



December 2, 2015

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

Pursuant to RSA 187-A:25-a, enclosed please find the Annual Report for the University System of New Hampshire for fiscal year ended June 30, 2015. On page 19 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 30, 2015. Please feel free to contact me with any questions on the report.

Respectfully,



Catherine A. Provencher  
Vice Chancellor for Financial Affairs and Treasurer

Enclosures

University System  
of New Hampshire

Creating  
Opportunity  
Supporting  
Economic  
Development  
Essential to  
New Hampshire



2015 Annual  
Report

## FY15 Highlights

(USNH) – **New Hampshire is a national leader in completion rates of students who began studies at a four-year public institution**, according to the National Student Clearinghouse Research Center (NSCRC), which puts USNH second in the nation and first in the East. New Hampshire's public four-year institutions fared particularly well in the study with an average completion rate of 78%. The NSCRC report captured a broad swath of students in its degree completion rate analysis. The findings found that New England's four-year colleges and universities showed strength in preparing students for successful degree completion.

*"This is another outstanding result and measure of success for New Hampshire's four-year public institutions,"* said USNH Chancellor Todd Leach, Ph.D. *"We have focused on providing our students with a high-quality education that puts them on the pathway to success. The rates show that our public higher education system is working and doing what it was designed to do, preparing our state's future workforce."* ■

(UNH) **More than 3,200 first-year students entered UNH this fall** as members of the class of 2019. UNH delivers a tremendous return on investment for New Hampshire's businesses, communities, students and families. It is helping to make our state's quality of life among the best in the nation. Each year, UNH generates \$1.4 billion in economic activity in the Granite State. ■



(GSC) **Mark Rubinstein, Ph.D., assumed his new responsibilities as GSC president** on March 31,

2015. The USNH Board of Trustees voted for his selection unanimously, recognizing his outstanding performance as vice president for student and academic services at UNH. *"Granite State College is an institution that can be a real game changer for our students and also our state,"* said Chancellor Leach. "Mark brings an incredible understanding of the changing needs in public higher education, and also understands New Hampshire's unique situation and workforce needs from his years at UNH." ■

(KSC) **Keene State College has been named a "College of Distinction" for 2015-2016.** The College of Distinction program recognizes institutions in four areas of excellence: student engagement; excellence in undergraduate teaching; a vibrant community life; and student learning outcomes considered necessary requirements by employers or essential for extended study at the graduate level. An emphasis on creative and critical thinking skills is found throughout the liberal arts curriculum and is a key component of the newly adopted Collegewide Learning Outcomes. ■



(PSU) **Donald L. Birx, Ph.D., was selected as the 15th president of Plymouth State**

**University** by the USNH Board of Trustees. Board Chair Pamela Diamantis said of his appointment "A commitment to PSU's sense of community with a proven ability to chart a new and bold course makes Dr. Birx an ideal choice to lead Plymouth State University into the future." ■

## University System of New Hampshire

The University System of New Hampshire (USNH) includes the University of New Hampshire (UNH) at Durham and Manchester, the University of New Hampshire School of Law, Plymouth State University (PSU), Keene State College (KSC), and Granite State College (GSC). KSC,

PSU, and UNH-Durham are the three residential campuses of USNH. The University System is directed by a 27-member Board of Trustees. Administration of the University System is the responsibility of the chancellor, functioning as the executive agent of the Board of Trustees. The chancellor is the chief executive and academic officer of the University System Office, and is responsible for developing, recommending, and implementing the Board's policies and decisions.

# Contents

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

The University System of New Hampshire is the state's primary supplier of highly educated citizens and workers. The four institutions of the University System—the University of New Hampshire, Plymouth State University, Keene State College, and Granite State College—annually serve approximately 34,000 students and graduate 7,500 students at the associate, bachelor's, master's, and doctoral levels. The institutions annually award more than half of the state's bachelor's degrees. In addition, more than 90,000 alumni of University System institutions currently live in New Hampshire.

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## University System of New Hampshire

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



## 2015 Chancellor's Letter

The University System of New Hampshire plays a critical role in supporting our state's economy and serves as an engine of opportunity for our state. Collectively, USNH has a multi-billion dollar annual impact on our state's economy.

USNH proudly prepares more undergraduate students, graduates more STEM students, and provides greater tuition subsidy for New Hampshire students than any other higher education institution in the state. New Hampshire residents attending USNH institutions pay roughly half the cost of attendance as they would at the average private institution, and they have the option of attending the lowest priced four-year faculty-led program in New England through Granite State College, the highest U.S. News ranked online program in New Hampshire. USNH is first in the East when it comes to completion rates.

**To provide a true return on investment, public higher education must do more than simply be another educational option for students. Our public higher education system must be integral to the economy and the community.**

Our state's agricultural and wildlife industries depend on the educational support and research only provided through USNH institutions. New Hampshire's only state veterinary lab is located at UNH, as well as the Cooperative Extension programs (which supply hands-on support for our local farms and identify and mitigate threats to our natural resources). UNH's "world class" research capabilities are also improving our state and nation's quality of life, from mapping our oceans to space exploration.

Business incubators are located at UNH and at Plymouth State University, and Keene State College is the home of the Regional Advanced Manufacturing Center. The businesses that are launched or supported by these efforts go on to provide employment opportunities and to contribute to the economy.

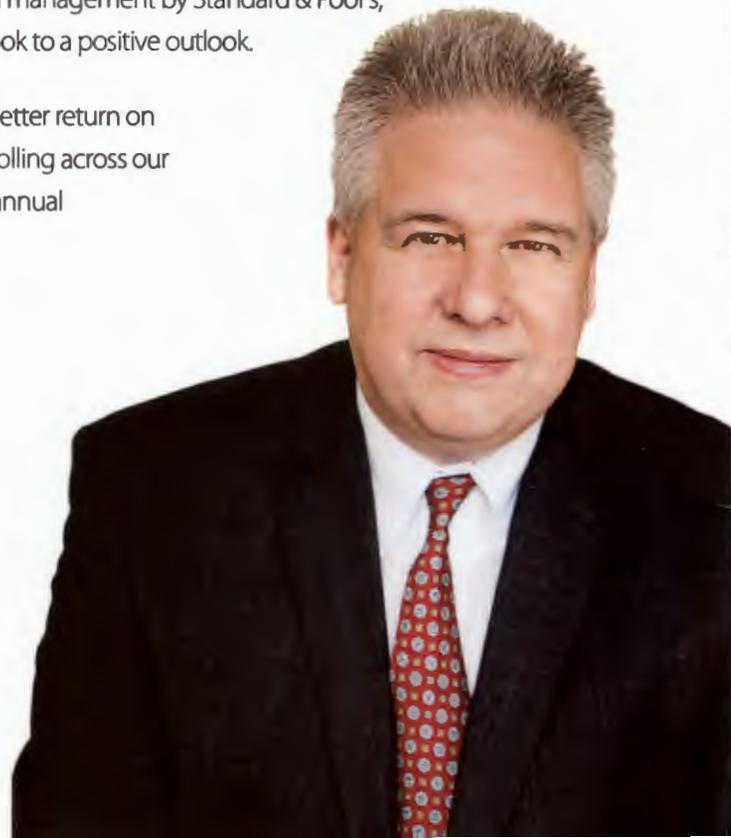
We leverage state investments and return more in the form of student subsidy than we actually receive from the state by being highly efficient and competitive. USNH has the lowest administrative cost per student in New

England and we are proud to be recognized for our sound fiscal management by Standard & Poor's, which this year upgraded USNH's bond rating from a stable outlook to a positive outlook.

We believe there is no public system in America that provides a better return on investment than USNH, and with well over 30,000 individuals enrolling across our institutions every year and more than a two-billion dollar overall annual economic impact, we are a critical part of the state's economy.



**Todd Leach**  
Chancellor



# Report from the University System of New Hampshire



## University of New Hampshire

UNH is a land-, sea- and space-grant and community engaged public research university, enrolling over 13,000 undergraduate and over 2,000 graduate students. Recognized as a rising star among research universities, UNH retains the atmosphere of a New England liberal arts college with a faculty dedicated to undergraduate teaching and research. Its commitment to engagement and public service serves not only the Granite State through its many outreach offices such as Cooperative Extension, but nationally and internationally through its public policy expertise in areas as diverse as crimes against children, ocean fisheries management, rural poverty, space science and environmental research.

## Plymouth State UNIVERSITY

PSU is a regional comprehensive university with a tradition of meeting the educational aspirations of New Hampshire citizens, communities, and organizations. PSU's educational philosophy is based on academic excellence, experiential learning, applied research, regional service, and leadership. While PSU's rich tradition of "place-based" education was established in 1871, today its horizons have expanded substantially with online programs at the undergraduate and graduate levels. Moreover, its development of academic partnerships across the globe has led to a vibrant student body of over 5,000 students coming from 43 states and 34 countries. The University's motto, *Ut Prosim* (That I may serve), is a credo for faculty, students, and staff, who engage with communities on a local, regional, national, and international scale in ways that are relevant and mutually beneficial. PSU has earned state and national recognition for academic innovation, environmental sustainability, international opportunities, community engagement, and economic partnerships.

## Keene STATE COLLEGE

Wisdom to make a difference.

KSC is New Hampshire's public liberal arts college, offering more than 40 majors in the arts and sciences, professional programs, and selected graduate degrees. For its 4,400 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 empowers students to reach their ultimate academic and career goals by providing comprehensive access to higher education. With a focus on adults and other students who seek the flexibility of online courses or convenience of a regional campus, GSC offers affordable tuition and degree programs that can be earned while balancing life's other responsibilities such as work, family, and community obligations. Offering associate, bachelor's and master's degrees, post-baccalaureate programs for teachers, and a variety of transfer opportunities, GSC is known for its supportive and enriching environment. Supported by a faculty of expert practitioners who help to illustrate the real-life application of their curriculum through innovative education technology, GSC emphasizes practical and relevant areas of study that are responsive to the workforce development needs of New Hampshire's economy.

# Workforce and Economic Development

"We are excited about the long-needed expanded and improved lab facility. The new lab will enhance productivity and expand capacity for handling larger livestock—important for animal agriculture in the state."

- Lorraine Merrill  
Commissioner  
NH Dept. of Agriculture,  
Markets & Food



## The new and improved New Hampshire Veterinary Diagnostic Laboratory (NHVDL) at UNH

The New Hampshire Veterinary Diagnostic Laboratory (NHVDL) at UNH opened its new-and-improved home on the Durham campus in fall 2015.

public health communities; and it will also enrich their contributions to academic opportunities for students in UNH's biomedical sciences and pre-veterinary medicine programs.



**50**  
Research projects  
in process at any  
one time at the  
NH Agricultural  
Experiment  
Station

The new lab will greatly enhance the NHVDL's ability to provide essential diagnostic services to the state's agricultural, veterinary, wildlife, and

The NHVDL is an effective partnership that is co-funded and co-managed by the NH Department of Agriculture, Markets & Food and the UNH College of Life Sciences and Agriculture. The lab provides accessible, timely, and accurate diagnostic services for the Departments of Agriculture, Health and Human Services, and Fish and Game; state and local law enforcement agencies; and other relevant state, regional, and federal agencies, as well as diagnostic services to local farmers and hundreds of veterinarians in New Hampshire and New England.

## The Enterprise Center at Plymouth State University

The Enterprise Center at Plymouth (ECP), a collaboration between Plymouth State University and the Grafton County Economic Development Council, is a **business incubator and accelerator that assists start-ups and existing businesses with professional services and resources**, including PSU student interns who are regularly recruited to work with local businesses. ECP continues to surpass its goals and provides direct return on investment:

**94.8%**

Occupancy rate

**36**

Full-time jobs created

**19**

PSU students employed as interns at ECP-assisted companies

**400+**

Central New Hampshire businesses served by ECP annually

## Advanced Manufacturing at Keene State College

Keene State's collaborative efforts with regional business and industry continue to strengthen the college's academic and support programs while creating educational and career opportunities for students and meeting the region's workforce need for educated, versatile employees. A new Business Partner's Scholarship program provides financial support to students, as well as mentoring, internships, and practical experience.

Founding partners include:

- Hitchiner Manufacturing, Milford
- Markem-Imaje, Keene
- Safran Aerospace Composites, Rochester
- Whelen Engineering, Charlestown

## WorkWISE NH at Keene State

**WorkWISE NH** is a small business consultancy program operated with support from OSHA by Keene State College in conjunction with its occupational and health safety program. **The program aids businesses in preventing OSHA violations by providing a free on-site safety assessment** and confidential report which enables the company to remedy violations before they result in injury or fines.

Consultation is available to New Hampshire businesses that are privately owned and have 250 or fewer employees at one site and fewer than 500 in total. WorkWISE NH annually assists about 150 businesses in the state, primarily in the construction, manufacturing, and health care fields.



*Matt Hardy, construction safety consultant at WorkWISE NH (left), and intern Brady Keene, a senior at Keene State, measure a concrete ledge at A.W. Rose Construction's Bedford worksite.*

(Photo by Karen Bachelder NH Business Review)

## Center for Rural Partnerships at Plymouth State University

The **"Bienvenue NH"** project combines the Center for Rural Partnerships at PSU with a group of statewide stakeholders to create an economic development program designed specifically for the North Country tourism economy, including interactive language workshops, translation services, and marketing support. The **"Route 3 Retro-tour"** was a similar collaborative marketing program for tourism providers in central New Hampshire. The Center is also involved in the Clean Water Healthy Trout initiative and publishes the quarterly North Country Economic Index used by policymakers, businesses, and elected officials.

