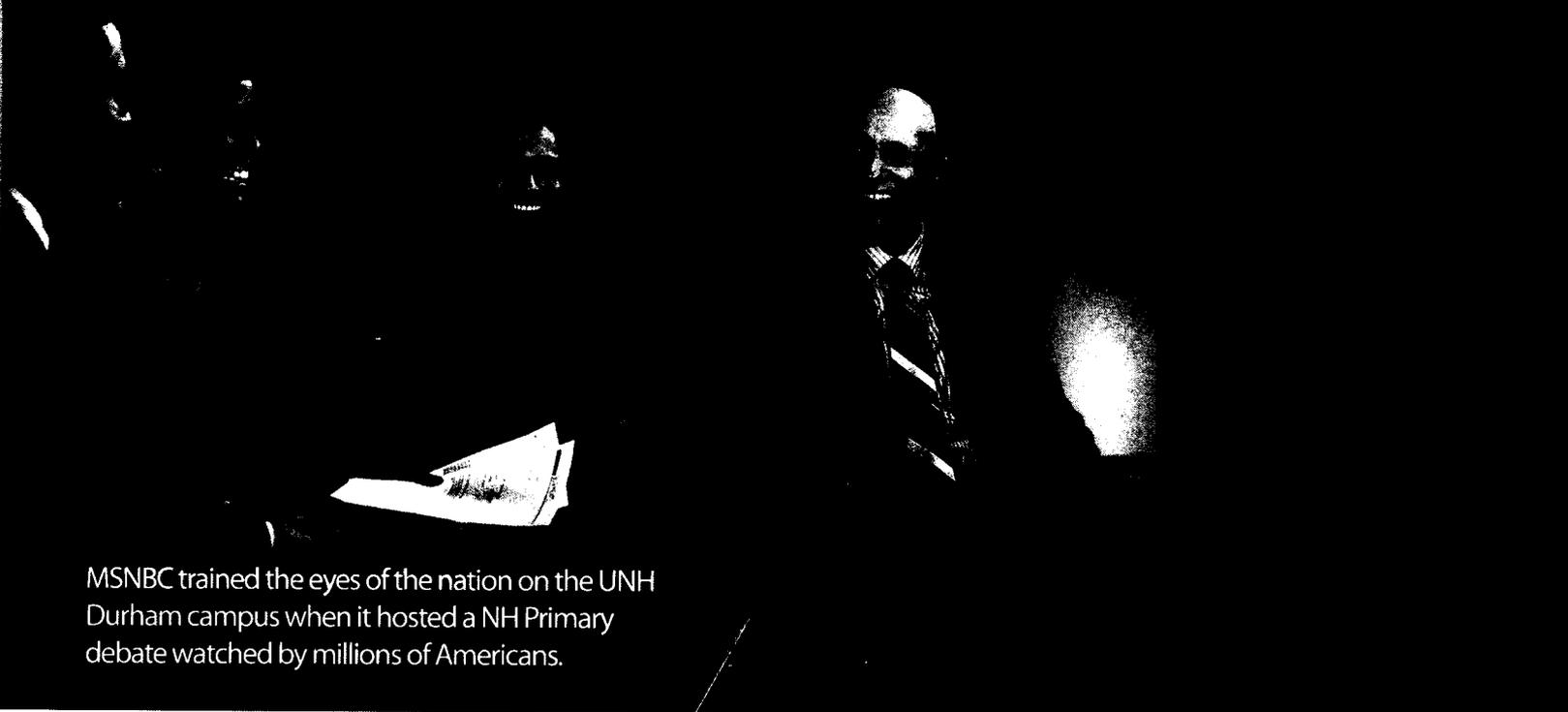
Business leaders met with Chancellor Leach at the **Manchester Chamber of Commerce** for a workforce development roundtable discussion on what public higher education is doing to address New Hampshire's workforce challenges and to exchange ideas for future collaborations. USNH has been leading the charge in workforce development, meeting with business leaders to hear first-hand their needs and challenges. We are working to ensure that our businesses have the workforce they need for their success as well as the success of our state's economy.

### NH median annual earnings by level of education



### USNH students LEAD New England in degree completion – making NH No. 2 in the U.S. among all states' public 4-year colleges





MSNBC trained the eyes of the nation on the UNH Durham campus when it hosted a NH Primary debate watched by millions of Americans.



**When New Hampshire celebrated the 100th anniversary of its first-in-the-nation Presidential Primary in 2016, USNH institutions were at the heart of the action,** hosting the major candidates from both parties, public forums, rallies and a nationally televised debate along with a host of colorful personalities and interesting anecdotes.

There was also another “first of its kind.” **Renowned UNH political scientists and faculty members, Andy Smith and Dante Scala, led a MOOC (massive open online course) about the New Hampshire primary,** exploring its rich history and its impact on the nation’s presidential election process. Nearly 700 students took advantage of this free course.



## In New Hampshire, STEM occupations are expected to grow by 17.3 percent between 2010 and 2020, compared to 10.4 percent job growth for the state as a whole

USNH is committed to increasing the number of science, technology, engineering, and math (STEM) graduates to support NH's growing high-tech industry and the state's economy. Each year, USNH institutions graduate more than half of all college students in New Hampshire who earn bachelor's degrees in STEM. **The number of STEM degrees awarded by USNH annually has grown by about 45% over the past 10 years** - from 1,230 degrees in 2006 to 1,780 in 2016.

## UNH's research investment reaps great returns for NH

Why does UNH invest heavily in research? Because **innovative ideas and solutions strengthen the economy and bring businesses together** with students and faculty to create outstanding opportunities for all Granite Staters. Today, revenues from UNH-inspired inventions, patent applications and intellectual property licenses are a major component of the university's budget. In FY16, UNH spent \$71.9 million on payroll to support research. And the return that investment? **UNH research spending generated more than \$114 million for the New Hampshire economy.**

**52%**  
USNH produces more than half of NH's 4-year STEM graduates.

## STEM summer camp for middle school girls

As part of Keene State's effort to build the pool of STEM students coming from area schools, the college created a one-week course called **Go STEM** to engage middle-school girls in hands-on activities designed to spark their curiosity to explore and learn through a technology-based project.



## UNH Manchester

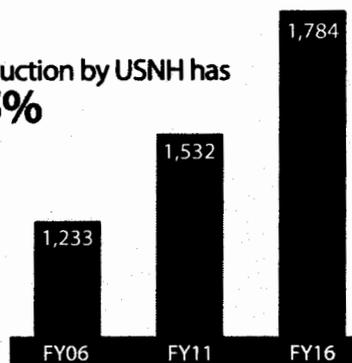
The **STEM Discovery Lab** was created in response to regional industry needs for more highly skilled STEM workers. The lab brings together K-12 students and their teachers to take part in exciting hands-on, research-based learning experiences and labs.

## North Country STEMfest inspires statewide K-12 outreach

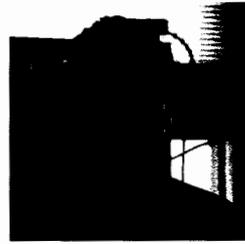
A team of 40 students from UNH's College of Engineering and Physical Sciences are traveling across New Hampshire to encourage K-12 students to pursue studies in STEM.

Launched in 2016, the **STEMbassadors** reached nearly 3,500 students at more than a dozen events. The team was inspired by UNH's 2015 **North Country STEMfest** in Berlin, NH, where 16 UNH students and seven UNH faculty members provided a day of fun, challenging and hands-on STEM experiences to more than 400 students from 10 schools in the region. The event also included a professional development program for more than two-dozen public school teachers.

Annual STEM degree production by USNH has increased by 45% over the past 10 years

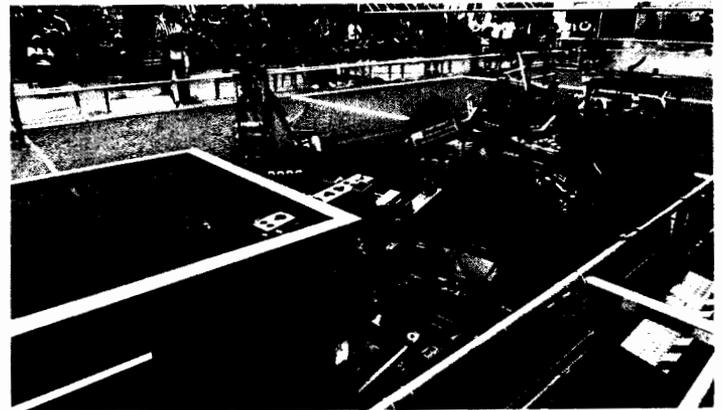


## In the words of Dean Kamen, an inventor, an entrepreneur and a tireless advocate for science and technology



He was gracious enough to sit down with us to discuss New Hampshire's workforce needs and the vital role that public higher education plays in our state's future. Here are some take-aways from our interview with Dean:

"What will determine the economic future of New Hampshire in general, and Southern New Hampshire in particular, is the quantity and quality of science and engineering-based kids that are coming out of our system right now."



"We're hiring UNH students, and we think the quality of the UNH engineering students is great. There's just not enough of them."

"If we don't get a whole lot of new young passionate technical people in Southern New Hampshire, we are going to follow the road Detroit took."

"If the University System of New Hampshire doesn't quickly start producing more young engineers (mechanical, electrical, systems, biomedical)—kids who understand and are excited about proteomics, and genomics, and regenerative medicine—if we don't get excitement and a new bolus of kids coming through to meet the needs of those exciting new business opportunities, we won't have businesses here. Because we're not going to start becoming farmers again, and the high-tech businesses that used to define the cutting edge, they're going to leave."

— Dean Kamen, 2016

To view the video please go to:

<http://www.usnh.edu/business-community/workforce-2025>



**4,270**  
VOLUNTEERS  
**150,000**  
HOURS

**UNH Cooperative Extension**

**1,986**  
WORKERS

**519**  
WOODLOT

**41**  
LAKES

**1,138**  
EDUCATORS



### **KSC student researchers help study southwest NH environment**

Students from the college's Environmental Studies department partnered with the **Harris Center for Conservation Education** to conduct field research in 2015 that is helping the center better understand the region's complex natural environment. Student researchers identified 11 bee species at the site and tracked their populations at two locations. They assessed the impact on fish and aquatic wildlife of undersized or deteriorating culverts at road-stream crossings, and studied the effects of road salt on soil and plant health along major thoroughfares. Through both their teamwork in the field and their work in presenting their findings to faculty and area residents, students gained invaluable skills that can benefit their preparation for entering the workforce.

### **Grant helps PSU students study effects of temperature and salt on aquatic life**

PSU received a grant from New Hampshire EPSCoR (Experimental Program to Stimulate Competitive Research) to fund two Research Experience for Undergraduate (REU) summer positions. Students were selected to conduct research investigating the impacts of stream temperature and salt stress on freshwater biota, with an emphasis on macroinvertebrates. Both REU students will work on their own project as part of a broader interdisciplinary team while gaining valuable field experience and analytical skills.



### **NH Innovation Research Center connects businesses and researchers**

New Hampshire businesses that could benefit from conducting research with New Hampshire-based colleges and universities can find vital support for their work from the **NH Innovation Research Center at UNH**. The NHIRC was created in 1991 by the New Hampshire Legislature to support innovations through industry and university collaborations, in order to increase the number of quality jobs in the state. Since its inception, the **NHIRC has awarded more than \$6 million in state funds to support research projects and has been responsible for the creation or retention of 650 jobs**. Awardees have received more than \$32 million in federal SBIR grants and over \$900 million in investment/acquisition capital.





### **GSC nursing program earns CCNE accreditation**

**The American Association of Colleges of Nursing Commission on Collegiate Nursing Education (CCNE) awarded the GSC bachelor's program in nursing full accreditation**

This important accolade demonstrates that GSC's nursing program features effective educational practices that prepare today's nursing workforce for continued career growth.

**90,000**

USNH alumni live  
in New Hampshire



*USNH was honored by the New Hampshire Nurses Association with the prestigious "Champion of Nursing" Award for program contributions to address the critical shortage of nurses in the state.*

### **GSC works with CCSNH to provide affordable public pathway for nursing students**

To address New Hampshire workforce demands for qualified nursing professionals, **GSC, on behalf of USNH, has created an affordable public pathway to a bachelor of science in nursing for undergraduate nursing students who earn an associate's degree in nursing from the Community College System of NH (CCSNH).** This program allows students to complete their third year of studies with CCSNH and then matches the CCSNH tuition rate for students' fourth year of study with GSC, responding to critical needs for the state's workforce and the healthcare of New Hampshire's citizens.

### **New GSC master's degree programs address critical shortage areas in education**

In recognition that the 21st-century learning environment will benefit from collaborative leadership at all levels throughout the school, GSC proudly introduced the master of science in instruction and leadership, and the master of science in school leadership, offered with either school principal or school librarian certification. By fostering development in these areas, school leaders can work collaboratively to improve learning outcomes for students.

### **Partnership aims to improve special ed students' transition to NH workforce**

An innovative new USNH partnership aims to give special education students across New Hampshire new skills to help them transition successfully from high school to the workforce. **Plymouth State University and Keene State College are teaming up with a two-year, \$52,000 New Hampshire Department of Education grant called Next Steps.** The effort is designed to improve training for K-12 teachers and emphasize transition skill building for students with mental, emotional and physical challenges.

