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Financial Statements

University of New Hampshire Foundation, Inc.
June 30, 2021 and 2020

**University of New Hampshire Foundation, Inc.
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The 2021 Annual Report is a publication of the University of New Hampshire Foundation, Inc. Prior year annual reports are available online at:
<https://www.unh.edu/give/financial-reports>

University of New Hampshire Foundation, Inc.
Elliott Alumni Center
9 Edgewood Road, Durham, NH 03824



INDEPENDENT AUDITORS' REPORT

Board of Directors
University of New Hampshire Foundation
Durham, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the University of New Hampshire Foundation (Foundation), a blended component unit of the University System of New Hampshire, as of and for the year ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the University of New Hampshire Foundation as of June 30, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2021, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Quincy, Massachusetts
October 1, 2021

University of New Hampshire Foundation, Inc.
Management's Discussion & Analysis
June 30, 2021, 2020 and 2019
(Unaudited)
(\$ in thousands)

Introduction

The University of New Hampshire Foundation, Inc. (Foundation) was formed on September 22, 1989 as an independent corporation, the principal purpose of which is to assist the University of New Hampshire (UNH) in obtaining additional resources for the enhancement of UNH programs and facilities. UNH is an institution of higher education and the flagship campus of the University System of New Hampshire (USNH). Operationally, the Foundation functions within UNH's Advancement division (Advancement). The Foundation is overseen by the Board of Directors (Board).

The following discussion and analysis of the financial condition and results of operations of the Foundation for the fiscal year ended June 30, 2021 is provided as prescribed by the Governmental Accounting Standards Board (GASB). This discussion includes an overview of the Foundation's financial activities, describes the changes in financial position, and assists the reader in understanding and comparing the results of the current year's operations to those for the years ended June 30, 2020 and 2019. As this discussion includes summarized information, it should be read in conjunction with the accompanying financial statements and related note disclosures. The financial statements, related notes, and this discussion have been prepared by and are the responsibility of management. References to years should be interpreted to mean fiscal year beginning July 1 and ending June 30, unless otherwise noted. All dollar values noted throughout this discussion, the financial statements, and related notes are in thousands of United States dollars.

2021 Financial Highlights

- Beginning in March 2020, the operations and investments of the Foundation were significantly impacted by the spread of Coronavirus Disease (COVID-19). Foundation staff began to work remotely and continued doing so beyond June 30, 2020 and throughout the entirety of 2021. The financial market rebound in the last quarter of 2020 continued through 2021 resulting in very strong performance in the Foundation's investment portfolio. The Foundation's Investment Committee (Committee) continues to carefully monitor the markets and the pandemic, and to make portfolio adjustments accordingly.
- The value of endowment investments and similar funds increased \$60,736 (25.8%) in 2021, with \$12,610 distributed from the endowment pool for payout to purpose and the administration fee (collectively "endowment income used for operations") offset by \$5,858 in new endowment gifts and \$67,488 in endowment investment gain.
- The pooled portion (98.3%) of the Foundation's endowment assets had a 2021 market gain, net of fees, of 29.0%. This compares to a gain of 1.7% in 2020 and a gain of 5.0% in 2019. 100% of Foundation endowed funds are above their respective original gift values as of June 30, 2021.
- Current use gifts and contributions received in 2021 increased by \$1,288 (6.5%) over 2020 while gifts transferred to UNH increased by \$1,585 (9.7%). Endowment gifts received in 2021 increased \$2,026 (54.6%) from the 2020 level.

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(\$ in thousands)

- Distributions to UNH for endowed programs increased \$698 (7.4%) in 2021 following an increase of \$449 (5.0%) in 2020.
-

Using the Financial Statements

This annual report includes financial statements and related notes thereto, prepared in accordance with U.S. generally accepted accounting principles (GAAP) promulgated by GASB. The financial statements focus on the financial condition, results of operations, and cash flows of the Foundation.

The Statements of Net Position include all assets, liabilities, deferred inflows and outflows, and net position of the Foundation. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when earned or, in certain instances, received, and expenses and liabilities are recognized when incurred, regardless of when cash is exchanged.

The Statements of Revenues, Expenses, and Other Changes in Net Position present the revenues earned and the expenses incurred by the Foundation during the year. All activities are reported as either operating or other changes in net position. Operating activities are those that support the mission and purpose of the Foundation and include transactions of a capital and restricted nature that are invested by the Foundation to generate a return that will support future operations. Endowment gifts are reported as other changes in net position.

The Statements of Cash Flows present information related to Foundation cash inflows and outflows during the year, including categories for operating, investing and noncapital financing activities. Endowment gifts are reported as noncapital financing activities.