## NH Innovation Research Center

Created by the NH Legislature with \$500,000 in annual funding and housed at UNH Durham, the NHIRC works to increase collaboration, technology development, and innovation between NH businesses and universities. By the numbers:

**650**

Jobs created or retained

**20:1**

Total leverage of state funds

**\$32M**

Small Business Innovation Research awards

**\$900M+**

Additional funding raised by awardees for product development

**\$25M**

Additional EPSCoR\* funding for NH educational institutions

\*Experimental Program to Stimulate Competitive Research



**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. USNH institutions awarded approximately 1,990 STEM degrees in 2015 - 540 more than were awarded in 2009 - to meet the growing demand for STEM-educated workers.

## **GSC Advanced STEM Learning**

Granite State College and key partners have secured federal funding to help New Hampshire school districts better connect educators to the rich expertise that school librarians have in STEM areas. The project, School Librarians Advancing STEM Learning, will foster more collaboration between librarians and teachers.

Throughout the project, school librarians will collaborate with STEM teachers in grades 6-12. Together, they will create, improve, and share content and knowledge. Educators will identify resources and create lessons-centered STEM-based inquiry that address key requirements of both state and STEM-related standards.

## Bachelor of Science in Analytics at UNH

In fall 2015, UNH Manchester launched a new bachelor of science in analytics program—the region's first on-campus, bachelor's degree program in data analytics, and one of just a handful of such programs in the country. An important feature that sets the UNH Manchester program apart is the hands-on application of SAS, industry-standard software used in business intelligence and predictive analytics. Students will have the opportunity to qualify for SAS certification, greatly enhancing their employment prospects.



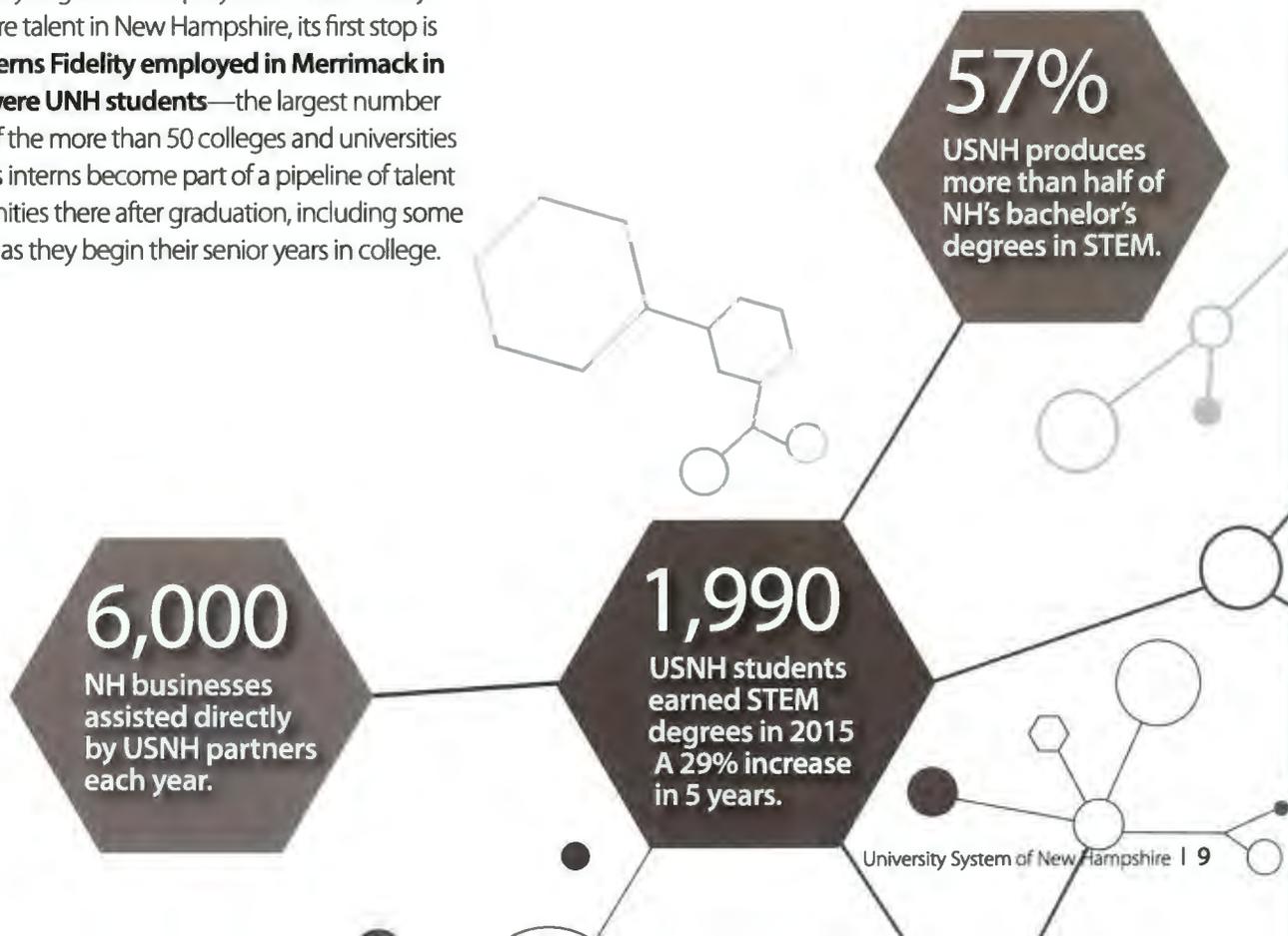
## Fidelity's go-to source for future talent: UNH

Fidelity is among the world's most respected financial management firms and highly-regarded employers. When Fidelity goes looking for future talent in New Hampshire, its first stop is UNH. **Of the 131 interns Fidelity employed in Merrimack in summer 2015, 25 were UNH students**—the largest number of interns from any of the more than 50 colleges and universities represented. Fidelity's interns become part of a pipeline of talent for full-time opportunities there after graduation, including some who are offered jobs as they begin their senior years in college.



## Nursing 3+1: PSU and GSC

In response to NH workforce demands, the University System and Community College System of NH have partnered to create a four-year (3+1) nursing degree pathway which combines the associate-level nursing program offered by the community colleges with the bachelor of science in nursing program provided by PSU and GSC. **The Nursing 3+1 program will provide an affordable and efficient degree completion pathway for NH residents**, who can complete all four years of the bachelor's degree at the community college tuition rate.





## A focus on increased efficiency

Each campus, and the University System as a whole, work constantly to find more efficient ways to deliver programs and services, make new and existing facilities run efficiently, and coordinate technologies. An example implemented across campuses this year is the Online Enrollment Center. The OEC is a central service center, providing information to potential students seeking to enroll or transfer into programs identified at one of the USNH colleges or universities. The OEC specialists assist students in finding the right program to start or continue their studies and achieve their educational goals.

## Keene State College a leader in energy savings

Keene State College projects utility savings of more than \$500,000 as a result of contracts and energy reduction measures introduced over the past year. The standards that were adopted with the construction of the Technology Design and Safety Center (the only USNH building to earn a LEED Platinum rating) are being replicated throughout the campus.

# 1,617

NH residents enrolled exclusively online at USNH - the state's largest public provider of online degree programs.



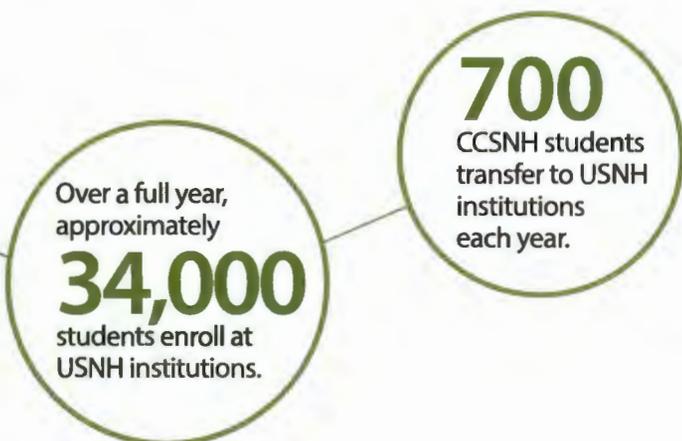
## A living-learning laboratory at Plymouth State University

PSU's new environmentally friendly facility is a "living-learning laboratory". **The new ALLWell North athletic facility provides essential space for academics, athletics, and student activities.** The building has been carefully designed to minimize environmental impacts and bring economic and other added benefits to New Hampshire. A biomass wood pellet heating system in the facility provides a cost effective fuel source. The innovative system will meet sustainability goals and feed the regional economy. It also offers students in energy and science classes the chance to use a "living-learning laboratory" to understand energy issues and regionally beneficial ways to address them.

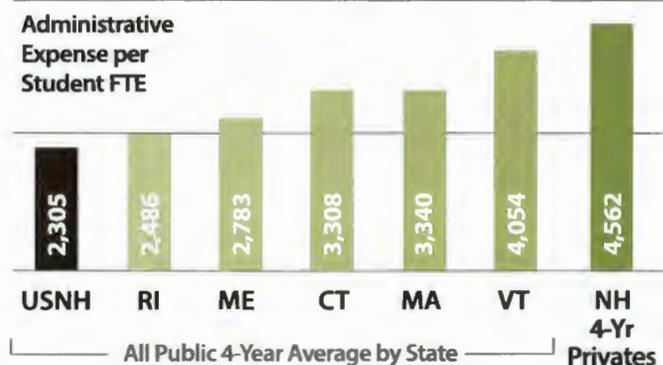


## Granite State College delivers affordability

According to US Department of Education data, GSC is the least expensive 4-year college with a physical presence in New England. "Each day, we see and experience how the average college student is challenged by rising tuition rates—a predicament that's always a top concern for working adults. This drives students to look at affordable institutions, like Granite State College. **Being recognized as the leader in affordability is a direct reflection of our access mission and highly efficient operations;**" said Dr. Todd Leach, USNH chancellor.



## Administrative efficiency



The administrative cost component of USNH total expense is the lowest of the New England public university systems on a per student basis and the lowest among other postsecondary education sectors in the state. Centralized services produce significant efficiencies and cost savings for the system as a whole. Examples include technology services provided by UNH, and finance, HR, and legal services provided by the System Office. Strategic staffing at the System Office has allowed for reductions in personnel over the past five years while simultaneously supporting additional shared services, such as the online enrollment center launched this year.

Note: Administrative Efficiency data from US Dept. of Education, IPEDS, FY13 provisional data, most recent available. Administrative Expense refers to functional expense category "Institutional Support"; excludes expense allocations for operations and maintenance of plant, depreciation, and interest. FTE is reported 12-month full time equivalent enrollment based on credit hour activity. Displays NH private 4-year nonprofits; comparable data for private for-profits are not available. Averages are weighted.

## USNH enrollment Fall 2015

University of New Hampshire	16,495
Plymouth State University	5,061
Keene State College	4,382
Granite State College	2,179
<b>Total</b>	<b>28,117</b>

Includes preliminary graduate student counts subject to change.

## NH Transfer

- Dual admission
- Nursing 3+1
- Program agreements
- Co-location



### Center for Coastal Ocean Mapping makes global impact

Since its founding in 1999, UNH's Center for Coastal and Ocean Mapping (CCOM), along with the complementary Joint Hydrographic Center (a NOAA partner) at UNH, has established itself as the world leader in mapping the bottom of the ocean. In the past year, CCOM researchers found a 1,100-meter seamount in the Pacific and were called to assist efforts to find the lost Air Malaysia Flight MH370.

Closer to home, CCOM technology is helping ships in Boston Harbor to steer clear of endangered North Atlantic right whales. Off the New Jersey coast, CCOM researchers are assessing damage caused by Superstorm Sandy, supported by a NOAA grant for work that aims to better understand the impact of such events on the seafloor and on marine debris.





## Law school ranked among nation's best

When rankings of the nation's top law schools come out, the UNH School of Law can be found consistently at the top both for overall quality and for its expertise in the growing field of intellectual property law.

**In 2015, it was ranked in the top 100 law schools overall by U.S. News & World Report. For the 24th year in a row, it was in the top 10 for intellectual property law.** Over the past three years, the law school has moved up 55 spots to 87 on the national list overall—an unprecedented rise among law schools.

The law school offers a variety of innovative programs, including the nation's only experiential education program that results in admission to the New Hampshire bar upon graduation.

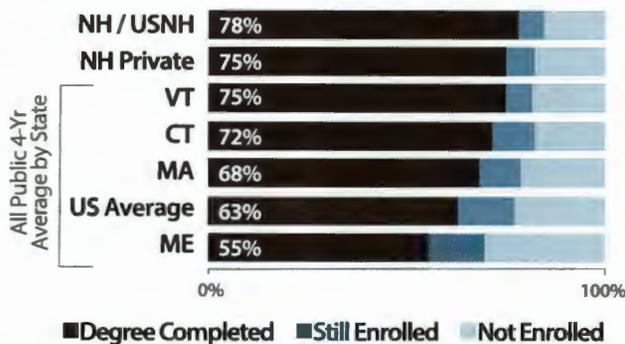
## GSC Recognized for Online Excellence



In its annual compilation of "Best Online Degree Programs," U.S. News & World Report has awarded Granite State College two top rankings for 2015. Nationwide, GSC ranks #63 for online bachelor's programs and #44 for online graduate business degrees.

