

Granite State College

Keene
STATE COLLEGE

Plymouth State
UNIVERSITY

 University of
New Hampshire

University System
of New Hampshire



ANNUAL REPORT 2019





University System *of* New Hampshire

The University System of New Hampshire (USNH) includes the University of New Hampshire (UNH), with campuses in Durham, Manchester and Concord, Plymouth State University (PSU), Keene State College (KSC) and Granite State College (GSC). KSC, PSU and UNH Durham are the three residential campuses of USNH. The system enrolls 32,000 students and is committed to providing access to affordable, high-quality education and to creating a talented workforce to serve the state's businesses and communities. A 29-member board of trustees is responsible for overseeing the system. The chancellor is the chief executive and academic officer of USNH and is responsible for developing, recommending and implementing the board's policies and decisions.



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The 2019 Annual Report is a publication of the University System of New Hampshire. Prior year University System annual reports are available online at <https://www.usnh.edu/about/publications>. University System of New Hampshire, 5 Chenell Drive, Suite 301, Concord, NH 03301 603-862-1800.



Founded in 1866, UNH is the state's flagship public research university, with campuses in Durham and Manchester, and the UNH Franklin Pierce School of Law in Concord. More than 16,000 students, representing 50 states and 71 countries, attend UNH, which offers 130 undergraduate and 70 graduate programs of study. UNH is awarded more than \$100 million in competitive research funding each year, and was ranked among the top 50 public universities in the nation, from among 629 ranked by *U.S. News & World Report* for 2019. More than 5,000 NH businesses receive direct, one-on-one assistance from UNH every year. The university also holds the nation's largest undergraduate conference of its kind, featuring nearly 2,000 students who present their projects each spring. UNH Extension provides research, expertise and outreach programming, with more than 114,000 residents participating in workshops, volunteer trainings, one-on-one consultations and courses.

FAST FACTS

- \$1.5 billion generated for NH's economy each year
- \$100 million+ awarded in competitive research grants each year
- Top 5 in U.S. for intellectual property law
- \$100+ million in financial aid awarded annually
- 84% of first-time, full-time students receive financial aid



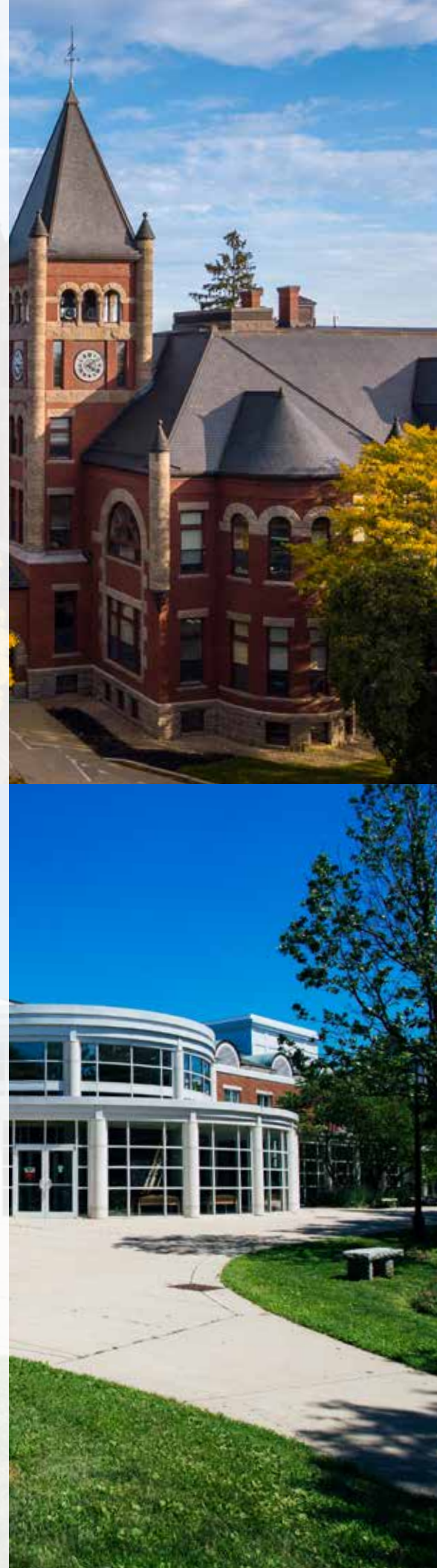
Wisdom to make a difference.

Keene State College 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 3,500 students, the college provides rigorous academic programs and a tradition of small classes, faculty-student collaborative research and service learning. Chief among the college's priorities are preparing students for global citizenship and meaningful work and catalyzing economic development through institutional partnerships across the region and state.

FAST FACTS

- 44% of undergraduates are first-generation college students
- 89% of 2018 graduates participated in at least one high-impact educational practice outside of the classroom*
- 97% of students received financial aid in 2018-19
- Keene State is among top-ranked schools in the Regional Universities of the North in *U.S. News & World Report*
- Keene State is on Princeton Review's list of Best Regional Colleges

*2018 Graduating Senior Survey





The Plymouth State Learning Model is organized around seven dynamic, theme-based hubs called "Integrated Clusters," which emphasize open, integrative and project-based experiences. It connects with community and business partners for economic development, technological advances, healthier living and cultural enrichment with a special commitment of service to the North Country and Lakes Region of New Hampshire. With an enrollment of approximately 4,000 undergraduate and 2,000 graduate students, the university confers BA, BFA, and BS degrees; master's degrees; certificates of advanced graduate studies (CAGS); and doctoral degrees in higher education; learning, leadership, and community; and physical therapy. Students choose from 53 undergraduate majors (including a new Robotics discipline), 60 minors, and 68 graduate degree and certification programs, with studies in the arts, business, education humanities and the natural and social sciences.

FAST FACTS

- Student-run Compass Marketing Group provides digital marketing support services
- Direct student contribution from out of state each year = \$57 million
- Students placed in 115 organizations to support NH nonprofits
- In 2017, PSU ranked first among public colleges and universities across the country for its ability to improve students' critical thinking abilities
- 18:1 student-to-faculty ratio (includes undergrad and grad)
- Little East Conference Presidents' Cup winner for student athletes with the highest GPA

Granite State College

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

FAST FACTS

- Ranked #1 in New Hampshire and #11 in U.S. for 2019 Best Colleges for Adult Learners, *Washington Monthly*
- 80% of enrollments are online
- #76 in U.S. for 2019 Best Online Bachelor's Programs, *U.S. News & World Report*
- #47 in U.S. for 2019 Best Online Bachelor's Programs for Veterans, *U.S. News & World Report*
- 78% of students live in New Hampshire
- 90% of students work in full or part-time jobs



Chancellor's Letter

As the state's four-year public higher education system, the University System of New Hampshire is particularly focused on serving the needs of New Hampshire, with a public mission focused on our state's most urgent workforce needs. USNH is the largest provider of our state's teachers and workers with bachelor's degrees in science and engineering.

With support from the State, the University System is undertaking the largest single capital project it has ever undertaken at UNH in order to address and support the needs of New Hampshire's growing biological



sciences industry. This initiative, along with targeted investments in labs in Manchester, will also support the emerging multidisciplinary field of regenerative medicine, an industry with which all of our institutions are engaged. In recognition of the acute shortages of health care professionals across New Hampshire and New England, all four institutions are engaged in expanding health care programs and capacity. A strategic investment from the State of \$9 million will support the doubling of nursing capacity at UNH, as well as address a number of other health care-related workforce needs.

The key to preparing New Hampshire's workforce is strengthening our in-state pipeline of educated workers, and that requires affordable access to our public colleges and universities. Holding down costs by leveraging economies of scale across the system has long been a focus of USNH. Those efforts have been enhanced through strategic procurement and the aggressive management of health care benefits costs, as well as ongoing cost-containment efforts. The governor and legislature advanced a budget that will enable the University

System to freeze tuition for the 2020-2021 academic year, sending a strong signal to students and their families that our in-state options provide great value.

Additionally, all of our residential institutions offer the Granite Guarantee, enabling Pell-eligible New Hampshire students to attend tuition-free. In December 2018, USNH expanded its commitment to New Hampshire students by offering the Granite Guarantee to graduates of the Community College System of New Hampshire. The expansion of this program now means that qualified, in-state students who receive Pell grants can attend tuition-free when they transfer directly from the Community College System to a USNH residential institution.

New Hampshire's public four-year institutions are critical to the state's talent pipeline and serve as one of New Hampshire's most critical economic engines. The University System will continue to work to maximize the return on investment for the State, our students and their families, ensuring that we deliver state-of-the-art solutions that empower our workforce to advance the quality of life of our residents and communities.

A handwritten signature in black ink that reads "Todd Leach".

Todd Leach
Chancellor

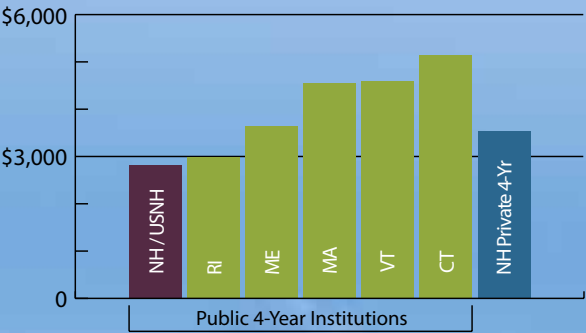
USNH is the Most Administratively Efficient System in the Northeast

USNH is the most administratively efficient public 4-year system in the Northeast, and it is more efficient than NH's private 4-year not-for-profit sector, according to data from the National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS).

USNH's administrative expense on a per-student basis is lower than that of any public 4-year system in the Northeast, which includes New England, Pennsylvania, New York and New Jersey. Expenses include support for executive management, fiscal operations, general administration, public relations, fundraising and development and administrative IT.

Administrative Efficiency

Institutional support expense per student FTE



USNH analysis, National Center for Education Statistics data (3-year average)

Moody's Affirms Bond Ratings; Cites USNH's Strong Fiscal Oversight

Citing strong fiscal management and leadership team, rating agency reaffirms USNH bond ratings

At a time when credit rating agencies are giving higher education a negative outlook, the University System of New Hampshire had its strong credit rating affirmed with a stable outlook by Moody's Investors Service.

In its credit opinion, Moody's stated, "The stable outlook reflects our expectation that the system will maintain positive operating performance despite stagnant state support. We expect the system's strong leadership team will carefully navigate a challenging state funding environment and focus on stabilizing enrollment to produce ongoing positive operating margins."

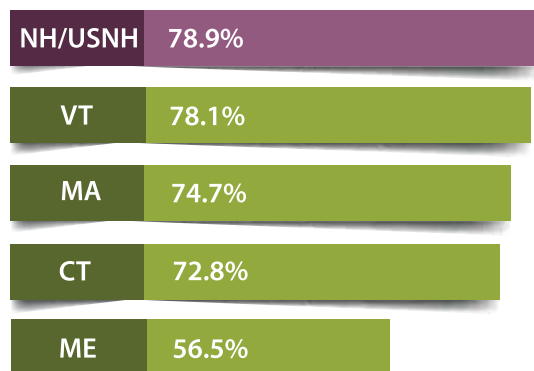




Return on Investment

Degree Completion

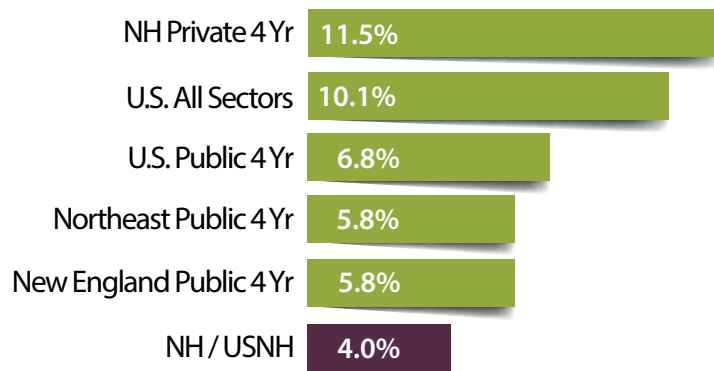
USNH ranks 1st in New England (and the Northeast) and 3rd in the U.S. among public systems for bachelor's degree completion.



Source: National Student Clearinghouse. RI omitted for technical reasons

Student Loan Default

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

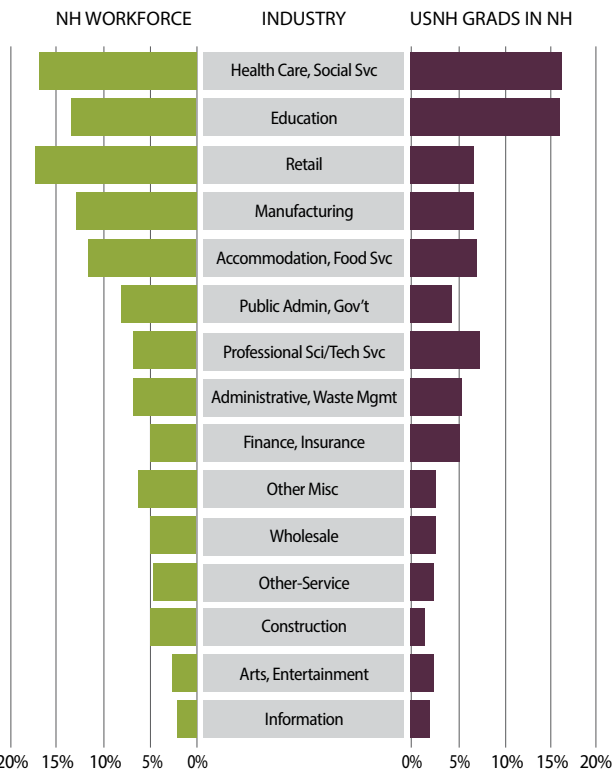


Source: National Student Loan Data System



NH Employment Distribution Across NH Industries Overall & USNH In-state Graduates

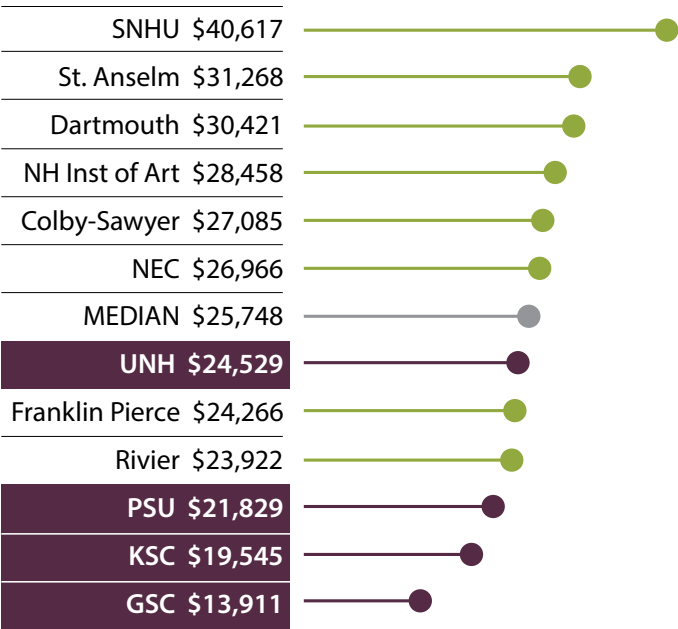
The industries chosen by NH graduates with bachelor's degrees from the University System align with the workforce needs of our state.



Source: USNH analysis of NH Employment Security data

Average In-State Cost of Attendance for NH 4-Year Colleges and Universities

Average undergraduate net price after all grant and scholarship aid. Price includes tuition, mandatory fees, books and supplies, room and board and other expenses as calculated for financial aid.



Source: U.S. Department of Education, U.S. College Scorecard



USNH awards 200 bachelor's and advanced nursing degrees annually.

Nursing Graduates

Since the program began in 1965, more than 2,500 students have graduated from a UNH nursing program. This year, UNH enrolled 80 students into the entry-level nursing program. UNH's family nurse practitioner graduate program enrolled 78 students last year and, overall, more than 70 percent of those who graduate practice in New Hampshire.



Nursing

“At a time when New Hampshire’s primary care shortage leaves dozens of openings basically unfilled each year, nurses must step up and assume greater leadership roles in healthcare. UNH makes this easier by educating generations of students in the evidence-based practice and independent thinking for which UNH is recognized nationally and globally.”

– UNH alumna Christina Ferreri '02G
Elliott Health System
President of the New Hampshire Nurse Practitioner Association

Rural Telehealth

The new Telehealth Practice Center is bringing cutting edge health care technologies to UNH to ensure that students and NH’s health care providers are equipped to provide innovative care to the most rural areas of the state. Student enrollment in telehealth courses tripled from 2018 to 2019.