### **PSU grads are prepared to enter workforce says national education nonprofit**

Plymouth State University alumni are among the best prepared for entering the workforce, according to a 2016 national ranking of more than 1,200 institutions of higher education.



**The nonprofit Educate to Career agency ranked PSU graduates in the top eight percent of employee preparedness** in its annual review of U.S. colleges and universities. The ranking quantifies and compares each college's record for improving labor market outcomes for students. PSU alumni are noted for being better positioned to work in their chosen field and receiving better-than-average salaries, compared to graduates from most competing institutions.



Dual Admission  
Nursing 3+1  
Program Agreements  
Co-location

## **2 THE NEW HAMPSHIRE DUAL ADMISSION PROGRAM**

Over 800 CCSNH applicants expressed interest in dual admission with a USNH institution in the program's first year

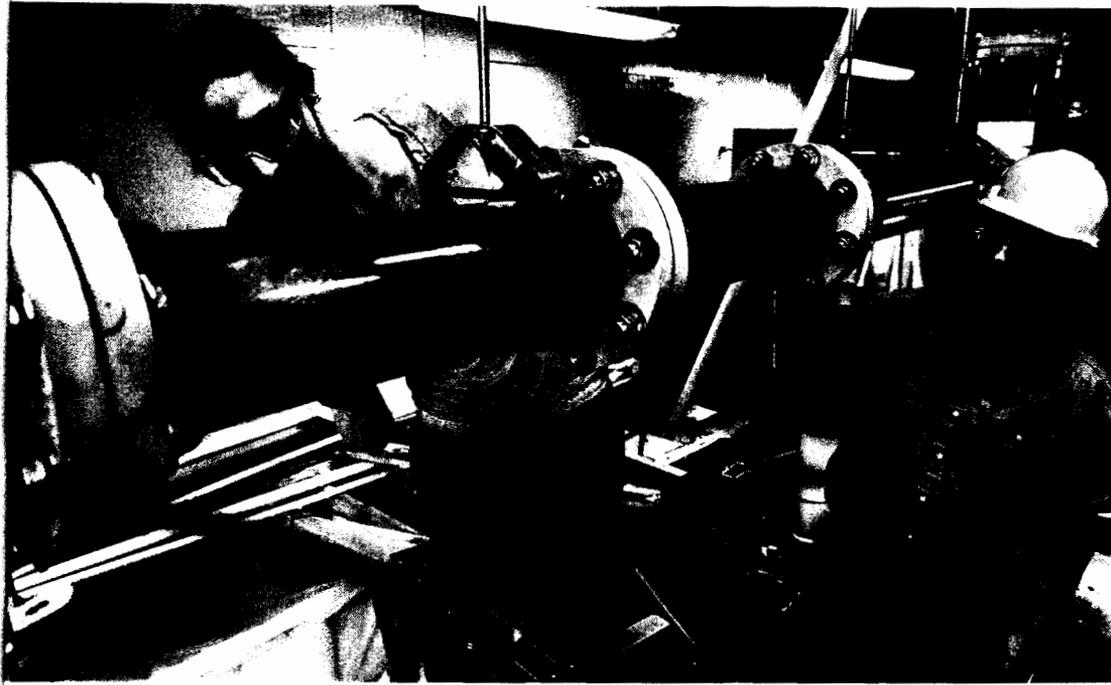


## Keene State students learn from business partners

Keene State College's Career Speaker Series helps students learn about careers in a variety of fields from biotech and information systems to advanced manufacturing and finance. Companies visit and speak with students about internship opportunities or full-time employment. Participants have included: Hitchiner Manufacturing Company of Milford; Adimab of Lebanon; SilverTech of Manchester; Whelen Engineering Company of Charlestown; Electronic Imaging Materials of Keene; and C&S Wholesale Grocers of Keene.

AMERICA'S  
**SBDC**  
NEW HAMPSHIRE

The New Hampshire Small  
Business Development Center  
at KSC has provided more than  
**16,000 hours**  
of one-on-one business advising



*UNH graduate student inspects a diffused aeration trihalomethane (THM) removal system under the watchful eye of Robin Collins, Ph.D., P.E., Professor of Civil and Environmental Engineering, and Director of the Water Treatment Technology Assistance Center.*

## **UNH creates innovation hub for the state's business entrepreneurs**

UNHInnovation is UNH's front door for the business community and entrepreneurs, offering the university's vast research expertise, business services, technology, labs and facilities – even customized employee training programs. **UNH's start-up and spin-off companies generate million of dollars in new business income** in New Hampshire.

## **Career success: 99% of this UNH lab's student workers land jobs!**

Know a student looking for a surefire path to a great-paying, rewarding career? They'd be wise to apply for a student job at the **UNH InterOperability Lab**. When they graduate, the lab's student employees have a 99 percent job placement rate! Working with local businesses and Fortune 500 firms, the IOL, which employs 125 undergraduate and graduate students, helps determine that products designed to function online not only work as intended, but can also be used with other internet-connected devices, such as phones, laptops and cars.



## **New center at UNH provides vital resources for NH entrepreneurs**

Entrepreneurs across New Hampshire gained a valuable new resource in 2015 with the creation of the **Peter T. Paul Entrepreneurship Center at UNH**. The "ECenter" aims to be a hub of business innovation for UNH and the state, supporting entrepreneurial talent, assisting new businesses, attracting capital investment and creating new job opportunities. The Center opened for business in early 2016 at Madbury Commons in downtown Durham, along with UNHInnovation and the UNH InterOperability Lab and its partner, Alpha Loft.

**3,600 UNH alumni**  
founded and/or run their own company

**350 licenses generated**  
annually, ranking UNH 3rd in the U.S.  
for licensing productivity

## Capstone course pairs students with OSHA industry leader

A partnership with the Hasbro Company in East Longmeadow, MA, and the Keene State safety and occupational health applied sciences program has resulted in a capstone course that provides students with on-the-job experience. Hasbro, owned by Belgium-based Cartamundi, has been recognized by OSHA as a corporate safety leader. The capstone course is an opportunity for students in the safety program to experience how a highly regarded company operates its safety and health program.

## Keene State offers first construction safety boot camp

Industry professionals and students from the college's safety and occupational health applied sciences program teamed up for the first construction safety boot camp in June. The program focused on the four main causes of construction-related injuries and the preventive measures that businesses can adopt to protect workers.





**USNH is proud to support members of New Hampshire's National Guard and has provided \$2.4 million in tuition waivers for National Guard students**

Radar operator Adam Wong, UNH '16 alum, an information technology major who was named NH Soldier of the Year in 2015, took advantage of the waivers. An E4 Spc. with E TAB, 197th Field Artillery Regiment, he says it made all the difference.

**"It definitely kept me from having to use private loans to pay for college."**

Wong says it would have been much harder to complete his education without the tuition assistance.

"The idea of having to deal with mountains of loans after four years would have most likely discouraged me from going to college," the Portsmouth resident says.



**GSC grows its military community**

More than 11 percent of GSC students are service members or veterans. With a strong military population, Granite State College is proud to be rated a Military Friendly™ School and is ranked by *U.S. News & World Report* for Best Online Programs for Veterans.



**GSC introduces its active duty tuition discount**

Granite State College now offers a reduced per-credit undergraduate tuition rate for all Active Duty members of the military, regardless of residency status, to help service members advance or transition their careers.

# Transformation at PSU: Transitioning from traditional departments

Plymouth State University interview with President Birx  
about innovative Cluster Program

**Plymouth State University is transforming its academic structure to better prepare students for success in the global and regional economies.**



Over the next few years, PSU will shift from a traditional academic structure, which is typically focused on a single discipline, to a fully integrated, interdisciplinary model. This new structure will feature seven academic clusters, open labs and partnerships to provide students with integrated learning, research and service opportunities. Beginning in September 2017, all

degree programs at PSU will be organized within the academic clusters of Arts and Technology; Education, Democracy, and Social Change; Exploration and Discovery; Health and Human Enrichment; Innovation and Entrepreneurship; Justice and Security; and Tourism, Environment, and Sustainable Development.

**Q: Why are you enacting this model at Plymouth State now?**

**A:** Plymouth State has already had success with regional industry partners. This new vision makes that strength a university-wide mission. At the same time, industry's need to translate basic research to practice has never been greater, and the region's economy needs our best and brightest graduates.

**Q: Why do you believe this is the best course for Plymouth State University?**

**A:** The academic hub model is unique and plays into PSU's environment and student type. It is visionary, modern and marketable, especially at the undergrad level where the majority of our emphasis is. This model is truly an experience that will prepare students to enter the workforce with real-world, marketable and meaningful experience.

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**"This model is truly an experience that will prepare students to enter the workforce with real-world, marketable and meaningful experience."**

- Donald L. Birx, President

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**Q: How will students and the greater Plymouth community benefit?**

**A:** Plymouth State will be focused on entrepreneurship while teaching graduates the ability to work together to solve problems. The expected result of this transformation is to make PSU a more attractive and competitive institution that will attract and keep more students in New Hampshire.



**Q: Interdisciplinary education is not a new concept – how is what you're proposing different?**

**A:** At its core, the integrated learning model at Plymouth State will have three elements: applied research, entrepreneurship, and interdisciplinary thinking. The applied research orientation of academic clusters throughout the university will be built from broad and meaningful partnerships with industry and communities. Deep faculty expertise, when applied to solving practical problems for businesses, can yield both valuable business results and highly relevant student education.

An innovation and entrepreneurship orientation provides opportunities for students, faculty members, industry, and the community to leverage expertise to build an entrepreneurial ecosystem for the region and beyond.



**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, 2016 and 2015, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

#### ***Management's Responsibility for the Financial Statements***

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

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

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the University System of New Hampshire as of June 30, 2016 and 2015, 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 22-30 and the schedule of funding progress on page 46 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 20, 2016

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("KPMG International"), a Swiss entity

# Management's Discussion and Analysis

## I. Introduction

The following Management's Discussion and Analysis summarizes the financial condition and results of activities of the University System of New Hampshire (USNH) for the fiscal years ended June 30, 2016, and 2015. This analysis provides a comparison of significant amounts and measures to prior periods and, where appropriate, presents management's outlook for the future.

USNH is a Section 501(c)(3) corporation organized under the laws of the State of New Hampshire to serve the people of the state as the key provider of public higher education for Bachelor's and advanced degree students. USNH accomplishes its mission by operating four educational institutions that collectively offer a broad array of education, research and public service options for the state. These institutions include the University of New Hampshire (UNH), with campuses in Durham (UNHD) and Manchester (UNHM), as well as 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 nine 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 to the Financial Statements for additional information on affiliated entities.)

## II. Economic Outlook

For fiscal year 2017, USNH's general appropriation from the State was held equal to the prior two years at \$81 million. Accordingly, the USNH Board of Trustees approved undergraduate tuition increases up to 3.0% and graduate student tuition increases up to 2.7% for New Hampshire residents in fiscal year 2017. Nonresident tuition increases up to 3.3% were also approved. In addition, operating expenses system-wide are budgeted to increase approximately 2%, while student financial aid increases are budgeted 8% higher than fiscal year 2016 to ensure affordability for our students.

The remainder of this report describes the results of financial operations for the year ended June 30, 2016 with comparisons to prior years. With our strong faculty and committed trustees and management, USNH continues to support the future success of the

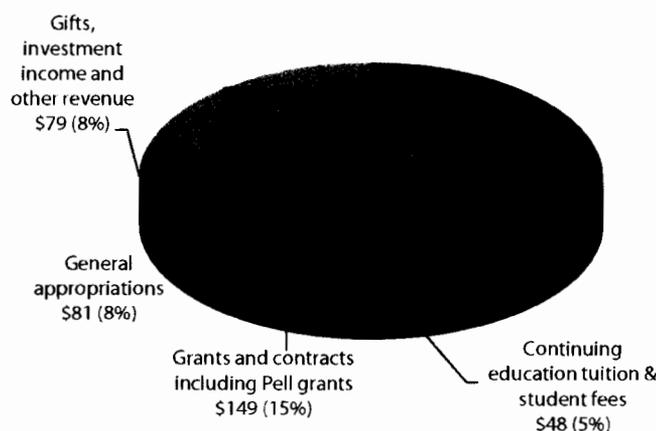
State's workforce by serving more than 20,000 New Hampshire students at our campuses each year.

## III. Financial Highlights

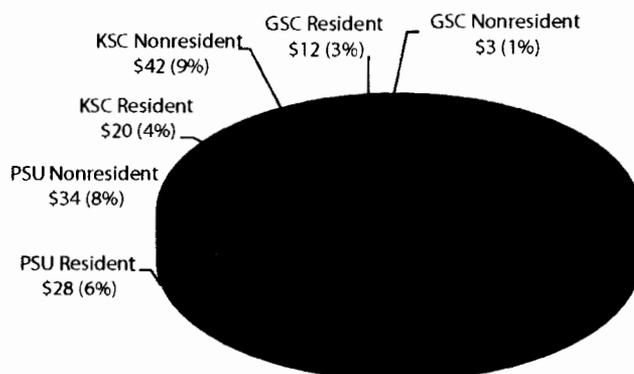
### A. Revenues

The charts below show the diversification of USNH's revenue streams, which hit the \$1 billion level for the first time in 2016. This compares to \$975 million in 2015. 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: 2016 Revenues by Source**  
**Total = \$1 Billion**  
(\$ in millions)



**Chart 2: 2016 Tuition by Campus**  
**Total = \$443 million**  
(\$ in millions)



Including continuing education revenues, tuition and student fees accounted for \$491 million or 48% of USNH revenue for 2016. As shown in Table 1 below, overall enrollment continues to be stable.