In both categories, GSC is the #1 ranked institution in New Hampshire. Granite State College is the largest public provider of online programs in New Hampshire. Every degree program is now available online and nearly all students enroll in multiple online classes while earning their degree.

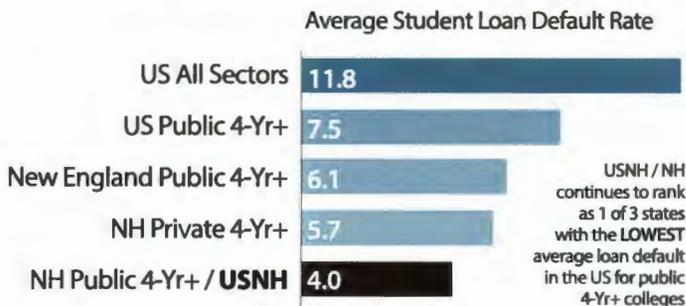
## High quality outcomes: Degree completion



That USNH operates effectively is evident in our student outcomes. With 78% of students who begin college at a USNH institution completing a bachelor's degree, our students' average completion rate is the highest in New England (and second highest in the US), and even surpasses that of NH's private nonprofit colleges and universities.

Note: Degree Completion data from National Student Clearinghouse. FY14 six-year status of first-time degree-seeking students who started college in fall 2008, includes students who completed or were still enrolled at an institution other than their starting institution. RI excluded by NSC for technical reasons. Displays NH private 4-year nonprofits; comparable data for private for-profits are not available.

## High quality outcomes: Loan repayment



By graduating in a timely manner, students are well positioned for employment and for loan repayment. USNH, as NH's public 4-year system, consistently ranks among the top 3 in the US for having the lowest average student loan default compared at the state level to similar institutions across the country.

Note: Data from US Dept. of Education, National Student Loan Data System, 3-year cohort default, 2012 cohort entering repayment, most recent available. New England, NH Private, and NH Public (USNH) averages reflect total number of defaulting borrowers divided by the total number of borrowers, rounded. US Public 4-Yr+ average is similarly weighted and rounded; it excludes US territories. US All Sectors average as reported by US Dept. of Education.

**About 70%**  
of NH students stay in NH to work  
after graduating from a USNH institution.

**90,000**  
USNH alumni live  
in New Hampshire.



“This study will establish the first complete diversity assessment of native bees in the region and also provide a better understanding of pollinator diversity and ecology. This information will be used to protect native bees in New England and to raise awareness of pollinator health and how human land use practices affect native pollinators and, in turn, our food supply and ecosystems.”

- Sandra Rehan  
NHAES Researcher

## “Bee Hotel” offers researchers key insights into pollinators

Researchers at the UNH College of Life Sciences and Agriculture have created a unique and effective sanctuary for some of the region’s most important plant pollinators—bees. The “bee hotel,” built at Woodman Farm in Durham and developed by the NH Agricultural Experiment Station, has generated quite a buzz among agricultural experts, farmers, orchard owners, and others who depend on our vital bee species.

NHAES researcher Sandra Rehan, assistant professor of biological sciences; UNH Cooperative Extension specialist Cathy Neal, professor of plant biology; and Woodman Farm staff

constructed the bee hotel in 2014 as part of the research project “Sustainable Solutions to Problems Affecting Bee Health” that will assess for the first time the Granite State’s bee species.

Researchers hope the study will help local bee populations and restore and rejuvenate healthy plant pollinator habitats. Rehan estimates New Hampshire has about 250 bee species.

**\$105 million**

FY15 Grants and Awards to UNH Faculty and Researchers.



## Keene State is the recipient of the 2015 Community Engagement Classification awarded by the Carnegie Foundation



Keene State is the recipient of the 2015 Community Engagement Classification awarded by the Carnegie Foundation for the Advancement of Teaching. KSC is the only institution of higher education in New Hampshire to receive the recognition this year. A tally of student community service work, service-based trips, service-learning courses, and internships focused on community service, revealed that Keene State College students provided more than 100,000 hours of service in 2013-2014.

### Manchester Garden Collaborative helps families take root

Created in partnership with the UNH Cooperative Extension, the Rooting for Families Community Garden Collaborative in Manchester is a program that provides garden spaces for 54 families with 174 people at three thriving community garden sites in Manchester.



The gardens, which serve residents from all age groups and demographics, have been particularly valuable for low income residents,

veterans, and refugees, many of whom are struggling to meet daily needs of food and shelter. Manchester continues to face significantly higher poverty and hunger rates than the rest of the state, with 14.2 percent of residents living below the poverty line and 1 in 5 children living in food insecure households.

### Wildlife plan guides New Hampshire species, habitat management



New Hampshire's Wildlife Action Plan provides comprehensive recommendations for the management of wildlife species and habitats.

UNH helped coordinate five public sessions across the state, interviews with key informants, an online survey, and comment cards. **In total, the team of specialists collected over 2,000 suggestions to protect wildlife and natural land in New Hampshire.**

Stakeholder insights are vital to developing a plan revision that addresses the needs of the state's wildlife and habitats now and into the future.

### Military Youth and Family Program

Teenagers from military families can take part in one of three winter adventure camps in the White Mountains, run by UNH Cooperative Extension's Military Youth and Family Program. With dedicated and enthusiastic counselors and staff, these camps offer opportunities for teens and families to connect with one another in a safe and supportive environment.

The camp is open to teens with or without disabilities, and the only cost to families is a \$20 registration fee, which is later applied to the cost of a camp memento. The impact of the program extended all the way to Afghanistan, from which a member of our military called to personally thank the 4-H counselors and staff: **"My family is absolutely having a great time," the soldier said. "It just helps them forget my absence a little bit, so I appreciate all the thought and care and everything you guys do."**



## New Hampshire National Guard students gain strong USNH support

Members of the New Hampshire National Guard have been offered tuition waivers from USNH institutions for more than 15 years. Granite State College provided 311 tuition waivers totaling \$370,865 over the past academic year. At UNH, 201 guardsmen attended with the help of nearly \$1 million in waivers last year. PSU, with 39 students who were also NH National Guards, waived \$217,866 in tuition. KSC's six NH National Guardsmen received \$30,257 in tuition waivers.

The tuition waivers make a difference for the hundreds of NH guardsmen who use them each year at USNH colleges and universities. Already managing studies, military service, and other responsibilities, many indicate the tuition assistance is important to completing their education.



# Granite State College

UNIVERSITY SYSTEM OF NEW HAMPSHIRE

## Granite State College rated a Military Friendly<sup>®</sup> School



Rated a Military Friendly<sup>®</sup> School for five years running, Granite State College engages in leading practices to support active-duty service members and veterans, including



credit for military training, affordable tuition, fully online GI Bill-approved degree programs, and online support services. Military/veterans enrolled at GSC receive credits for basic training and for specialized military occupational training based on American Council on Education (ACE) recommendations. **GSC is also rated by U.S. News & World Report as a "Best Online Program for Veterans"** based on affordability, accessibility, and reputation. Nearly 300 active military and/or veterans were enrolled at GSC in the 2014-15 academic year.



**"Be courageous and appreciate courage in others who take action in the face of fear,"** University of New Hampshire commencement speaker Ryan Pitts '13 said during the university's 145th commencement in 2015. This past year 2,429 undergraduate and 485 graduate students—including 44 military veterans—ranging in age from 20 to 79 and representing 43 states and 25 foreign countries received degrees.

Relating the combat actions during the 2008 Battle of Wanat in Afghanistan that earned him the Medal of Honor, Pitts shared insights of courage, valor, and dedication to his brothers in arms. "I never imagined that I would be forced to fight while wounded, let alone that I was even capable of it," he said. "I discovered that we can venture beyond the horizon of our perceived capabilities and do more than we ever thought possible."

"Appreciate the contributions of others and the impacts they make in your life," he said as he named the nine men who fought alongside him that day but did not survive.

Pitts, an Army Staff Sergeant and resident of Nashua, received the Medal of Honor from President Barack Obama in 2014. A 2013 graduate of the university's business program in Manchester, he also serves on the UNH Alumni Association advisory board.



## Governor, higher education leaders announce new dual admission pathway between Community College and University Systems

One application, seamless transition for student

A single application, joint advising, access to campus events at both institutions, and seamless transfer are the hallmarks of the new "New Hampshire Dual Admission" program developed by the state's University and Community College systems. Students can enroll for the fall 2015 semester at any of NH's seven community colleges, and can be jointly admitted to the University of NH, Plymouth State University, UNH-Manchester, or Granite State College. Advisors from both institutions will work with each student to map out a course of study. Taking courses at the community college, students will

earn an associate degree. As long as the student maintains at least a 2.5 GPA, the next step is seamless continuation at the University System institution to pursue a bachelor's degree. Students are considered dually admitted and will have access to various campus events at both institutions. The Dual Admission program is generally designed for transition into liberal arts majors in USNH schools. Admission to certain majors is dependent upon meeting major-specific GPA and course requirements. Other transfer pathways exist for students pursuing different academic majors.

The NH Dual Admission program guarantees student entry to USNH via any of the community colleges in a transparent pathway that will strengthen accessibility to a world-class university system. Through this program we further address two of the greatest challenges facing higher education today: access and affordability."

— Todd Leach  
USNH Chancellor



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, 2015 and 2014, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements.

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

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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, 2015 and 2014, 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 21 through 29 and the schedule of funding progress on page 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

October 30, 2015

# Management's Discussion and Analysis

June 30, 2015 and 2014

## I. Introduction

The following Management's Discussion and Analysis includes an analysis of the financial condition and results of activities of the University System of New Hampshire (USNH) for the fiscal years ended June 30, 2015 and 2014. This analysis provides a comparison of significant amounts and measures to prior periods and, where appropriate, presents management's outlook for the future.

USNH is a Section 501(c)(3) corporation organized under the laws of the State of New Hampshire to serve the people of the state as the key provider of public higher education for Bachelor's and advanced degree students. USNH accomplishes its mission by operating four educational institutions that collectively offer a broad array of education, research and public service options for the state. These institutions include the University of New Hampshire, with campuses in Durham (UNH) 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 ten regional sites of GSC, UNH's urban campuses (UNHM and UNHL), and the UNH Cooperative Extension and Small Business Development Centers located throughout the state. The accompanying financial statements also include the activities and balances of the University of New Hampshire Foundation, Inc. (UNHF) and the Keene Endowment Association (KEA) - two legally separate but affiliated entities. The condensed five-year financial statements included also reflect the activities and balances of New Hampshire Public Broadcasting (NHPB) prior to its disaffiliation from USNH on July 1, 2012. (See Note 1 for additional information on affiliated entities.)

## II. Economic Outlook

For fiscal year 2015, the general appropriation from the state was increased from \$69 million to \$81 million. This allowed USNH to freeze tuition rates for resident students for a second year, directly impacting costs for our New Hampshire students and their families.

Appropriations from the state for fiscal year 2016 are now final. USNH will receive funds monthly at the fiscal year 2015 level of \$81 million for both fiscal years 2016 and 2017. The USNH Board of Trustees approved increasing fiscal year 2016 resident tuition rates by no more than 2.75% over fiscal year 2015 rates. The increase was limited to allow qualifying resident students to continue to succeed at USNH institutions despite stagnant state funding. Campuses reduced their 2016 expense budgets by \$1 million to facilitate the low increase. The Board also approved lowering the consolidated operating margin target to 0.5% for one year, while long-term margin expectations remain in the 3-5% range.

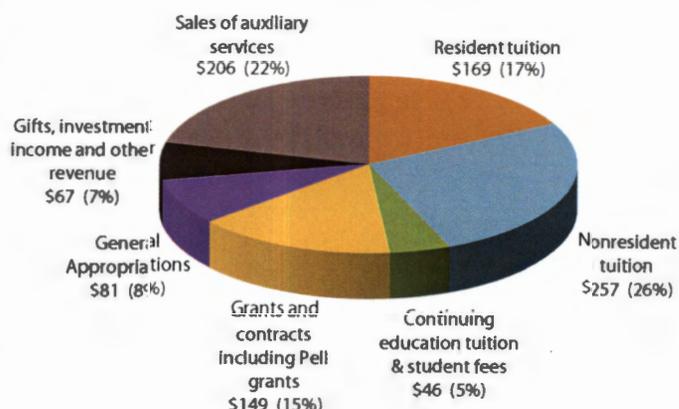
The remainder of this report describes the results of financial operations for the year ended June 30, 2015 with comparisons to prior years. With this strong foundation and the commitment of management and trustees, USNH continues to support the future success of the more than 20,000 New Hampshire students served by our campuses each year.

## III. Financial Highlights

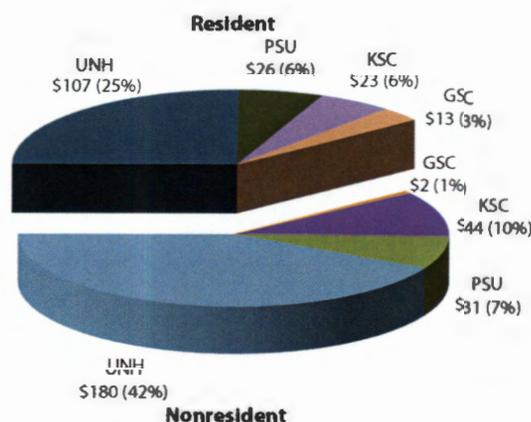
### A. Revenues

The charts below show the diversification of USNH's revenue streams in 2015 which totaled nearly \$1 billion. Note that these amounts are not reduced by student financial aid expenditures. In addition, capital additions and deductions are excluded from the charts.