Health Care Partnerships

More than 1,900 providers in the state who deliver care to 50 percent of the population have partnered with UNH’s Institute for Health Policy and Practice to improve health care practices throughout the Granite State.

Teri's Story

Nursing Experience:

33 Years as an RN

Education Background:

Nursing Diploma

I graduated with a diploma in nursing from Concord Hospital School of Nursing in the 1980s and today I am a maternal health nurse.

Nursing chose me. I always knew I would be a nurse and never thought about another career.

Because of changes in the health care field, many experienced RNs with nursing diplomas, like me, are being asked to add a bachelor's degree to their credentials and experience.

It was not my choice to return to college - it was required. However, it was my choice to attend Granite State. I embraced the experience, put my heart into it, and I am proud that I will have my BSN soon!



Keene State's Nursing Program Earns 10-Year Accreditation and Prepares Next Cohort of Nurses

New Hampshire continues to experience a shortage of nurses. Keene State's nursing program is training prepared, qualified nurses for this critical field. On November 1, 2018, Keene State College's nursing program was notified that it is fully accredited by the Commission on Collegiate Nursing Education (CCNE) for the next 10 years. The program was also granted full approval status by the New Hampshire Board of Nursing in October 2019. In May 2019, the college honored 18 nursing graduates in the Class of 2019. Several had already accepted positions at Dartmouth-Hitchcock Medical Center.

Partnerships within Public Higher Ed

GSC Invests Over \$450,000 in Advancing the Nursing Workforce

Since the inception of the RN to BSN Pathway, a partnership between the Community College System of New Hampshire (CCSNH) and USNH, Granite State College has made significant investments in the nursing workforce by offering a competitive, seamless, affordable, efficient and 100% online bachelor of science (BSN) in nursing degree, thereby, building a bridge between the state's two public higher education systems. When a NH resident graduates from CCSNH with a conferred associate degree in nursing (ADN), they become eligible for the RN to BSN Pathway scholarship at GSC, which reduces the per-credit cost of tuition for accepted and qualified students to a rate equal to the CCSNH tuition rate.



DPT Program at PSU

The Plymouth State University Doctor of Physical Therapy (DPT) degree program is the first offered by a public institution of higher education in New Hampshire. The program features early opportunities for clinical practice that are sustained through to graduation. The programs focus on experiential learning, applied research, regional service and leadership. These program graduates will be positioned to enter their fields ready to practice and engage in life-long learning, innovation and transformation.



Keene State College and Community College System Open Doors to Four-Year Degrees

Keene State College and the Community College System of New Hampshire (CCSNH) are partnering to share administrative and classroom space on Keene State's campus, broadening opportunities for affordable educational offerings in the Monadnock region and offering seamless transfer pathways to four-year degrees for CCSNH students. Starting in the fall of 2020, River Valley Community College will teach its courses in Keene State's classrooms and laboratories. By the fall of 2020, community college leaders expect to add an associate degree in accounting as well as a licensed practical nurse program in Keene. *"We are proud to partner with CCSNH to leverage our strengths and build a network of learning opportunities that meet the needs of people throughout their lifetimes. This is the kind of effort our state needs, and this is what New Hampshire residents deserve."*
– Dr. Melinda Treadwell, Keene State College President

Expanding Addiction Treatment Professionals

UNH's NH Citizens Health Initiative is partnering with the Department of Nursing to empower more than 150 nurse practitioners with expertise to take on new substance abuse patients via training, guidance and a learning network that allows them to prescribe medications to those in need. The program connects UNH nurse practitioner students with specialists via video conferencing so remote providers can be available yet remain at their own clinics to treat patients.



Plymouth State University Hosts Inaugural Governor's Cup FIRST® NH Robotics Competition

New Hampshire Governor Chris Sununu, FIRST® New Hampshire, the University System of New Hampshire, the Community College System of New Hampshire, Eversource, BAE Systems and Fidelity have partnered to present The Governor's Cup – an off-season robotics competition for the state's high school FIRST Robotics Competition teams hosted at PSU. In addition to providing the state's high school robotics teams an opportunity to compete prior to the official FIRST Robotics Competition season, up to 50 high school seniors had the opportunity to earn one-semester scholarships to New Hampshire's public institutions.





Technology

“We teamed up with the University System, Community College System and FIRST to create The Governor’s Cup. The Governor’s Cup is a truly unique opportunity for students from all across our state to further develop their STEM skills in a fun and competitive environment.”

-Governor Sununu

“This is a total home run for Granite State students.”

-Dean Kamen,
founder of FIRST



UNH-led Effort Secures \$20 Million Grant to Lift State's Biotech Industry

A \$20M grant will help UNH, Dartmouth College and Keene State College to work more closely with the Advanced Regenerative Manufacturing Institute (ARMI) and other industry partners to accelerate biomaterial design and manufacturing. A portion of the grant will be used to train a skilled workforce for biotech manufacturers inspired by ARMI and NH BioMade, which is developing materials needed to make human tissue engineering practical on a large scale.

USNH schools award 65% of NH's bioscience degrees and nearly 60% of NH's science and engineering degrees overall.

PSU Meteorology Students' "Snowpack-Sensors" Aid Avalanche and Flooding Analysis

A group of undergraduates, graduate students, and researchers designed, built and deployed low-cost devices during the 2018–2019 winter season to better predict mountain avalanches. Flooding is a major concern throughout New Hampshire, and the PSU sensors record snow depth and temperature – important factors used in flooding forecasts. Commercially available recorders can be cost-prohibitive, but the PSU-built versions were built for approximately \$300 each. Students gained first-hand experience assembling and testing the units that were constructed from off-the-shelf components.



PSU Brings High-Tech Robotics Programs to the North Country

Plymouth State University expanded NH's first bachelor's degree program in robotics with a dedicated assembly and experimentation area in a new makerspace. The electromechanical technology and robotics (EMTR) program integrates electromechanics, microcontrollers, software and computer science with artistic design to build and design real-world automation systems. These students graduate prepared for in-demand jobs while becoming innovators and entrepreneurs.

Keene State Prepares Optics Engineering Workforce Through Industry Partnerships

Responding to requests by regional optics engineering and precision manufacturing companies, Keene State College has initiated the development of credential and degree programs in this field. The curricula is being developed through a partnership joining KSC faculty and industry leaders in the region – BAE Systems, Corning, Moore Nanotech, StingRay, Chroma Technologies and Omega Optical. As a result of this collaboration, Keene State leaders are now in the process of identifying capital investment opportunities to develop the Monadnock Business Partnership Hub, a physical space that will be home to the new optics program as well as other regional workforce development partnerships.

UNH Manchester Launches Cybersecurity Engineering Program to Meet Market Demand for Talent

In response to increasing market demand to protect against severe cyber threats and data breaches, UNH Manchester launched a master's degree program in cybersecurity engineering for the fall 2018 term. Cybersecurity jobs in the state are predicted to grow by 28 percent over the next 10-year period. This new program will help to build that workforce by preparing graduates to develop, engineer and operate secure information systems.



"There is a growing investment in cybersecurity, a growing need for cybersecurity professionals and a growing gap between that need and workforce supply," said Mike Decelle, dean of UNH Manchester and board member for the New Hampshire Tech Alliance.



Workforce



Keene State Students Intern and Begin Careers with Ken Burns's Film Production House

Keene State has a long-standing relationship with Florentine Films, the production house of legendary filmmaker Ken Burns. The connection between Keene State and Florentine Films opens doors for Keene State students in a variety of majors to internships and career opportunities.

It's one of the hallmarks of a Keene State education – working at successful businesses and gaining exposure to potential future career paths. For students studying film, history or art, an internship at Florentine Films is an incredible opportunity to build their skills, expand their knowledge and try something unexpected.

*Alumni employees at Florentine Films. Back row: Daniel White '95, Dave Mast '96.
Front row: Rebecca Connolly '16, Cat Harris '10, Lynne Carrión '18.*



GSC Awards College Credit to First Responders for Their Training

Supporting public service professionals

Granite State College offers college credit for a pre-approved range of law enforcement, firefighter and EMT training. These programs help to propel public service professionals toward a four-year degree, strengthening their leadership capacity and preparing them for advanced positions.

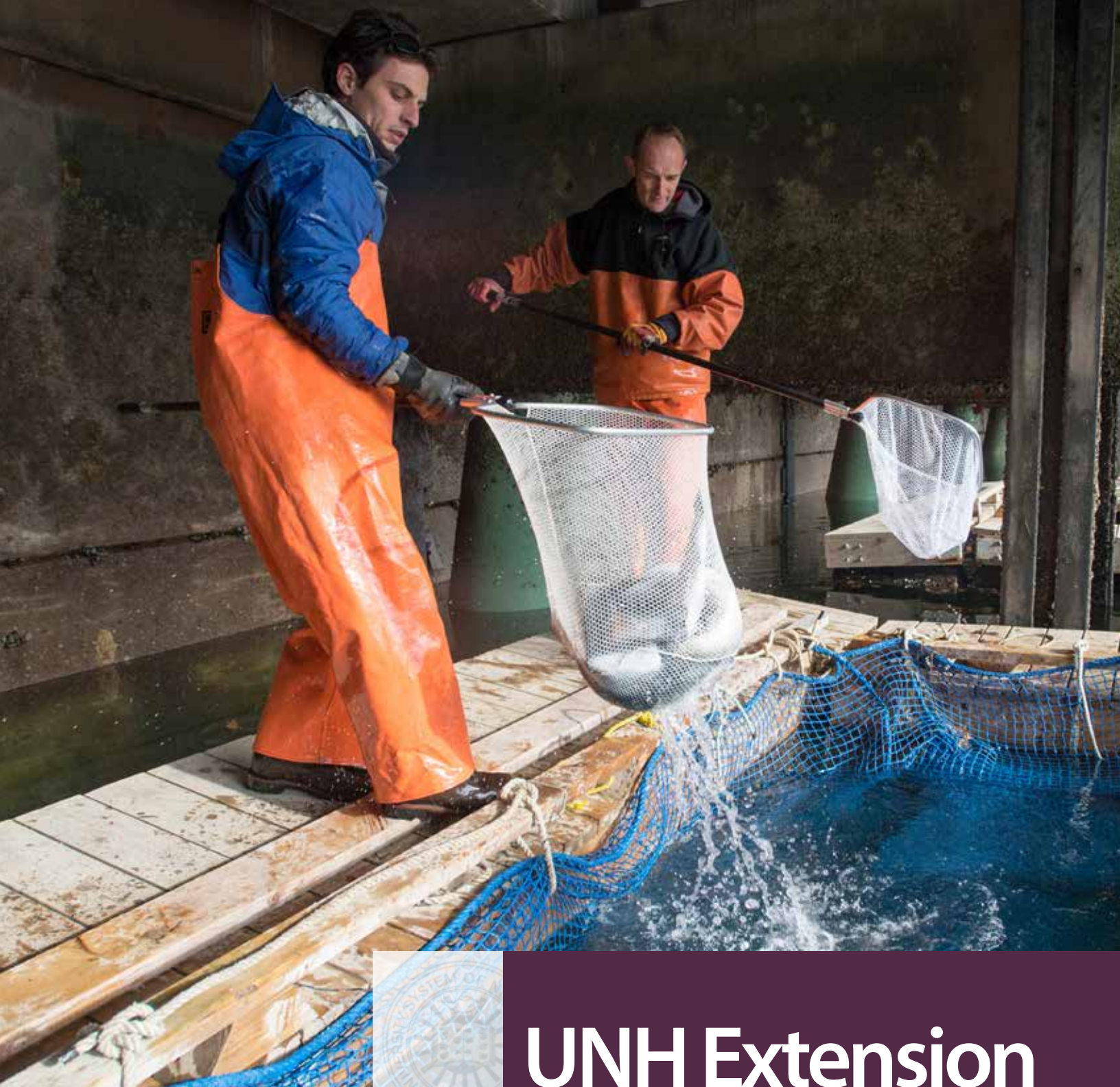
“Education raises the bar for your own level of knowledge and increases the confidence that we have in ourselves and that the public has in us.”

– Dawn Shea '18
Detective Sergeant
Allentown, NH

GSC Honored for Best Online Bachelor's Programs and Top College for Adult Learners

For the seventh year in a row, Granite State College has achieved a top-100 ranking for its online degree programs from *U.S. News & World Report*. GSC is #76 among a pool of more than 1,700 institutions that were surveyed for online bachelor's programs nationwide. The online graduate business programs (non-MBA) garnered a #94 ranking. In 2019, GSC also celebrated its #11 ranking from *Washington Monthly* for Best Colleges for Adult Learners (4-year).





UNH Extension



5,200+

Extension volunteers



Nearly 119,000

Residents assisted



100+

Lakes protected



150,000+

Acres managed



UNH Extension Wins National Honors for Community and Economic Development

UNH Extension improves citizens' lives and our state's economy by fostering workforce development, healthy families, sustainable natural resources and collaborative solutions for the state's most pressing issues. With nearly 100 employees staffing offices in all 10 NH counties, Extension has far-reaching impact in every Granite State community.

This year saw phenomenal growth of Nature Groupie – a state-of-the-art online platform created in partnership with UNH Innovations – connecting energized citizens with important conservation projects in need of volunteers. To date, nearly 6,000 Nature Groupie volunteers have helped to clean rivers, restore wildlife habitats, maintain trails, plant trees and do research for more than 200 environmental organizations. In 2019, the program was trademarked and plans are in place for a sustainable national rollout of this market-based approach to achieving the public good.



UNH and Army ROTC: Creating Great Opportunities, Future Leaders



Jack Remick '19 juggled a mechanical engineering major with the physical and mental demands required to be an Army ROTC cadet when he attended UNH. In May, he earned an officer's commission, graduated from UNH, became an infantry officer in the Army National Guard and began his dream job at BAE Systems in Nashua.

National Guard: Spotlight on Granite State College

Recruiters believe that a key incentive for joining the National Guard is the promise of a free college education at USNH schools. Many who choose this path are part of the student body at Granite State College. Guardsmen are our citizen-soldiers who, in addition to their military responsibilities, have families, jobs and bills to pay. Granite State's focus on adult learners fits with their lifestyles and GSC's flexibility allows them to pursue their education even while deployed.

Our Guardsmen have conducted international combat operations in the Middle-East and been involved in humanitarian missions in Central America and across the U.S. First-hand experiences of other cultures and viewpoints from across the globe inform their participation in the classroom and bring the world home to New Hampshire. Granite State College provides these service members with more than just diplomas; it provides fundamental professional development. GSC programs develop better communicators and critical thinkers and hone technical and management skills that Guardsmen use in their civilian jobs and while on duty.

Since 2009, USNH has provided NH guardsmen and women with more than 5,000 tuition waivers, totaling nearly \$18M.



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:

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 and for the years ended June 30, 2019 and 2018, 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 for the years then ended.

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, 2019 and 2018, 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.

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



Emphasis of Matters

As discussed in Note 1 to the financial statements, in 2019 the System adopted Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations*, and GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. Our opinion is not modified with respect to these matters.

Other Matter - Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 25–33 and the required supplementary information on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 audits 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, 2019

Management's Discussion and Analysis

June 30, 2019 and 2018 (Unaudited)

I. Introduction

The following Management's Discussion and Analysis summarizes the financial condition and results of activities of the University System of New Hampshire (USNH) for the fiscal years ended June 30, 2019 and 2018. 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 services for the state. These institutions include the University of New Hampshire (UNH), Plymouth State University (PSU), Keene State College (KSC) and Granite State College (GSC). While select programs are active in other regions as well as abroad, most of USNH's activities take place at the three residential campuses (UNH Durham or UNHD, PSU and KSC). UNH-Manchester and UNH School of Law (UNHM and UNHL), the UNH Cooperative Extension and Small Business Development Centers located throughout the state and the six regional sites of GSC. The accompanying financial statements also include the activities and balances of the University of New Hampshire Foundation, Inc. (UNHF) and the Keene Endowment Association (KEA), two legally separate but affiliated entities. (See Note 1 to the Financial Statements for additional information on affiliated entities.)

II. Economic Outlook

As of June 2018, the US Census Bureau projected that through 2030 the number of New Hampshire residents between ages 15 and 19 will drop 6.3% (approximately 5,400 students) from the then-current level of 85,131. The dip would then be partially recovered over the following ten years to approximately 83,300 by 2040. This is one near-term trend impacting enrollment at USNH campuses. However, it is mitigated by other trends including increased demand for fifth year programs culminating in graduate degrees, as well as local industry needs for higher education levels of new hires. At 2.5% as of June 2019, New Hampshire has the fourth lowest unemployment rate in the country behind only Iowa, North Dakota and Vermont. This compares to the national average of 3.7% and is welcome news for our graduates as they transition into the state's workforce. Over the past few years USNH institutions have increased partnerships with the state and businesses to offer and expand programs in areas of expected economic growth including nursing and other health-related programs, as well as robotics and other new technologies. In short, our campuses continue to focus on meeting both local and regional demands for quality education. The remainder of this report describes the results of financial operations for the year ended June 30, 2019 with comparisons to prior years.