As seen in Table 2 below, UNH's Durham campus had a large increase in freshmen applications for 2016. Their enrollment strategy remains focused on attracting and retaining high quality students. Approximately 39% of new UNHD students in the fall of 2015 ranked in the top 20% of their high school class reflecting the continued quality of the population.

All campuses have implemented successful short semesters during the winter break, and are expanding online offerings for all terms to increase enrollments without adding significant costs. In addition, USNH's campuses are also recruiting more international students for on-site and online classes as learning opportunities for our students continue to expand both locally and globally. Institutional financial aid expenditures increased approximately \$13 million or 11% from 2015 to 2016, while aid from grants increased \$466 thousand or 1% over the prior year.

While auxiliary revenues grew \$5 million or 2% from 2015 to 2016, there were differing trends across the campuses. UNH revenues were up \$4 million or 3% over the prior year. This included increases in electricity sales to the local power grid and athletics fees, as well as increases in the traditional housing and dining revenue streams. PSU auxiliary revenues were up \$5 million or 18% over the prior year. The majority of their increase was housing in traditional double/triple rooms as well as recreation fees. Housing and dining revenues at KSC declined \$4 million from 2015 to 2016 due to their reduced enrollments.

Other operating revenues also increased at UNH including student activities fees, charges for their Survey Center, and fees for their START (Systemic Therapeutic Assessment Respite and Treatment) program for individuals with co-occurring intellectual and behavioral health needs.

**Table 1: Full-Time Equivalent Credit Enrollment in the Fall of Each Fiscal Year**

	<u>2016</u>	<u>2015</u>
UNH (all campuses)	15,657	15,406
PSU	4,674	4,346
KSC	4,250	4,751
GSC	1,658	1,685
Total USNH FTEs	<u>26,239</u>	<u>26,188</u>
NH Resident	13,742	14,308
Nonresident	12,497	11,880
Total USNH FTEs	<u>26,239</u>	<u>26,188</u>

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Freshmen applications received	17,344	17,234	17,938	18,420	19,255
Freshmen acceptances as % of applications	74%	78%	78%	80%	71%
Freshmen enrolled as % of acceptances	23%	22%	16%	18%	24%

\*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.

State general appropriations totaled \$81 million for fiscal years 2015 and 2016. USNH appropriations have not been fully restored since the cut in 2012, and we are currently funded only slightly above the 2002 level. As shown in Chart 3 below, the only revenue stream not keeping pace with inflation over the past 25 years is the state general appropriation.

## B. Operating and Capital Expenditures

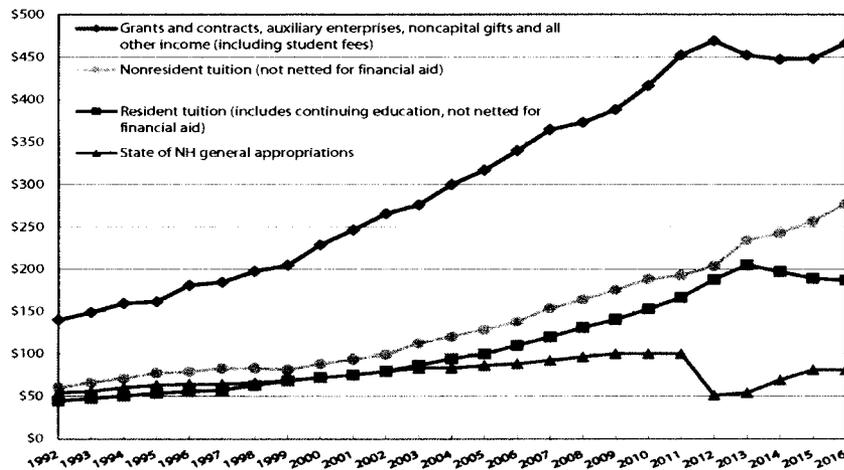
USNH's expenses grew by \$26 million, or 3%, from 2015 to 2016. This compares to \$30 million or 4% from 2014 to 2015. Nongrant compensation expenditures in 2016 drove the overall increase. This includes salary increases of \$13 million or 4%, and benefits increases of \$12 million or 10%. Salary changes included significant increases for UNH's new Lecturer's Union (\$2 million) and Professional, Administrative and Technical personnel system-wide (\$7 million). The latter includes executive level employee increases as well as new hires for strategic initiatives and compliance requirements. Fringe benefit

costs for 2016 include approximately \$5 million for separation incentive offerings as campuses work to control costs for future years.

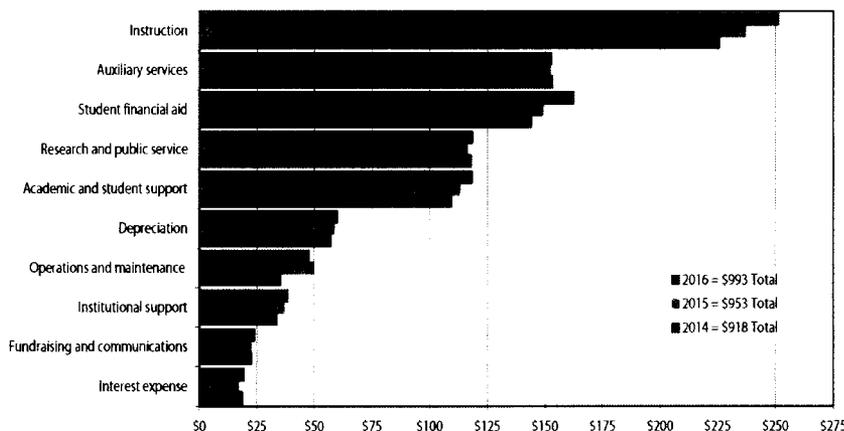
Nongrant supplies and services costs approximated the prior year. USNH is focusing on this area for future years and hopes to decrease these costs through consolidated purchasing opportunities across the campuses. Grant related expenses were down approximately \$1 million from the prior year.

Chart 4 displays USNH's operating expenses for the past three years by functional, rather than natural, classification. As the chart shows, increases in instructional costs and financial aid have far-outpaced increases in institutional support (general overhead) expenses in the last several years. (Additional detail of operating expenses by function can be found in Note 12 to the Financial Statements.) The increase in instruction costs in 2016 is related to increased employee benefit costs including separation incentives. UNH and PSU each offered separation plans to faculty and staff in the past year to control increase levels for future years.

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



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



The residential campuses also have several major capital projects currently in process or nearing completion. These include the new KSC Living and Learning Commons residence hall (\$33 million); PSU's ALLWell Center North recreational and educational facility (\$29 million) and Merrill Place residence hall (\$33 million); as well as the renovation and expansion of the Hamel Recreation Center at UNH (\$36 million). These projects were all funded in part with proceeds from bonds issued by USNH in 2015 and 2016. Ground-up renovations and expansion of the Hamilton-Smith building (\$37 million), the Outdoor Pool (\$6 million) and West Stadium (\$20 million) at UNH are also in process and being funded with internal borrowings. In addition, UNH's Manchester campus was moved to a new location that includes a technology-infused hub and state-of-the-art labs which were also funded with internal borrowings (\$5 million). The current construction and renovation work at all campuses is critical to maintaining enrollment levels in the competitive higher education market.

Chart 5 below shows the funding sources for USNH's capital spending over the past fifteen years. USNH spent over \$1 billion during this time to construct and renovate buildings and infrastructure at all campuses. The largest source of funding for the related projects was debt issuances of \$427 million with the projects noted above comprising the latest issuances. USNH is authorized to issue debt only for self-supporting, auxiliary projects. The majority of the related debt service is funded by student fees for each type of auxiliary service (housing, dining or recreation). Debt service for UNH's Ecoline project is funded with electricity usage charges to campus departments as well as proceeds from sales of electricity and renewable energy credits produced by the campus.

Not included in the chart are approved internal borrowing amounts not spent as of June 30, 2016 totaling \$31 million. The remaining funds are primarily for completion of the Hamilton-Smith renovation and expansion on the Durham campus. Plant depreciation expenses of

\$474 million were recorded during this same fifteen year period. (See Notes 5 and 8 to the Financial Statements for additional information on property and equipment, and debt balances.)

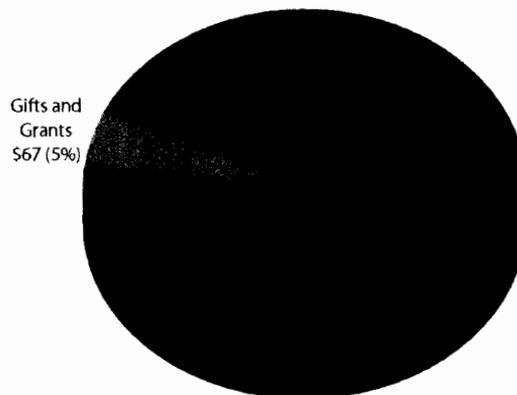
An external review of deferred maintenance needs completed during 2015 indicated USNH should spend approximately \$70 million per year to maintain its existing facilities which are estimated to have a replacement value of \$2.7 billion. State capital appropriations have been limited since fiscal year 2013. From 2002 to 2013 USNH received higher amounts to renovate certain buildings on each campus. Operating funds and internal borrowings totaling \$564 million were used to supplement the state appropriations. However, there are still several buildings in need of improvement at each campus to ensure USNH is able to meet the state's future workforce development needs.

### C. Investing Activities

Cash and short-term investment balances totaled approximately \$228 million on June 30, 2016. This compares to \$237 million on June 30, 2015. The reduction is primarily due to internal borrowing spending for the capital projects noted above. During fiscal year 2016 USNH entered into a standby bond purchase agreement for our Series 2011B Bonds to remove the original self-liquidity requirement and ensure available funding for ongoing capital projects. In addition, management of these assets was outsourced over the past year to improve short-term returns. (See Note 2 to the Financial Statements for additional information on cash, cash equivalents and short-term investments.)

USNH's long-term investments are primarily derived from endowment gifts intended to be invested in perpetuity. With Board approval USNH also invests certain large, current-use gifts, and unrestricted balances held centrally, as quasi-endowment funds. These amounts are invested in one of three venues depending on whether the donor

**Chart 5: Capital Funding Sources, 2002-2016**  
**Total \$1.3 Billion**  
*(\$ in millions)*



\*excludes amounts committed but not yet spent as of June 30, 2016

contributed to a campus, the UNH Foundation (UNHF), or the Keene Endowment Association (KEA). The investment pools are managed to provide the highest rate of return over the long term given an acceptable level of risk as determined by the responsible fiduciaries. The USNH Consolidated Endowment Pool holds funds for the benefit of all campuses. The UNHF endowment pool holds funds for the benefit of UNH only, and the KEA pool holds funds for the benefit of KSC only. The USNH Board of Trustees has fiduciary responsibility for the USNH Pool, whereas the separate boards of UNHF and KEA have their own investment policies and are responsible for those investments. Below is a summary of USNH's endowment and similar investment value as of June 30, 2016 and 2015.

**Table 3: Endowment and Similar Investments  
Market Value Summary  
(\$ in millions)**

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

As shown in Table 4, the USNH and UNHF pools had small losses in fiscal year 2016 (1.8% and 3.2% net of investment management fees, respectively). KEA chose a new firm to manage its investments during 2016 which resulted in a net gain of 7.3% during the same period. While the two larger pools are primarily invested in funds, the KEA pool primarily holds individual stock and bond investments. Over the past five years the USNH pool net annual return average was approximately 5%. This compares to approximately 6% and 7% for the UNHF and KEA pools, respectively.

Distributions from the pools during 2016 totaled approximately \$27 million in 2016 with \$16 million from the USNH pool and trusts, \$10 million from the UNHF pool, and \$335 thousand from the KEA pool. This compares to approximately \$24 million during 2015 (\$15 million from the USNH pool and trusts, \$9 million from the UNHF pool, and \$241 thousand from the KEA pool). Distributions represent a smaller percentage of the USNH pool than the other pools because USNH holds several quasi-endowment funds for future, rather than current, use.

The net negative returns after distributions for fiscal year 2016 resulted in use of prior year accumulated gains from the USNH and UNHF pools to support the payout for campus programs. Recent returns also caused the number of endowment funds with market values less than the original gift value ("underwater" funds) to increase. Of the 1,412

endowment funds maintained in the various endowment pools, 210 funds were underwater at June 30, 2016. While this represents approximately 15% of the total number of funds, the balances underwater (approximately \$4.6 million) represent less than 1% of the pools' combined fair value of \$636 million at June 30, 2016. (See Notes 4 and 11 for further information on endowment and similar investments.)