**Chart 1: 2015 Revenues by Source**  
Total = \$975 million  
(\$ in millions)



**Chart 2: 2015 Tuition by Campus**  
Total = \$426 million  
(\$ in millions)



Including continuing education revenues, tuition and student fees accounted for \$472 million or 48% of USNH revenue for 2015. 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 the fall of 2014. The yield rate improved from the prior year dip, resulting in the largest freshmen class in UNH's history. Approximately 39% of new UNHD students in the fall of 2014 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, the residential campuses, the UNH School of Law and GSC 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. Overall financial aid expenditures increased 3.4% from 2014 to 2015. As a result of the large freshmen class, general fund aid at UNH increased by over \$5 million during this time, while aid from grants decreased by \$521,000.

Auxiliary revenues grew \$3 million from 2014 to 2015. This includes increases of \$4 million and \$2 million at UNH and KSC, respectively;

offset by a decrease of \$3 million at PSU. UNH's traditional auxiliary services had combined increases of \$5 million, which were offset by a \$1 million reduction in revenues from Ecoline sales. Continuing the trend of recent years, the 2015 increase in other operating revenues was primarily due to additional fees for the Navitas program at UNH (\$810,000). This program recruits international students and brings them to campus each summer to ease their transition into undergraduate programs while also generating housing, dining, and English-as-Second-Language program fees.

Direct grant revenues were down \$3 million in 2015. As with the large decrease in 2014, the current year reduction in federal grants was due to completion of the Broadband Technology Opportunities Program (BTOP) grant at UNH (\$3 million). There were also decreases in corporate grants to the UNH Interoperability Lab (\$1 million) and other small grant reductions. These were offset by an increase in grant funding from the State of NH (\$1 million) for the medical Balancing Incentives Program and the NH Industrial Research Center, and approximately \$1 million for the UNH Hydrographic Center sponsored by the National Oceanic and Atmospheric Administration.

State general appropriations increased to \$81 million for fiscal year 2015, but remain well below the \$100 million provided annually from

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

	2014	2015
UNH (all campuses)	15,272	15,406
PSU	4,670	4,346
KSC	4,705	4,751
GSC	1,551	1,685
<b>Total USNH FTEs</b>	<b>26,198</b>	<b>26,188</b>
NH Resident	14,797	14,308
Nonresident	11,401	11,880
<b>Total USNH FTEs</b>	<b>26,198</b>	<b>26,188</b>

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

	2010	2011	2012	2013	2014
Freshmen applications received	16,545	17,344	17,234	17,938	18,420
Freshmen acceptances as % of applications (selectivity ratio)	73%	74%	78%	78%	80%
Freshmen enrolled as % of acceptances (matriculation yield)	24%	23%	22%	16%	18%

\* 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.

2009 through 2011. 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 operating expenses increased by \$32 million, or 4.2%, from 2014 to 2015. This compares to \$13 million or 1.6% from 2013 to 2014. The majority of the 2015 increase relates to the changes in nongrant employee compensation of \$23 million or 5.4%, and nongrant supplies/services of \$11 million or 6.8%. Nongrant compensation for fiscal year 2015 includes salary costs of \$329 million, separation incentives of \$6 million, and other fringe benefit costs of \$110 million. This compares to salary costs of \$318 million, separation incentives of \$5 million, and other fringe costs of \$100 million in fiscal year 2014.

The salary portion of the compensation increase (\$13 million or 3.4%) represents performance-based salary increases for faculty and staff. The other fringe benefit increase (\$10 million or 10%) is primarily driven by retirement costs which increase with salaries (\$2 million), post-retirement medical actuarial cost increase (\$5 million), and increases in medical and dental coverage (\$3 million). The campuses are using separation incentives as one of their strategies to right-size the institutions for enrollment shifts between online and traditional course offerings.

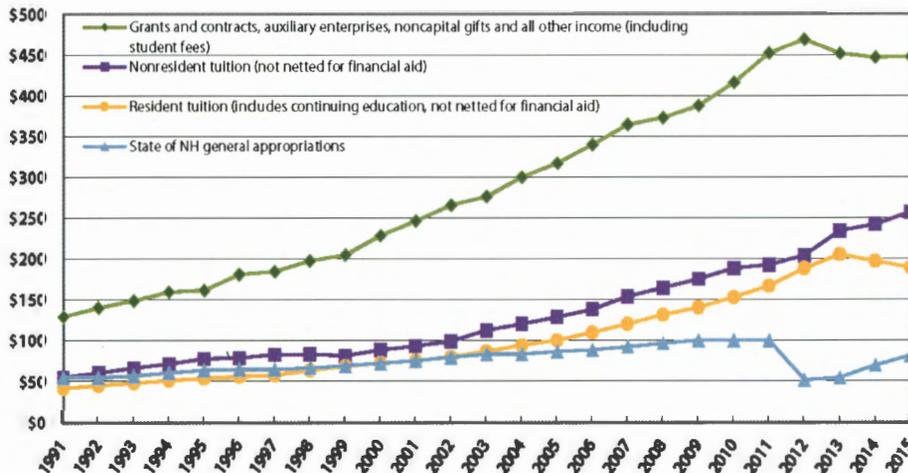
While the end of the BTOP project (\$46 million over the past several years) is driving the decreases in grant-funded supplies and services costs for the year (\$3 million), the primary driver of nongrant supply cost increases were repairs, refurbishment and reconfiguration of plant assets (\$11 million). This includes new furnishings, painting,

carpeting, and other minor interior work as well as paving, landscaping and similar exterior work.

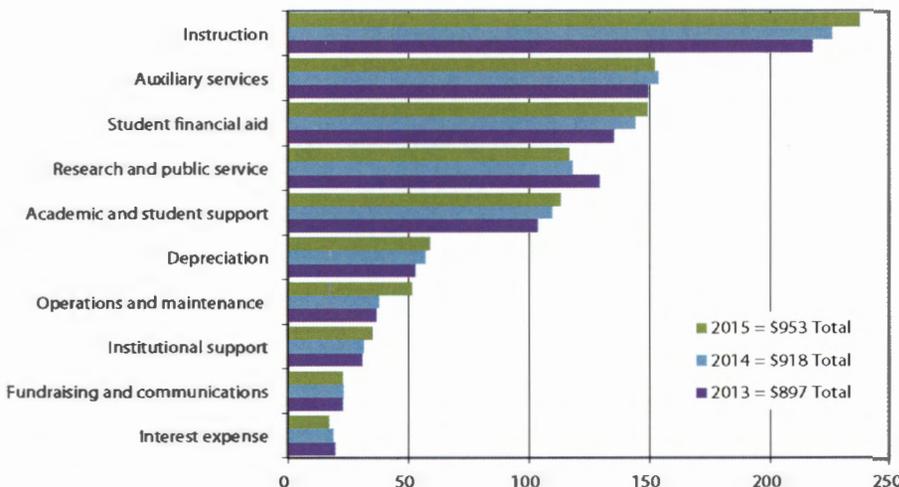
Chart 4 displays USNH's operating expenses for the past three years by functional, rather than natural, classification. As the chart shows, increases in expenses associated with financial aid have far-outpaced increases in institutional support (general overhead) expenses in the last several years. (Additional detail of operating expenses by function can be found in Note 12.)

In addition to the noncapital construction projects mentioned above, all campuses have undertaken major capital projects over the past year. GSC exercised the option to purchase its Concord location at the start of the fiscal year, and shortly thereafter completed significant renovations to the property for a total project cost of approximately \$5 million. The System office also relocated to Concord in early spring. For the first time all System employees are now in the same location improving our efficiency of operations.

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



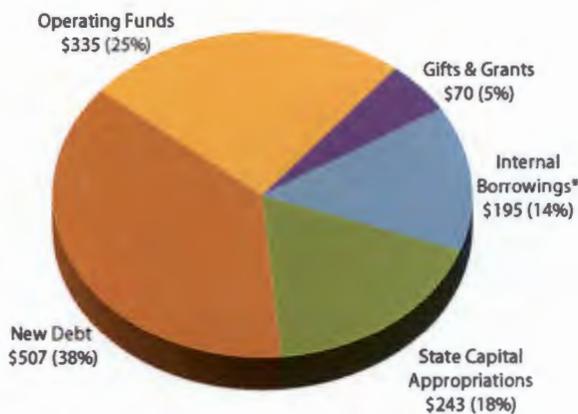
**Chart 4: Expenses by Functional Classification**  
(\$ in millions)



Major projects begun at the residential campuses include the KSC Pondsides IV residence hall (\$32 million), PSU's All Well North recreational and educational facility (\$32 million), and the expansion of both the Hamel Recreation Center and Holloway Commons dining hall at UNH (\$36 million and \$11 million, respectively). These projects were all funded in part with proceeds from bonds issued by USNH in May 2015. Ground-up renovations of the Hamilton-Smith building (\$37 million) and West Stadium (\$20 million) at UNH are also in process and being funded with internal borrowings.

From 2002 to 2013 USNH was the beneficiary of \$235 million in capital appropriations through a program known as the Knowledge Economy Education Plan for New Hampshire (KEEP-NH). Those appropriations were primarily used to renovate and upgrade key science and technology buildings on all campuses and address infrastructure needs. Since completion of this initiative, USNH capital appropriations have been limited as the state struggles to balance needs of competing priority projects.

**Chart 5: Capital Funding Sources, 2001-2015**  
Total = \$1.3 Billion  
(\$ in millions)



\* excludes amounts committed but not yet spent as of June 30, 2015

As shown above, USNH spent over \$1 billion during the past fifteen years to construct and renovate buildings and infrastructure at all campuses. The largest source of funding for the related projects was debt issuances of \$507 million with the projects noted above comprising the latest issue. 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.

USNH also periodically refinances portions of the campuses' outstanding debt to reduce related interest costs. During 2014 and 2015 USNH refunded portions of the Series 2009A and 2006B-2 Bonds, respectively. These actions resulted in over \$1 million of interest

savings in 2015. Campuses and students share in these savings through reduced internal borrowing rates and reduced student fee rates.

Chart 5 summarizes USNH's capital spending over the past fifteen years. Plant depreciation expenses of \$454 million were recorded during the same period. A review of deferred maintenance needs completed during 2015 indicated USNH should spend approximately \$70 million per year to maintain its existing facilities. With state capital appropriations more limited in recent years, USNH is beginning work on funding plans to meet this ongoing need. Also not included in the chart are approved internal borrowing amounts not spent as of June 30, 2015, totaling \$72 million. This includes funds set aside for completion of the West Stadium and Hamilton-Smith renovations and the academic portion of PSU's All Well North facility, as well as renovation of UNH Manchester's new facility and several smaller projects.

The current construction and renovation work is critical to maintaining enrollment levels in the competitive higher education market. In addition, the campuses are reviewing facility usage during off-peak seasons and hours to determine the right-size needed for each institution's footprint. (See Notes 5 and 8 for additional information on property and equipment, and debt balances.)

### C. Investing Activities

USNH manages cash and short-term investments on a daily basis to maximize returns. Cash balances totaled approximately \$80 million on June 30, 2015 and June 30, 2014. USNH is required to keep specific cash balances in same-day available funds to meet self-liquidity commitments of certain bond issuances. Selected money-market funds are used to meet that commitment. The balance of liquid money-market investments was \$59 million and \$62 million at June 30, 2015 and 2014, respectively. These are included in the cash and cash equivalents total in the statements of Net Position. Remaining cash balances not needed for daily operations are invested in short-term bond funds that meet the requirements of USNH's investment guidelines. Short-term bond fund holdings totaled \$157 million and

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

	as of June 30,	
	2015	2014
USNH Pool	\$457	\$454
UNHF Pool	197	185
KEA Pool	7	7
Funds held in trust	15	16
Life Income/Annuity Funds	4	5
	<b>\$680</b>	<b>\$667</b>

\$154 million as of June 30, 2015 and 2014, respectively. (See Note 2 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 contributed to a campus, the UNH Foundation (UNHF), or the Keene Endowment Association (KEA). The USNH Consolidated Endowment Pool holds funds for the benefit of all campuses, and the other endowment pools hold funds for the benefit of their respective campus only. The investment pools are managed to provide the highest rate of return over the long term given an acceptable level of risk as determined by the responsible fiduciaries. The USNH Board of Trustees has fiduciary responsibility for the USNH Pool, whereas the separate boards of UNHF and KEA have their own investment policies and are responsible for those investments. Table 3 on the previous page provides a summary of endowment and similar investment value as of June 30, 2015 and 2014.

As shown in Table 4 below, the market variability over the past year dramatically impacted returns for USNH's endowment investments. The USNH, UNHF, and KEA pools had small positive gross returns in fiscal year 2015 (1.3%, 3.3%, and 2.4% respectively). Over the past five

years the USNH pool gross return average was approximately 10%. This compares to approximately 11% for the UNHF and KEA pools. The USNH pool balance will be reduced by up to approximately \$76 million over the next five years due to the planned funding of bullet payments due on the Series 2007 and 2009A Bonds outstanding. These liquidity requirements drive the lower returns for the USNH pool.