III. Financial Highlights

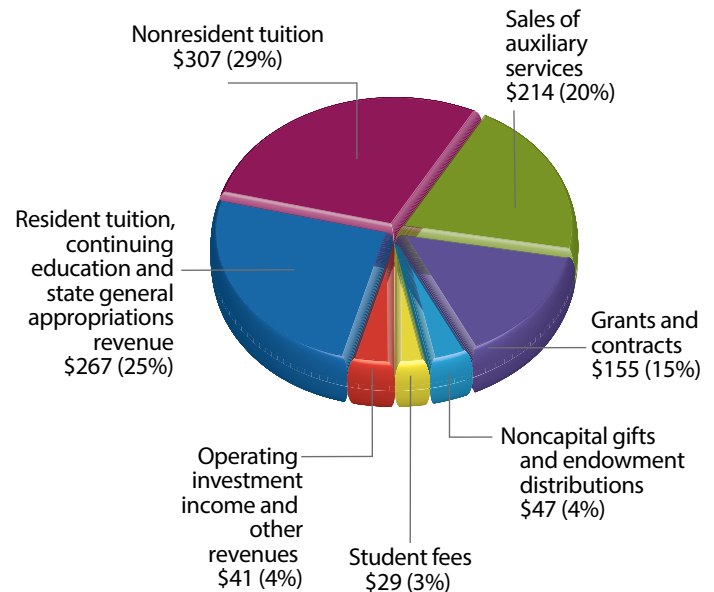
A. Revenues

Chart 1 to the right shows USNH's operating revenue streams including state appropriations, which totaled approximately \$1 billion in both fiscal years 2019 and 2018. Given our tri-fold mission of instruction, research and public service, the vast majority of USNH revenues are generated by the provision of educational and auxiliary services. As shown in Chart 2, institutional financial aid expenditures continue to surpass aid provided by grants and student loans issued.

Chart 1: 2019 Gross Revenues by Source

Total = \$1+ Billion

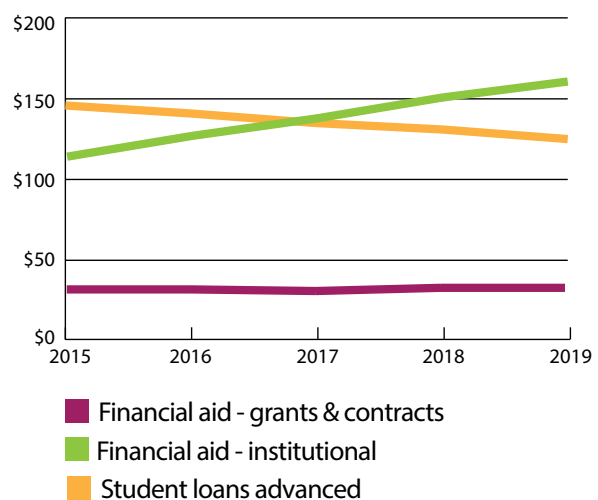
(\$ in millions)



USNH has provided over \$1.5 billion in direct financial aid to students over the past ten years. Approximately \$331 million (22%) of this total was from grants and contracts. Over \$1 billion (71%) came from campus general funds, and the remaining 7% (\$105 million) was provided by gifts and athletics programs. USNH continues to focus on this area with the goal of limiting student and family loan debt for our graduates.

Chart 2: Student Aid Trends

(\$ in millions)



As seen in Table 1 below, enrollment at the flagship campus has remained stable over the past five years at an average of over 15,500 FTE students for all UNH locations combined. UNH's Durham campus had large increases in freshmen applications over the past four years as shown in Table 2. Their enrollment strategy remains focused on attracting exemplary students. Approximately 40% of new UNHD students in the fall of 2018 ranked in the top 20% of their high school class reflecting the continued quality of the population. UNH's new president also published four strategic principles to drive UNH to become one of the top 25 public universities in the US. These include enhancing student success and well-being, expanding excellence, embracing New Hampshire, and building financial strength.

Under the leadership of their new president, KSC began grouping its academic programs into two new schools during 2019. This is expected to result in administrative efficiencies and sharing of resources. Their School of Arts, Education and Culture now houses education, journalism, communications, philosophy, Holocaust studies and several other majors. In addition, the School of Sciences, Sustainability and Health includes architecture, chemistry, political science, nursing, human performance, and environmental studies as well as technology and other related programs.

Table 1: Full-Time Equivalent Credit Enrollment

For the Fall of Each Fiscal Year

	2015	2016	2017	2018	2019
UNH (all campuses)	15,406	15,657	15,473	15,669	15,629
PSU	4,346	4,674	4,641	4,694	4,772
KSC	4,751	4,250	4,160	3,758	3,487
GSC	<u>1,685</u>	<u>1,658</u>	<u>1,584</u>	<u>1,446</u>	<u>1,468</u>
Total USNH FTEs	<u>26,188</u>	<u>26,239</u>	<u>25,858</u>	<u>25,567</u>	<u>25,356</u>
NH Resident	14,308	13,742	13,240	12,940	12,842
Nonresident	<u>11,880</u>	<u>12,497</u>	<u>12,618</u>	<u>12,627</u>	<u>12,514</u>
Total USNH FTEs	<u>26,188</u>	<u>26,239</u>	<u>25,858</u>	<u>25,567</u>	<u>25,356</u>

For 2019 the residential campuses limited tuition increases for NH students to 2.5%, and GSC limited their NH-resident increases to 2.3%. Nonresident tuition revenues increased 2.6% (\$7.7 million) over the prior year. For the past two years approximately 51% of USNH students were NH residents when calculated on a full-time equivalency basis. New England has historically been known as a premier location for the pursuit of higher education, whether at a public or private institution. While that is still true, regional school age populations are expected to decrease over time, resulting in more competition for the smaller number of NH students.

USNH is working to ensure New Hampshire students are prepared to meet the needs of the State's workforce. While financial aid from grants have remained stagnant for the past several years, institutional financial aid grew 6.1% (\$9.4 million) in 2019 after a 10% (\$13.8 million) increase in 2018. USNH has also made significant changes in the way it awards financial aid. During 2018, UNH launched the Granite Guarantee program which covers the cost of tuition for all federal Pell-grant eligible New Hampshire students. The sister USNH residential campuses were quick to follow suit. This program is funded with restricted gifts as well as unrestricted sources. The State is also partnering in this area by renewing its Governor's Scholarship Fund for NH resident students. A review of New Hampshire's school population data by age grouping suggests that our enrollment challenges will increase in future years. Planning for this possibility includes more programs for adult-learners currently in place at all campuses, and future capital project plans now include consideration of these impacts as well.

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

For the Fall of Each Fiscal Year

	2015	2016	2017	2018	2019
Freshmen applications received	18,420	19,255	20,203	19,966	20,096
Acceptances as % of applications	80%	71%	76%	77%	77%
Enrolled as % of acceptances	18%	24%	19%	20%	20%

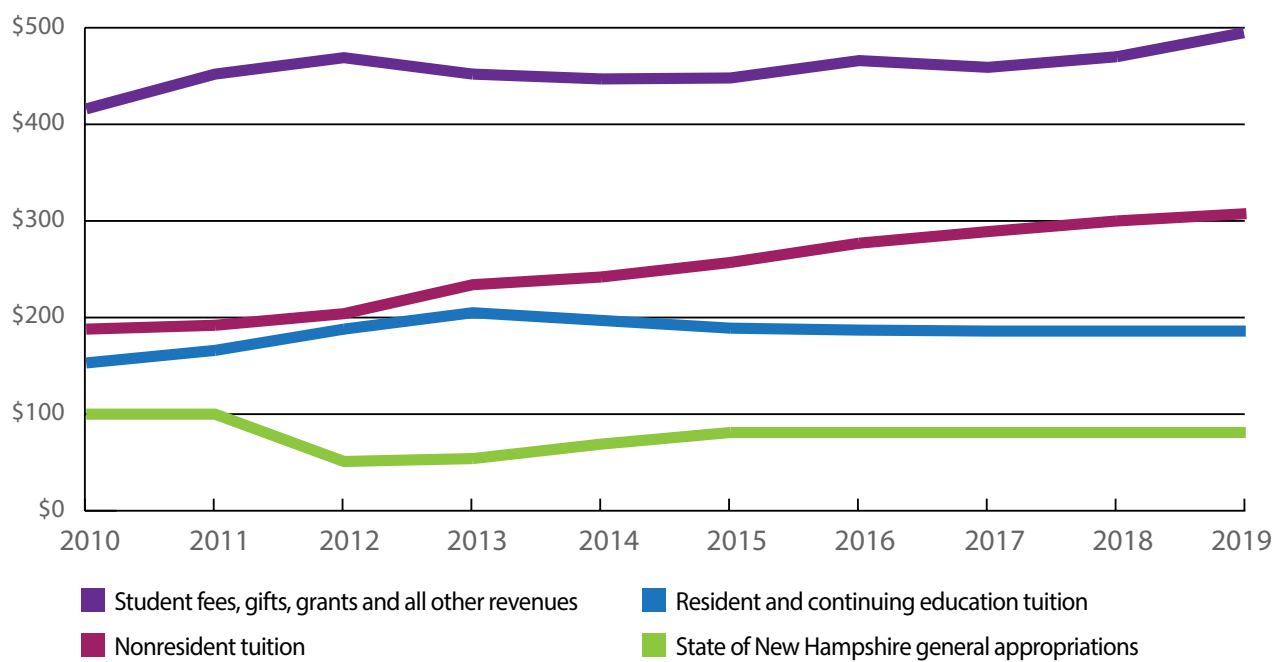
* Comparable data for other campuses is available upon request.

Chart 3 below shows USNH's major revenue stream trends for the past ten years. As seen in the graph, state appropriation revenues were cut by 50% in 2012, which resulted in a significant increase in resident tuition rates for fiscal years 2012 and 2013. USNH then held resident tuition rates flat through 2015 as the appropriation was partially restored. Inflationary increases in the resident tuition rates were added for 2016 through 2019. As evidenced by the financial aid growth shown in Chart 2, USNH is committed to working with the State to ensure that New Hampshire's students have access to a quality education at an affordable price.

Chart 3: Ten Year Revenue History

Before Application of Student Financial Aid

(\$ in millions)



B. Operating and Capital Expenditures

USNH's operating expenses (including interest) decreased \$3.4 million or 0.4% over the 2018 level; and 2018 expenses increased only 1.5% over 2017. There have been significant efforts to organize USNH employee groups over the past few years. USNH now has agreements in place for twelve groups representing 1,378 individuals or approximately 23% of the nonstudent employee population. Nongrant employee compensation costs increased slightly (\$759,000 or 0.2%) for the year. Depreciation charges for buildings and equipment increased by \$160,000 or 0.2%. USNH recorded \$93,000 of amortization expense related to the adoption of GASB 83, *Certain Asset Retirement Obligations*, in 2019. This is offset by nongrant supplies and services and utility cost decreases of nearly \$2 million from the 2018 level.

USNH recently restructured its purchasing activities to have all campus Procurement personnel report centrally. This model of local delivery with central oversight is designed to contain costs by combining our purchasing volumes across the state. As part of this initiative USNH contracted for a system-wide online purchasing system during 2018. This new system is expected to be live in calendar year 2019 and is designed to streamline business processes and provide tools needed for data driven procurement decision making.

Chart 4: Expenses by Functional Classification

(\$ in millions)

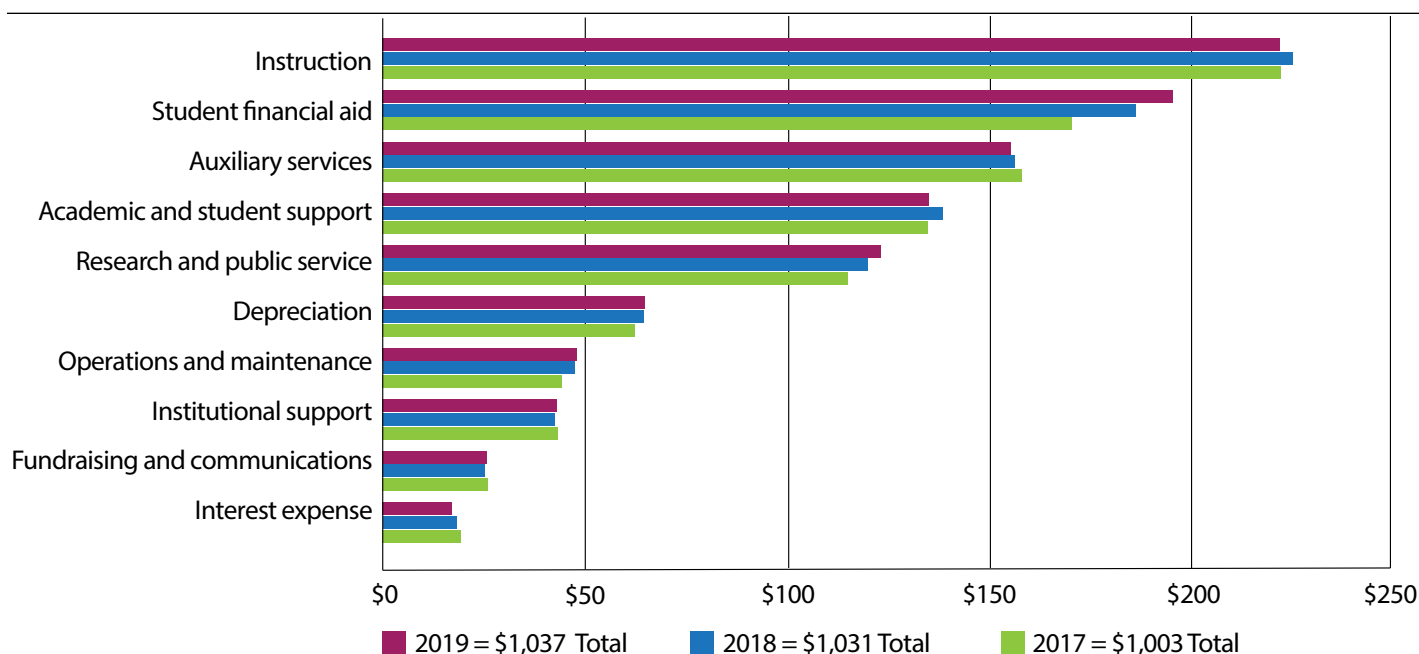


Chart 4 displays USNH's operating expenses for the past three years by functional, rather than natural, classification. The increases in financial aid discussed above are clearly depicted in the graph. That is the only cost category with such significant growth. (Additional detail on operating expenses by function can be found in Note 13 to the Financial Statements.)

The campuses had several major capital projects underway during 2019. The Geneva Smith Residence Hall (\$8 million) at PSU was completed in 2019. The Health and Human Performance Center (\$10 million) at PSU, KSC's Mason Library expansion for Holocaust study materials funded primarily with gift proceeds (\$5 million), and the new water treatment plant that UNH will share with the town of Durham (\$20 million) are all expected to be completed in fiscal year 2020.

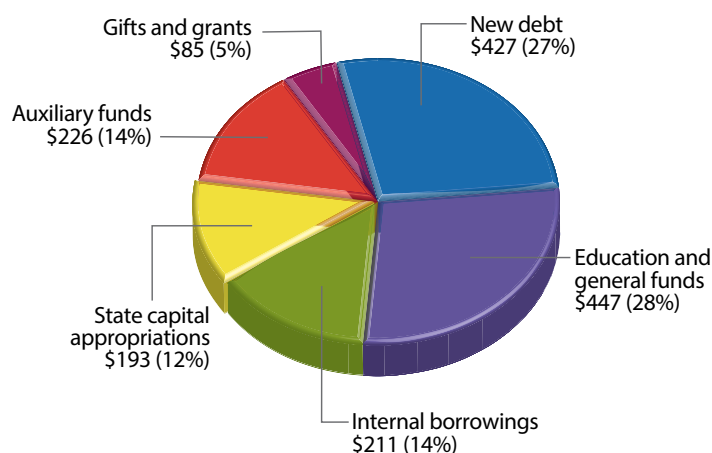
From 2002 to 2013, USNH received significant state capital appropriations to renovate specific academic buildings on each campus. During the past ten years operating and internal funds totaling \$211 million were used to supplement the state appropriations. However, there are still several buildings in need of improvement at each campus. This work is needed to ensure USNH can meet the education and experiential needs of its students. Because state capital funding has been significantly reduced over the past several years, USNH campuses must strategically prioritize the available limited funding for capital assets, while at the same time not allowing deferred maintenance needs to escalate. In addition, USNH is only authorized to issue debt for self-supporting, auxiliary projects. The related debt service is then funded by student fees for each type of auxiliary service (housing, dining or recreation).