## IV. Using the Financial Statements

*Note that all values presented in this section for the years ended and as of June 30, 2012 include amounts attributable to New Hampshire Public Broadcasting prior to its disaffiliation from USNH on July 1, 2012. Also, amounts presented for the years ended and as of June 30, 2013 through 2016 include the balances and activities of the UNH School of Law which merged with UNH on January 1, 2014. The fiscal year 2013 beginning balances for the Statements of Net Position and Cash flows were restated in 2014 to include applicable UNH School of Law amounts.*

### A. Statements of Net Position

The Statements of Net Position depict all USNH assets, deferred outflows of resources, and liabilities on June 30th each year along with the resulting net financial position. 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 Statements of Net Position include the value and liquidity of financial investments; depreciated values of buildings and equipment; and

**Table 4: Pooled Endowment Returns**

	Year - Ended June 30,		Five Year Average
	2016	2015	
<b>USNH Pool</b>			
Gross return	(1.4%)	1.3%	5.6%
Investment management fees	(0.4%)	(0.3%)	(0.4%)
Net return	(1.8%)	1.0%	5.2%
Distributions	(3.5%)	(3.3%)	(3.3%)
Net (utilized) reinvested	(5.3%)	(2.3%)	1.9%
<b>UNHF Pool</b>			
Gross return	(2.6%)	3.3%	6.4%
Investment management fees	(0.6%)	(0.7%)	(0.6%)
Net return	(3.2%)	2.6%	5.8%
Distributions	(5.2%)	(4.9%)	(5.2%)
Net (utilized) reinvested	(8.4%)	(2.3%)	0.6%
<b>KEA Pool</b>			
Gross return	8.2%	2.4%	8.1%
Investment management fees	(0.9%)	(0.7%)	(0.7%)
Net return	7.3%	1.7%	7.4%
Distributions	(4.7%)	(3.4%)	(3.4%)
Net (utilized) reinvested	2.6%	(1.7%)	4.0%

current balances of related debt obligations. Table 5 shows condensed information from the Statements of Net Position at June 30 for the past five years.

Over the five year period shown, total assets increased by \$366 million or 21%. Endowment investments were valued at \$655 million as of June 30, 2016. This represents a decrease of \$25 million from 2015, but an increase of \$166 million since 2012. Property and equipment net additions from 2014 to 2016 totaled \$269 million before depreciation charges of \$176 million.

Deferred outflows of resources include the fair value of USNH's interest rate swap derivatives and the unamortized net book loss on debt refinancing. 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 fair value of the interest rate swap liability in its entirety. (See Notes 8 and 9 to the Financial Statements 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. Long-term debt balances increased over the past two years due to the new money portions of the Series 2015 and 2016 Bonds issuances discussed previously. (See Note 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 the derivative instruments described above.

Net position is reported in three categories. The net invested in capital assets amount represents the historical cost of property and equipment reduced by total accumulated depreciation and the balance of related debt outstanding. 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 by the original donors to be invested in perpetuity (\$245 million and \$257 million at June 30, 2015 and 2016, 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. USNH unrestricted fund balances include amounts held for construction and renovation of facilities of approximately \$176 million and \$143 million at June 30, 2015 and 2016, respectively. (See Note 14 to the Financial Statements for further details on the components of net position.)

**Table 5: Condensed Information from the Statements of Net Position as of June 30,  
(\$ in millions)**

	<b>2012</b>	<b>2013*</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Cash and short-term investments	\$ 200	\$ 223	\$ 235	\$ 237	\$ 228
Endowment and similar investments	489	571	667	679	655
Property and equipment, net	957	984	982	1,010	1,077
Other assets and deferred outflows of resources	112	98	96	168	162
<b>Total Assets and Deferred Outflows of Resources</b>	<b>1,758</b>	<b>1,876</b>	<b>1,980</b>	<b>2,094</b>	<b>2,122</b>
Derivative instruments - interest rate swaps	45	31	30	30	37
Postretirement medical benefits	52	55	51	54	56
Long-term debt	453	454	431	500	519
Other liabilities	159	147	150	160	169
<b>Total Liabilities</b>	<b>709</b>	<b>687</b>	<b>662</b>	<b>744</b>	<b>781</b>
Net investment in capital assets	522	550	574	598	630
Restricted financial resources	294	357	397	413	405
Unrestricted financial resources	233	282	347	339	306
<b>Total Net Position</b>	<b>\$1,049</b>	<b>\$1,189</b>	<b>\$1,318</b>	<b>\$1,350</b>	<b>\$1,341</b>

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

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

These audited statements report all USNH revenues, expenses, and other changes in net position, in groupings prescribed by the Governmental Accounting Standards Board (GASB). 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.

Table 6 shows condensed information from the Statements of Revenues, Expenses and Changes in Net Position for the five years ended June 30, 2016, grouping both operating and nonoperating revenues together to align with the related expense amounts.

Factors contributing to the values shown on these statements include the size, quality and type of student enrollments; growth and diversification of revenue streams; quality and distinction of the faculty; and attentive management of related costs. Operating

expenses include all direct costs as well as a provision for estimated depreciation on capital assets.

There are three major components which management considers separately when analyzing USNH revenues, expenses and changes in net position: the change in net position from recurring activities; capital appropriations and other plant changes; and endowment gifts and net returns. The increase in net position from recurring activities, also known as the operating margin, totaled \$18 million in 2016. This is slightly less than the 2015 level. Higher margins were achieved in prior years. As discussed previously, during 2016 UNH and PSU offered separation incentives to generate costs savings in future years. The change in expenses is primarily related to employee compensation which increased approximately \$68 million, or 15%, from 2012 to 2016.

Endowment investment values decreased \$30 million in 2016. This included net losses after distributions of \$41 million, offset by \$11 million of endowment gifts. By comparison, 2014 included \$11 million of endowment gifts in addition to net endowment gains of \$72 million, and 2013 endowment gifts totaled \$12 million in addition to net endowment gains of \$38 million. The volatility of endowment returns is a significant driver of the change in total net position each year.

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

	2012	2013*	2014	2015	2016
Tuition and fees	\$428	\$466	\$465	\$472	\$491
Less: student financial aid	(122)	(135)	(144)	(149)	(162)
Net tuition and fees	306	331	321	323	329
Sales of auxiliary services	195	198	203	206	211
Grants and contracts	182	166	152	149	149
State general appropriations	51	54	69	81	81
Noncapital gifts, investment income and other revenues	54	61	65	66	79
<b>Total Operating and Nonoperating Revenues</b>	<b>788</b>	<b>810</b>	<b>810</b>	<b>825</b>	<b>849</b>
Employee compensation	460	465	481	503	529
Supplies and services	211	204	195	203	203
Utilities, depreciation and interest	89	93	98	98	99
<b>Total Operating and Nonoperating Expenses</b>	<b>760</b>	<b>762</b>	<b>774</b>	<b>804</b>	<b>831</b>
<b>Increase in Net Position from Recurring Activities</b>	<b>28</b>	<b>48</b>	<b>36</b>	<b>21</b>	<b>18</b>
Endowment gifts and returns, net	(14)	50	83	6	(30)
State capital appropriations and other changes, net	27	14	10	5	3
<b>Total Other Changes in Net Position</b>	<b>13</b>	<b>64</b>	<b>93</b>	<b>11</b>	<b>(27)</b>
<b>Total Increase (Decrease) in Net Position</b>	<b>\$ 41</b>	<b>\$112</b>	<b>\$129</b>	<b>\$ 32</b>	<b>\$ (9)</b>

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

## C. Statements of Cash Flows

The Statements of Cash Flows summarize transactions affecting cash and cash equivalents during the fiscal period. Table 7 below shows summary information from the Statements of Cash Flows for the five years ended June 30, 2016.

These statements provide information about cash collections and cash payments made by USNH each year to help readers assess our ability to generate the future cash flows necessary to meet current and future obligations. Cash flows from operating activities will always be different than the operating results on the Statements of Revenues, Expenses and Changes in Net Position because of the inclusion of noncash items, such as depreciation expense, and because the latter

statement is prepared on the accrual basis of accounting, meaning that it shows revenues when earned and expenses as incurred.

The reductions in cash flows from noncapital gifts, grants and other receipts are primarily due to reduced grant activity at UNH as their project to improve broadband service throughout the state was completed. The net cash used in investing activities in 2015 includes the purchase of investments from proceeds of new construction bonds totaling \$81 million. Approximately \$80 million of cash was provided by the issuance bonds in 2015, and approximately \$71 million of that total was invested in 2015. In 2016, approximately \$130 million of cash and bond proceeds were used in plant construction activities. This was funded by operations as well as the liquidation of bond and other investments.

**Table 7: Condensed Information from the Statements of Cashflows for the Years Ended June 30,  
(\$ in millions)**

	<u>2012</u>	<u>2013*</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Cash flows from:</b>					
Receipts from tuition and fees, net	\$305	\$331	\$321	\$324	\$331
Receipts from sales of auxiliary services	195	197	204	206	208
Receipt of state general appropriations	51	53	69	81	81
Noncapital gifts, grants and other receipts	217	199	192	190	193
Payments to and on behalf of employees	(462)	(467)	(478)	(499)	(518)
Payments for supplies, services and utilities	(227)	(223)	(223)	(224)	(222)
<b>Net Cash Provided by Operating and Noncapital Financing Activities</b>	79	90	85	78	73
<b>Net Cash Used in Capital Financing Activities</b>	(67)	(73)	(75)	(5)	(110)
<b>Net Cash (Used in)/Provided by Investing Activities</b>	(69)	(16)	(10)	(73)	26
<b>Increase/(Decrease) in Cash and Cash Equivalents</b>	<u>\$ (57)</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11)</u>

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

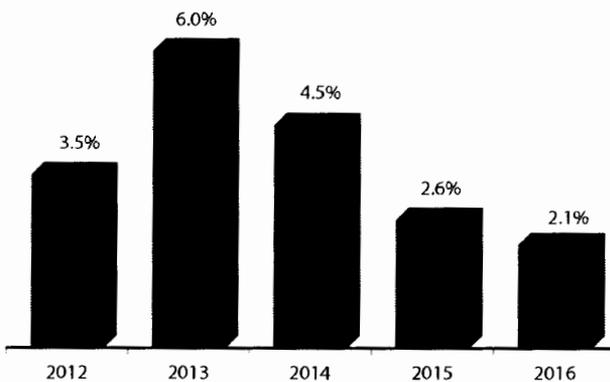
## D. Financial Indicators

Two key performance indicators used by USNH are the operating margin and the unrestricted financial resources (net position) to total debt ratios. Management monitors these ratios closely and considers them primary indicators of USNH's financial health.

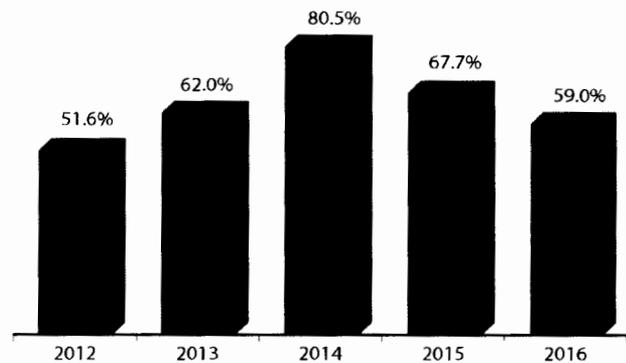
The operating margin ratio uses the increase in net position from recurring activities as the numerator and total revenue from recurring activities as the denominator. USNH's targeted annual operating margin range is 3% to 5% per year. As shown in Chart 6, actual operating margins have declined from the high of 6% in 2013 to 2.1% for 2016. The average margin over the past five years was 3.7%, reflecting the targeted balance of strategic spending and investment of resources.

The unrestricted financial resources to debt ratio, shown in Chart 7, uses the unrestricted net position balance as the numerator and the total long-term debt balance outstanding as the denominator. USNH's targeted unrestricted financial resources to debt ratio is 50% or above. The calculated ratio at June 30, 2016 was 59%. The decrease is primarily due to issuance of the Series 2015 and 2016 Bonds as discussed previously. The average of this ratio over the past five years was 64%. A portion of the unrestricted net position will be used to fund bond bullet payments due in 2018. In addition, approximately \$143 million of the unrestricted net position balance at June 30, 2016 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 related cash and investment balances are expended on longer-term plant assets. (See Notes 8 and 14 to the Financial Statements for additional information in this regard).