The net negative returns after distributions for fiscal year 2015 resulted in use of prior year accumulated gains from each pool to support the endowment payouts for campus programs. Distributions from the pools during 2015 totaled \$24 million with \$14,613,000 from the USNH pool, \$8,896,000 from the UNHF pool, and \$241,000 from the KEA pool. This compares to approximately \$22 million during 2014 (\$13,023,000 from the USNH pool, \$8,517,000 from the UNHF pool, and \$221,000 from the KEA pool). Distributions represent a smaller percentage of the USNH pool than the UNHF distributions because USNH holds several endowment funds for future, rather than current, use. These include funds invested to pay bond bullet payments in future years as well as funds for contingencies. The USNH Pool also incurs lower investment management fees than the other two pools.

The negative net returns for 2015 also caused the number of endowment funds with market values less than the original gift value ("underwater" funds) to increase. Of the 1,385 USNH and UNHF pooled endowment funds held at June 30, 2015, 63 funds were underwater by approximately \$832,000, a small fraction (0.1%) of the combined pool fair value of \$654 million. No KEA funds were underwater at this time. (See Notes 4 and 11 for further information on endowment and similar investments.)

**Table 4: Pooled Endowment Returns**

	Year-Ended June 30,		Five Year Average
	2015	2014	
<b>USNH Pool</b>			
Gross return	1.3%	17.6%	9.7%
Investment management fees	(0.3%)	(0.4%)	(0.5%)
Net return	1.0%	17.2%	9.2%
Distributions	(3.3%)	(3.6%)	(3.3%)
Net (utilized) reinvested	(2.3%)	13.6%	5.9%
<b>UNHF Pool</b>			
Gross return	3.3%	16.8%	11.2%
Investment management fees	(0.7%)	(0.6%)	(0.5%)
Net return	2.6%	16.2%	10.7%
Distributions	(4.9%)	(5.4%)	(5.3%)
Net (utilized) reinvested	(2.3%)	10.8%	5.4%
<b>KEA Pool</b>			
Gross return	2.4%	16.9%	10.9%
Investment management fees	(0.7%)	(0.7%)	(0.7%)
Net return	1.7%	16.2%	10.2%
Distributions	(3.4%)	(3.6%)	(2.9%)
Net (utilized) reinvested	(1.7%)	12.6%	7.3%

## IV. Using the Financial Statements

*Note that all values presented in this section for the years ended and as of June 30, 2011 and 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, 2014 and 2015 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 values of all USNH assets, deferred outflows of resources, and liabilities on June 30<sup>th</sup> 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 current balances of related debt obligations. Table 5 below 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 and deferred outflows of resources increased by \$381 million or 22%. The major components of assets are cash and operating investments, endowment and similar investments, and property and equipment. Endowment investments were valued at \$680 million as of June 30, 2015, an increase of \$13 million from 2014 and \$312 million since 2011. The one-year growth is made up of endowment gifts received of \$20 million, offset by a net loss after distributions of \$14 million. In addition, approximately \$6 million of unrestricted funds were added to quasi-endowment funds held for future bond bullet payments. An additional \$1 million of restricted current use gifts were also invested as quasi-endowment funds as well.

During the years presented, endowment gifts totaled \$57 million and net gains totaled \$124 million. USNH also invested a total of \$214 million in quasi-endowment funds during this time. The majority of the quasi-endowment additions (\$125 million) were for the creation of the Long-term Treasury Investments fund in 2012 to improve returns on USNH funds previously held as cash balances. The endowment asset values are reflective of prevailing economic conditions each year (see the Investing Activities discussion for additional information).

Deferred outflows of resources include the fair value of USNH's interest rate swap derivatives and the unamortized net book loss on debt 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 for further discussion of outstanding debt and related interest rate swaps in place.)

USNH's largest liabilities are long-term debt and postretirement medical benefits. Long-term debt includes bonds and capital leases payable. A large portion of the reduction in long-term debt from 2013 to 2014 is related to the early payoff of the UNH School of Law Bonds (\$12 million) as required by the integration agreement. This payment was funded by liquidation of quasi-endowment investments. Long-term debt balances increased over the past year due to issuance of the Series 2015 Bonds 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 derivative instruments. The increase in the swap liabilities in 2012 was caused by prevailing interest rates at that time.

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

	2011	2012	2013*	2014	2015
Cash and short-term investments	\$ 301	\$ 200	\$ 223	\$ 235	\$ 237
Endowment and similar investments	368	489	571	667	679
Property and equipment, net	931	957	984	982	1,010
Other assets and deferred outflows of resources	114	112	98	96	168
<b>Total Assets and Deferred Outflows of Resources</b>	<b>1,714</b>	<b>1,758</b>	<b>1,876</b>	<b>1,980</b>	<b>2,094</b>
Derivative instruments - interest rate swaps	25	45	31	30	30
Postretirement medical benefits	53	52	55	51	54
Long-term debt	468	453	454	431	500
Other liabilities	160	159	147	150	160
<b>Total Liabilities</b>	<b>706</b>	<b>709</b>	<b>687</b>	<b>662</b>	<b>744</b>
Net investment in capital assets	491	522	550	574	598
Restricted financial resources	309	294	357	397	413
Unrestricted financial resources	208	233	282	347	339
<b>Total Net Position</b>	<b>\$1,008</b>	<b>\$1,049</b>	<b>\$1,189</b>	<b>\$1,318</b>	<b>\$1,350</b>

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

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 scholarship or student loans. Restricted balances also include certain endowment and similar amounts which are required to be invested in perpetuity (\$245 million and \$224 million at June 30, 2015 and 2014, 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 \$160 million at June 30, 2015 and 2014, respectively. (See Note 14 for further details on the components of net position.)

## 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, 2015, 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

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

*(\$ In millions)*

	<b>2011</b>	<b>2012</b>	<b>2013*</b>	<b>2014</b>	<b>2015</b>
Tuition and fees	\$ 391	\$ 428	\$ 466	\$ 465	\$ 472
Less: student financial aid	(121)	(122)	(135)	(144)	(149)
Net tuition and fees	270	306	331	321	323
Sales of auxiliary services	192	195	198	203	206
Grants and contracts	171	182	166	152	149
State general appropriations	100	51	54	69	81
Noncapital gifts, investment income and other revenues	57	54	61	65	66
<b>Total Operating and Nonoperating Revenues</b>	<b>790</b>	<b>788</b>	<b>810</b>	<b>810</b>	<b>825</b>
Employee compensation	471	460	465	481	503
Supplies and services	202	211	204	195	203
Utilities, depreciation and interest	89	89	93	98	98
<b>Total Operating and Nonoperating Expenses</b>	<b>762</b>	<b>760</b>	<b>762</b>	<b>774</b>	<b>804</b>
<b>Increase in Net Position from Recurring Activities</b>	<b>28</b>	<b>28</b>	<b>48</b>	<b>36</b>	<b>21</b>
Endowment gifts and returns, net	56	(14)	50	83	6
State capital appropriations and other changes, net	30	27	14	10	5
<b>Total Other Changes in Net Position</b>	<b>86</b>	<b>13</b>	<b>64</b>	<b>93</b>	<b>10</b>
<b>Total (Decrease) Increase in Net Position</b>	<b>\$ 114</b>	<b>\$ 41</b>	<b>\$ 112</b>	<b>\$ 129</b>	<b>\$ 32</b>

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

and net returns. The increase in net position from recurring activities, also known as the operating margin, totaled \$21 million in 2015. This is slightly less than the 2011 and 2012 level. Higher margins were achieved in 2013 and 2014. The majority of the change is related to employee compensation which increased approximately \$32 million, or 6.8%, from 2011 to 2015. As discussed previously all campuses are offering separation incentives to control compensation costs in future years.

Endowment gifts and net returns totaled \$6 million in 2015, compared to \$83 million in 2014 and \$50 million in 2013. The 2015 figure includes \$20 million in gifts, and losses net of distributions of \$14 million. By comparison, 2014 included \$11 million of gifts to endowment funds, and endowment gains of \$72 million net of distributions. The increase in gifts in 2015 was due to a \$10 million gift to UNHF for the Hamel Scholars Program. For 2013, endowment gifts totaled \$12 million, and endowment gains totaled \$38 million net of distributions. The volatility of endowment returns is a significant driver of the total change in net position across each year.

### 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, 2015.

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.

Cash flows from tuition and fees are impacted by the general appropriation reduction in 2012, and the partial appropriation recoveries from 2013 to 2015. This is particularly evident in the last biennium during which USNH agreed to freeze resident tuition in exchange for partial restoration of the appropriation. The reductions in cash flows from noncapital gifts, grants and other revenues are primarily due to reduced grant activity at UNH as the broadband fiber project discussed previously was completed. And finally, the net cash used in investing activities in 2015 includes the purchase of investments from proceeds of new construction bonds totaling \$81 million.

### 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

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

	<b>2011</b>	<b>2012</b>	<b>2013*</b>	<b>2014</b>	<b>2015</b>
Cash flows from:					
Receipts from tuition and fees, net	\$ 273	\$ 305	\$ 331	\$ 321	\$ 324
Receipts from sales of auxiliary services	191	195	197	204	206
Receipt of state general appropriations	100	51	53	69	81
Noncapital gifts, grants and other receipts	203	217	199	192	190
Payments to and on behalf of employees	(459)	(462)	(467)	(478)	(499)
Payments for supplies, services and utilities	(222)	(227)	(223)	(223)	(224)
<b>Net Cash Provided by Operating and Noncapital Financing Activities</b>	<b>86</b>	<b>79</b>	<b>90</b>	<b>85</b>	<b>78</b>
<b>Net Cash Used in Capital Financing Activities</b>	<b>(35)</b>	<b>(67)</b>	<b>(73)</b>	<b>(75)</b>	<b>(5)</b>
<b>Net Cash Used in Investing Activities</b>	<b>(75)</b>	<b>(69)</b>	<b>(16)</b>	<b>(10)</b>	<b>(73)</b>
<b>Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>\$ (24)</b>	<b>\$ (57)</b>	<b>\$ 1</b>	<b>\$ -</b>	<b>\$ -</b>

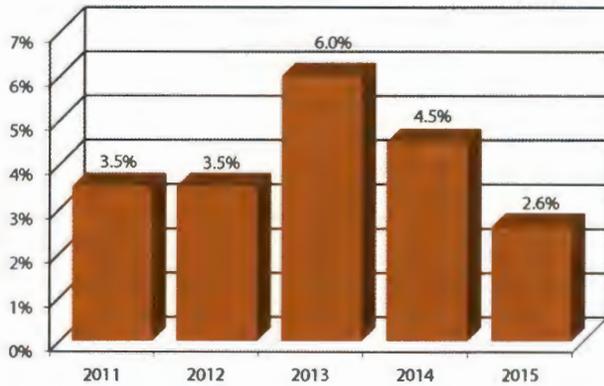
\*Beginning balances for fiscal year 2013 restated to include UNH School of Law.

activities as the denominator. USNH's targeted annual operating margin range is 3% to 5% per year. As shown in Chart 6 below actual operating margins from 2011 through 2014 ranged from 3.5% to 6.0%. USNH's operating margin was 2.6% for 2015. The average margin over the past five years was 4%, reflecting the targeted balance of strategic spending and investment of resources.