Chart 5 below shows the funding sources for USNH's capital spending over the past fifteen years. USNH spent over \$1 billion during this time to construct and renovate buildings and infrastructure at all campuses. One of the largest sources of funding for the related projects was debt issuances of \$427 million. Plant and equipment depreciation expenses of \$763 million were recorded during the same period. (See Notes 5 and 8 to the Financial Statements for additional information on property and equipment, and debt balances.)

Chart 5: Capital Funding Sources, 2005-2019

Total \$1.6 Billion

(\$ in millions)



C. Investing Activities

Cash and short-term investment balances totaled approximately \$224 million on June 30, 2019. This compares to \$206 million on June 30, 2018. (See Note 2 to the Financial Statements for additional information on cash, cash equivalents and short-term investments.) USNH's long-term investments are primarily derived from endowment gifts intended to be invested in perpetuity. With Board approval USNH also invests select large, current-use gifts, and unrestricted balances held centrally, as quasi-endowment funds. These amounts are invested in one of three venues depending on whether the donor contributed to a campus, the UNH Foundation (UNHF), or the Keene Endowment Association (KEA). The investment pools are managed to provide the highest rate of return over the long term given an acceptable level of risk as determined by the responsible fiduciaries. The USNH Consolidated Endowment Pool holds funds for the benefit of all campuses. The UNHF endowment pool holds funds for the benefit of UNH only, and the KEA pool holds funds for the benefit of KSC only. The USNH Board of Trustees has fiduciary responsibility for the USNH Pool, whereas the separate boards of UNHF and KEA have their own investment policies and are responsible for those investments. Below is a summary of USNH's endowment and similar investment values for the past three years.

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

(\$ in millions)

	As of June 30,		
	2019	2018	2017
USNH Pool	\$542	\$527	\$498
UNHF Pool	236	225	204
KEA Pool	10	9	8
Funds held in trust	16	16	16
Life Income/Annuity Funds	<u>5</u>	<u>4</u>	<u>4</u>
	<u>\$809</u>	<u>\$781</u>	<u>\$730</u>

While the two larger pools are primarily invested in funds, the KEA pool primarily holds individual stock and bond investments. As shown in Table 4 above, the KEA pool net gains over the past three years averaged 11.6% and the USNH and UNHF pools averaged 9.0% and 8.8%, respectively, before distributions. During fiscal year 2019, the Investment Committee of the USNH Board of Trustees voted to change the target asset allocations for investments in the USNH Endowment pool. The changes included increasing the targets for public and private global equities, while also reducing the targeted level of flexible capital investments. These changes will be incorporated over several years to ensure prior fund commitments are met.

Distributions from the endowment and trust funds totaled approximately \$34 million in fiscal year 2019. This compares to \$28 million for fiscal year 2018. The difference is primarily due to USNH beginning to payout on a quasi-endowment created several years ago to support debt service payments made by the campuses. Distributions of approximately \$22 million were made from the USNH pool and trusts, along with \$11 million from the UNHF pool and \$401,000 from the KEA pool. Distributions represent a smaller percentage of the USNH pool because USNH holds

several quasi-endowment funds for future, rather than current, use. Volatility in returns has resulted in a limited number of endowment funds having market values less than the original gift value ("underwater" funds). Recent gains have mitigated this in most cases. Of the 1,504 true endowment funds maintained in the various endowment pools, only 31 remained underwater at June 30, 2019. This compares to 42 underwater true endowment funds at June 30, 2018. The true endowment balances underwater at June 30, 2019 totaled \$710,000, compared to \$440,000 at June 30, 2018. Certain quasi-endowment funds were also underwater in both years as well. (See Notes 4 and 12 for further information on endowment and similar investments.)

Table 4: Pooled Endowment Returns

	Year - Ended June 30,			Three Year
	2019	2018	2017	Average
USNH Pool				
Gross return	6.3%	8.4%	13.4%	9.4%
<i>Investment management fees</i>	<u>(0.5%)</u>	<u>(0.4%)</u>	<u>(0.4%)</u>	<u>(0.4%)</u>
Net return	5.8%	8.0%	13.0%	9.0%
<i>Distributions</i>	<u>(4.1%)</u>	<u>(3.2%)</u>	<u>(3.5%)</u>	<u>(3.6%)</u>
Net reinvested	<u>1.7%</u>	<u>4.8%</u>	<u>9.5%</u>	<u>5.4%</u>
UNHF Pool				
Gross return	5.6%	8.6%	14.1%	9.4%
<i>Investment management fees</i>	<u>(0.6%)</u>	<u>(0.7%)</u>	<u>(0.6%)</u>	<u>(0.6%)</u>
Net return	5.0%	7.9%	13.5%	8.8%
<i>Distributions</i>	<u>(3.8%)</u>	<u>(5.3%)</u>	<u>(5.7%)</u>	<u>(4.9%)</u>
Net reinvested	<u>1.2%</u>	<u>2.6%</u>	<u>7.8%</u>	<u>3.9%</u>
KEA Pool				
Gross return	10.9%	14.7%	11.3%	12.3%
<i>Investment management fees</i>	<u>(0.7%)</u>	<u>(0.7%)</u>	<u>(0.7%)</u>	<u>(0.7%)</u>
Net return	10.2%	14.0%	10.6%	11.6%
<i>Distributions</i>	<u>(4.5%)</u>	<u>(3.7%)</u>	<u>(5.7%)</u>	<u>(4.6%)</u>
Net reinvested	<u>5.7%</u>	<u>10.3%</u>	<u>4.9%</u>	<u>7.0%</u>

IV. Using the Financial Statements

A. Statements of Net Position

The Statements of Net Position on the following two pages depict all USNH assets, liabilities, and deferred inflows/outflows of resources on June 30th each year, along with the resulting net financial position. An increase in net position over time is a primary indicator of an institution's financial health. Factors contributing to future financial health as reported on the Statements of Net Position include the value and liquidity of financial and capital investments, and balances of related obligations.

Table 5 below shows condensed information from the Statements of Net Position at June 30 for the past five years. Note that we have also included certain condensed information as of June 30, 2019 by campus herein as required by regional accreditation agencies.

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

	2015	2016	2017	2018*	2019**
Cash and short-term investments	\$ 237	\$ 228	\$ 213	\$ 206	\$ 224
Endowment and similar investments	679	655	730	781	809
Property and equipment, net	1,010	1,077	1,120	1,122	1,117
Other assets and deferred outflows of resources	<u>168</u>	<u>162</u>	<u>106</u>	<u>95</u>	<u>92</u>
Total Assets and Deferred Outflows of Resources	<u>2,094</u>	<u>2,122</u>	<u>2,169</u>	<u>2,204</u>	<u>2,242</u>
Derivative instruments - interest rate swaps	30	37	26	18	23
Postretirement medical benefits	54	56	56	90	83
Long-term debt	500	519	501	488	465
Other liabilities and deferred inflows of resources	<u>160</u>	<u>169</u>	<u>152</u>	<u>160</u>	<u>173</u>
Total Liabilities and Deferred Inflows of Resources	<u>744</u>	<u>781</u>	<u>735</u>	<u>756</u>	<u>744</u>
Net investment in capital assets	598	630	651	665	685
Restricted financial resources	413	405	454	481	495
Unrestricted financial resources	<u>339</u>	<u>306</u>	<u>329</u>	<u>302</u>	<u>318</u>
Total Net Position	<u>\$1,350</u>	<u>\$1,341</u>	<u>\$1,434</u>	<u>\$1,448</u>	<u>\$1,498</u>

*Beginning net position restated to reflect the adoption of GASB 75 related to postretirement medical obligations

**Beginning net position restated to reflect the adoption of GASB 83 related to asset retirement obligations

As shown above, cash and short-term investment balances have been relatively stable over the past five years. In 2017 endowment returns rebounded after net losses in the prior two years. The 2018 and 2019 endowment gifts and gains were more moderate, but increased the restricted net position, as well as the investment asset balances. The other assets balances above include investments of \$69 million, \$57 million, \$11 million and \$4 million, held by our bond trustee related to our Series 2015 and 2016 bond issuances for 2015 through 2018, respectively. As of June 30, 2019, USNH no longer had any debt proceeds held by bond trustees. In 2017, USNH also transferred assets related to our Operating Staff Retirement Program into a trust, and applied the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The actuarial reviews completed for the plan for 2017 and 2018 resulted in the recording of a net pension asset of approximately \$1 million. Accordingly, no related pension liabilities are recorded for the plan beginning in 2017. The net pension assets were significantly reduced in 2019. A balance of approximately \$779,000 remains in other assets for this program as of June 30, 2019.

Deferred inflows and outflows of resources include changes in the fair value of USNH's interest rate swap derivatives, as well as accounting gains and losses related to refinancing certain bonds outstanding. The impacts of changes in actuarial assumptions, differences between projected and actual earnings, and benefit payments made after the measurement dates of USNH benefit plans are also included in deferred inflows and outflows beginning in 2017 depending on the type of plan. Beginning in 2019, additional deferred inflows and outflows were recorded related to asset retirement obligations.

The reduction in other assets and deferred outflows of resources in 2018 is due to a \$7 million reduction in the fair value of interest rate swap obligations, offset by an increase in accounting losses on debt refinancing and postretirement medical plan benefit payments which were made after the actuarial review measurement date in 2018. In 2018, USNH adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, for our postretirement medical obligations. The actuarial review completed for the Postretirement Medical Plan at that time resulted in recording deferred inflows and outflows in both fiscal year 2018 and 2019. Additional postretirement medical changes were recorded in 2019.

In 2018, the UNH Foundation also adopted the provisions of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which resulted in recording deferred inflows of approximately \$1 million and \$2 million in 2017 and 2018, respectively.

USNH has large liabilities related to long-term debt and postretirement medical benefits. Bond and capital lease principal payments ranged from \$16 million to \$21 million for fiscal years 2017 through 2019. The postretirement obligations represent the actuarially-determined value of medical benefits provided to certain current and former employees for various periods, including the remaining life of the participants in some cases. (See Notes 7 and 8 to the Financial Statements for additional information in this regard.)

Net position is reported in three categories. The net invested in capital assets amount represents the historical cost of property and equipment reduced by total accumulated depreciation and the balance of related debt outstanding for certain auxiliary buildings. Restricted financial resources include balances of current and prior year gifts for specified purposes such as scholarships or academic programs, as well as campus endowment balances which were required to be invested in perpetuity by the original donors (\$282 million and \$264 million at June 30, 2019 and 2018, respectively). Unrestricted financial resources represent net assets that are available for any future use without legal restriction. (See Note 14 to the Financial Statements for further details on the components of net position.) A breakdown of asset, liability and net position balances by campus as of June 30, 2019 is shown below.

**Table 5A: Condensed Information from the Statement of Net Position as of June 30, 2019
Presented by Campus**

(\$ in millions)

	University of New Hampshire Campuses & Foundation	Plymouth State University	Keene State College & Endowment Association	Granite State College	Chancellor's Office	Total University System of New Hampshire
Cash and short-term investments	\$ 259	\$ 36	\$ 55	\$22	\$(148)	\$ 224
Endowment and similar investments	409	29	39	8	324	809
Property and equipment, net	744	191	174	7	1	1,117
Other assets and deferred outflows of resources	(24)	(10)	3	(1)	124	92
Total Assets and Deferred Outflows of Resources	<u>1,388</u>	<u>246</u>	<u>271</u>	<u>36</u>	<u>301</u>	<u>2,242</u>
Derivative instruments - interest rate swaps	–	–	–	–	23	23
Postretirement medical benefits	64	11	11	2	(5)	83
Long-term debt	185	99	98	–	83	465
Other liabilities and deferred inflows of resources	88	14	13	2	56	173
Total Liabilities and Deferred Inflows of Resources	<u>337</u>	<u>124</u>	<u>122</u>	<u>4</u>	<u>157</u>	<u>744</u>
Net investment in capital assets	491	79	74	5	36	685
Restricted financial resources	417	27	43	8	–	495
Unrestricted financial resources	143	16	32	19	108	318
Total Net Position	<u>\$1,051</u>	<u>\$122</u>	<u>\$149</u>	<u>\$32</u>	<u>\$144</u>	<u>\$1,498</u>

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

Operating revenues are generally earned through the sale of goods and services. However, GASB reporting standards require that certain USNH recurring revenues be shown as nonoperating. This includes state general appropriations, federal Pell grants, noncapital gifts, operating investment income, and the portion of endowment returns used to fund the related programs. These revenue streams are important sources of funds used to supplement tuition and fees revenue. Accordingly, we have grouped the operating and nonoperating revenues together in the condensed statements to allow readers to better understand which revenues support USNH operating expense streams. Table 6 on the following page shows condensed information from the Statements of Revenues, Expenses and Changes in Net Position for the five years ended June 30, 2019.

The net tuition and fees revenue values in these statements reflects the size and type of student enrollments, as well as student financial needs and academic achievement. Auxiliary services reflect revenues from student housing, dining, and other facility programs. Grants and contracts revenues reflect amounts reimbursed by USNH sponsors including the US government, state of New Hampshire, and other entities. These revenues may also come from awards to other institutions that are later contracted out to USNH campuses. Total operating and nonoperating revenues were up \$14 million in 2019, primarily due to increases in operating investment income and endowment payout. Expenses were down \$3 million in 2019, after an increase of \$12 million in 2018. The increase in net position before other changes reflects USNH's operating margin each year. USNH's operating margin for 2019 was 2.7% of net revenues. This is primarily due to the higher investment income levels noted above.

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

(\$ in millions)

	2015	2016	2017	2018	2019
Tuition and fees	\$472	\$491	\$501	\$514	\$522
Less: student financial aid	(149)	(162)	(172)	(188)	(197)
Net tuition and fees	323	329	329	326	325
Sales of auxiliary services	206	211	216	215	214
Grants and contracts	149	149	146	153	155
State general appropriations	81	81	81	81	81
Noncapital gifts, investment income and other revenues	66	79	71	74	88
Total Operating and Nonoperating Revenues	825	849	843	849	863
Employee compensation	503	529	521	533	534
Supplies and services	203	203	210	208	204
Utilities, depreciation and interest	98	99	100	102	102
Total Operating and Nonoperating Expenses	804	831	831	843	840
Increase in Net Position from Recurring Activities	21	18	12	6	23
Endowment gifts and returns, net	6	(30)	70	45	27
State capital appropriations and other changes	5	3	11	5	2
Total Other Changes in Net Position	11	(27)	81	50	29
Effect of adoption of new accounting standards	—	—	—	(42)	(2)
Total Increase (Decrease) in Net Position	\$ 32	\$ (9)	\$ 93	\$ 14	\$ 50

Endowment gifts totaled \$18 million in 2019, \$16 million in 2018, and \$13 million in 2017. Most of these gifts were due to UNH's recent capital campaign which ended in 2018. The investment return after distributions totaled only \$8.9 million in 2019 after gains of \$29 million in 2018 and \$56 million in 2017. The volatility of endowment returns is a significant driver of the change in total net position each year. Table 6A below provides condensed information from the Statement of Revenues, Expenses and Changes in Net Position presented by campus for the year ended June 30, 2019.

Table 6A: Condensed Information from the Statement of Revenues, Expenses and Changes in Net Position for the Year Ended June 30, 2019 Presented by Campus

(\$ in millions)

	University of New Hampshire Campuses & Foundation	Plymouth State University	Keene State College & Endowment Association	Granite State College	Chancellor's Office	Total University System of New Hampshire
Tuition and fees	\$370	\$ 75	\$62	\$15	\$ —	\$522
Less: student financial aid	(138)	(30)	(24)	(5)	—	(197)
Net tuition and fees	232	45	38	10	—	325
Sales and auxiliary services	149	32	33	—	—	214
Grants and contracts	132	9	8	6	—	155
State general appropriations	55	12	11	3	—	81
Noncapital gifts, investment income and other revenues	59	6	6	1	16	88
Total Operating and Nonoperating Revenues	627	104	96	20	16	863
Employee compensation	386	60	57	13	18	534
Supplies and services	154	26	25	4	(5)	204
Utilities, depreciation and interest	63	19	17	1	2	102
Total Operating and Nonoperating Expenses	603	105	99	18	15	840
Change in Net Position from Recurring Activities	24	(1)	(3)	2	1	23
Endowment gifts and returns, net	17	2	2	—	6	27
State capital appropriations and other changes*	4	(1)	1	—	(4)	—
Total Other Changes in Net Position	21	1	3	—	2	27
Total Increase in Net Position	\$ 45	\$ —	\$ —	\$ 2	\$ 3	\$ 50

*Reflects adjustments related to adoption of new accounting standards.