**Chart 6: Annual Operating Margin**



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



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

	Balance at June 30,	
	2016	2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 69,154	\$ 80,439
Short-term investments	158,413	156,720
Accounts receivable, net	20,288	19,213
Pledges receivable, net - current portion	3,471	2,912
Notes receivable, net - current portion	3,507	4,445
Prepaid expenses and other current assets	8,758	9,302
Total Current Assets	263,591	273,031
<b>Noncurrent Assets</b>		
Debt proceeds held by bond trustee for construction purposes	56,584	69,141
Endowment and similar investments - campuses	459,419	472,461
Endowment and similar investments - affiliated entities	195,890	207,839
Pledges receivable, net	8,697	7,270
Notes receivable, net	18,617	18,691
Property and equipment, net	1,077,051	1,009,585
Total Noncurrent Assets	1,816,258	1,784,987
<b>TOTAL ASSETS</b>	<b>2,079,849</b>	<b>2,058,018</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Accumulated decrease in fair value of hedging derivatives	36,769	30,390
Accounting loss on debt refinancings, net	5,904	6,142
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>42,673</b>	<b>36,532</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	53,437	48,648
Construction services payable	15,988	13,766
Deposits and unearned revenues	32,686	34,131
Accrued employee benefits - current portion	14,826	9,615
Postretirement medical benefits - current portion	6,745	6,189
Long-term debt - current portion	17,666	51,773
Total Current Liabilities	141,348	164,122
<b>Noncurrent Liabilities</b>		
Obligations under life income agreements	2,204	2,101
Refundable government advances	16,685	16,777
Accrued employee benefits net of current portion	34,049	34,596
Postretirement medical benefits, net of current portion	48,934	47,505
Derivative instruments - interest rate swaps	36,769	30,390
Long-term debt, net of current portion	501,333	448,702
Total Noncurrent Liabilities	639,974	580,071
<b>TOTAL LIABILITIES</b>	<b>781,322</b>	<b>744,193</b>
<b>NET POSITION (see Note 14)</b>		
Net investment in capital assets	630,442	598,305
Restricted		
Nonexpendable	256,513	245,180
Expendable	148,681	168,141
Unrestricted	305,564	338,731
<b>TOTAL NET POSITION</b>	<b>\$1,341,200</b>	<b>\$1,350,357</b>

*See accompanying notes to the financial statements.*

**UNIVERSITY SYSTEM OF NEW HAMPSHIRE**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
(\$ in thousands)

	<b>For the year ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>OPERATING REVENUES</b>		
Resident tuition	\$ 165,972	\$ 169,307
Nonresident tuition	277,046	256,719
Continuing education tuition	20,933	19,601
Student fees revenue	27,182	26,713
<b>Total tuition and fees</b>	<b>491,133</b>	<b>472,340</b>
Less: student financial aid - grants and contracts	(32,723)	(32,257)
Less: student financial aid - all other	(129,780)	(116,812)
<b>Net tuition and fees</b>	<b>328,630</b>	<b>323,271</b>
Grants and contracts - direct revenues	103,114	103,446
Grants and contracts - facilities & administrative recovery	19,969	20,001
Sales of auxiliary services	210,699	206,204
Other operating revenues	29,675	28,033
<b>TOTAL OPERATING REVENUES</b>	<b>692,087</b>	<b>680,955</b>
<b>OPERATING EXPENSES</b>		
Employee compensation - grants and contracts	58,218	57,929
Employee compensation - all other	470,285	445,232
Supplies and services - grants and contracts	32,661	34,162
Supplies and services - all other	169,911	169,425
Utilities	19,886	21,818
Depreciation	59,919	58,716
<b>TOTAL OPERATING EXPENSES</b>	<b>810,880</b>	<b>787,282</b>
Operating loss	(118,793)	(106,327)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State of New Hampshire general appropriations	81,000	81,000
Federal Pell grants	25,565	25,161
Noncapital gifts	17,564	11,837
Endowment and investment income	31,710	26,422
Interest expense, net	(19,432)	(17,081)
Other nonoperating revenue	369	377
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>136,776</b>	<b>127,716</b>
<b>INCREASE IN NET POSITION BEFORE OTHER CHANGES</b>	<b>17,983</b>	<b>21,389</b>
<b>OTHER CHANGES IN NET POSITION</b>		
State of New Hampshire capital appropriations	1,389	2,067
Plant gifts, grants and other changes, net	1,287	2,520
Endowment and similar gifts	11,405	20,197
Endowment return, net of amount used for operations	(41,221)	(14,127)
<b>TOTAL OTHER CHANGES IN NET POSITION</b>	<b>(27,140)</b>	<b>10,657</b>
<b>(DECREASE)/INCREASE IN NET POSITION</b>	<b>(9,157)</b>	<b>32,046</b>
Net position at beginning of year	1,350,357	1,318,311
<b>NET POSITION AT END OF YEAR</b>	<b>\$1,341,200</b>	<b>\$1,350,357</b>

*See accompanying notes to the financial statements.*

# UNIVERSITY SYSTEM OF NEW HAMPSHIRE

## STATEMENTS OF CASH FLOWS

(\$ in thousands)

	For the year ended June 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from tuition and fees, net of student financial aid	\$ 331,049	\$ 323,673
Receipts from sales of auxiliary services	208,467	206,186
Receipts from operating grants and contracts	122,253	125,968
Receipts from other operating revenues	28,917	28,075
Payments to employees	(387,329)	(375,021)
Payments for employee benefits	(130,813)	(123,960)
Payments for supplies, services and utilities	(222,086)	(223,561)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(49,542)</b>	<b>(38,640)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State general appropriations	81,000	81,000
Federal Pell and other nonoperating grants	25,934	25,538
Noncapital gifts	14,943	10,731
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>121,877</b>	<b>117,269</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
State appropriations for plant projects	1,022	2,831
Plant gifts and grants	5,974	2,797
Endowment gifts	11,405	20,197
Proceeds from issuance of debt	59,884	133,614
Proceeds from sale of property	514	2,928
Purchases and construction of property	(129,740)	(85,515)
Retirement of debt through defeasance	(25,349)	(53,149)
Debt principal payments	(14,740)	(10,773)
Interest payments	(18,851)	(18,149)
<b>NET CASH USED IN CAPITAL FINANCING ACTIVITIES</b>	<b>(109,881)</b>	<b>(5,219)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	813,043	446,422
Purchase of investments	(793,391)	(527,115)
Investment income	6,609	7,383
<b>NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES</b>	<b>26,261</b>	<b>(73,310)</b>
<b>(Decrease)/Increase in Cash and Cash Equivalents</b>	<b>(11,285)</b>	<b>100</b>
Beginning cash and cash equivalents	80,439	80,339
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$ 69,154</b>	<b>\$ 80,439</b>
Ending cash and cash equivalents, as above	<b>\$ 69,154</b>	<b>\$ 80,439</b>
Short-term investments	158,413	156,720
<b>TOTAL CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>	<b>\$ 227,567</b>	<b>\$ 237,159</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>		
Operating loss	\$(118,793)	\$(106,327)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	59,919	58,716
Changes in current assets and liabilities:		
Accounts receivable	(709)	988
Notes receivable	921	946
Prepaid expenses and other current assets	544	(486)
Accounts payable and accrued expenses	3,331	3,510
Deposits and unearned revenues	(1,432)	1,292
Accrued employee benefits	6,677	2,721
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>\$ (49,542)</b>	<b>\$ (38,640)</b>
<b>SIGNIFICANT NONCASH TRANSACTIONS</b>		
Endowment return, net of amount used for operations	\$ (41,211)	\$ (14,127)
Loss on disposal of capital assets	(4,063)	(2,186)

*See accompanying notes to the financial statements.*

# Notes to the Financial Statements

## 1. Summary of significant accounting policies and presentation

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

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

### Affiliated entities and related parties

Governmental accounting standards require that all potential component units be evaluated for inclusion in the financial statements of the primary government of the reporting entity. USNH's policy on 'Foundations Established for the Benefit of USNH or its Component Institutions' states that the USNH Board of Trustees retains control over the activities of any affiliated foundation. The USNH policy further states that USNH has the legal authority to terminate the existence of any affiliated foundation, at which time ownership of the related assets would revert to USNH. Two legally separate affiliated foundations are impacted by this policy and, accordingly, are considered 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.

UNHF, Inc. was incorporated in 1989 as a not-for-profit, tax-exempt organization. Its purpose is to solicit, collect, invest and disburse funds for the sole benefit of the University of New Hampshire. The University of New Hampshire funds a portion of the operating expenses of UNHF. UNHF is governed by its own Board of Directors, the membership of which includes the President of the University of New Hampshire and up to three other members of the USNH Board of Trustees. UNHF has a separate financial statement audit each year. Condensed financial information for UNHF is included in Note 15. The KEA was organized in 1957 as a separate charitable entity to provide financial assistance to deserving students at Keene State College. Income is distributed at the discretion of the Trustees of KEA.

### Basis of accounting

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

USNH follows the requirements of the "business-type activities" (BTA) model as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis for Public Colleges and Universities*. BTAs are defined as those that are financed in whole or in part by fees charged to external parties for goods or services. 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. These funds include the historical gift value of restricted true endowment funds.
- **Restricted Expendable:** Resources whose use by USNH is subject to externally imposed stipulations. Such funds include the accumulated net gains on donor-restricted "true" endowment funds; the fair value of restricted funds functioning as endowment; restricted funds loaned to students; restricted gifts and endowment income; and other similarly restricted funds.
- **Unrestricted:** Resources that are not subject to externally imposed stipulations. Substantially all unrestricted net position funds are designated to support academic, research, or auxiliary enterprises; invested to function as endowment; or committed to capital construction projects.

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

Investments are maintained with established financial institutions whose credit is evaluated by management and the respective governing boards of USNH and its affiliated entities. Investments of operating cash in money market and other mutual funds are generally recorded as cash equivalents. These amounts are invested for purposes of satisfying current operating liabilities and generating investment income to support ongoing operations. Short-term investments represent highly liquid amounts held for other current liabilities. Endowment return used for operations per application of the Board-approved endowment spending policy is reported as nonoperating revenue. Net realized and unrealized gains/losses and interest/dividend income earned on endowment and similar investments, together with the excess (deficiency) of these earnings over the return used for operations, are reported as other changes in net position.

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 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 expected to be received over the next ten years, totaling \$9,508,000 and \$9,120,000 at June 30, 2016 and 2015, respectively, have not been reported in the accompanying financial statements. USNH generally uses restricted funds first when an expense is incurred where both restricted and unrestricted funds are available.

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

### New reporting standard

The System's financial statements and notes for fiscal 2016 and 2015 as presented herein reflect the adoption of GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 establishes general principles for measuring fair value and requires enhanced disclosures about fair value measurements of certain assets and liabilities, such as investments and interest-rate swaps. The adoption resulted in new and enhanced disclosures related to investments and interest-rate swaps, which are measured at fair value.

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

GASB 72 requires that USNH categorize these assets and liabilities measured at fair value using a three-tiered hierarchy based on the valuation methodologies employed. The hierarchy is defined as follows:

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

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

Level 3 — Value based on unobservable inputs for an asset or liability. USNH had no Level 3 assets or liabilities as of June 30, 2016 and 2015.

In determining fair value, USNH utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. As described in note 4, certain investments are measured at net asset value as a practical expedient to estimate fair value and are not categorized in the fair value hierarchy.

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

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

Cash equivalents represent amounts invested for the purpose of satisfying current operating liabilities and include repurchase agreements, money market funds and other mutual funds. Repurchase agreements are limited to overnight investments only. Short-term investments are highly liquid amounts held to support specific current liabilities. Cash, cash equivalents and short-term investments are generally uninsured and uncollateralized against custodial credit risk, and the related mutual funds are not rated. Cash and cash equivalents totaled \$69,154,000 and \$80,439,000 at June 30, 2016 and 2015, respectively, and short-term investments totaled \$158,413,000 and \$156,720,000 at June 30, 2016 and 2015, respectively.

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

	Balances and Terms as of June 30, 2016				Balances and Terms as of June 30, 2015			
	Level 1	Level 2	Total	Weighted Average Maturity	Level 1	Level 2	Total	Weighted Average Maturity
Cash balance	\$ 4,058	\$ -	\$ 4,058	Less than 1 year	\$ 2,903	\$ -	\$ 2,903	Less than 1 year
Repurchase agreements	-	28,847	28,847	Less than 1 year	-	18,067	18,067	Less than 1 year
Money market funds	60,473	-	60,473	Less than 1 year	78,333	-	78,333	Less than 1 year
Domestic Equity	205	-	205	Less than 1 year	215	-	215	Less than 1 year
Mutual Funds	133,458	-	133,458	1-5 years	134,578	-	134,578	1-5 years
U.S. Treasuries	-	526	526	5-10 years	-	3,063	3,063	5-10 years
<b>Total cash, cash equivalents and short-term investments</b>	<b>\$198,194</b>	<b>\$29,373</b>	<b>\$227,567</b>		<b>\$216,029</b>	<b>\$21,130</b>	<b>\$237,159</b>	

### 3. Accounts, pledges and notes receivable

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

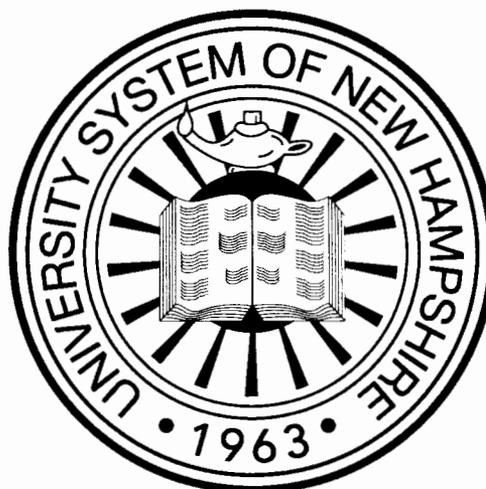
	<u>2016</u>	<u>2015</u>
Grants and contracts	\$ 16,330	\$ 15,570
Student and general	6,680	6,547
State of NH capital projects	362	-
Allowance for doubtful accounts	<u>(3,084)</u>	<u>(2,904)</u>
<b>Total accounts receivable, net</b>	<b>\$ 20,288</b>	<b>\$ 19,213</b>