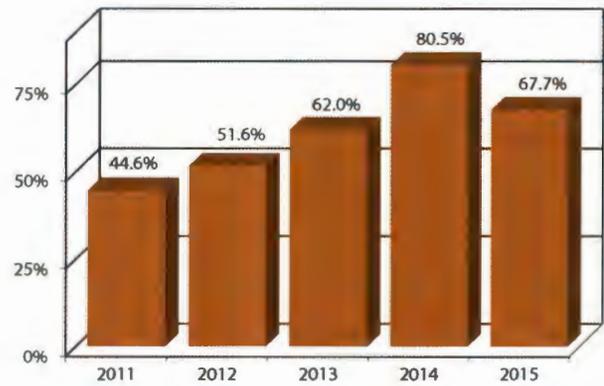
The unrestricted financial resources to debt ratio, shown in Chart 7 below, uses the unrestricted net position balance as the numerator and the total long-term debt balance outstanding as the denominator. USNH's targeted unrestricted financial resources to debt ratio is 50% or above. The calculated ratio at June 30, 2015 was 67.7%, compared to 80.5% as of June 30, 2014. The decrease is primarily due to issuance of the Series 2015 Bonds as discussed previously. The average of this

ratio over the past five years was 56%. As noted above, a significant portion of the unrestricted net position balance reflects accumulations in unrestricted quasi-endowment funds held for future principal payments due on certain bonds outstanding. The fair value of the related investments increased from \$31 million at June 30, 2011 to \$72 million at June 30, 2015. In addition, approximately \$176 million of the unrestricted net position balance at June 30, 2015 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 short-term investment balances are expended on longer-term plant assets. (See Notes 8 and 14 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,	
	2015	2014
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 80,439	\$ 80,339
Short-term investments	156,720	154,291
Accounts receivable, net	19,213	20,964
Pledges receivable, net - current portion	2,912	1,582
Notes receivable, net - current portion	4,445	4,797
Prepaid expenses and other current assets	9,302	8,815
<b>Total Current Assets</b>	<b>273,031</b>	<b>270,788</b>
<b>Noncurrent Assets</b>		
Debt proceeds held by bond trustee for construction purposes	69,141	-
Endowment and similar investments - campuses	472,461	469,889
Endowment and similar investments - affiliated entities	207,839	196,966
Pledges receivable, net	7,270	5,593
Notes receivable, net	18,691	19,416
Property and equipment, net	1,009,585	982,276
<b>Total Noncurrent Assets</b>	<b>1,784,987</b>	<b>1,674,140</b>
<b>TOTAL ASSETS</b>	<b>2,058,018</b>	<b>1,944,928</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Accumulated decrease in fair value of hedging derivatives	30,390	29,828
Accounting loss on debt refinancings, net	6,142	5,573
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>36,532</b>	<b>35,401</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	48,648	45,989
Construction services payable	13,766	8,141
Deposits and unearned revenues	34,131	32,846
Accrued employee benefits - current portion	9,615	8,681
Postretirement medical benefits - current portion	6,189	4,871
Long-term debt - current portion	51,773	50,246
<b>Total Current Liabilities</b>	<b>164,122</b>	<b>150,774</b>
<b>Noncurrent Liabilities</b>		
Obligations under life income agreements	2,101	2,625
Refundable government advances	16,777	16,909
Accrued employee benefits	34,596	34,969
Postretirement medical benefits	47,505	46,590
Derivative instruments - interest rate swaps	30,390	29,828
Long-term debt, net of current portion	448,702	380,323
<b>Total Noncurrent Liabilities</b>	<b>580,071</b>	<b>511,244</b>
<b>TOTAL LIABILITIES</b>	<b>744,193</b>	<b>662,018</b>
<b>NET POSITION (see Note 14)</b>		
Net investment in capital assets	598,331	574,302
Restricted		
Nonexpendable	245,180	223,847
Expendable	168,141	173,590
Unrestricted	338,705	346,572
<b>TOTAL NET POSITION</b>	<b>\$1,350,357</b>	<b>\$1,318,311</b>

See accompanying notes to the financial statements.

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

	For the year ended June 30,	
	2015	2014
<b>OPERATING REVENUES</b>		
Resident tuition	\$ 169,307	\$ 176,872
Nonresident tuition	256,719	242,437
Continuing education tuition	19,601	19,848
Student fees revenue	26,713	26,108
Total tuition and fees	472,340	465,265
Less: student financial aid - grants and contracts	(32,257)	(33,654)
Less: student financial aid - all other	(116,812)	(110,561)
Net tuition and fees	323,271	321,050
Grants and contracts - direct revenues	103,446	106,317
Grants and contracts - facilities & administrative recovery	20,001	19,756
Sales of auxiliary services	206,204	202,804
Other operating revenues	28,033	26,984
<b>Total Operating Revenues</b>	<b>680,955</b>	<b>676,911</b>
<b>OPERATING EXPENSES</b>		
Employee compensation - grants and contracts	57,929	58,362
Employee compensation - all other	445,232	422,537
Supplies and services - grants and contracts	34,162	36,876
Supplies and services - all other	169,425	158,580
Utilities	21,818	21,836
Depreciation	58,716	57,192
<b>Total Operating Expenses</b>	<b>787,282</b>	<b>755,383</b>
Operating loss	(106,327)	(78,472)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State of New Hampshire general appropriations	81,000	69,000
Federal Pell grants	25,161	25,915
Noncapital gifts	11,837	11,711
Endowment and investment income	26,422	26,672
Interest expense, net	(17,081)	(18,786)
Other nonoperating revenue (expense)	377	363
<b>Total Nonoperating Revenues (Expenses)</b>	<b>127,716</b>	<b>114,875</b>
<b>INCREASE IN NET POSITION FROM RECURRING ACTIVITIES</b>	<b>21,389</b>	<b>36,403</b>
<b>OTHER CHANGES IN NET POSITION</b>		
State of New Hampshire capital appropriations	2,067	5,997
Plant gifts, grants and other changes, net	2,520	3,791
Endowment and similar gifts	20,197	10,887
Endowment return, net of amount used for operations	(14,127)	71,886
<b>Total Other Changes in Net Position</b>	<b>10,657</b>	<b>92,561</b>
<b>INCREASE IN NET POSITION</b>	<b>32,046</b>	<b>128,964</b>
Net position at beginning of year	1,318,311	1,189,347
<b>NET POSITION AT END OF YEAR</b>	<b>\$1,350,357</b>	<b>\$1,318,311</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,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from tuition and fees, net of student financial aid	\$ 323,673	\$ 320,968
Receipts from sales of auxiliary services	206,186	203,731
Receipts from operating grants and contracts	125,968	128,411
Receipts from other operating revenues	28,075	26,766
Payments to employees	(375,021)	(364,067)
Payments for employee benefits	(123,960)	(114,017)
Payments for supplies, services and utilities	(223,561)	(222,743)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(38,640)</b>	<b>(20,951)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State general appropriations	81,000	69,000
Federal Pell and other nonoperating grants	25,538	26,278
Noncapital gifts	10,731	10,768
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>117,269</b>	<b>106,046</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
State appropriations for plant projects	2,831	5,233
Plant gifts and grants	2,797	4,148
Endowment gifts	20,197	10,908
Proceeds from issuance of debt	133,614	22,169
Purchases and construction of property	(85,515)	(53,188)
Proceeds from sale of property	2,928	-
Retirement of debt through defeasance	(53,149)	(21,605)
Debt principal payments	(10,773)	(23,731)
Interest payments	(18,149)	(19,011)
<b>NET CASH USED IN CAPITAL FINANCING ACTIVITIES</b>	<b>(5,219)</b>	<b>(75,077)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	446,422	378,316
Purchase of investments	(527,115)	(394,679)
Investment income	7,383	6,564
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(73,310)</b>	<b>(9,799)</b>
<b>Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>100</b>	<b>219</b>
Beginning cash and cash equivalents	80,339	80,120
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$ 80,439</b>	<b>\$ 80,339</b>
Ending cash and cash equivalents, as above	<b>\$ 80,439</b>	<b>\$ 80,339</b>
Short-term investments	156,720	154,291
<b>TOTAL CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>	<b>\$ 237,159</b>	<b>\$ 234,630</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>		
Operating loss	\$(106,327)	\$(78,472)
Adjustments to reconcile operating loss to net cash provided by/(used in) operating activities:		
Depreciation and amortization	58,716	57,192
Changes in current assets and liabilities:		
Accounts receivable	988	2,387
Notes receivable	946	1,393
Prepaid expenses and other current assets	(486)	45
Accounts payable and accrued expenses	3,510	(5,727)
Deposits and unearned revenues	1,292	(576)
Accrued employee benefits	2,721	2,807
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>\$ (38,640)</b>	<b>\$ (20,951)</b>
<b>SIGNIFICANT NONCASH TRANSACTIONS</b>		
Endowment return, net of amount used for operations	\$ (14,127)	\$ 71,886
Loss on disposal of capital assets	(2,186)	(587)

See accompanying 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.

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

### Basis of accounting

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

USNH follows the requirements of the "business-type activities" (BTA) model as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis for Public Colleges and Universities*. BTAs are defined as those that are financed in whole or in part by fees charged to external parties for goods or services.

GASB requires that resources be classified into the following net position categories, as more fully detailed in Note 14:

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

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

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

Property and equipment are recorded at original cost for purchased assets or at fair value on the date of donation in the case of gifts. Equipment with a unit cost of \$5,000 or more is capitalized. Building improvements with a cost of \$25,000 or greater are also capitalized. Net interest costs incurred during the construction period for major, debt-funded capital projects are added to the cost of the underlying asset. The value of equipment acquired under capital leases is recorded at the present value of the minimum lease payments at the inception of the lease. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the respective assets. The cost of certain research buildings is componentized for the purpose of calculating depreciation. Buildings and improvements are depreciated over useful lives ranging from 10 to 50 years. Depreciable lives for equipment range from 3 to 30 years. (See Note 5 for additional information on depreciation.) USNH does not record donated works of art and historical treasures that are held for exhibition, education, research and public service. Library collections are recorded as an expense in the period purchased, with the exception of UNH School of Law library collections which are capitalized annually and depreciated over a ten year period on a straight-line basis.

Deposits and unearned revenue consist of amounts billed or received in advance of USNH providing goods or services. Advances from the US

Government for Federal Perkins Loans to students are reported as government advances refundable. Future loans to students are made available from repayments of outstanding principal amounts plus accumulated interest received thereon.

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

Unconditional pledges of nonendowment gifts are presented net of estimated amounts deemed uncollectible after discounting to the present value of expected future cash flows. Because of uncertainties with regard to their realization and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met. In accordance with GASB requirements, endowment pledges totaling \$9,120,000 and \$9,621,000 at June 30, 2015 and 2014, respectively, which are expected to be received over the next ten years, have not been reported in the accompanying financial statements. USNH generally uses restricted funds first when an expense is incurred where both restricted and unrestricted funds are available.

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

## 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 Investor Service and comply with Securities and Exchange Commission Rule 2A-7. Repurchase agreements must be fully collateralized at 102% of the face value by US Treasuries, or 103% of the face value by US Government-backed or guaranteed agencies or government sponsored enterprises. In addition, USNH investments may not exceed 5% of any institution's total deposits or 20% of any institution's net equity.

### Cash and cash equivalents

Cash equivalents represent amounts invested for the purpose of satisfying current operating liabilities and include repurchase agreements, money market funds and other mutual funds. Repurchase agreements are limited to overnight investments only. Cash and cash equivalents at June 30 consisted of the following (\$ in thousands):

	2015		2014	
	Balance	Weighted Average Maturity	Balance	Weighted Average Maturity
Cash balances	\$ 2,903	Less than 1 year	\$ 1,837	Less than 1 year
Repurchase agreements	18,067	Less than 1 year	16,070	Less than 1 year
Money market funds	59,469	Less than 1 year	62,432	Less than 1 year
Total	<u>\$80,439</u>		<u>\$80,339</u>	

## Short-term investments

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

	2015		2014	
	Balance	Weighted Average Maturity	Balance	Weighted Average Maturity
Obligations of the US Govt.	\$ 3,063	5-10 years	\$ 2,940	5-10 years
Certificates of deposit & money market funds	18,864	Less than 1 year	17,198	Less than 1 year
Other mutual funds	134,578	1-5 years	133,976	1-5 years
Other investments	215	Less than 1 year	177	Less than 1 year
Total	<u>\$156,720</u>		<u>\$154,291</u>	

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

## 3. Accounts, pledges and notes receivable

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

	2015	2014
Grants and contracts	\$15,570	\$16,017
Student and general	6,547	6,810
State of NH capital projects	-	763
Allowance for doubtful accounts	<u>(2,904)</u>	<u>(2,626)</u>
Total accounts receivable, net	<u>\$19,213</u>	<u>\$20,964</u>

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

	2015	2014
Pledges receivable	\$14,119	\$11,041
Discounts and allowance for doubtful pledges	<u>(3,937)</u>	<u>(3,866)</u>
<b>Total pledges receivable, net</b>	10,182	7,175
Less: noncurrent portion	<u>(7,270)</u>	<u>(5,593)</u>
<b>Current portion</b>	<u>\$ 2,912</u>	<u>\$ 1,582</u>

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

	2015	2014
Perkins loans	\$23,932	\$24,780
Other loans, restricted and unrestricted	1,293	1,538
Allowance for doubtful loans	<u>(2,089)</u>	<u>(2,105)</u>
Total notes receivable, net	23,136	24,213
Less: noncurrent portion	<u>(18,691)</u>	<u>(19,416)</u>
Current portion	<u>\$ 4,445</u>	<u>\$ 4,797</u>

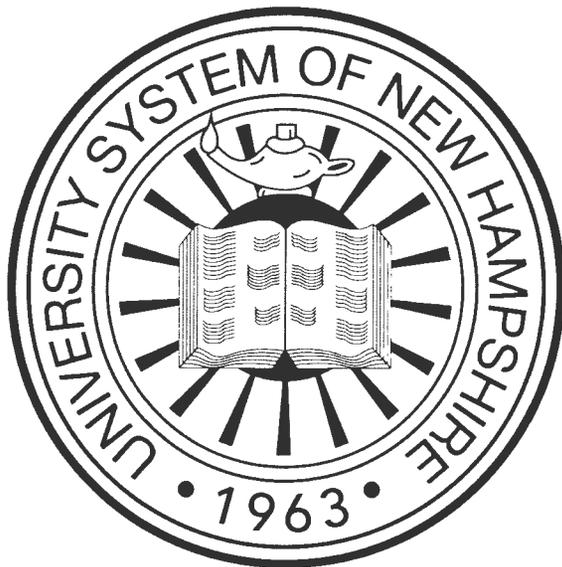
## 4. Investments

USNH's investment policy and guidelines specify permitted instruments, duration and required ratings for pooled endowment funds. The policy and guidelines are intended to mitigate risk on investments individually and in the aggregate while maximizing total returns and supporting intergenerational equity of spending levels. Liquid 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 publicly traded international and emerging market funds to 25% of the endowment pool. Private global equity investments are limited to 15% of the endowment pool. No USNH endowment investments were denominated in foreign currencies as of June 30, 2015 or June 30, 2014.