C. Statements of Cash Flows

The Statements of Cash Flows summarize transactions affecting cash and cash equivalents. Table 7 below shows summary information from the Statements of Cash Flows for the five years ended June 30, 2019.

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

(\$ in millions)

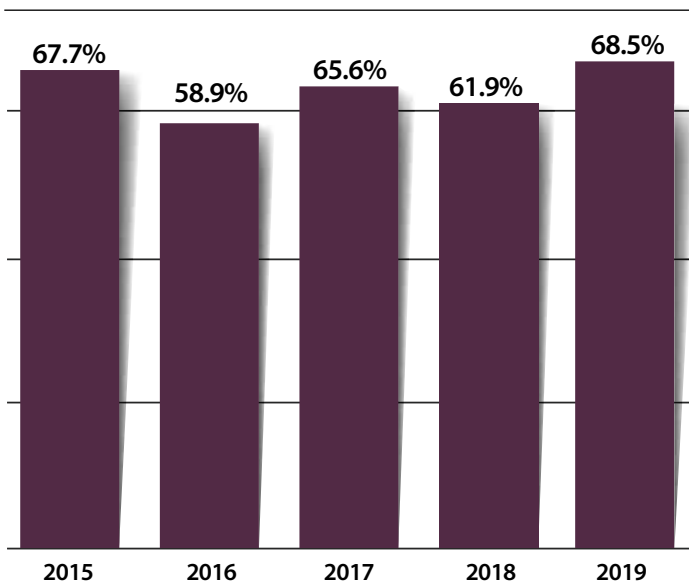
	2015	2016	2017	2018	2019
Cash flows from:					
Receipts from tuition and fees, net	\$ 324	\$331	\$ 332	\$ 328	\$327
Receipts from sales of auxiliary services	206	208	217	214	216
Receipt of state general appropriations	81	81	81	81	81
Noncapital gifts, grants and other receipts	190	193	188	203	198
Payments to and on behalf of employees	(499)	(518)	(543)	(537)	(532)
Payments for supplies, services and utilities	(224)	(222)	(227)	(227)	(222)
Net Cash Provided by Operating and Noncapital Financing Activities	78	73	48	62	68
Net Cash Used in Capital Financing Activities	(5)	(110)	(120)	(83)	(78)
Net Cash (Used in)/Provided by Investing Activities	(73)	26	69	10	30
Increase/(Decrease) in Cash and Cash Equivalents	\$ —	\$ (11)	\$ (3)	\$ (11)	\$ 20

These statements provide information about cash collections and cash payments made by USNH each year. The statements are designed to help readers assess our ability to generate the cash flows necessary to meet current and future obligations. Cash flows from operating activities will always be different than the operating results on the Statements of Revenues, Expenses and Changes in Net Position because of the inclusion of noncash items, such as depreciation expense, and because the latter statement is prepared on the accrual basis of accounting, meaning that it shows revenues when earned and expenses as incurred. The increase in cash flows from operating and noncapital financing activities is primarily related to the increase in grant revenues during 2018 and 2019. The net cash used in capital financing activities for 2018 and 2019 is lower since most of the 2016 and 2017 investments generated by USNH's recent bond issuances had already been liquidated in prior years. The cash provided by investing activities in 2019 is higher because endowment investment transactions were less volatile than 2018.

D. Financial Indicators

USNH's primary indicator of its financial health is the level of unrestricted financial resources to external debt outstanding. This ratio uses the unrestricted net position balance as the numerator and the total long-term debt balance outstanding as the denominator. USNH's targeted unrestricted financial resources to debt ratio is 50% or above. The average of this ratio over the past five years was 64% reflecting sufficient available support of ongoing initiatives. (See Notes 8 and 14 to the Financial Statements for additional information in this regard).

Chart 6: Unrestricted Financial Resources to Total Debt



University System of New Hampshire

Statements of Net Position

(\$ in thousands)

	Balance at June 30,	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 75,422	\$ 55,128
Short-term investments	148,166	151,150
Accounts receivable, net	22,031	20,628
Pledges receivable - current portion	3,292	3,299
Notes receivable - current portion	2,196	2,711
Prepaid expenses and other current assets	9,230	7,590
Total Current Assets	260,337	240,506
Noncurrent Assets		
Debt proceeds held by bond trustee for construction purposes	–	4,239
Endowment and similar investments - campuses	557,984	543,365
Endowment and similar investments - affiliated entities	251,249	237,917
Pledges receivable, net of current portion	4,810	5,501
Notes receivable, net of current portion	14,293	18,070
Pension assets, net of obligations	311	724
Property and equipment, net of accumulated depreciation	1,117,361	1,122,011
Total Noncurrent Assets	1,946,008	1,931,827
TOTAL ASSETS	2,206,345	2,172,333
DEFERRED OUTFLOWS OF RESOURCES	35,977	31,436
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	65,231	59,924
Deposits and unearned revenues	40,242	39,864
Accrued employee benefits - current portion	6,760	6,917
Postretirement medical benefits - current portion	5,331	5,837
Long-term debt - current portion	26,203	22,968
Total Current Liabilities	143,767	135,510
Noncurrent Liabilities		
Asset retirement and other obligations	5,787	2,000
Refundable government advances	17,513	16,679
Accrued employee benefits, net of current portion	24,702	25,736
Postretirement medical benefits, net of current portion	77,515	83,975
Derivative instruments - interest rate swaps	22,976	18,294
Long-term debt, net of current portion	439,016	465,219
Total Noncurrent Liabilities	587,509	611,903
TOTAL LIABILITIES	731,276	747,413
DEFERRED INFLOWS OF RESOURCES	12,500	8,700
NET POSITION (see Note 14)		
Net investment in capital assets	685,015	665,194
Restricted		
Nonexpendable	281,701	263,969
Expendable	213,337	216,339
Unrestricted	318,493	302,154
TOTAL NET POSITION	\$1,498,546	\$1,447,656

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,	
	2019	2018
OPERATING REVENUES		
Resident tuition	\$ 166,236	\$ 165,325
Nonresident tuition	307,332	299,663
Continuing education tuition	19,574	20,749
Student fees revenue	28,514	28,072
Total tuition and fees	521,656	513,809
Less: student financial aid - grants and contracts	(33,460)	(33,591)
Less: student financial aid - all other	(163,308)	(153,890)
Net tuition and fees	324,888	326,328
Grants and contracts - direct revenues	107,258	105,735
Grants and contracts - facilities & administrative recovery	21,718	21,160
Sales of auxiliary services	214,511	214,784
Other operating revenues	32,266	29,677
TOTAL OPERATING REVENUES	700,641	697,684
OPERATING EXPENSES		
Employee compensation - grants and contracts	62,965	61,714
Employee compensation - all other	471,763	471,004
Supplies and services - grants and contracts	30,010	32,416
Supplies and services - all other	174,369	175,883
Utilities	18,583	19,065
Depreciation and amortization	65,349	65,096
TOTAL OPERATING EXPENSES	823,039	825,178
Operating loss	(122,398)	(127,494)
NONOPERATING REVENUES (EXPENSES)		
State of New Hampshire general appropriations	81,000	81,000
Federal Pell grants	25,968	26,408
Noncapital gifts	13,510	14,101
Endowment and investment income	42,024	29,667
Interest expense, net	(17,154)	(18,440)
Other nonoperating revenue	252	349
TOTAL NONOPERATING REVENUES (EXPENSES)	145,600	133,085
INCREASE IN NET POSITION BEFORE OTHER CHANGES	23,202	5,591
OTHER CHANGES IN NET POSITION		
State of New Hampshire capital appropriations	—	3,000
Plant gifts, grants and other changes, net	2,722	1,862
Endowment and similar gifts	17,793	16,494
Endowment return, net of amount used for operations	8,895	28,985
TOTAL OTHER CHANGES IN NET POSITION	29,410	50,341
INCREASE IN NET POSITION	52,612	55,932
Net Position at Beginning of Year	1,447,656	1,433,516
Effect of adoption of new accounting standards	(1,722)	(41,792)
NET POSITION AT END OF YEAR	\$1,498,546	\$1,447,656

See accompanying notes to the financial statements.

University System of New Hampshire

Statements of Cash Flows

(\$ in thousands)

	For the year ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tuition and fees, net of student financial aid	\$327,183	\$327,532
Receipts from sales of auxiliary services	216,302	214,353
Receipts from grants, contracts and other operating revenues	158,173	160,598
Payments to employees	(391,815)	(404,062)
Payments for employee benefits	(140,449)	(133,283)
Payments for supplies, services and utilities	(222,225)	(226,678)
NET CASH USED IN OPERATING ACTIVITIES	(52,831)	(61,540)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State general appropriations	81,000	81,000
Federal Pell and other nonoperating grants	26,221	26,757
Noncapital gifts	13,300	15,599
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	120,521	123,356
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
State appropriations for plant projects	1,237	1,762
Plant gifts and grants	4,774	6,307
Endowment gifts	18,878	17,002
Proceeds from issuance of debt and sale of property	234	109,736
Debt principal payments	(21,057)	(18,632)
Interest payments	(18,419)	(19,994)
Purchases and construction of property	(63,178)	(72,427)
Retirement of debt through defeasance	–	(106,572)
NET CASH USED IN CAPITAL FINANCING ACTIVITIES	(77,531)	(82,818)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	481,725	718,539
Purchases of investments	(462,430)	(717,912)
Investment income	10,840	9,434
NET CASH PROVIDED BY INVESTING ACTIVITIES	30,135	10,061
Increase (Decrease) in cash and cash equivalents	\$ 20,294	\$ (10,941)
Beginning cash and cash equivalents	55,128	66,069
ENDING CASH AND CASH EQUIVALENTS	\$ 75,422	\$ 55,128
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$(122,398)	\$(127,494)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	65,349	65,096
Changes in assets and liabilities:		
Accounts receivable, net	(2,641)	2,339
Notes receivable	5,127	642
Prepaid expenses and other current assets	(1,640)	221
Accounts payable and accrued expenses	6,574	3,446
Deposits and unearned revenues	472	2,135
Accrued employee benefits	(3,674)	(7,925)
NET CASH USED IN OPERATING ACTIVITIES	\$(52,831)	\$(61,540)
SIGNIFICANT NONCASH TRANSACTIONS		
Endowment return, net of amount used for operations	\$ 8,895	\$ 28,985
Loss on disposal of capital assets	(1,237)	(4,403)
Construction services payable balance	9,147	10,373

See accompanying notes to the financial statements.



Notes to the Financial Statements

June 30, 2019 and 2018

1. Summary of significant accounting policies and presentation

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

Affiliated entities and related parties

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

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

Basis of accounting

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

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

Net investment in capital assets: Property and equipment at historical cost or fair value on date of acquisition, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition or construction of those assets.

Restricted Nonexpendable: Resources subject to externally imposed stipulations that they be maintained permanently by USNH. These funds include the historical gift value of restricted true endowment funds.

Restricted Expendable: Resources whose use by USNH is subject to externally imposed stipulations. Such funds include the accumulated net gains on donor-restricted “true” endowment funds; the fair value of restricted funds functioning as endowment; restricted funds loaned to students; restricted gifts and endowment income; and other similarly restricted funds.

Unrestricted: Resources that are not subject to externally imposed stipulations. Substantially all unrestricted net position funds are designated to support academic, research, or auxiliary enterprises; invested to function as endowment; or committed to capital construction projects.

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

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

Property and equipment are recorded at original cost for purchased assets or at fair value on the date of donation in the case of gifts. Equipment with a unit cost of \$5,000 or more is capitalized. Building improvements with a cost of \$50,000 or greater are also capitalized. Net interest costs incurred during the construction period for major, debt-funded, capital projects are added to the cost of the underlying asset. The value of equipment acquired under capital leases is recorded at the present value of the minimum lease payments at the inception of the lease. Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of the respective assets. The cost of certain research buildings is componentized for the purpose of calculating depreciation. Buildings and improvements are depreciated over useful lives ranging from 4 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 U.S. Government for Federal Perkins Loans to students are reported as government advances refundable. Federal Direct Loan proceeds are posted to student accounts as approved and drawn weekly.

Operating revenues include tuition and fees, grants and contracts, sales of auxiliary services, and other operating revenues. Tuition and fee revenues are reported net of student financial aid discounts and allowances. Operating expenses include employee compensation and benefits, supplies and services, utilities, and depreciation. Operating expenses also include early

retirement and other separation incentive stipends and benefits promised to certain employees in exchange for termination of employment. All such termination benefits are accrued as of the date the termination agreements are 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 regarding their realization and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met. In accordance with GASB requirements, endowment pledges expected to be received over the next ten years, totaling \$11,094,000 and \$8,166,000 at June 30, 2019 and 2018, respectively, have not been reported in the accompanying financial statements. USNH generally uses restricted funds first when an expense is incurred where both restricted and unrestricted funds are available.

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

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

New reporting standards

The System's financial statements and notes for fiscal 2019 as presented herein reflect the adoption of GASB Statement No. 83, *Certain Asset Retirement Obligations*, as of July 1, 2018. GASB 83 establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflows of resources related to asset retirement obligations. The Statement requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred. The deferred outflows of resources associated with an asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. As allowed under the standard, fiscal year 2018 balances and activities were not restated to reflect this adoption. USNH's asset retirement obligations are governed

by New Hampshire rules for the control of radiation, disposal of hazardous waste, and underground oil storage. The related activities include disposal of radioactive materials in research laboratories, equipment housed in campus health centers, landfill gas pipelines and underground oil tanks, as well as closure activities required for campus fuel co-generation and water treatment plants. As a result of this adoption, the opening net position as of July 1, 2018 was reduced by \$1,722,000. USNH accrued \$3,306,000 for these obligations as of June 30, 2019. The liability estimate is based on the current cost of expected removal costs. The remaining useful lives of the related assets range from 1 - 41 years. USNH has no funding or assurance requirement related to asset retirement beyond these decommissioning costs. Additional information can be found in Note 10.

The System also adopted GASB Statement No.88 *Certain Disclosures Related to Debt*, including *Direct Borrowings and Direct Placements* in 2019. This Statement improves disclosures by providing distinction between direct borrowings and direct placements of debt. It also clarifies which liabilities should be included when disclosing information related to debt. See Note 8 for the related information.

2. Cash, cash equivalents and short-term investments

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

Cash equivalents represent amounts invested to satisfy current operating liabilities and include repurchase agreements, money market funds and other mutual funds. Repurchase agreements are limited to overnight investments only. Short-term investments are highly liquid amounts held to support specific current liabilities. Cash, cash equivalents and short-term investments are generally uninsured and uncollateralized against custodial credit risk, and the related mutual funds are not rated. Cash and cash equivalents totaled \$75,422,000 and \$55,128,000 at June 30, 2019 and 2018, respectively, and short-term investments totaled \$148,166,000 and \$151,150,000 at June 30, 2019 and 2018, respectively. See Note 4 for additional information on fair value classifications.