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

	<u>2016</u>	<u>2015</u>
Pledges receivable	\$ 16,311	\$ 14,119
Discounts and allowance for doubtful pledges	<u>(4,143)</u>	<u>(3,937)</u>
<b>Total pledges receivable, net</b>	<b>12,168</b>	<b>10,182</b>
Less: noncurrent portion	<u>(8,697)</u>	<u>(7,270)</u>
<b>Current portion</b>	<b>\$ 3,471</b>	<b>\$ 2,912</b>

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

	<u>2016</u>	<u>2015</u>
Perkins loans	\$ 23,134	\$ 23,932
Other loans, restricted and unrestricted	1,067	1,293
Allowance for doubtful loans	<u>(2,077)</u>	<u>(2,089)</u>
<b>Total notes receivable, net</b>	<b>22,124</b>	<b>23,136</b>
Less: noncurrent portion	<u>(18,617)</u>	<u>(18,691)</u>
<b>Current portion</b>	<b>\$ 3,507</b>	<b>\$ 4,445</b>



### 4. Investments

USNH's investment policy and guidelines specify permitted instruments, duration and required ratings for pooled endowment funds. The policy and guidelines are intended to mitigate risk on investments individually and in the aggregate while maximizing total returns and supporting intergenerational equity of spending levels. Illiquid investments are limited to 20% of the USNH consolidated endowment pool. Credit risk is mitigated by due diligence in the selection and continuing review of investment managers as well as diversification of both investment managers and underlying investments. No more than \$50 million may be invested in any single fund and no more than \$75 million or 10% of the pool may be invested with any single bank, fund manager, or investment group unless approved by the Finance Committee for Investments. Foreign currency risk is mitigated by limiting global equity investments in publically traded international and emerging market funds to 25% of the endowment pool. Private global equity investments are limited to 15% of the endowment pool. No USNH endowment investments were denominated in foreign currencies as of June 30, 2016 or June 30, 2015.

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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Pooled endowments:				
Campuses	\$444,196	\$456,635	\$ -	\$ -
UNH Foundation	-	-	184,606	196,837
Keene Endowment Association	-	-	7,424	7,086
Life income and annuity funds	104	116	3,860	3,916
Funds held in trust	15,119	15,710	-	-
<b>Total</b>	<b>\$459,419</b>	<b>\$472,461</b>	<b>\$195,890</b>	<b>\$207,839</b>

Endowment and similar investments are reported at estimated fair value. The fair value of these investments is based on quoted market prices when available. If an investment is held directly by USNH and an active market with quoted prices exists, the market price of an identical security is used to determine its fair value. Fair values of shares in registered mutual funds are based on published share prices. Registered mutual funds and directly held equity securities are classified in Level 1 of the fair value hierarchy. Investments classified in Level 2 consist of directly held investments that have valuations based on inputs other than quoted prices. There were no transfers between levels in 2016 and 2015.

As a practical expedient to estimate the fair value of USNH's interests, certain investments in commingled funds and limited partnerships are reported at the net asset value (NAV) determined by the fund managers, without adjustment when assessed as reasonable by USNH, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. Because these investments are not readily marketable, their estimated fair values may differ from the values that would have been assigned had a ready market for such investments existed, and such differences could be material. As of June 30, 2016 and 2015, USNH had no plans or intentions to sell such investments at amounts different from NAV.

The following tables summarize USNH's investments by type (\$ in thousands):

	Balances as of June 30, 2016				Balances as of June 30, 2015			
	Investments Classified in the Fair Value Hierarchy		Investments Measured at NAV	Total	Investments Classified in the Fair Value Hierarchy		Investments Measured at NAV	Total
	Level 1	Level 2			Level 1	Level 2		
<b>Endowment and similar investments - campuses</b>								
Money market	\$ 8,653	\$ -	\$ -	\$ 8,653	\$ 9,210	\$ -	\$ -	\$ 9,210
Domestic equity	103,401	-	39,505	142,906	103,193	-	39,069	142,262
International equity	43,772	-	35,698	79,470	49,540	-	42,496	92,036
Global fixed income	16,154	20,568	47	36,769	16,847	9,976	10,151	36,974
Inflation hedging assets	-	6,090	17,962	24,052	-	5,844	18,121	23,965
Hedge funds:								
Fund of Funds	-	-	52,805	52,805	-	-	55,208	55,208
Event-Driven	-	-	27,206	27,206	-	-	27,612	27,612
Equity Hedge	-	-	40,510	40,510	12,294	-	27,863	40,157
Distressed/Restructuring	-	-	10,388	10,388	-	-	10,053	10,053
Private equity & non-marketable real assets	-	-	21,541	21,541	-	-	19,274	19,274
Funds held in trust	-	15,119	-	15,119	-	15,710	-	15,710
Total endowment and similar investments - campuses	\$171,980	\$41,777	\$245,662	\$459,419	\$191,084	\$31,530	\$249,847	\$472,461
<b>Endowment and similar investments - affiliated entities</b>								
Money market	\$ 9,205	\$ -	\$ -	\$ 9,205	\$ 5,005	\$ -	\$ -	\$ 5,005
Domestic equity	34,715	-	29,080	63,795	36,431	-	28,766	65,197
International equity	13,319	-	24,019	37,338	14,795	-	26,778	41,573
Global fixed income	9,223	1,786	1,261	12,270	8,980	1,324	1,306	11,610
Inflation hedging assets	2,813	3,873	3,681	10,367	2,879	3,768	4,362	11,009
Hedge funds:								
Equity Hedge	-	-	16,698	16,698	-	-	20,821	20,821
Distressed/Restructuring	-	-	21,232	21,232	-	-	20,183	20,183
Diversified	-	-	12,991	12,991	-	-	21,749	21,749
Private equity & non-marketable real assets	-	-	11,994	11,994	-	-	10,692	10,692
Total endowment and similar investments - affiliated entities	\$ 69,275	\$ 5,659	\$120,956	\$195,890	\$ 68,090	\$ 5,092	\$134,657	\$207,839
<b>Total endowment and similar investments</b>	<b>\$241,255</b>	<b>\$47,436</b>	<b>\$366,618</b>	<b>\$655,309</b>	<b>\$259,174</b>	<b>\$36,622</b>	<b>\$384,504</b>	<b>\$680,300</b>

The majority of USNH's investments are units of institutional commingled funds and limited partnerships invested in equity, fixed income, hedge, natural resources, private equity, or real estate strategies. Hedge strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedge strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments which are valued by the investment manager. To the extent quoted prices exist the manager would use those; otherwise, other methodologies maximizing observable inputs would be used for the valuation, such as discounted cash flow analysis, capitalization of current or stabilized net operating income, replacement costs, or sales contracts and recent sales comparable in the market. Private equity funds employ buyout, growth and venture capital, and distressed security strategies. Real asset funds generally hold interests in private real estate. As of June 30, 2016 and 2015, fixed income securities had maturities up to 30 years and carried ratings ranging from AAA to A3. The mutual fund investments held in the endowment pools are not rated.

# University System of New Hampshire



Investment liquidity is aggregated below based on redemption or salability (\$ in thousands):

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

	Liquidity Terms as of June 30, 2015						Redemption Notice Period	
	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid		Total
<b>Endowment and similar investments - campuses</b>								
Money market	\$ 9,210	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,210	Same day
Domestic equity	103,193	-	39,069	-	-	-	142,262	1-60 days
International equity	49,540	40,575	-	-	1,921	-	92,036	1-60 days
Global fixed income	26,823	10,151	-	-	-	-	36,974	1-10 days
Inflation hedging assets	23,965	-	-	-	-	-	23,965	Same day
Hedge funds:								
Fund of Funds	-	-	21,536	-	32,551	1,121	55,208	65-91 days, Illiquid
Event-Driven	-	-	14,796	12,149	-	667	27,612	45-65 days, Illiquid
Equity Hedge	12,294	-	-	5,090	22,639	134	40,157	1-60 days, Illiquid
Distressed/Restructuring	-	-	-	-	10,053	-	10,053	90 days
Private equity & non-marketable real assets	-	-	-	-	-	19,274	19,274	Illiquid
Funds held in trust	-	-	-	-	-	15,710	15,710	Illiquid
<b>Total endowment and similar investments - campuses</b>	<b>\$225,025</b>	<b>\$50,726</b>	<b>\$ 75,401</b>	<b>\$17,239</b>	<b>\$ 67,164</b>	<b>\$36,906</b>	<b>\$472,461</b>	
<b>Endowment and similar investments - affiliated entities</b>								
Money market	\$ 5,005	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,005	Same day
Domestic equity	37,968	-	27,230	-	-	-	65,198	1-60 days
International equity	15,250	26,323	-	-	-	-	41,573	1-10 days
Global fixed income	10,304	1,306	-	-	-	-	11,610	Same day
Inflation hedging assets	6,647	4,362	-	-	-	-	11,009	1-35 days
Hedge funds:								
Equity Hedge	-	-	5,872	5,722	10,588	-	22,182	45-60 days
Distressed/Restructuring	-	-	4,501	4,687	9,974	-	19,162	45-90 days
Diversified	-	-	14,312	-	7,097	-	21,409	65-95 days
Private equity & non-marketable real assets	-	-	-	-	-	10,691	10,691	Illiquid
<b>Total endowment and similar investments - affiliated entities</b>	<b>\$ 75,174</b>	<b>\$31,991</b>	<b>\$ 51,915</b>	<b>\$10,409</b>	<b>\$ 27,659</b>	<b>\$10,691</b>	<b>\$207,839</b>	
<b>Total endowment and similar investments</b>	<b>\$300,199</b>	<b>\$82,717</b>	<b>\$127,316</b>	<b>\$27,648</b>	<b>\$ 94,823</b>	<b>\$47,597</b>	<b>\$680,300</b>	

As of June 30, 2016, UNHF had one equity hedge fund with multiple lock-up periods ranging from fifteen months to three years, and three distressed hedge funds with lock-up periods ranging from one month to two years. As of June 30, 2016, USNH had one equity hedge fund with a lock-up period expiring on December 31, 2016. Hedge funds, private equity and real estate funds classified as illiquid have no ability to be redeemed. For USNH, of the 28 funds classified as illiquid, ten are currently in liquidation; four are expected to start liquidation within the next two years; four are expected to start liquidation in 5 to 7 years, and ten currently have no expected liquidation dates. For UNHF, twelve funds are classified as illiquid and are expected to be liquidated over the next 2 to 10 years.

As of June 30, 2016, USNH has three outstanding investment liquidation requests which have been limited by the respective fund managers. Management of the fund in which USNH has the largest of these balances has approved a plan to fully liquidate all balances by the end of 2018. USNH's balance in that fund was \$656,000 and \$963,000 as of June 30, 2016 and 2015, respectively. Plans have not been communicated for the remaining two funds. USNH's balance in the remaining funds totaled \$246,000 and \$292,000 as of June 30, 2016 and 2015, respectively. The fair values based on 6/30 NAV of all three investments at June 30, 2016 and 2015 is \$901,000 and \$1,255,000, respectively. It is uncertain when, or if, the funds will be fully collected.

Unfunded commitments with various private equity and similar alternative investment funds totaled \$15,839,000 for USNH and \$21,550,000 for UNHF at June 30, 2016. This compares to \$15,894,000 and \$10,905,000, respectively, at June 30, 2015.

## 5. Property and equipment

Property and equipment activity for the years ended June 30, 2016 and 2015 is summarized as follows (\$ in thousands):

	2015			2016			Balance June 30, 2016
	Balance June 30, 2014	Additions	Retirements & Changes	Balance June 30, 2015	Additions	Retirements & Changes	
Land	\$ 13,387	\$ 2,456	\$ (54)	\$ 15,789	\$ 2	\$ (11)	\$ 15,780
Buildings and improvements	1,551,468	47,346	(43,660)	1,555,154	68,199	(30,262)	1,593,091
Equipment	110,455	11,630	(3,368)	118,717	12,894	(8,524)	123,087
Construction in progress, net	37,784	80,759	(51,053)	67,490	119,567	(68,700)	118,357
<b>Total property and equipment</b>	<b>1,713,094</b>	<b>142,191</b>	<b>(98,135)</b>	<b>1,757,150</b>	<b>200,662</b>	<b>(107,497)</b>	<b>1,850,315</b>
Less: accumulated depreciation	(730,818)	(58,716)	41,969	(747,565)	(59,919)	34,220	(773,264)
<b>Property and equipment, net</b>	<b>\$ 982,276</b>	<b>\$ 83,475</b>	<b>\$ (56,166)</b>	<b>\$ 1,009,585</b>	<b>\$ 140,743</b>	<b>\$ (73,277)</b>	<b>\$ 1,077,051</b>

Contractual obligations for major construction projects totaled approximately \$63,702,000 and approximately \$37,522,000 at June 30, 2016 and 2015, respectively.