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

	Campuses		Affiliated Entities	
	2015	2014	2015	2014
Pooled endowments:				
Campuses	\$456,635	\$453,437	\$ -	\$ -
UNH Foundation	-	-	196,837	184,845
Keene Endowment Association	-	-	7,086	7,082
Life income and annuity funds	116	156	3,916	5,039
Funds held in trust	15,710	16,296	-	-
Total	\$472,461	\$469,889	\$207,839	\$196,966



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

	Campuses		Affiliated Entities	
	2015	2014	2015	2014
Money market funds	\$ 9,877	\$ 20,947	\$ 4,986	\$ 16,747
Other mutual funds:				
Domestic equity	89,882	96,462	32,629	30,392
International equity	49,540	46,422	14,785	12,384
Domestic & foreign fixed income	16,847	25,037	8,368	9,006
Inflation hedging assets	-	-	2,871	3,941
Common/preferred stocks:				
Domestic equity	13,311	13,006	3,437	3,291
Fixed income securities:				
Domestic & foreign bonds	9,977	-	1,720	1,030
Inflation hedging assets	5,844	5,983	3,768	2,559
Commingled funds:				
Domestic equity	39,069	35,063	27,230	24,524
International equity	42,496	34,564	26,323	24,962
Flexible capital	132,363	129,710	62,753	44,787
Domestic & foreign fixed income	10,151	10,215	-	-
Inflation hedging assets	18,121	17,490	4,362	6,972
Private equity	15,767	15,068	5,446	7,521
Non-marketable real assets	3,506	3,626	5,245	3,811
Other investments	15,710	16,296	3,916	5,039
Total endowment and similar investments	\$472,461	\$469,889	\$207,839	\$196,966

The fair value of investments is based on quoted market prices when available. The estimated fair value of investments without traditional markets (e.g. private equity and non-marketable real assets) is based on valuations provided by primary fund managers and reviewed by management. Because these investments are not readily marketable, their estimated fair values may differ from the values that would have been assigned had a ready market for such investments existed, and such differences could be material. Flexible capital investments include various hedge funds holding long/short positions, and those investing in special situations, relative value and other strategies. As of June 30, 2015 and 2014, fixed income securities have weighted average 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.

Unfunded commitments with various private equity and similar alternative investment funds totaled \$15,894,000 for USNH and \$10,905,000 for UNHF at June 30, 2015. This compares to \$15,586,000 and \$8,214,000, respectively, at June 30, 2014.

## 5. Property and equipment

Property and equipment activity for the years ended June 30, 2015 and 2014 is summarized as follows (\$ in thousands):

	Balance June 30, 2013	2014 Additions & Changes	2014 Retirements	Balance June 30, 2014	2015 Additions & Changes	2015 Retirements	Balance June 30, 2015
Land	\$ 12,926	\$ 461	\$ -	\$ 13,387	\$ 2,402	\$ -	\$ 15,789
Buildings and improvements	1,483,862	68,617	(1,011)	1,551,468	41,759	(38,073)	1,555,154
Equipment	107,489	10,636	(7,670)	110,455	11,603	(3,341)	118,717
Construction in progress, net	61,710	45,142	(69,068)	37,784	79,509	(49,803)	67,490
<b>Total property and equipment</b>	1,665,987	124,856	(77,749)	1,713,094	135,273	(91,217)	1,757,150
Less: accumulated depreciation	(681,722)	(57,191)	8,095	(730,818)	(55,976)	39,229	(747,565)
<b>Property and equipment, net</b>	\$ 984,265	\$67,665	\$ (69,654)	\$982,276	\$79,297	\$ (51,988)	\$1,009,585

Contractual obligations for major construction projects totaled \$37,522,000 and \$39,973,000 at June 30, 2015 and 2014, respectively.

## 6. Accrued employee benefits

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

	2014		2014		2015		2015	
	Balance	Payments to/ on Behalf of	Expenses & Other	Balance	Payments to/ on Behalf of	Expenses & Other	Balance	Current
	June 30, 2013	Participants	Changes	June 30, 2014	Participants	Changes	June 30, 2015	Portion
Operating staff retirement program	\$ 6,026	\$ (664)	\$ 450	\$ 5,812	\$ (623)	\$ 1,356	\$ 6,545	\$ 666
Additional retirement program	3,308	(261)	330	3,377	(338)	338	3,377	748
Employee separation incentives	3,401	(2,655)	6,526	7,272	(5,237)	5,576	7,611	4,865
Long-term disability	3,432	(582)	288	3,138	(641)	280	2,777	641
Workers' compensation	2,730	(467)	2,237	4,500	(564)	225	4,161	1,192
Compensated absences	18,500	(1,484)	2,194	19,210	(2,436)	2,603	19,377	1,300
Other	287	(50)	104	341	(20)	42	363	203
Total accrued employee benefits	<u>\$37,684</u>	<u>\$(6,163)</u>	<u>\$12,129</u>	<u>\$43,650</u>	<u>\$(9,859)</u>	<u>\$10,420</u>	<u>\$44,211</u>	<u>\$9,615</u>

The operating staff retirement program has been closed to new participants since 1987. At June 30, 2015 there were approximately 205 current annuitants and 48 participants with deferred benefits, all fully vested. This compares to 214 current annuitants and 56 participants with deferred benefits as of June 30, 2014. USNH has accrued \$6,545,000 and \$5,812,000 for the related obligations as of June 30, 2015 and 2014, 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 2015 and 8.0% for 2014. Obligations of the program are amortized over one year. USNH had cash and unrestricted funds functioning as endowment assets of \$6,097,000 and \$6,651,000 at June 30, 2015 and 2014, 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):

	2015	2014
Retired participants and beneficiaries	\$5,303	\$4,606
Active participants	673	646
Other participants	569	560
Accrued pension benefit obligation	6,545	5,812
Less: funds functioning as endowment and other assets available for benefits	(6,097)	(6,651)
(Over) Under funded plan balance	<u>\$ 448</u>	<u>\$ (839)</u>

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 501 and 563 employees meeting the requirements for the guaranteed minimum employer contribution as of June 30, 2015 and 2014, respectively. USNH has accrued \$3,377,000 at June 30, 2015 and 2014 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 2015 and 2014. Obligations of the program are amortized over one year. USNH had designated cash assets of \$3,377,000 for these obligations as of June 30, 2015 and 2014 to fund the obligations of the program. 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. Contributions by USNH to these plans range from 4% to 10% of eligible salaries for enrolled participants and totaled \$25,410,000 and \$24,596,000 in 2015 and 2014,

respectively. Contributions by plan members totaled \$25,994,000 and \$23,507,000 in 2015 and 2014, respectively.

Early retirement and employee separation incentive programs were provided to various faculty and staff during 2015 and 2014. Incentives include stipends, as well as medical, educational and other termination benefits. The net present value of future costs associated with these incentive options is accrued as of the date of acceptance into the program. The liability balances of \$7,611,000 at June 30, 2015, and \$7,272,000 at June 30, 2014, represent obligations for 136 and 60 participants, respectively, which will be remitted in fiscal years 2016 through 2021.

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

USNH is self-insured for a portion of certain risks, including workers' compensation, employee long-term disability, certain student health insurance claims. Most employee and retiree medical and dental coverage provided by USNH is also self-insured. The costs of self-insured medical and dental claims and administrative fees totaled \$53,512,000 and \$51,312,000 for fiscal year 2015 and 2014, respectively. These amounts include \$5,844,000 and \$5,799,000 for estimated claims incurred but not reported as of June 30, 2015 and 2014, respectively. In conjunction with the primary medical plan offering for active employees, USNH purchases stop-loss coverage which limits the USNH cost of claims to \$500,000 per participant in most cases. The liabilities recorded in the financial statements for all USNH self-insured programs are developed by management based on historical claims data, and in the opinion of management are expected to be sufficient to cover the actual claims incurred.

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

## 7. Postretirement medical benefits

The primary defined benefit postretirement medical plan 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, 2015 and 2014, respectively, there were 954 and 944 former employees receiving benefits under this program along with their dependents. As of January 1, 2015 and 2014, respectively, there were 301 and 332 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, 2015 and 2014, respectively, there were 128 and 138 retirees receiving benefits under this program along with their dependents. As of January 1, 2015 and 2014, respectively, there were also 3,876 and 3,801 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 2015 initial rate of increase in the cost of healthcare services was assumed to be 9% for participants, decreasing to 8% in 2016, and further decreasing 0.5% each year thereafter until reaching an ultimate rate of 5% per year. The initial increase in the cost of prescriptions was assumed to be 9% for all participants for 2015, increasing to 11% for 2016, and then decreasing by 1% each year thereafter to an ultimate rate of 5% per year. The discount rate used in determining the actuarial accrued liability was 4.75% for 2014 and 2.5% for 2015. The initial unfunded actuarial accrued liability was

amortized over one year in 2005, and USNH elected to amortize changes thereafter over a closed period of 15 years. The actuarially determined postretirement benefit expense for the plan was \$8,414,000 for 2015 and \$1,821,000 for 2014. These calculations are based on the benefits provided by the plan at the time of the last biennial plan valuation, June 30, 2015 and 2013, and were developed using the Projected Unit Credit Cost Method. The primary postretirement medical plan holds no assets. As of June 30, 2015 and 2014, respectively, USNH has accrued \$53,347,000 and \$51,113,000 for obligations of the plan.

Total annual other postemployment benefit (OPEB) cost for the primary post-retirement medical plan for the years ended June 30, 2015 and 2014, and the liability as of June 30, 2015 and 2014 included the following components (*\$ in thousands*):

	2015	2014
Annual required contribution	\$13,497	\$ 7,530
Interest on net OPEB obligation	1,278	2,451
Adjustment to annual required contribution	(6,361)	(8,160)
Annual OPEB cost	<u>8,414</u>	<u>1,821</u>
Contributions made	(6,180)	(4,866)
Increase (decrease) in net OPEB obligation	2,234	(3,045)
Net OPEB obligation at beginning of year	51,113	54,158
Net OPEB obligation at end of year	<u>\$53,347</u>	<u>\$51,113</u>
Current Portion	<u>\$ 6,180</u>	<u>\$ 4,861</u>

An additional postretirement medical plan is maintained by the State of New Hampshire Police which covers safety officers at UNH and PSU. That plan is separate from the primary plan. USNH has accrued and set aside funds sufficient to cover \$347,000 for potential obligations under the State of New Hampshire Police Plan (\$338,000 long-term and \$9,000 current obligations) as of June 30, 2015 and 2014, respectively. 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 refunding's (see Note 9 below), for the years ended June 30, 2015 and 2014 is summarized below (*\$ in thousands*):

	2014			2015			Balance June 30, 2015	Current Portion
	Balance June 30, 2013	Additions & Other Changes	2014 Retirements	Balance June 30, 2014	Additions & Other Changes	2015 Retirements		
<b>NHHEFA bonds</b>								
Series 2005A	\$ 56,650	\$ -	\$ (1,650)	\$ 55,000	\$ -	\$ (1,500)	\$ 53,500	\$ 1,750
Series 2005B	89,785	-	(3,890)	85,895	-	(4,030)	81,865	4,165
Series 2006B-2	53,925	-	(1,300)	52,625	-	(49,700)	2,925	1,425
Series 2007	46,570	-	-	46,570	-	-	46,570	-
Series 2009A	105,650	-	(21,605)	84,045	-	-	84,045	-
Series 2011A	6,000	-	-	6,000	-	-	6,000	-
Series 2011B	41,045	-	(1,595)	39,450	-	(1,670)	37,780	37,780
Series 2012	23,260	-	(2,605)	20,655	-	(2,655)	18,000	2,735
Series 2014	-	21,760	-	21,760	-	-	21,760	1,955
Series 2015	-	-	-	-	116,970	-	116,970	-
UNH School of Law Bonds	11,808	-	(11,808)	-	-	-	-	-
Unamortized discounts/premiums, net	6,246	-	(316)	5,930	16,194	(2,791)	19,333	1,010
Capital leases	13,511	-	(872)	12,639	-	(912)	11,727	953
Total bonds and leases	<u>\$454,450</u>	<u>\$21,760</u>	<u>\$(45,641)</u>	<u>\$430,569</u>	<u>\$133,164</u>	<u>\$(63,258)</u>	<u>\$500,475</u>	<u>\$51,773</u>

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

NHHEFA is a public body corporate and an agency of the State of New Hampshire whose primary purpose is to assist New Hampshire not-for-profit educational and health care institutions in the construction and financing (or refinancing) of related facilities. NHHEFA achieves this purpose primarily

through the issuance of bonds. Since 1989 all USNH bonds have been issued through NHHEFA. None of USNH's NHHEFA bonds provide for a lien or mortgage on any property. USNH is obligated under the terms of the NHHEFA bonds to make payments from revenues received from certain housing, dining, union, recreational, and other related revenue generating facilities financed by the bonds. The state is not liable for the payment of principal or interest on the

NHHEFA bonds, nor is the state directly, indirectly or contingently obligated to levy or pledge any form of taxation whatsoever or to make any appropriation for their payment. USNH is in compliance with all covenants specified in the NHHEFA bonds, the most restrictive of which is maintenance of a debt-service coverage ratio, as defined, of at least 1.1 to 1.0.