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

	Balances and Terms as of June 30, 2019				Balances and Terms as of June 30, 2018			
	Level 1	Level 2	Total	Weighted Average Maturity	Level 1	Level 2	Total	Weighted Average Maturity
Cash balance	\$ 29,431	\$ –	\$ 29,431	Less than 1 year	\$ 10,654	\$ –	\$ 10,654	Less than 1 year
Repurchase agreements	–	7,625	7,625	Less than 1 year	–	7,018	7,018	Less than 1 year
Money market funds	38,366	–	38,366	Less than 1 year	37,456	–	37,456	Less than 1 year
Subtotal cash and cash equivalents	<u>67,797</u>	<u>7,625</u>	<u>75,422</u>		<u>48,110</u>	<u>7,018</u>	<u>55,128</u>	
Money market funds	34,046	–	34,046	Less than 1 year	30,888	–	30,888	Less than 1 year
Domestic equity	338	–	338	Less than 1 year	298	–	298	Less than 1 year
Mutual funds	86,372	–	86,372	1-5 years	93,928	–	93,928	1-5 years
Corporate bonds	–	14,312	14,312	1-5 years	–	14,254	14,254	1-5 years
US government and agencies	–	11,987	11,987	1-5 years	–	9,972	9,972	1-5 years
Municipal bonds	–	1,085	1,085	1-5 years	–	1,797	1,797	1-5 years
Convertible note	–	26	26	1-5 years	–	13	13	1-5 years
Subtotal short-term investments	<u>120,756</u>	<u>27,410</u>	<u>148,166</u>		<u>125,114</u>	<u>26,036</u>	<u>151,150</u>	
Total cash, cash equivalents and short-term investments	<u>\$188,553</u>	<u>\$35,035</u>	<u>\$223,588</u>		<u>\$ 173,224</u>	<u>\$33,054</u>	<u>\$206,278</u>	

3. Accounts, pledges and notes receivable

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

	2019	2018
Grants and contracts	\$17,185	\$16,296
Student and general	7,751	6,589
State of NH capital projects	–	1,238
Allowance for doubtful accounts	(2,905)	(3,495)
Total accounts receivable, net	<u>\$22,031</u>	<u>\$20,628</u>

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

	2019	2018
Pledges receivable	\$11,223	\$12,119
Discounts and allowance for doubtful pledges	(3,121)	(3,319)
Total pledges receivable, net	8,102	8,800
Less: noncurrent portion	(4,810)	(5,501)
Current portion	<u>\$ 3,292</u>	<u>\$ 3,299</u>

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

	2019	2018
Perkins loans	\$17,157	\$22,134
Other loans, restricted and unrestricted	751	748
Allowance for doubtful loans	(1,419)	(2,101)
Total notes receivable, net	16,489	20,781
Less: noncurrent portion	(14,293)	(18,070)
Current portion	<u>\$ 2,196</u>	<u>\$ 2,711</u>

4. Investments

USNH's investment policy and guidelines specify permitted instruments, duration and required ratings for pooled endowment funds. The policy and guidelines are intended to mitigate risk on investments individually and in the aggregate while maximizing total returns and supporting intergenerational equity of spending levels. Illiquid investments are limited to 20% of the USNH consolidated endowment pool. Credit risk is mitigated by due diligence in the selection and continuing review of investment managers as well as diversification of both investment managers and underlying investments. Except in unusual circumstances, no more than 15% of total portfolio assets may be invested in any one actively managed strategy. If an investment manager is retained to manage more than one strategy, that manager will be limited to 20% of total portfolio assets. Passively managed investment strategies will not be limited within the portfolio; however, any one manager of passive strategies will be limited to 20% of total portfolio assets. Any manager positions exceeding these limits will be reviewed by the Finance Committee for Investments and this committee will decide the appropriate course of action to bring active manager exposures back in line with the concentration limit. Private global equity investments are limited to 20% of the endowment pool. No USNH endowment investments were denominated in foreign currencies as of June 30, 2019 or June 30, 2018.

GASB Statement No. 72, *Fair Value Measurement and Application*, requires that USNH categorize assets measured at fair value using a three-tiered hierarchy based on the valuation methodologies employed. The hierarchy includes the following:

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

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

Level 3 — Value based on unobservable inputs for an asset

In determining fair value of investment assets, USNH utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. As a practical expedient to estimate the fair value of USNH's interests, certain investments in commingled funds and limited partnerships are reported at the net asset value (NAV) determined by the respective fund managers, without adjustment when assessed as reasonable by USNH, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. Because these investments are not readily marketable, their estimated fair values may differ from the values that would have been assigned had a ready market for such investments existed, and such differences could be material. As of June 30, 2019, and 2018, USNH had no plans or intentions to sell such investments at amounts different from NAV. Investments reported at NAV as a practical expedient are not categorized in the fair value hierarchy.

The endowment and similar investment holdings of the campuses and affiliated entities as of June 30, 2019 and 2018, respectively, are summarized below (\$ in thousands):

	Campuses		Affiliated Entities	
	2019	2018	2019	2018
Pooled endowments:				
Campuses	\$541,633	\$527,063	\$ –	\$ –
UNH Foundation	–	–	236,326	224,648
Keene Endowment Association	–	–	9,643	8,869
Life income and annuity funds	86	87	5,280	4,400
Funds held in trust	<u>16,265</u>	<u>16,215</u>	<u>–</u>	<u>–</u>
Total	<u>\$557,984</u>	<u>\$543,365</u>	<u>\$251,249</u>	<u>\$237,917</u>

The majority of USNH's investments are units of institutional commingled funds and limited partnerships invested in equity, fixed income, hedge, natural resources, private equity, or real estate strategies. Hedge strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedge strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments which are valued by the investment manager. To the extent quoted prices exist the manager would use those; when these are not available, other methodologies maximizing observable inputs would be used for the valuation, such as discounted cash flow analysis, capitalization of current or stabilized net operating income, replacement costs, or sales contracts and recent sales comparable in the market. Private equity funds employ buyout, growth, venture capital, and distressed security strategies. Real asset funds generally hold interests in private real estate. Fixed income securities had maturities up to 28 years and carried ratings ranging from AAA to Baa2 and AAA to A3 as of June 30, 2019, and 2018, respectively. The mutual fund investments held in the endowment pools are not rated.

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

	Balances as of June 30, 2019					Balances as of June 30, 2018				
	Investments Classified in Fair Value Hierarchy			Investments Measured at NAV	Total	Investments Classified in Fair Value Hierarchy			Investments Measured at NAV	Total
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3		
Endowment and similar investments – campuses										
Domestic equity	\$145,635	\$ –	\$ –	\$ 64,745	\$210,380	\$ 131,372	\$ –	\$ –	\$ 57,801	\$189,173
Global fixed income	18,553	38,740	–	–	57,293	17,554	36,511	–	–	54,065
Hedge funds:										
Distressed/Restructuring	–	–	–	20,273	20,273	–	–	–	15,347	15,347
Equity Hedge	–	–	–	26,138	26,138	–	–	–	48,481	48,481
Event-Driven	–	–	–	39,421	39,421	–	–	–	33,192	33,192
Fund of Funds	–	–	–	36,904	36,904	–	–	–	36,391	36,391
Inflation hedging assets	–	8,602	–	11,117	19,719	–	8,213	–	10,222	18,435
International equity	31,192	–	–	58,046	89,238	31,617	–	–	58,979	90,596
Money market	4,790	–	–	–	4,790	14,671	–	–	–	14,671
Private equity & non-marketable real assets	–	–	–	37,561	37,561	–	–	–	26,799	26,799
Trust funds	–	16,266	–	–	16,266	–	16,215	–	–	16,215
Total endowment and similar investments – campuses	<u>\$200,170</u>	<u>\$63,608</u>	<u>\$ –</u>	<u>\$294,206</u>	<u>\$557,984</u>	<u>\$195,214</u>	<u>\$60,939</u>	<u>\$ –</u>	<u>\$287,212</u>	<u>\$543,365</u>
Endowment and similar investments – affiliated entities										
Domestic equity	\$ 38,803	\$ –	\$ –	\$ 31,491	\$ 70,294	\$ 24,193	\$ –	\$ –	\$33,573	\$57,766
Global fixed income	19,162	2,134	4,176	1,883	27,355	21,359	–	3,107	1,611	26,077
Hedge funds:										
Distressed/Restructuring	–	–	–	32,064	32,064	–	–	–	31,089	31,089
Diversified	–	–	–	241	241	–	–	–	16,437	16,437
Equity Hedge	–	–	–	20,931	20,931	–	–	–	15,029	15,029
Inflation hedging assets	2,664	9,575	–	197	12,436	4,006	9,300	–	453	13,759
International equity	17,336	–	–	41,231	58,567	12,865	–	–	39,699	52,564
Money market	8,083	–	–	–	8,083	9,408	–	–	–	9,408
Private equity & non-marketable real assets	–	–	–	21,278	21,278	–	–	–	15,788	15,788
Total endowment and similar investments – affiliated entities	<u>\$ 86,048</u>	<u>\$ 11,709</u>	<u>\$4,176</u>	<u>\$149,316</u>	<u>\$251,249</u>	<u>\$ 71,831</u>	<u>\$ 9,300</u>	<u>\$3,107</u>	<u>\$153,679</u>	<u>\$237,917</u>
Total endowment and similar investments	<u>\$286,218</u>	<u>\$ 75,317</u>	<u>\$4,176</u>	<u>\$443,522</u>	<u>\$809,233</u>	<u>\$ 242,450</u>	<u>\$70,239</u>	<u>\$3,107</u>	<u>\$440,891</u>	<u>\$781,282</u>

As of June 30, 2019, UNHF had two equity hedge funds with lock-up periods set to expire in nine months. Fixed-income, private equity and real estate funds classified as illiquid have no ability to be redeemed at this time. For USNH, of the 34 funds classified as illiquid, twelve are currently in liquidation; four are expected to start liquidation within the next year; ten are expected to start liquidation in 2 to 15 years, and eight currently have no expected liquidation dates. For UNHF, fourteen funds are classified as illiquid and are expected to be liquidated over the next one to 12 years.

As of June 30, 2019, USNH has two outstanding investment liquidation requests which have been limited by the respective fund managers. Management of the fund in which USNH had the largest of these balances approved a plan on June 30, 2018 that fully liquidated all balances in late fall of 2018 with a small holdback to be distributed by the end of 2019. USNH's balance in that fund was \$7,000 and \$369,000 as of June 30, 2019 and 2018, respectively. USNH's balance in the remaining fund totaled \$71,000 and \$92,000 as of June 30, 2019 and 2018, respectively. Plans have not been communicated for the liquidation of remaining fund. The estimated fair values of the two investments at June 30, 2019 and 2018 are \$78,000 and \$461,000, respectively. It is uncertain when, or if, the funds will be fully collected at the NAV recorded.

Unfunded commitments with various private equity and similar alternative investment funds totaled \$30,957,000 for USNH and \$16,878,000 for UNHF at June 30, 2019. This compares to \$30,277,000 and \$23,878,000, respectively, at June 30, 2018.

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

Liquidity Terms as of June 30, 2019								
	Daily	Monthly	Quarterly	Semi-Annual	Annual	illiquid	Total	Redemption Notice Period
Endowment and similar investments – campuses								
Money market	\$ 4,790	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 4,790	Same day
Global fixed income	57,293	–	–	–	–	–	57,293	Same day
Inflation hedging assets	8,602	11,117	–	–	–	–	19,719	1-30 days
International equity	31,192	58,046	–	–	–	–	89,238	1-30 days
Domestic equity	145,635	–	64,745	–	–	–	210,380	1-60 days
Hedge funds:								
Equity Hedge	–	–	24,986	–	1,153	–	26,139	1-60 days
Event-Driven	–	–	19,795	19,626	–	–	39,421	60-65 days
Distressed/Restructuring	–	–	–	–	20,273	–	20,273	90 days
Fund of Funds	–	–	–	–	–	36,904	36,904	illiquid
Private equity & non-marketable real assets	–	–	–	–	–	37,561	37,561	illiquid
Funds held in trust	–	–	–	–	–	16,266	16,266	illiquid
Total endowment and similar investments – campuses	<u>\$247,512</u>	<u>\$69,163</u>	<u>\$109,526</u>	<u>\$19,626</u>	<u>\$21,426</u>	<u>\$ 90,731</u>	<u>\$ 557,984</u>	
Endowment and similar investments – affiliated entities								
Money market	\$ 8,083	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 8,083	Same day
Inflation hedging assets	12,436	–	–	–	–	–	12,436	Same day
Global fixed income	22,126	1,053	–	–	1,585	2,591	27,355	Same day, illiquid
Domestic equity	39,902	–	30,392	–	–	–	70,294	1-60 days
International equity	32,327	18,192	8,048	–	–	–	58,567	1-90 days
Hedge funds:								
Diversified	–	–	–	–	241	–	241	45-60 days
Distressed/Restructuring	–	–	20,011	–	12,053	–	32,064	45-90 days
Equity Hedge	–	–	15,465	5,466	–	–	20,931	60-90 days
Private equity & non-marketable real assets	–	–	–	–	–	21,278	21,278	illiquid
Total endowment and similar investments - affiliated entities	<u>\$114,874</u>	<u>\$19,245</u>	<u>\$ 73,916</u>	<u>\$ 5,466</u>	<u>\$13,879</u>	<u>\$ 23,869</u>	<u>\$ 251,249</u>	
Total endowment and similar investments	<u>\$362,386</u>	<u>\$88,408</u>	<u>\$183,442</u>	<u>\$25,092</u>	<u>\$35,305</u>	<u>\$114,600</u>	<u>\$809,233</u>	

Liquidity Terms as of June 30, 2018								
	Daily	Monthly	Quarterly	Semi-Annual	Annual	illiquid	Total	Redemption Notice Period
Endowment and similar investments – campuses								
Money market	\$ 14,671	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 14,671	Same day
Global fixed income	54,065	–	–	–	–	–	54,065	Same day
Inflation hedging assets	8,213	10,222	–	–	–	–	18,435	1-30 days
International equity	45,296	45,300	–	–	–	–	90,596	1-30 days
Domestic equity	131,372	–	57,801	–	–	–	189,173	1-60 days
Hedge funds:								
Equity Hedge	–	–	23,721	326	24,434	–	48,481	1-60 days
Event-Driven	–	–	18,985	14,146	–	61	33,192	60-65 days, illiquid
Fund of Funds	–	–	–	–	35,930	461	36,391	65-91 days, illiquid
Distressed/Restructuring	–	–	–	–	15,347	–	15,347	90 days
Private equity & non-marketable real assets	–	–	–	–	–	26,799	26,799	illiquid
Funds held in trust	–	–	–	–	–	16,215	16,215	illiquid
Total endowment and similar investments – campuses	<u>\$253,617</u>	<u>\$55,522</u>	<u>\$ 100,507</u>	<u>\$14,472</u>	<u>\$ 75,711</u>	<u>\$43,536</u>	<u>\$543,365</u>	
Endowment and similar investments – affiliated entities								
Money market	\$ 9,408	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 9,408	Same day
Global fixed income	22,971	–	–	–	1,069	2,037	26,077	Same day, illiquid
Inflation hedging assets	13,759	–	–	–	–	–	13,759	1-35 days
Domestic equity	25,407	–	32,359	–	–	–	57,766	1-60 days
International equity	13,782	31,282	7,500	–	–	–	52,564	1-90 days
Hedge funds:								
Diversified	–	–	7,786	3,537	5,114	–	16,437	45-60 days
Distressed/Restructuring	–	–	19,589	–	11,500	–	31,089	45-90 days
Equity Hedge	–	–	9,374	5,655	–	–	15,029	60-90 days
Private equity & non-marketable real assets	–	–	–	–	–	15,788	15,788	illiquid
Total endowment and similar investments - affiliated entities	<u>\$ 85,327</u>	<u>\$31,282</u>	<u>\$ 76,608</u>	<u>\$ 9,192</u>	<u>\$17,683</u>	<u>\$17,825</u>	<u>\$ 237,917</u>	
Total endowment and similar investments	<u>\$338,944</u>	<u>\$86,804</u>	<u>\$177,115</u>	<u>\$23,664</u>	<u>\$93,394</u>	<u>\$ 61,361</u>	<u>\$ 781,282</u>	

5. Property and equipment

Property and equipment activity for the years ended June 30, 2019 and 2018 is summarized as follows (\$ in thousands):

	Balance June 30, 2017	2018		Balance June 30, 2018	2019		Balance June 30, 2019
		Additions	Retirements & Changes		Additions	Retirements & Changes	
Land	\$ 15,865	\$ –	\$ (277)	\$ 15,588	\$ 62	\$ (24)	\$ 15,626
Buildings and improvements	1,680,661	134,977	(14,531)	1,801,107	38,405	(5,239)	1,834,273
Equipment	132,615	11,153	(5,181)	138,587	13,527	(11,303)	140,811
Construction in progress, net	116,833	61,006	(134,977)	42,862	48,425	(38,467)	52,820
Total property and equipment	1,945,974	207,136	(154,966)	1,998,144	100,419	(55,033)	2,043,530
Less: accumulated depreciation	(826,346)	(65,096)	15,309	(876,133)	(65,257)	15,221	(926,169)
Property and equipment, net	\$1,119,628	\$142,040	\$ (139,657)	\$1,122,011	\$ 35,162	\$ (39,812)	\$1,117,361

Contractual obligations for major construction projects totaled approximately \$20,538,000 and \$35,380,000 at June 30, 2019 and 2018, respectively.