University of New Hampshire Foundation, Inc.
Management's Discussion & Analysis
June 30, 2021, 2020 and 2019
(Unaudited)
(\$ in thousands)

Statements of Net Position

A condensed summary of net position as of June 30, 2021, 2020 and 2019 follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>21 - 20</u> <u>\$ Change</u>	<u>21 - 20</u> <u>% Change</u>
Assets:					
Current assets	\$ 5,904	\$ 6,233	\$ 8,779	\$ (329)	-5%
Noncurrent assets	309,536	244,986	246,446	64,550	26%
Total Assets	<u>315,440</u>	<u>251,219</u>	<u>255,225</u>	<u>64,221</u>	<u>26%</u>
Liabilities:					
Current liabilities	1,071	1,225	3,247	(154)	-13%
Noncurrent liabilities	<u>2,412</u>	<u>2,152</u>	<u>2,414</u>	<u>260</u>	<u>12%</u>
Total Liabilities	3,483	3,377	5,661	106	3%
Deferred Inflows of Resources:					
Deferred inflows - annuities	<u>2,161</u>	<u>1,348</u>	<u>2,139</u>	<u>813</u>	<u>60%</u>
Total Deferred Inflows of Resources	2,161	1,348	2,139	813	60%
Net Position:					
Restricted					
Nonexpendable	161,978	156,239	152,526	5,739	4%
Expendable	144,457	86,898	91,948	57,559	66%
Unrestricted	<u>3,361</u>	<u>3,357</u>	<u>2,951</u>	<u>4</u>	<u>0%</u>
Total Net Position	<u>\$ 309,796</u>	<u>\$ 246,494</u>	<u>\$ 247,425</u>	<u>\$ 63,302</u>	<u>26%</u>

Current assets include cash, cash equivalents, and non-endowment pledges receivable due within one year. In accordance with GAAP, endowment pledges are not recognized in the financial statements until the gift is received. Accounts payable and the current portion (due within one year) of annuities payable, plus accrued expenses make up the current liabilities balance. Current assets less current liabilities represent the net working capital of the Foundation. Between the Foundation's working capital and the operating reserve balance (unrestricted net position), management deems the availability of assets adequate to meet unexpected needs of the Foundation.

Noncurrent assets include non-endowment pledges receivable that are due beyond one year from the date of the financial statements, as well as endowments and certain other investments. Noncurrent liabilities are the net present value of that portion of annuities payable after the next fiscal year.

When considered in the context of the Foundation's donor cultivation strategies, returns on its investment and fundraising campaigns, and the overall state of the economy, increases or decreases in the Foundation's net position over time are indicators of improvement in or erosion of its financial health. The Foundation's net position is comprised of three types of net position: restricted nonexpendable, restricted expendable and unrestricted.

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Restricted nonexpendable endowment funds are maintained in accordance with terms specified by donors and are invested in perpetuity with the intent to produce income to be expended annually for the donor-specified purposes. The restricted nonexpendable net position related to these endowment funds increased by 3.7% in 2021, following increases of 2.4% in 2020 and by 8.1% in 2019. Increases in this portion of endowment funds over the last several years have been attributable to the Foundation's commitment to growing and developing a strong fundraising team which has been successful at securing more and larger gifts from its increasing active donor base. The Committee monitors and manages the asset allocation of the endowment pool with the goal of diversifying risk while maintaining value and enhancing total return. This work is carried out in conjunction with the Foundation's investment consultant.