## 6. Accrued employee benefits

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

	2015			2016			Balance June 30, 2016	Current Portion
	Balance June 30, 2014	Payments to/ on Behalf of Participants	Expenses & Other Changes	Balance June 30, 2015	Payments to/ on Behalf of Participants	Expenses & Other Changes		
Operating staff retirement program	\$ 5,812	\$ (623)	\$ 1,356	\$ 6,545	\$ (610)	\$ 410	\$ 6,345	\$ 648
Additional retirement program	3,377	(338)	338	3,377	(116)	(308)	2,953	224
Employee separation incentives	7,272	(5,237)	5,576	7,611	(4,578)	9,315	12,348	9,989
Long-term disability	3,138	(641)	280	2,777	(583)	423	2,617	583
Workers' compensation	4,500	(564)	225	4,161	(1,106)	846	3,901	1,106
Compensated absences	19,210	(2,436)	2,603	19,377	(2,099)	2,958	20,236	2,000
Other benefits	341	(20)	42	363	-	112	475	276
<b>Total accrued employee benefits</b>	<b>\$ 43,650</b>	<b>\$ (9,859)</b>	<b>\$ 10,420</b>	<b>\$ 44,211</b>	<b>\$ (9,092)</b>	<b>\$ 13,756</b>	<b>\$ 48,875</b>	<b>\$ 14,826</b>

The operating staff retirement program has been closed to new participants since 1987. At June 30, 2016 there were approximately 197 current annuitants and 47 participants with deferred benefits, all fully vested. This compares to 205 current annuitants and 48 participants with deferred benefits as of June 30, 2015. USNH accrued \$6,345,000 and \$6,545,000 for the related obligations as of June 30, 2016 and 2015, respectively, based on the last biennial actuarial valuation calculation dated July 1, 2015. The investment return assumptions (discount rates) used in determining the actuarial accrued liabilities was 7.5% for 2016 and 2015. Obligations of the program are amortized over one year. USNH had cash and unrestricted funds functioning as endowment assets of \$5,220,000 and \$6,097,000 at June 30, 2016 and 2015, 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):

	2016	2015
Retired participants and beneficiaries	\$5,123	\$5,303
Active participants	650	673
Other participants	572	569
<b>Accrued pension benefit obligation</b>	<b>6,345</b>	<b>6,545</b>
Less: Funds functioning as endowment and other assets available for benefits	(5,220)	(6,097)
<b>Underfunded balance</b>	<b>\$ 1,125</b>	<b>\$ 448</b>

USNH also offered an additional retirement contribution to eligible employees hired between July 1, 1994 and June 30, 2011. Under this plan, staff meeting certain voluntary defined benefit plan contribution levels receive an additional 1% of their salary contributed to their defined contribution retirement plan (see below) by USNH in lieu of postretirement medical benefits. Employees meeting certain service guidelines prior to July 1, 1994 are also eligible for a guaranteed minimum employer retirement contribution. There were 407 and 501 employees meeting the requirements for the guaranteed minimum employer contribution as of June 30, 2016 and 2015,

respectively. USNH accrued \$2,953,000 at June 30, 2016 and 2015 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, 2015, and were developed using the Projected Unit Credit Cost Method. The discount rate used in determining the actuarial accrued liabilities was 2.25% for 2016 and 2015. Obligations of the program are amortized over one year. USNH had designated cash assets to fully fund the plan obligations at June 30, 2016 and 2015. The additional employer retirement contribution amounts are not available to employees hired after June 30, 2011. Eligible employees hired after June 30, 2011 may elect to participate in USNH's defined contribution retirement plans administered by others. Retirement contributions by USNH for the employees range from 4% to 10% of eligible salaries for enrolled participants.

USNH additions to the defined contribution plans totaled \$26,375,000 and \$25,410,000 in 2016 and 2015, respectively. Retirement contributions by plan members totaled \$25,735,000 and 25,994,000 in 2016 and 2015, respectively.

Early retirement and employee separation incentive programs were provided to various faculty and staff during 2016 and 2015. 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 \$12,348,000 and \$7,611,000 at June 30, 2016 and 2015, respectively, represent obligations for 271 and 136 participants, respectively, which will be remitted in fiscal years 2017 through 2021.

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

USNH is self-insured for a portion of certain risks, including workers' compensation, employee long-term disability, and certain student health insurance claims. Most employee and retiree medical and dental coverage provided by USNH is also self-insured. The costs of self-insured medical and dental claims and administrative fees totaled \$59,627,000 and \$53,512,000 for fiscal year 2016 and 2015, respectively. These amounts include \$6,575,000 and \$5,844,000 for estimated claims incurred but not reported as of June 30, 2016 and 2015, respectively. In conjunction with the primary medical plan offering for active employees, USNH purchases stop-loss coverage which limits the USNH cost of claims to \$500,000 per participant in most cases. The liabilities recorded in the financial statements for all USNH self-insured programs developed by third party claim administrators and based on historical claims data. Management reviewed the calculations for reasonableness and believes the liabilities are sufficient to cover the actual claims incurred.

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

## 7. Postretirement medical benefits

The primary defined benefit postretirement medical plan has two components. The first offering known as the Medicare Complementary Plan (MCP), was optional for full-time status employees hired before July 1, 1994 and not

offered to new employees after that date. At January 1, 2016 and 2015, respectively, there were 956 and 954 former employees receiving benefits under this program along with their dependents. As of January 1, 2016 and 2015, respectively, there were 232 and 301 active employees who, along with their dependents, may eventually be eligible to receive benefits under this program. The MCP provides limited medical coverage for the remaining life of the participants. There are no costs to participate in the plan, but retirees must pay a portion of the actual costs of services rendered.

Employees hired on July 1, 1994 or later are eligible for the current offering which provides bridge coverage only for retirees aged 62-65. Retired employees must have reached age 62, completed at least 10 years of benefits eligible service, participated in the active retirement plans during their last 10 years of service, and participated in USNH's active medical plan at the time of retirement in order to be eligible for the plan. Retirees contribute to the current plan at then-current employee medical rates during the bridge period. As of January 1, 2016 and 2015, respectively, there were 146 and 128 retirees receiving benefits under this program along with their dependents. As of January 1, 2016 and 2015, respectively, there were also 3,913 and 3,876 active employees who, along with their dependents, may eventually be eligible to receive benefits under this program.

Together, the above offerings constitute the primary post-retirement medical plan. This is a single-employer plan and funded on a pay-as-you-go basis with benefits paid when due. Third party actuaries are used to determine the postretirement benefit obligation and annual expense amounts. Actuarial calculations reflect a long-term perspective. By definition such calculations involve estimates and, accordingly, are subject to revision. The healthcare cost trend and discount rate assumptions have a significant effect on the amounts reported. For measurement purposes the 2016 initial rate of increase in the cost of healthcare services was assumed to be 8.0% for participants and decreasing 0.5% each year thereafter until reaching an ultimate rate of 5.0% per year. The initial increase in the cost of prescriptions was assumed to be 11.0% for 2016 and decreasing by 1.0% each year thereafter to an ultimate rate of 5.0% per year. The discount rate used in determining the actuarial accrued liability was 2.5% for 2015 and 2016. The actuarially determined postretirement benefit expense for the plan was \$8,721,000 and \$8,414,000 for June 30, 2016 and 2015, respectively. These calculations are based on the benefits provided by the plan at the time of the last biennial plan valuation, December 31, 2014, and were developed using the Projected Unit Credit Cost Method. The primary postretirement medical plan holds no assets. USNH accrued \$55,332,000 and \$53,347,000, respectively, for obligations of the plan as of June 30, 2016 and 2015.

Total annual other postemployment benefit (OPEB) costs for the primary post-retirement medical plan for the years ended June 30, 2016 and 2015, and the liability as of June 30, 2016 and 2015 included the following components (*\$ in thousands*):

	2016	2015
Annual required contribution	\$ 14,422	\$ 13,497
Interest on net OPEB obligation	1,334	1,278
Adjustment to annual required contribution	(9,193)	(6,361)
Annual OPEB cost	6,563	8,414
Claims paid	(4,578)	(6,180)
<b>Increase (decrease) in net OPEB obligation</b>	<b>1,985</b>	<b>2,234</b>
Net OPEB obligation at beginning of year	53,347	51,113
<b>Net OPEB obligation at end of year</b>	<b>\$ 55,332</b>	<b>\$ 53,347</b>
<b>Current Portion</b>	<b>\$ 6,736</b>	<b>\$ 6,180</b>

USNH also accrued \$348,000 as of June 30, 2016 and 2015 for potential obligations related to postretirement care of certain USNH police personnel. The USNH Board of Trustees holds the authority to change these benefit plans at any time.

## 8. Long-term debt

USNH long-term debt activity, exclusive of deferred losses on refundings, for the years ended June 30, 2016 and 2015 is summarized below (\$ in thousands):

	2015			2016			Balance June 30, 2016	Current Portion
	Balance June 30, 2014	Additions & Other Changes	Retire- ments	Balance June 30, 2015	Additions & Other Changes	Retire- ments		
<b>NHHEFA bonds</b>								
Series 2005A	\$ 55,000	\$ -	\$ (1,500)	\$ 53,500	\$ -	\$ (1,750)	\$ 51,750	\$ 1,650
Series 2005B	85,895	-	(4,030)	81,865	-	(4,165)	77,700	4,295
Series 2006B-2	52,625	-	(49,700)	2,925	-	(1,425)	1,500	1,500
Series 2007	46,570	-	-	46,570	-	-	46,570	-
Series 2009A	84,045	-	-	84,045	-	(25,000)	59,045	-
Series 2011A	6,000	-	-	6,000	-	-	6,000	-
Series 2011B	39,450	-	(1,670)	37,780	-	(1,750)	36,030	1,830
Series 2012	20,655	-	(2,655)	18,000	-	(2,735)	15,265	2,815
Series 2014	21,760	-	-	21,760	-	(1,955)	19,805	2,030
Series 2015	-	116,970	-	116,970	-	-	116,970	1,100
Series 2016	-	-	-	-	53,890	-	53,890	-
Unamortized discounts/ premiums, net	5,930	16,194	(2,791)	19,333	5,494	(1,127)	23,700	1,450
<b>Capital leases</b>	12,639	-	(912)	11,727	-	(953)	10,774	996
<b>Total bonds and leases</b>	<b>\$430,569</b>	<b>\$133,164</b>	<b>\$(63,258)</b>	<b>\$500,475</b>	<b>\$59,384</b>	<b>\$(40,860)</b>	<b>\$518,999</b>	<b>\$17,666</b>

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

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

USNH's bond portfolio at June 30, 2016 consisted of fixed rate and variable rate issues. The variable rate demand bonds (Series 2005A, 2005B, 2011B) are fully hedged via interest rate swap agreements (see Note 9 below), with all three issues supported by standby bond purchase agreements as of June 30, 2016. Series 2011B was supported by self-liquidity as of June 30, 2015 and, accordingly, the entire balance was categorized in total as a current liability at that time. The variable interest rates for both 2005A and 2005B at June 30, 2016 and 2015 were 0.36% and 0.07% respectively. The 2011B variable interest rates at June 30, 2016 and 2015 were 0.36% and 0.04%, respectively.

USNH issued Series 2016 Bonds in the amount of \$53,890,000 to defease a portion of the Series 2009A Bonds (\$25,000,000), and fund a new student housing development (\$32,715,000) during the year ended June 30, 2016. During the year ended June 30, 2015, USNH issued Series 2015 Bonds in the amount of \$116,970,000 to defease a portion of the Series 2006B-2 Bonds (\$48,325,000), and fund student housing, dining and recreation facility projects at the three residential campuses (\$71,865,000). Construction proceeds of \$56,584,000 and \$69,141,000 were unspent as of June 30, 2016 and June 30, 2015, respectively, and held in reserve in accordance with the related debt agreements. The related investments are classified in Level 1 of the GASB fair value hierarchy because the underlying securities held by the bond trustee are valued based on quoted market prices. The Series 2009A refunding proceeds of \$25,379,000 and 2006B-2 refunding proceeds of \$51,774,000 were held in escrow in the principal payment investment account on June 30, 2016 and June 30, 2015 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	7/1/2016	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%
Series 2015	7/1/2045	Fixed at 3.8%
Series 2016	7/1/2046	Fixed at 2.7%

\*7/1/2020,2023

### Capital leases

On April 30, 2004, USNH entered into a capital lease agreement in the amount of \$18,387,000 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 \$9,351,000 and \$10,389,000 as of June 30, 2016 and 2015, respectively.