6. Accrued employee benefits

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

	Balance June 30, 2017	2018		Balance June 30, 2018	2019		Balance June 30, 2019	Current Portion
		Payments to/ on Behalf of Participants	Expenses & Other Changes		Payments to/ on Behalf of Participants	Expenses & Other Changes		
Additional retirement contribution	\$ 2,323	\$ (121)	\$ 92	\$ 2,294	\$ (200)	\$ 77	\$ 2,171	\$ 200
Employee separation incentives	4,294	(1,660)	535	3,169	(1,661)	759	2,267	1,649
Long-term disability	2,366	(511)	232	2,087	(429)	386	2,044	429
Workers' compensation	4,200	(543)	(366)	3,291	(1,216)	1,148	3,223	1,216
Compensated absences	20,766	(2,095)	2,176	20,847	(2,088)	2,004	20,763	2,408
Other benefits	636	–	329	965	–	29	994	858
Total accrued employee benefits	\$34,585	\$ (4,930)	\$ 2,998	\$32,653	\$ (5,594)	\$ 4,403	\$31,462	\$6,760

The **Additional Retirement Contribution** program is a single employer plan administered by USNH and offered to eligible employees hired between July 1, 1994 and June 30, 2011. Under this plan, staff meeting certain voluntary defined benefit plan contribution levels receive an additional 1% of their salary contributed to their defined contribution retirement plan (see below) by USNH in lieu of postretirement medical benefits. Employees meeting certain service guidelines prior to July 1, 1994 are also eligible for a guaranteed minimum employer retirement contribution of \$10,000 plus an additional \$1,000 for each year of service in excess of 20 less 1% of the participant's salary account. There were 307 and 358 active employees meeting the requirements for the guaranteed minimum employer contribution as of June 30, 2019 and 2018, respectively.

The calculations for the Additional Retirement Contribution program are based on the benefits provided by the program at the time of the last biennial actuarial valuation, December 31, 2017, and were developed using the Entry Age Normal Cost Method. The discount rate used in determining the accrued liabilities was 4.09% and 3.44% for 2019 and 2018, respectively, based on Bond Buyer 20-Bond General Obligation index rate as of the measurement date. Inflation rates of 2.5% and salary increase rates of 3% were used to determine the liability along with the RP-2014 Employee Mortality Table with Scale MP-2016. USNH accrued \$2,171,000 and \$2,294,000 at June 30, 2019 and 2018, respectively, for the related obligations. If the discount rate were to increase by 1%, the total liability at June 30, 2019 would be \$2,097,000. Similarly, if the discount rate

were to decrease by 1%, the total liability at June 30, 2019 would be \$2,244,000. The Additional Retirement Contribution program expense was (\$52,000) and (\$21,000) for fiscal years 2019 and 2018, respectively.

USNH had designated cash assets to fully fund the Additional Retirement Contribution obligations at June 30, 2019 and 2018. These assets are not administrated through a trust. The Additional Retirement Contribution program is not available to employees hired after June 30, 2011. Eligible employees hired after June 30, 2011 may elect to participate in USNH's defined contribution retirement plans administered by others. Retirement contributions by USNH for employees enrolled in the defined contribution plans range from 4% to 10% of eligible salaries for enrolled participants. USNH additions to the defined contribution plans totaled \$27,923,000 and \$27,421,000 in 2019 and 2018, respectively. Retirement contributions by plan members totaled \$28,048,000 and \$26,724,000 in 2019 and 2018, respectively.

Early retirement and employee separation incentive programs were provided to various faculty and staff during 2019 and 2018. Such incentives include stipends, as well as medical, educational and other termination benefits. The future costs associated with these incentive options is accrued as of the date of acceptance into the program. The liability balances of \$2,267,000 and \$3,169,000 at June 30, 2019 and 2018 represent obligations for 65 and 117 participants, respectively, which will be remitted in fiscal years 2020 through 2024.

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

USNH is self-insured for a portion of certain risks, including workers' compensation, employee long-term disability, and certain student health insurance claims. Most employee and retiree medical and dental coverage provided by USNH is also self-insured. The costs of self-insured medical and dental claims and administrative fees totaled \$65,632,000 and \$66,507,000 for fiscal year 2019 and 2018, respectively. These amounts include \$4,192,000 and \$8,059,000 for estimated claims incurred but not reported as of June 30, 2019 and 2018, respectively.

In conjunction with the primary medical plan offering for active employees, USNH purchases stop-loss coverage which limits the USNH cost of claims to \$500,000 per participant in most cases. The liabilities recorded in the financial statements for all USNH self-insured programs are developed by third party claim administrators and based on historical claims data. Management reviewed the calculations for reasonableness and believes the liabilities are sufficient to cover the actual claims incurred.

In addition to the benefits accruals included above, USNH created and fully funded a trust to hold assets set aside for its **Operating Staff Retirement Plan** on June 29, 2017. The related asset and liability values are not included in the financial statements as required by the related accounting standards. The related investment balances as of June 30, 2019 and 2018 are summarized below (*\$ in thousands*):

Trust Investment Components	2019	2018
Cash and equivalents	\$ 274	\$ 311
Fixed income	2,641	2,779
Equities	3,193	3,200
Real assets	78	86
Total including accrued income	<u>\$6,186</u>	<u>\$6,376</u>

The plan has been closed to new participants since 1987. At June 30, 2019 there were approximately 176 current annuitants and 32 participants with deferred benefits, all fully vested. This compares to 184 current annuitants and 32 participants with deferred benefits as of June 30, 2018. The determination of total pension liabilities for this program was based on actuarial calculations completed by the plan trustee as of June 30, 2019 and 2018. The calculations were developed using the Entry Age Normal Cost Method and the RP-2014 employee mortality tables. The 2019 valuation used Scale MP-2018, and Scale MP-2017 was used for the 2018 calculation. The discount rate used was 5.5% in both years based on the long-term expected rate of return on the related investments. The plan fiduciary net position was \$6,186,000 as of June 30, 2019 and \$6,376,000 as of June 30, 2018 which resulted in the recording of a net pension asset of \$311,000 and \$724,000 for fiscal years 2019 and 2018, respectively. The actuarially determined liability for the program was \$5,875,000 as of June 30, 2019 and \$5,652,000 as of June 30, 2018. If the discount rate were to increase by 1%, the net pension asset at June 30, 2019 would be \$729,000. Similarly, if the discount rate were to decrease by 1%, the net pension liability at June 30, 2019 would be \$169,000. The plan expense was \$193,000 and \$37,000 for fiscal years 2019 and 2018, respectively.

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 December 31, 2018 and 2017, respectively, there were 946 and 777 former employees receiving benefits under this program along with their eligible dependents. As of December 31, 2018 and 2017, there were 155 and 179 active employees, respectively, 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 benefits-eligible 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 plan at then-current employee medical rates during the bridge period. As of December 31, 2018 and 2017, respectively, there were 128 and 97 retirees receiving benefits under this program along with their dependents. As of December 31, 2018 and 2017, respectively, there were also 3,570 and 3,638 active employees who, along with their dependents, may eventually be eligible to receive benefits under this program. The primary postretirement medical plan holds no assets. Together, the above offerings constitute the primary postretirement 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. Such calculations involve estimates and, by definition, are subject to revision. The healthcare cost trend and discount rate assumptions have a significant effect on the amounts reported.

USNH adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for its June 30, 2018 financial statements. The components of postretirement medical liability as of June 30, 2019 and 2018 were as follows (*\$ in thousands*):

Postretirement Medical Plan Liability	2019	2018
Service costs	\$ 1,359	\$ 1,416
Interest	3,024	3,627
Benefit payments	(6,381)	(6,923)
Difference between expected and actual experience	—	(1,511)
Changes in assumptions	<u>(4,968)</u>	<u>(4,857)</u>
Net change	(6,966)	(8,248)
Liability at beginning of year	<u>89,710</u>	<u>97,958</u>
Liability at end of year	<u>\$82,744</u>	<u>\$89,710</u>
Current portion	<u>\$ 5,331</u>	<u>\$ 5,837</u>

The total postretirement benefit obligation is measured at December 31, 2017 for the June 30, 2018 financial statements and December 31, 2018 for the June 30, 2019 financial statements based on the last biennial actuarial valuation, December 31, 2017, developed using the Entry Age Normal Cost Method and the RP-2014 employee mortality tables with Scale MP-2016. A rollforward calculation was performed for the December 31, 2018 measurement date. For measurement purposes the 2019 and 2018 initial rate of increase in the cost of healthcare services was assumed to be 6.5% for participants, decreasing 0.5% each year for four years thereafter until reaching an ultimate rate of 4.5% per year. The initial increase in the cost of prescriptions was assumed to be 9.5% for 2019 and 2018, decreasing 0.5% each year for ten years thereafter until reaching an ultimate rate of 4.5% per year. Salary increases of 3% were included in the calculations for fiscal year 2019 and 2018. A single discount rate of 4.10% and 3.44% was used based on the Bond Buyer 20-Bond General Obligation index rate as of December 31, 2018 and 2017, respectively. The actuarially determined postretirement medical expense for the plan for the years ended June 30, 2019 and 2018 were \$3,183,000 and \$4,369,000, respectively.

The following presents the sensitivity of the postretirement medical plan liability to changes in the discount rate and healthcare cost trend rates (\$ in thousands):

OPEB Liability as of December 31, 2018	Sensitivity to change in discount rate			Sensitivity to change in health care costs		
	1% increase	Current rate	1% decrease	1% increase	Current rate	1% decrease
OPEB Liability as of December 31, 2018	\$76,074	\$82,744	\$90,470	\$90,895	\$82,744	\$75,736
OPEB Liability as of December 31, 2017	\$82,053	\$89,710	\$98,649	\$98,193	\$89,710	\$82,302

USNH also accrued \$102,000 as of June 30, 2019 and 2018, for potential obligations related to postretirement care of certain USNH police personnel. The USNH Board of Trustees holds the authority to change these benefit plans at any time. Further information on the Additional Retirement Contribution, Operating Staff Retirement Plan, and Postretirement Medical Plan can be found in the Required Supplemental Information on page 50 of the publication.

8. Long-term debt

USNH long-term debt activity, exclusive of deferred losses or gains on refunding, for the years ended June 30, 2019 and 2018 is summarized below (\$ in thousands):

	2018			2019			Balance June 30, 2019	Current Portion
	Balance June 30, 2017	Additions & Other Changes	Retirements	Balance June 30, 2018	Additions & Other Changes	Retirements		
NHHEFA bonds								
Series 2005A	\$ 50,100	\$ —	\$ (1,900)	\$ 48,200	\$ —	\$ (1,950)	\$ 46,250	\$ 1,850
Series 2005B	73,405	—	(4,450)	68,955	—	(4,595)	64,360	4,760
Series 2007	46,570	—	(46,570)	—	—	—	—	—
Series 2009A	59,045	—	(59,045)	—	—	—	—	—
Series 2011A	6,000	—	—	6,000	—	—	6,000	—
Series 2011B	34,200	—	(1,925)	32,275	—	(2,015)	30,260	2,110
Series 2012	12,450	—	(2,930)	9,520	—	(3,050)	6,470	3,170
Series 2014	17,775	—	(2,070)	15,705	—	(2,110)	13,595	2,155
Series 2015	115,870	—	(2,610)	113,260	—	(2,730)	110,530	2,855
Series 2016	53,890	—	(1,675)	52,215	—	(2,390)	49,825	2,515
Series 2017A	—	53,805	—	53,805	—	—	53,805	1,760
Series 2017B	—	49,020	—	49,020	—	(1,100)	47,920	1,950
Unamortized discounts/premiums, net	22,250	10,085	(2,016)	30,319	—	(1,915)	28,404	1,915
Capital leases	9,910	71	(1,068)	8,913	—	(1,113)	7,800	1,163
Total bonds and leases	<u>\$501,465</u>	<u>\$112,981</u>	<u>\$(126,259)</u>	<u>\$488,187</u>	<u>\$ —</u>	<u>\$ (22,968)</u>	<u>\$465,219</u>	<u>\$26,203</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, student 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 Bond indentures have a provision that in an event of default resulting from a payment default by USNH the principal may be accelerated and become immediately due and payable, at par, with interest payable thereon to the accelerated payment date. USNH is in compliance with all covenants specified in the NHHEFA bond, as well as capital lease agreements, the most restrictive of which is maintenance of a debt-service coverage ratio, as defined, of at least 1.0 to 1.0.

USNH's bond portfolio at June 30, 2019 consisted of fixed rate and variable rate issues. The variable rate demand bonds (Series 2005A, 2005B, 2011B) are fully hedged via interest rate swap agreements (see Note 9 below), with all three issues supported by standby bond purchase agreements as of June 30, 2019 and 2018. The variable interest rates for the Series 2005A and 2005B Bonds at June 30, 2019 and 2018 were 1.95% and 1.56%, respectively. The 2011B Bonds variable interest rates at June 30, 2019 and 2018 were 1.97% and 1.57%, respectively.

USNH issued two Series 2017 Bonds during the year ended June 30, 2018. The Series 2017A Bonds were issued in the amount of \$53,805,000 to advance refund and defease the Series 2009A Bonds (\$59,045,000), while the Series 2017B Bonds were issued in the amount of \$49,020,000 as a current refund of the Series 2007 Bonds (\$46,570,000). Construction proceeds of \$4,239,000 were unspent as of June 30, 2018 and held in reserve in accordance with the related debt agreements. The related investments were classified in Level 1 of the GASB fair value hierarchy because the underlying securities held by the bond trustee are valued based on quoted market prices. The Series 2009A advance refunding proceeds of \$60,067,000 and \$62,019,000 were held in escrow in the principal payment investment account on June 30, 2019 and 2018, respectively.

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

NHHEFA Bonds	Maturity Date	Interest Terms and Rates
Series 2005A	7/1/2035	Variable with daily pricing
Series 2005B	7/1/2033	Variable with daily pricing
Series 2011A	7/1/2021	Fixed at 3.5%
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 2.1%
Series 2015	7/1/2045	Fixed at 3.8%
Series 2016	7/1/2046	Fixed at 2.7%
Series 2017A	7/1/2037	Fixed at 3.1%
Series 2017B	7/1/2037	Fixed at 3.4%

Capital leases

On April 30, 2004, USNH entered into a capital lease agreement in the amount of \$18,292,000 to finance a portion of the costs of equipment housed in UNH's utility cogeneration facility. The related lease payments are due quarterly through June 2025, including principal as well as interest at a fixed rate of 4.5%. The carrying value of the related assets was \$5,641,000 and \$6,505,000 as of June 30, 2019 and 2018, respectively.

State of NH general obligation bonds

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

Maturity of long-term debt obligations

USNH long-term debt obligations are scheduled to mature as follows using the associated fixed, estimated synthetic fixed, and expected variable rates in effect as of June 30, 2019 over the remaining terms of the individual issuances (*\$ in thousands*):

Fiscal Year	Principal	Interest	Total
2020	\$ 24,288	\$ 17,763	\$ 42,051
2021	25,400	16,840	42,240
2022	28,760	15,873	44,633
2023	23,902	14,708	38,610
2024	24,598	13,786	38,384
2025-2029	100,537	55,646	156,183
2030-2034	104,420	36,057	140,477
2035-2039	65,560	15,988	81,548
2040-2044	25,670	6,501	32,171
2045-2047	13,680	973	14,653
Plus: unamortized discounts/premiums, net	28,404	—	28,404
Total	\$465,219	\$194,135	\$659,354

Other long-term obligations

In addition to the long-term debt presented above, postretirement medical benefits liability in Note 7 and employment benefits liabilities in Note 6, USNH had the following changes in other long-term obligations (*in thousands*):

	Balance June 30, 2017	2018		Balance June 30, 2018	2019		Balance June 30, 2019	Current Portion
		Additions & Other Changes	Retirements		Additions & Other Changes	Retirements		
Asset retirement and other obligations*	\$ 2,417	\$209	\$(316)	\$ 2,310	\$ 4,121	\$(331)	\$ 6,100	\$ 313
Refundable government advances	16,643	503	(467)	16,679	834	—	17,513	—
Total other long-term obligations	\$19,060	\$712	\$(783)	\$18,989	\$4,955	\$(331)	\$23,613	\$313

*The current portion of these obligations is reported under accounts payable and accrued expenses.

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, 2019 and 2018 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,	
					2019	2018	2019	2018
Series 2005A swap	October 29, 2008	July 1, 2035	3.6%	67% LIBOR	\$ 46,250	\$ 48,200	\$ (9,185)	\$ (7,165)
Series 2005B swap	August 1, 2005	July 1, 2033	3.1%	63% LIBOR+0.29%	64,360	68,955	(7,263)	(5,357)
Series 2011B swap	July 1, 2011	July 1, 2033	4.5%	67% LIBOR	30,260	32,275	(6,528)	(5,772)
Total					\$140,870	\$149,430	\$ (22,976)	\$ (18,294)

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 Bondholders as of		Interest Rate Received by USNH from Swap Counterparties as of		Effective Interest Rate Through		All-in Synthetically Fixed Interest Rate
		6/30/2019	6/30/2018	6/30/2019	6/30/2018	6/30/2019	6/30/2018	
Series 2005A swap	Aa2/AA-	1.9%	1.6%	1.6%	1.3%	4.4%	4.3%	4.1%
Series 2005B swap	A1/A+	1.9%	1.6%	1.8%	1.5%	3.7%	3.6%	3.7%
Series 2011B swap	A3/BBB+	2.0%	1.6%	1.6%	1.3%	5.3%	5.2%	5.0%

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

These derivative instruments meet the criteria established by GASB Statement No. 53 for effective hedges as of June 30, 2019 and 2018 and, therefore, their accumulated changes in fair value are reflected as deferrals on the Statements of Net Position (see Note 10). 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, 2019, USNH was exposed to no counterparty credit risk relative to its swaps as all swap market values were negative. The swaps require collateralization of any positive fair value of the swap should the counterparty's credit rating fall below thresholds identified in the swap contracts. USNH mitigates counterparty risk by spreading the swap exposure among various counterparties, by monitoring bond ratings continuously, and by requiring collateralization in certain circumstances.