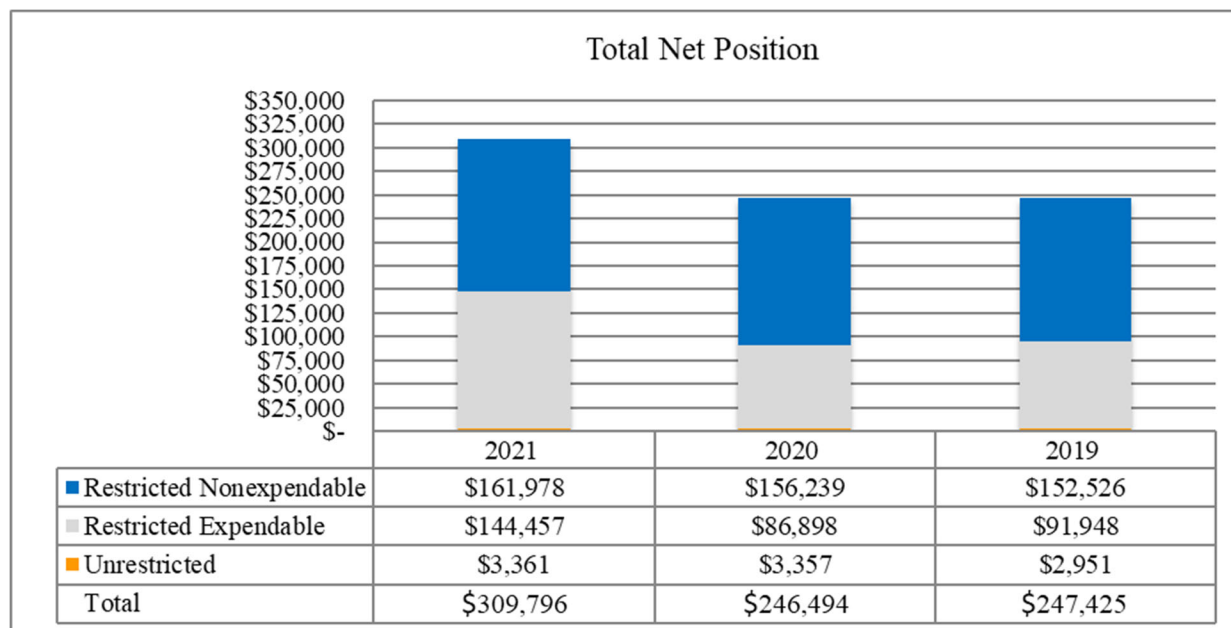
Restricted expendable funds include funds functioning as endowment, life income and annuity funds, and accumulated net gains on the nonexpendable endowment funds. The restricted expendable net position related to these endowment funds increased 66.2% the year ended June 30, 2021, after decreasing 5.5% during the year ended June 30, 2020, and 1.4% in 2019. Funds functioning as endowment consist of amounts that have been allocated by the Foundation for long-term investment purposes, including gifts restricted as to purpose that have no conditions requiring they be held as nonexpendable endowments. The significant increase in 2021 was due primarily to the year's strong net gains in the endowment funds.

Unrestricted funds include accumulated operating reserves, as well as unrestricted gifts to the Foundation that can be utilized to support the Foundation's operations.

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The following chart shows the net position composition as of June 30, 2021, 2020 and 2019:



The Foundation's total net position increased by \$63,302 (25.7%) in 2021, following a decrease of \$931 (-0.4%) in 2020 and an increase of \$9,864 (4.2%) in 2019. Annual payout distributions from and new gifts to the endowment, along with overall market gain or loss results from the portfolio investments, are reflected in the year-to-year fluctuations in restricted net position.

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University of New Hampshire Foundation, Inc.
Management's Discussion & Analysis
June 30, 2021, 2020 and 2019
(Unaudited)
(\$ in thousands)

Statements of Revenues, Expenses and Other Changes in Net Position

A condensed summary of revenues, expenses and other changes in net position for the years ended June 30, 2021, 2020 and 2019 follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating Revenues:			
Gifts and contributions	\$ 21,220	\$ 19,932	\$ 13,018
Support from UNH	5,358	6,379	5,024
Endowment return less income used for operations	67,551	3,288	11,139
Other income	4	356	36
Other support	4	7	2
Total Operating Revenues	<u>94,137</u>	<u>29,962</u>	<u>29,219</u>
Operating Expenses:			
Gifts transferred to UNH	18,009	16,424	14,239
Distributions to UNH for endowed programs	10,191	9,493	9,044
Salaries, wages, fringe benefits and other operating expenses	8,374	8,689	7,488
Total Operating Expenses	<u>36,574</u>	<u>34,606</u>	<u>30,771</u>
Operating Income (Loss)	<u>57,563</u>	<u>(4,644)</u>	<u>(1,552)</u>
Other Changes in Net Position:			
Endowment gifts	5,739	3,713	11,416
Total Other Changes in Net Position	<u>5,739</u>	<u>3,713</u>	<u>11,416</u>
Increase (Decrease) in Net Position	<u>\$ 63,302</u>	<u>\$ (931)</u>	<u>\$ 9,864</u>

Revenue is primarily comprised of gifts and contributions, support from UNH for fundraising services rendered, investment income, endowment income, and gains (losses) on investments.

Gifts and contributions and endowment income are the primary sources of revenue for the Foundation. In addition, financial support received for services provided to UNH is recognized as revenue by the Foundation. During 2021, excluding new endowment gifts, the Foundation's endowment pool experienced a net increase of \$54,879 after distributions of \$12,610. This compares to net decreases of \$8,444 after distributions of \$11,765 in 2020 and \$100 after distributions of \$11,228 in 2019.

Expenses include gifts transferred to UNH, distributions (payout to purpose) to UNH for endowed scholarships and programs, compensation costs, interest on annuities, supplies and other expenses. Salaries and fringe benefits comprised \$7,319 (20.0%) of the Foundation's total expenses in 2021 as compared to \$6,959 (20.1%) of the Foundation's total expenses in 2020. The increase in 2021 was primarily attributable to filling new and vacant frontline fundraising positions. Expenses were within the approved budget.