### State of NH general obligation bonds

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

## Maturity of long-term debt obligations

USNH Long-term debt obligations are scheduled to mature as follows using the associated fixed, estimated synthetic fixed, and expected variable rates in effect as of June 30, 2016 over the remaining terms of individual issuances (\$ in thousands):

Fiscal Year	Principal	Interest	Total
2017	\$ 16,216	\$ 20,232	\$ 36,448
2018	18,602	20,668	39,270
2019	66,499	19,883	86,382
2020	20,553	16,627	37,180
2021	50,579	15,985	66,564
2022-2026	130,435	55,855	186,290
2027-2031	69,110	34,640	103,750
2032-2036	67,815	20,256	88,071
2037-2041	25,730	9,785	35,515
2042-2046	28,065	4,157	32,222
2047	1,695	53	1,748
	495,299	218,141	713,440
Plus: unamortized discounts/premiums, net	23,700	-	23,700
<b>Total</b>	<b>\$518,999</b>	<b>\$ 218,141</b>	<b>\$ 737,140</b>

## 9. Derivative instruments - interest rate swaps

USNH uses hedging derivatives to artificially fix interest rates on variable rate bonds outstanding. The terms and fair market value of swap contracts in place as of June 30, 2016 and 2015 were as follows (\$ in thousands):

	Effective Date	Termination Date	Payable	Receivable	Notional Amount		Swap Fair Value	
			Fixed Swap Rate	Variable Swap Rate	at June 30,		at June 30,	
					2016	2015	2016	2015
Series 2005A swap	October 29, 2008	July 1, 2035	3.6%	67% LIBOR	\$ 51,750	\$ 53,500	\$ (13,709)	\$ (11,057)
Series 2005B swap	August 1, 2005	July 1, 2033	3.1%	63% LIBOR + 0.29%	77,700	81,865	(12,602)	(9,887)
Series 2011B swap	April 4, 2011	July 1, 2033	4.5%	67% LIBOR	36,030	37,780	(10,458)	(9,446)
				<b>Total</b>	<b>\$ 165,480</b>	<b>\$ 173,145</b>	<b>\$ (36,769)</b>	<b>\$ (30,390)</b>

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

These derivative instruments meet the criteria established by GASB Statement No. 53 for effective hedges as of June 30, 2016 and 2015 and therefore their accumulated changes in fair value are reflected as deferrals on the Statements of Net Position. The notional amount of each swap is tied to the outstanding balance of the related bonds throughout the life of the swap. Under the terms of each swap, USNH makes fixed rate interest payments to the counterparty and receives a variable rate payment from the counterparty; USNH makes variable rate payments to bondholders on the related bonds. None of the derivatives require collateralization by USNH at any level of negative fair market value.

### Risk Disclosure

**Counterparty Risk** – This is the risk that the counterparty will fail to perform under the terms of the swap agreement. As of June 30, 2016, USNH was exposed to no counterparty credit risk relative to its swaps as all swap market values were negative. The swaps require collateralization of any positive fair value of the swap should the counterparty's credit rating fall below thresholds identified in the swap contracts. USNH mitigates counterparty risk by spreading the swap exposure among various counterparties, by monitoring bond ratings continuously, and by requiring collateralization in certain circumstances.

**Basis Risk** – This is the risk of a mismatch between the variable rate received from the swap counterparty and the variable rate paid by USNH to bondholders on the underlying variable rate debt. The effective rate on the debt will vary depending on the magnitude and duration of any basis risk shortfall or surplus. Based on current and historical experience, USNH's financial advisors expect payments received under the agreements to approximate the 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 has the option to terminate a swap at the fair market value at any time by providing notice to the counterparty, while the counterparty may only terminate the swap upon certain termination events. USNH manages termination risk by adhering to bond

covenant requirements, employing strategic indicator targets to maintain financial strength, monitoring swap market values and counterparty credit ratings, and diversifying swap counterparties. Effective interest rates and other key terms of each derivative are described below:

	Counterparty's Most Recent Credit Rating	Variable Interest Rates Paid and Received				Inception-To-Date		
		Interest Rate Paid by USNH to Bond- holders as of		Interest Rate Received by USNH from Swap Counterparties as of		Effective Interest Rate Through		All-In Synthetically Fixed Interest Rate
		6/30/2016	6/30/2015	6/30/2016	6/30/2015	6/30/2016	6/30/2015	
Series 2005A swap	Aa2/AA-	0.4%	0.1%	0.3%	0.1%	3.6%	3.6%	4.0%
Series 2005B swap	A1/A-	0.4%	0.1%	0.6%	0.4%	2.9%	2.9%	3.6%
Series 2011B swap	A3/A-	0.4%	0.0%	0.3%	0.1%	4.5%	4.5%	4.7%

### Swap Cash Flows

Actual interest payments on the swaps 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, 2016 through the end of each swap contract (\$ in thousands):

Fiscal Year	Notional	Estimated	Estimated	Estimated
	Bonds Amor- tization	Interest Received	Interest Paid	Swap Net Outflows
2017	\$ 7,775	\$ (664)	\$ 5,625	\$ 4,961
2018	8,275	(627)	5,331	4,704
2019	8,560	(589)	5,027	4,438
2020	8,720	(551)	4,718	4,167
2021	9,215	(510)	4,390	3,880
2022-2026	47,445	(1,913)	16,754	14,841
2027-2031	40,220	(1,031)	9,302	8,271
2032-2036	35,270	(193)	1,934	1,741
<b>Total</b>	<b>\$ 165,480</b>	<b>\$ (6,078)</b>	<b>\$53,081</b>	<b>\$47,003</b>

## 10. Pass-through grants

USNH distributed \$181,980,000 and \$187,230,000 of student loans through the U.S. Department of Education Federal Direct Lending program during 2016 and 2015, respectively. These distributions and related funding sources are not included as expenses and revenues, or cash disbursements and cash receipts, in the accompanying financial statements. The Statements of Net Position include receivables of \$1,337,000 and \$144,000 as of June 30, 2016 and 2015, respectively, for direct loans disbursed in excess of U.S. Department of Education receipts.

the USNH pool, the distribution rate is established annually by the USNH Board of Trustees. The rate was 4.5% for 2016 and 4.3% for 2015 as a percentage of the pool market value as of December 31, 2014 and December 31, 2013 respectively. For UNHF primary pool, the distribution rate was 5.3% and 5.4% for 2016 and 2015 calculated as a percentage of the average market value per unit for previous twelve quarters. The components of endowment return used for operations for 2016 and 2015 are summarized below (\$ in thousands):

## 11. Endowment return used for operations

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. For

	2016	2015
Pooled endowment yield - campuses	\$ 5,238	\$ 5,627
Pooled endowment yield - affiliates	971	1,456
Trusts, life income and annuities yield	(91)	228
Gains utilized to fund distribution	20,507	16,971
<b>Endowment return used for operations</b>	<b>\$26,625</b>	<b>\$24,282</b>

## 12. Operating expenses by function

The following table details USNH operating expenses by functional classification for the past two years (\$ in thousands):

	<b>Compen- sation</b>	<b>Supplies &amp; Services</b>	<b>Utilities</b>	<b>Internal Allocations</b>	<b>Depre- ciation</b>	<b>2016 Total</b>
<b>Campuses – current funds</b>						
Instruction	\$225,411	\$ 25,358	\$ 2	\$ 507	\$ -	\$251,278
Auxiliary services	52,617	43,478	4,009	52,745	-	152,849
Research and sponsored programs	72,403	35,355	119	187	-	108,064
Academic support	52,807	22,870	19	462	-	76,158
Student services	28,681	13,680	15	(141)	-	42,235
Institutional support	44,890	13,865	66	(20,398)	-	38,423
Operations and maintenance	26,385	25,408	15,638	(33,685)	-	33,746
Fundraising and communications	12,497	5,506	-	3,237	-	21,240
Public service	8,324	1,985	-	234	-	10,543
Subtotal-current funds	524,015	187,505	19,868	3,148	-	734,536
<b>Campuses – other funds</b>	(48)	14,146	18	(314)	59,919	73,721
<b>Affiliated entities</b>	4,536	921	-	(2,834)	-	2,623
<b>Total</b>	<b>\$528,503</b>	<b>\$202,572</b>	<b>\$19,886</b>	<b>\$ -</b>	<b>\$59,919</b>	<b>\$810,880</b>
	<b>Compen- sation</b>	<b>Supplies &amp; Services</b>	<b>Utilities</b>	<b>Internal Allocations</b>	<b>Depre- ciation</b>	<b>2015 Total</b>
<b>Campuses – current funds</b>						
Instruction	\$215,229	\$21,476	\$2	\$293	\$ -	\$237,000
Auxiliary services	50,873	50,617	4,852	45,912	-	152,254
Research and sponsored programs	70,039	37,055	120	136	-	107,350
Academic support	47,740	25,244	16	376	-	73,376
Student services	27,002	13,206	14	(102)	-	40,120
Institutional support	41,869	14,306	45	(19,262)	-	36,958
Operations and maintenance	25,637	16,836	16,758	(27,055)	-	32,176
Fundraising and communications	12,451	5,042	-	2,460	-	19,953
Public service	7,350	1,892	-	184	-	9,426
Subtotal-current funds	498,190	185,674	21,807	2,942	-	708,613
<b>Campuses – other funds</b>	766	16,999	11	(400)	58,716	76,092
<b>Affiliated entities</b>	4,205	914	-	(2,542)	-	2,577
<b>Total</b>	<b>\$503,161</b>	<b>\$203,587</b>	<b>\$21,818</b>	<b>\$ -</b>	<b>\$58,716</b>	<b>\$787,282</b>

## 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.

## 14. Net position

The table below details USNH's net position as of June 30, 2016 and 2015 (\$ in thousands):

	<u>2016</u>	<u>2015</u>
<b>Net investment in capital assets</b>	\$ 630,442	\$ 598,305
<b>Restricted financial resources</b>		
<b>Nonexpendable</b>		
Historic gift value of endowment-campuses	106,724	99,438
Historic gift value of endowment-affiliated entities	<u>149,789</u>	<u>145,742</u>
<b>Total restricted nonexpendable resources</b>	256,513	245,180
<b>Expendable</b>		
Held by campuses:		
Accumulated net gains on endowment	38,893	47,452
Fair value of restricted funds functioning as endowment	12,947	13,983
Gifts, grants and contracts	34,320	29,745
Life income and annuity funds	11	16
Loan funds	6,852	6,840
Held by affiliated entities:		
Accumulated net gains on endowment	22,512	36,709
Other	<u>33,146</u>	<u>33,396</u>
<b>Total restricted expendable resources</b>	148,681	168,141
<b>Unrestricted financial resources</b>		
Held by campuses:		
Educational and general reserves	47,163	62,074
Auxiliary enterprises	41,868	38,427
Internally designated reserves	32,285	50,603
Unrestricted loan funds	1,646	1,609
Unexpended plant funds	111,421	103,309
Fair value of unrestricted funds functioning as endowment:	<u>122,203</u>	<u>132,472</u>
Subtotal	356,586	388,494
Unfunded postretirement medical liability	<u>(55,332)</u>	<u>(53,347)</u>
<b>Total unrestricted net assets held by campuses</b>	301,254	335,147
Held by affiliated entities:		
Fair value of unrestricted funds functioning as endowment:	501	545
Other	<u>3,809</u>	<u>3,039</u>
<b>Total unrestricted financial resources</b>	<u>305,564</u>	<u>338,731</u>
<b>Total Net Position</b>	<u>\$1,341,200</u>	<u>\$1,350,357</u>

In addition to the June 30, 2016 unexpended plant balance shown above, \$31,234,000 of internally designated reserves was approved for funding of campus capital projects. The largest of these projects is the Hamilton Smith building renovation and expansion project at UNH (\$26,057,000).

## 15. Component units

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

<b>University of New Hampshire Foundation, Inc.</b>								
<b>Condensed Information from the Statements of Net Position as of June 30,</b>			<b>Condensed Information from the Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30,</b>			<b>Condensed Information from the Statements of Cash Flows for the years ended June 30,</b>		
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>			
Endowment investments	\$188	\$201	Gifts and other support	\$ 27	\$33	Receipts from gifts and other sources	\$17	\$10
Other assets	<u>17</u>	<u>14</u>	Investment income	<u>(6)</u>	<u>5</u>	Payments to UNH and suppliers	<u>(26)</u>	<u>(23)</u>
<b>Total assets</b>	<u>205</u>	<u>215</u>	<b>Total revenues</b>	<u>21</u>	<u>38</u>	<b>Net cash used in operating activities</b>	(9)	(13)
						<b>Net cash provided by (used in)</b>		
Annuities payable	2	2	Distributions to UNH	24	19	<b>investing activities</b>	6	(6)
Other liabilities	<u>1</u>	<u>1</u>	Administrative and other expenses	<u>7</u>	<u>6</u>	<b>Net cash provided by noncapital</b>		
<b>Total liabilities</b>	<u>3</u>	<u>3</u>	<b>Total expenses</b>	<u>31</u>	<u>25</u>	<b>financing activities</b>	3	16
<b>Total Net Position</b>	<u>\$202</u>	<u>\$212</u>	<b>(Decrease)/Increase in Net Position</b>	<u>\$(10)</u>	<u>\$13</u>	<b>Change in Cash and Equivalents</b>	<u>\$ -</u>	<u>\$(3)</u>

## 16. Subsequent events

Management has evaluated the impact of subsequent events through October 20, 2016, 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.

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**Required Supplemental Information**  
**Postretirement Medical Plan**  
**Schedule of Funding Progress for the year ended June 30, 2016**  
(Unaudited)  
(\$ in thousands)

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

\*Third party actuaries are used to determine these amounts on a biennial basis. The next valuation is due on or after December 31, 2016.

\*\*The most recent valuation includes changes in assumptions related to mortality, future year health care cost trends and plan provisions, as well as a reduction in the discount rate to 2.5%.

***See accompanying independent auditors' report.***

# University System of New Hampshire

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2016

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Turned  
Her Cat's



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DREAMS  
And Her

Into

WOMEN'S  
DREAMS

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