Basis Risk – This is the risk of a mismatch between the variable rate received from the swap counterparty and the variable rate paid by USNH to bondholders on the underlying variable rate debt. The effective rate on the debt will vary depending on the magnitude and duration of any basis risk shortfall or surplus. Based on current and historical experience, USNH's financial advisors expect payments received under the agreements to approximate the related bond payments over the life of the swaps. USNH manages basis risk by closely monitoring daily and monthly rates paid and received on each transaction, by diversifying bond remarketing agents, and by varying swap terms (e.g., 67% of LIBOR vs. 63% of LIBOR + 29 bps).

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

Swap Cash Flows

Actual interest payments on the swaps vary as market rates vary. The table below shows estimated annual future cash flows of the derivative instruments if interest rates remain unchanged from June 30, 2019 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
2020	\$ 8,720	\$ (2,273)	\$ 4,718	\$ 2,445
2021	9,215	(2,113)	4,390	2,277
2022	9,385	(1,950)	4,056	2,106
2023	9,975	(1,777)	3,701	1,924
2024	10,170	(1,600)	3,339	1,739
2025-2029	41,110	(5,791)	12,125	6,334
2030-2034	45,145	(2,191)	4,638	2,447
2035-2036	7,150	(59)	131	72
Total	\$140,870	\$(17,754)	\$37,098	\$19,344

10. Deferred inflows and outflows of resources

The components of Deferred Inflows and Outflows of Resources as of June 30, 2019 and 2018 were as follows (\$ in thousands):

	2019	2018
Deferred Outflows of Resources		
Accumulated decrease in fair value of hedging derivatives	\$22,976	\$18,294
Accounting loss on debt refinancing	8,708	9,770
Changes of assumptions:		
Operating Staff Retirement Plan	471	179
Additional Retirement Contribution Program	18	22
Net difference between projected and actual earnings:		
Operating Staff Retirement Plan	60	74
Benefit payments subsequent to the measurement date:		
Postretirement Medical Plan	2,053	3,097
Additional Retirement Contribution Program	199	—
Asset retirement obligations	1,492	—
Total Deferred Outflows of Resources	\$35,977	\$31,436
Deferred Inflows of Resources		
Accounting gain on debt refinancing	\$ 357	\$ 616
Annuities unconditional remainder interest	2,139	1,753
Changes of assumptions:		
Operating Staff Retirement Plan	58	—
Postretirement Medical Plan	8,271	4,343
Additional Retirement Contribution Program	4	4
Difference between expected and actual experience:		
Operating Staff Retirement Plan	6	4
Postretirement Medical Plan	1,191	1,351
Additional Retirement Contribution Program	474	629
Total Deferred Inflows of Resources	\$12,500	\$ 8,700

The accumulated decrease in fair value of hedging derivatives is recorded to offset the value of USNH's interest-rate swap liabilities which qualify for treatment as an effective hedge based on historic interest flows. USNH does not currently expect to terminate any of the swap agreements. The accounting gain on debt refinancing relates to the Series 2012 and 2016 bond issuances while the accounting loss on debt refinancing relates to the Series 2005B, 2011B, 2015, and 2017A bond issuances. These costs will be amortized as a component of interest expense over the remaining terms of the new debt.

Amounts reported as deferred outflows of resources related to benefit payments subsequent to the measurement date will be recognized as a reduction of the respective benefit liability in the year ended June 30, 2020.

Other amounts reported as deferred outflows and inflows of resources which are related to retirement programs will be recognized as a component of pension and OPEB expense over the next nine years as summarized below (\$ in thousands):

Fiscal Year	Operating Staff Retirement Plan	Additional Retirement Contribution Program	Post-retirement Medical Plan
2020	\$217	\$ (150)	\$(1,200)
2021	217	(150)	(1,200)
2022	28	(150)	(1,200)
2023	(1)	(10)	(1,200)
2024	6	—	(1,200)
2025	—	—	(1,200)
2026	—	—	(1,200)
2027	—	—	(1,062)
Total	\$467	\$ (460)	\$(9,462)

11. Pass-through grants

USNH distributed \$169,091,000 and \$173,918,000 of student loans through the US Department of Education Federal Direct Lending program during 2019 and 2018, respectively. These distributions and related funding sources are not included as expenses and revenues, or cash disbursements and cash receipts, in the accompanying financial statements. The Statements of Net Position include receivables of \$141,000 and \$260,000 as of June 30, 2019 and 2018, respectively, for direct loans disbursed in excess of US Department of Education receipts.

12. Endowment return used for operations

The objective of the annual spending formula for endowment return used for operations is to provide sustainable continued future support for ongoing programs at current levels assuming moderate inflation. To the extent that endowment yield is insufficient in any one year to meet the required spending distribution, accumulated net gains are utilized to fund the distribution. For the USNH pool, the distribution rate is established annually by the USNH Board of Trustees. Starting in fiscal year 2019, the USNH pool calculated the distribution as a percentage of the average market value per unit for the previous twelve quarters with a rate of 4.7% as of December 31, 2017. The rate was 4.7% for 2018 calculated as a percentage of the pool market value per unit as of December 31, 2016. For the UNHF primary pool, the distribution rate was 5.3% and 5.2% for 2019 and 2018, respectively, calculated as a percentage of the average market value per unit for the previous twelve quarters.

The components of endowment return used for operations for 2019 and 2018 are summarized below (\$ in thousands):

Components of Endowment Payout	2019	2018
Pooled endowment yield - campuses	\$ 7,412	\$ 6,598
Pooled endowment yield - affiliates	2,492	1,861
Trusts, life income and annuities yield, net of gains utilized	643	1,148
Gains utilized to fund distribution - pooled campuses	14,094	9,070
Gains utilized to fund distribution - pooled affiliates	9,138	9,315
Endowment return used for operations	\$33,779	\$27,992

The increase in gains utilized to fund distributions in 2019 relates to fringe benefits and debt service costs funded by USNH quasi-endowments. No distributions from these funds were made in prior years.

13. Operating expenses by function

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

	Compensation	Supplies & Services	Utilities	Internal Allocations	Depreciation & Amortization	2019 Total
Campuses – current funds						
Instruction	\$202,333	\$ 21,055	\$ 15	\$ –	\$ –	\$ 223,403
Auxiliary services	54,115	51,152	2,602	48,670	–	156,539
Research and sponsored programs	74,937	34,564	85	–	–	109,586
Academic support	68,821	18,791	37	–	–	87,649
Student services	33,363	15,131	12	(95)	–	48,411
Institutional support	48,336	18,761	79	(23,679)	–	43,497
Operations and maintenance	23,575	17,962	15,724	(25,181)	–	32,080
Fundraising and communications	11,562	6,826	–	2,872	–	21,260
Public service	11,240	3,125	–	–	–	14,365
Subtotal – current funds	528,282	187,367	18,554	2,587	–	736,790
Campuses - other funds	333	15,888	28	–	65,349	81,598
Affiliated entities	6,113	1,124	1	(2,587)	–	4,651
Total	<u>\$534,728</u>	<u>\$204,379</u>	<u>\$18,583</u>	<u>\$ –</u>	<u>\$65,349</u>	<u>\$823,039</u>

	Compensation	Supplies & Services	Utilities	Internal Allocations	Depreciation	2018 Total
Campuses – current funds						
Instruction	\$201,510	\$ 22,229	\$ 17	\$ –	\$ –	\$223,756
Auxiliary services	53,940	53,695	3,406	45,921	–	156,962
Research and sponsored programs	74,705	35,432	18	–	–	110,155
Academic support	69,334	21,075	40	245	–	90,694
Student services	34,337	14,634	10	(95)	–	48,886
Institutional support	47,826	17,221	76	(22,217)	–	42,906
Operations and maintenance	23,175	16,602	15,482	(24,148)	–	31,111
Fundraising and communications	12,285	6,925	–	2,257	–	21,467
Public service	10,430	3,125	–	–	–	13,555
Subtotal – current funds	527,542	190,938	19,049	1,963	–	739,492
Campuses - other funds	155	16,494	16	–	65,096	81,761
Affiliated entities	5,021	867	–	(1,963)	–	3,925
Total	<u>\$532,718</u>	<u>\$208,299</u>	<u>\$19,065</u>	<u>\$ –</u>	<u>\$65,096</u>	<u>\$825,178</u>

14. Net position

It is USNH's policy to use restricted funds before accessing unrestricted balances. The table below details USNH's net position as of June 30, 2019 and 2018 (\$ in thousands):

Components of Net Position	2019	2018
Net investment in capital assets	\$ 685,015	\$ 665,194
Restricted financial resources		
Nonexpendable		
Historic gift value of endowment - campuses	124,287	118,298
Historic gift value of endowment - affiliated entities	157,414	145,671
Total restricted nonexpendable resources	281,701	263,969
Expendable		
Held by campuses:		
Accumulated net gains on endowment	56,559	54,375
Fair value of restricted funds functioning as endowment	15,032	14,761
Gifts, grants and contracts	41,443	44,467
Life income and annuity funds	15	12
Loan funds	3,585	5,158
Held by affiliated entities:		
Accumulated net gains on endowment	43,192	42,424
Fair value of restricted funds functioning as endowment	44,054	44,108
Other	9,457	11,034
Total restricted expendable resources	213,337	216,339
Unrestricted financial resources		
Held by campuses:		
Educational and general reserves	6,521	20,998
Auxiliary enterprises	45,721	42,838
Internally designated reserves	20,879	13,003
Unrestricted loan funds	1,487	1,513
Unexpended plant funds	144,841	127,776
Fair value of unrestricted funds functioning as endowment	185,442	184,148
Other	779	971
Less: postretirement medical liability ⁽¹⁾	(90,153)	(92,307)
Held by affiliated entities:		
Fair value of unrestricted funds functioning as endowment	1,308	1,314
Other	1,668	1,900
Total unrestricted financial resources	318,493	302,154
Total Net Position	<u>\$1,498,546</u>	<u>\$1,447,656</u>

⁽¹⁾ As discussed in Note 7, the 2019 and 2018 postretirement medical liability is shown net of the related deferred inflows and outflows of resources. See Note 10 for additional information in this regard.

15. Commitments and contingencies

USNH holds insurance for losses related to real property, as well as professional, environmental and general liability claims. Property coverage is limited to \$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 number 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 outcome of such actions cannot presently be determined, management is of the opinion that the eventual liability, if any, will not have a material effect on USNH's financial position, results of operations or cash flows.

16. Component units

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

	2019	2018
Condensed information from the Statements of Net Position as of June 30,		
Endowment investments	\$241	\$229
Other assets	14	14
Total Assets	<u>255</u>	<u>243</u>
Annuities payable	3	2
Other liabilities and deferred inflows of resources	5	3
Total Liabilities and Deferred Inflows of Resources	<u>8</u>	<u>5</u>
Total Net Position	<u>\$247</u>	<u>\$238</u>
	2019	2018
Condensed information from the Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30,		
Gifts and other support	\$ 29	\$ 35
Investment income	11	16
Total Revenues	<u>40</u>	<u>51</u>
Distributions to UNH	23	25
Administrative and other expenses	8	7
Total Expenses	<u>31</u>	<u>32</u>
Increase in Net Position	<u>\$ 9</u>	<u>\$ 19</u>
	2019	2018
Condensed information from the Statements of Cash Flows for the years ended June 30,		
Receipts from gifts and other sources	\$ 19	\$ 21
Payments to UNH and suppliers	(29)	(34)
Net Cash Used in Operating Activities	(10)	(13)
Net Cash Used in Investing Activities	(1)	(4)
Net Cash Provided by Noncapital Financing Activities	<u>12</u>	<u>15</u>
Change in Cash and Equivalents	<u>\$ 1</u>	<u>\$ (2)</u>

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

17. Subsequent events

Management has evaluated the impact of subsequent events through the date that the financial statements were available for issuance October 30, 2019, and concluded that no material events have occurred which would require recognition or disclosure.

Required Supplemental Information

(Unaudited)

Postretirement Medical Plan

Schedule of Changes in Total OPEB Liability and Related Ratios for the years ended June 30, (\$ in thousands):

	2019	2018
Service costs	\$ 1,359	\$ 1,416
Interest	3,024	3,627
Benefit payments	(6,381)	(6,923)
Differences between expected and actual experience	—	(1,511)
Changes in assumptions ⁽¹⁾	(4,968)	(4,857)
Net Change in Postretirement Medical Liability	(6,966)	(8,248)
Total Postretirement Medical Plan Liability—beginning of year	89,710	97,958
Total Postretirement Medical Plan Liability—end of year	<u>\$ 82,744</u>	<u>\$ 89,710</u>
Current portion	<u>\$ 5,331</u>	<u>\$ 5,837</u>
Covered payroll	<u>\$290,287</u>	<u>\$290,107</u>
Total Liability as a Percentage of Covered Payroll	28.5%	30.9%

Additional Retirement Contribution (ARC) Program

Schedule of Changes in Total Pension Liability and Related Ratios for the years ended June 30, (\$ in thousands):

	2019	2018	2017
Service costs	\$ 31	\$ 41	\$ 103
Interest	66	88	118
Benefit payments ⁽²⁾	(123)	(95)	(518)
Differences between expected and actual experience	—	(89)	(328)
Changes in assumptions	(97)	26	(5)
Net Change in ARC Liability	(123)	(29)	(630)
Total ARC Liability at beginning of year	2,294	2,323	2,953
Total ARC Liability at end of year	<u>\$ 2,171</u>	<u>\$ 2,294</u>	<u>\$ 2,323</u>
Current portion	<u>\$ 200</u>	<u>\$ 95</u>	<u>\$ 455</u>
Covered payroll	<u>\$ 24,369</u>	<u>\$26,646</u>	<u>\$29,409</u>
Total Liability as a Percentage of Covered Payroll	8.9%	8.6%	7.9%

Operating Staff Retirement Plan

Schedule of Changes in Net Pension Assets and Related Ratios for the years ended June 30, (\$ in thousands):

	2019	2018	2017 ⁽³⁾
Plan Fiduciary Net Position			
Beginning balance	\$6,376	\$6,700	\$ —
Employer contributions	—	—	6,700
Plan administrative costs	(13)	(13)	—
Net investment income	407	274	—
Benefit payments	(584)	(585)	—
Fiduciary net position	\$ 6,186	\$ 6,376	\$ 6,700
Total Pension Liability at end of year	<u>(5,875)</u>	<u>(5,652)</u>	<u>(5,707)</u>
Net Pension Asset	<u>\$ 311</u>	<u>\$ 724</u>	<u>\$ 993</u>
Plan Net Position as a Percentage of Total Pension Liability	105.3%	112.8%	117.4%

	2019	2018	2017 ⁽³⁾
Plan Pension Liability			
Beginning balance	\$ (5,652)	\$ (5,707)	\$ (6,345)
Service costs	(3)	—	(20)
Interest, net of actuarial gain/loss	(290)	(292)	(298)
Benefit payments	584	585	956
Changes in assumptions	(514)	(238)	—
Net Change in Total Pension Liability	<u>\$ (223)</u>	<u>\$ 55</u>	<u>\$ 638</u>
Total Pension Liability at end of year	<u>\$ (5,875)</u>	<u>\$ (5,652)</u>	<u>\$ (5,707)</u>
Covered payroll	<u>\$ (850)</u>	<u>\$ (961)</u>	<u>\$ (1,007)</u>
Net Pension Asset as a Percentage of Covered Payroll	36.6%	75.3%	98.6%

Notes to Schedules:

⁽¹⁾ Changes in assumptions relate to discount rate changes. The rates were 4.1% for 2019, and 3.4% for 2018 based on a change in the related index. See Note 7 for additional information.

⁽²⁾ Fiscal year 2017 benefit payments included separation costs resulting in larger amounts.

⁽³⁾ Reflects payments and adjustments made before the establishment of the related trust on June 29, 2017.

See accompanying independent auditor's report

University System of New Hampshire

As of September 1, 2019

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