USNH's bond portfolio at June 30, 2015 consisted of fixed rate and variable rate issues, with an overall cost of capital of approximately 3.95%. The variable rate demand bonds (Series 2005A, 2005B, 2011B) are fully hedged via interest rate swap agreements (see Note 9 below), with Series 2005A and 2005B each supported by standby bond purchase agreements. Series 2011B is supported by self-liquidity and thus categorized in total as a current liability. The associated variable interest rates for both 2005A and 2005B at June 30, 2015 and 2014 were 0.07% and 0.11% respectively. The 2011B associated variable interest rates at June 30, 2015 and 2014 were 0.04% and 0.10%, respectively.

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). Approximately \$69,141,000 of the construction proceeds was unspent as of June 30, 2015. The refunding proceeds of \$51,774,000 are held in escrow in the principal payment investment account for the Series 2006B-2 Bonds on June 30, 2015. 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 3.79%

\* 7/1/2016, 2020, 2023

#### Capital leases

On April 30, 2004, USNH entered into a capital lease agreement in the amount of \$18,387,000 to finance a portion of the costs of equipment housed in UNH's

utility cogeneration facility. The related lease payments are due quarterly through June 2025, including principal as well as interest at a fixed rate of 4.5%. The carrying value of the related equipment was \$10,389,000 and \$11,428,000 as of June 30, 2015 and 2014, respectively.

#### Maturity of long-term obligations

Long-term debt obligations are scheduled to mature as follows using the associated fixed, estimated synthetic fixed, and expected variable rates in effect as of June 30, 2015 over the remaining terms of individual issuances (\$ in thousands):

Fiscal Year	Principal	Interest	Total	
2016	\$ 50,763	\$ 15,550	\$ 66,313	
2017	39,386	20,242	59,628	
2018	15,002	18,284	33,286	
2019	62,094	17,837	79,931	
2020	15,928	14,699	30,627	
2021-2025	139,874	55,471	195,345	
2026-2030	51,170	33,330	84,500	
2031-2035	57,965	19,973	77,938	
2036-2040	25,115	8,914	34,029	
2041-2045	19,360	4,122	23,482	
2046	4,485	224	4,709	
	481,142	208,646	689,788	
	Plus: unamortized discounts/ premiums, net	19,333	-	19,333
Total	\$500,475	\$208,646	\$709,121	

#### State of NH general obligation bonds

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

## 9. Derivative instruments - interest rate swaps

USNH uses hedging derivatives to artificially fix interest rates on variable rate bonds outstanding. The terms and fair market value of swap contracts in place as of June 30, 2015 and 2014 were as follows (\$ in thousands):

	Effective Date	Termination Date	Payable Fixed Swap Rate	Receivable Variable Swap Rate	Notional Amount at June 30,		Swap Fair Value at June 30,	
					2015	2014	2015	2014
Series 2005A swap	October 29, 2008	July 1, 2035	3.6%	67% LIBOR	\$ 53,500	\$ 55,000	\$(11,057)	\$(10,521)
Series 2005B swap	August 1, 2005	July 1, 2033	3.1%	63% LIBOR + 0.29%	81,865	85,895	(9,887)	(9,623)
Series 2011B swap	April 4, 2011	July 1, 2033	4.5%	67% LIBOR	37,780	39,450	(9,446)	(9,684)
Total					\$173,145	\$180,345	\$(30,390)	\$(29,828)

The fair value balances shown above represent the estimated amounts USNH would have been required to pay to terminate the swaps as of June 30, 2015 and 2014. The valuations provided are derived from third-party, proprietary models based upon well-recognized principles and estimates about relevant future market conditions. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted

using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the swaps. USNH intends to hold all swap contracts to maturity.

These derivative instruments meet the criteria established by GASB Statement No. 53 for effective hedges as of June 30, 2015 and 2014 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, 2015, USNH was exposed to no counterparty credit risk relative to its swaps as all swap market values were negative. The swaps require collateralization of any positive fair value of the swap should the counterparty’s credit rating fall below thresholds identified in the swap contracts. USNH mitigates counterparty risk by spreading the swap exposure among various counterparties, by monitoring bond ratings continuously, and by requiring collateralization in certain circumstances.

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

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

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

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	Effective Interest Rate	All-In Synthetically Fixed Interest Rate
		6/30/2015	6/30/2014	6/30/2015	6/30/2014	6/30/2015	6/30/2014	
Series 2005A swap	Aa2/AA-	0.1%	0.1%	0.1%	0.1%	3.6%	3.6%	3.9%
Series 2005B swap	A1/A-	0.1%	0.1%	0.4%	0.4%	2.9%	2.9%	3.6%
Series 2011B swap	A3/A-	0.0%	0.1%	0.1%	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, 2015 through the end of each swap contract (\$ in thousands):

Fiscal Year	Notional Bonds Amortization	Estimated Interest Received	Estimated Interest and Fees Paid	Estimated Swap Net Outflows
2016	\$ 7,665	\$ (445)	\$ 6,172	\$ 5,727
2017	7,775	(423)	5,900	5,477
2018	8,275	(402)	5,625	5,223
2019	8,560	(379)	5,331	4,952
2020	8,720	(356)	5,028	4,672
2021-2025	49,410	(1,396)	20,204	18,808
2026-2030	38,855	(794)	12,125	11,331
2031-2035	40,235	(275)	4,639	4,364
2036	3,650	(4)	131	127
Total	\$173,145	\$(4,474)	\$65,155	\$60,681

**10. Pass-through grants**

USNH distributed \$187,230,000 and \$194,511,000 of student loans through the U.S. Department of Education Federal Direct Lending program during 2015 and 2014, respectively. These distributions and related funding sources are not included as expenses and revenues, or as cash disbursements and cash receipts, in the accompanying financial statements. The statements of net position include receivables of \$144,000 and \$184,000 as of June 30, 2015 and 2014, respectively, for direct loans disbursed in excess of U.S. Department of Education receipts.

**11. Endowment return used for operations**

The majority of endowment funds are invested in one of two investment pools valued using units purchased in the applicable pool at the gift date. The endowment distribution rate as a percentage of the average market value per unit for the twelve quarters from which it was derived was 4.8% for 2015 and 2014 for the USNH endowment pool. For the UNHF endowment pool, the distribution rate was 5.4% for 2015 and 2014.

The objective for the annual spending formula for endowment return used for operations is to provide sustainable continued future support for ongoing programs at current levels assuming moderate inflation. To the extent that endowment yield is insufficient in any one year to meet the required spending distribution; accumulated net gains are utilized to fund the distribution.

The components of endowment return used for operations for 2015 and 2014 are summarized below (\$ in thousands):

	<b>2015</b>	<b>2014</b>
Pooled endowment yield - campuses	\$ 5,627	\$ 3,621
Pooled endowment yield - affiliates	1,456	2,644
Trusts, life income and annuities yield	228	(103)
Gains utilized to fund distribution	<u>16,971</u>	<u>16,086</u>
<b>Endowment return used for operations</b>	<b><u>\$24,282</u></b>	<b><u>\$22,248</u></b>

## 12. Operating expenses by function

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

<b>Campuses – current funds</b>	<b>Compensation</b>	<b>Supplies &amp; Services</b>	<b>Utilities</b>	<b>Internal Allocations</b>	<b>Depre- ciation</b>	<b>2015 Total</b>	<b>2014 Total</b>
Instruction	\$215,229	\$ 21,476	\$ 2	\$ 293	\$ -	\$237,000	\$225,580
Auxiliary services	50,873	50,617	4,852	45,912	-	152,254	153,369
Research and sponsored programs	70,039	37,055	120	136	-	107,350	110,009
Academic support	47,740	25,244	16	376	-	73,376	70,973
Student services	27,002	13,206	14	(102)	-	40,120	38,489
Institutional support	41,003	13,059	45	(19,262)	-	34,845	31,455
Operations and maintenance	25,637	16,836	16,758	(27,055)	-	32,176	28,685
Fundraising and communications	12,451	5,042	-	2,460	-	19,953	20,731
Public service	<u>7,350</u>	<u>1,892</u>	-	<u>184</u>	-	<u>9,426</u>	<u>7,979</u>
Subtotal-current funds	497,324	184,427	21,807	2,942	-	706,500	687,270
Campuses – other funds	1,632	18,246	11	(400)	58,716	78,205	65,959
Affiliated entities	<u>4,205</u>	<u>914</u>	-	<u>(2,542)</u>	-	<u>2,577</u>	<u>2,154</u>
<b>Total</b>	<b><u>\$503,161</u></b>	<b><u>\$203,587</u></b>	<b><u>\$21,818</u></b>	<b><u>\$ -</u></b>	<b><u>\$58,716</u></b>	<b><u>\$787,282</u></b>	<b><u>\$755,383</u></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.

As discussed in Note 8, USNH provides self-liquidity for the 2011B Bonds which had outstanding balances of \$37,780,000 at June 30, 2015 and \$39,450,000 at June 30, 2014. The related terms require that USNH maintain 1.5 times coverage of the bonds outstanding in same-day liquid investments to insure payment to bondholders in the event the bonds are not successfully remarketed (\$56,670,000 at June 30, 2015 and \$59,175,000 at June 30, 2014).

## 14. Net position

The table below details USNH's net position as of June 30, 2015 and 2014 (\$ in thousands):

	<b>2015</b>	<b>2014</b>
<b>Net investment in capital assets</b>	\$ 598,331	\$ 574,302
<b>Restricted financial resources</b>		
<b>Nonexpendable</b>		
Historic gift value of endowment-campuses	99,438	93,071
Historic gift value of endowment-affiliated entities	<u>145,742</u>	<u>130,776</u>
<b>Total restricted nonexpendable resources</b>	245,180	223,847
<b>Expendable</b>		
Held by campuses:		
Accumulated net gains on endowment	47,452	51,771
Fair value of restricted funds functioning as endowment	13,983	14,198
Gifts, grants and contracts	29,745	29,033
Life income and annuity funds	16	45
Loan funds	6,840	6,851
Held by affiliated entities:		
Accumulated net gains on endowment	36,709	40,052
Other	<u>33,396</u>	<u>31,640</u>
<b>Total restricted expendable resources</b>	168,141	173,590
<b>Unrestricted financial resources</b>		
Held by campuses:		
Educational and general reserves	62,074	50,789
Auxiliary enterprises	38,427	36,157
Internally designated reserves	50,603	85,358
Unrestricted loan funds	1,609	1,566
Unexpended plant funds	103,282	87,288
Fair value of unrestricted funds functioning as endowment	<u>132,473</u>	<u>133,206</u>
Subtotal	388,468	394,364
Unfunded postretirement medical liability	<u>(53,347)</u>	<u>(51,113)</u>
Total unrestricted net assets held by campuses	335,121	343,251
Held by affiliated entities:		
Fair value of unrestricted funds functioning as endowment	545	557
Other	<u>3,039</u>	<u>2,764</u>
<b>Total unrestricted financial resources</b>	<u>338,705</u>	<u>346,572</u>
<b>TOTAL NET POSITION</b>	<u>\$1,350,357</u>	<u>\$1,318,311</u>

The fair value of unrestricted funds functioning as endowment includes quasi-endowment funds totaling \$70,443,000 as of June 30, 2015 and \$64,192,000 as of June 30, 2014, which are invested to support debt principal payments for bond issues with specific future maturities. In addition to the June 30, 2015 unexpended plant balances shown above, \$72,434,000 of internally designated reserves was also approved for funding of campus capital projects. The largest of these projects are the Hamilton Smith building at UNH (\$36,245,000), the West Stadium at UNH (\$20,000,000), and the All Well North facility (\$4,886,000) at PSU.

## 15. Component units

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

### University of New Hampshire Foundation, Inc.

Condensed Information from the Statements of Net Position as of June 30,	2015		2014		Condensed Information from the Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30,	2015		2014		Condensed Information from the Statements of Cash Flows for the years ended June 30,	2015		2014	
	2015	2014	2015	2014		2015	2014	2015	2014					
Endowment investments	\$201	\$190	Gifts and other support	\$33	\$38	Receipts from gifts and other sources	\$14	\$15						
Other assets	14	14	Investment income	5	25	Payments to UNH and suppliers	(27)	(20)						
<b>Total assets</b>	<b>215</b>	<b>204</b>	<b>Total revenues</b>	<b>38</b>	<b>63</b>	Net cash used in operating activities	(13)	(5)						
Annuitants payable	2	3	Distributions to UNH	19	17	Net cash used in investing activities	(6)	(12)						
Other liabilities	1	2	Administrative and other expenses	6	6	Net cash provided by noncapital financing activities	16	20						
<b>Total liabilities</b>	<b>3</b>	<b>5</b>	<b>Total expenses</b>	<b>25</b>	<b>23</b>	<b>Change in Cash and Equivalents</b>	<b>\$ (3)</b>	<b>\$ 3</b>						
<b>Total Net Position</b>	<b>\$212</b>	<b>\$199</b>	<b>Increase in Net Position</b>	<b>\$13</b>	<b>\$40</b>									

A copy of the complete financial statements for UNHF can be obtained by contacting their Advancement Finance and Administration Office at (603) 862-1584.

## 16. Subsequent events

Management has evaluated the impact of subsequent events through October 30, 2015, which is the date that the financial statements were available for issuance, and concluded that no material events have occurred which would require recognition or disclosure.

## Required Supplemental Information

### Schedules of Funding Progress for the year ended June 30, 2015

(Unaudited)  
(\$ in thousands)

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

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

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