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Management's Discussion & Analysis
June 30, 2021, 2020 and 2019
(Unaudited)
(\$ in thousands)

Below is a chart that summarizes activity in endowments, annuities, and similar funds for the years ended June 30:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Beginning Endowment Balance	\$ 235,797	\$ 236,326	\$ 224,648
New gifts	5,858	7,915	11,778
Payout to purpose	(10,305)	(9,607)	(9,157)
Administration fee	(2,305)	(2,158)	(2,071)
Yield, net of fees	(1,121)	1,687	2,343
Realized gain (loss)	4,627	2,232	725
Unrealized gain (loss)	63,982	(598)	8,060
Ending Endowment Balance	<u>296,533</u>	<u>235,797</u>	<u>236,326</u>
Annuities*	<u>5,263</u>	<u>4,144</u>	<u>5,280</u>
Ending Investment Balance	<u>\$ 301,796</u>	<u>\$ 239,941</u>	<u>\$ 241,606</u>

*Associated liabilities (current and non-current) totaled \$2,680, \$2,431 and \$2,723, at June 30, 2021, 2020, and 2019, respectively.

The overall value of endowment and annuity investments and similar funds increased \$61,855 (25.8%) in 2021, in contrast to a decrease of \$1,665 (-0.7%) in 2020 following a \$12,558 (5.5%) increase in 2019.

Outlook

The path of the COVID-19 pandemic has improved over the course of 2021. While the future impacts from COVID-19 remain unclear, the Committee continues to be highly engaged in monitoring the investment portfolio in conjunction with the investment advisor, to ensure that the Foundation's endowment portfolio can continue to provide much-needed support to UNH in the near term and over the long term.

In addition to identifying new donors and securing additional current use and endowment gifts for the upcoming comprehensive fundraising campaign, the national and global financial and investment markets will continue to be significant factors affecting the Foundation's Statement of Net Position and overall financial health. The Foundation applies diversification to its endowment investments and maintains a long-term focus to achieve competitive returns while hedging against market uncertainty. The Foundation's Board, Committee and staff employ what they believe to be sound fiscal management, contributing to strong results over time and stability in its financial health.

University of New Hampshire Foundation, Inc.
Statements of Net Position
Years ended June 30,
(\$ in thousands)

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,422	\$ 3,812
Pledges receivable, net	<u>2,482</u>	<u>2,421</u>
Total Current Assets	<u>5,904</u>	<u>6,233</u>
Noncurrent Assets		
Pledges receivable, net	7,104	3,844
Endowment investments and similar funds	296,533	235,797
Annuity investments and similar funds	5,263	4,144
Other investments	341	356
Other assets	<u>295</u>	<u>845</u>
Total Noncurrent Assets	<u>309,536</u>	<u>244,986</u>
Total Assets	<u>315,440</u>	<u>251,219</u>
LIABILITIES		
Current Liabilities		
Accounts payable and other liabilities	803	946
Annuities payable	<u>268</u>	<u>279</u>
Total Current Liabilities	<u>1,071</u>	<u>1,225</u>
Noncurrent Liabilities		
Annuities payable	<u>2,412</u>	<u>2,152</u>
Total Noncurrent Liabilities	<u>2,412</u>	<u>2,152</u>
Total Liabilities	<u>3,483</u>	<u>3,377</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - annuities	<u>2,161</u>	<u>1,348</u>
Total Deferred Inflows of Resources	<u>2,161</u>	<u>1,348</u>
NET POSITION		
Restricted		
Nonexpendable	161,978	156,239
Expendable	144,457	86,898
Unrestricted	<u>3,361</u>	<u>3,357</u>
Total Net Position	<u>\$309,796</u>	<u>\$ 246,494</u>

See accompanying notes to financial statements.

University of New Hampshire Foundation, Inc.
Statements of Revenues, Expenses and Other Changes in Net Position
Years ended June 30,
(\$ in thousands)

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Gifts and contributions	\$ 21,220	\$ 19,932
Support from UNH for fundraising services rendered	5,358	6,379
Endowment income used for operations	12,610	11,765
Realized and unrealized gain (loss) on investments, net	68,671	1,609
Endowment return utilized in support of distributions	(13,730)	(10,086)
Other income	4	356
Other support	4	7
Total Operating Revenues	<u>94,137</u>	<u>29,962</u>
OPERATING EXPENSES		
Gifts transferred to UNH	18,009	16,424
Distributions to UNH for endowed programs	10,191	9,493
Salaries, wages, and fringe benefits	7,319	6,959
Supplies and other operating expenses	1,040	1,712
Interest on annuities	15	18
Total Operating Expenses	<u>36,574</u>	<u>34,606</u>
Operating Income (Loss)	<u>57,563</u>	<u>(4,644)</u>
OTHER CHANGES IN NET POSITION		
Endowment gifts	5,739	3,713
Total Other Changes In Net Position	<u>5,739</u>	<u>3,713</u>
INCREASE (DECREASE) IN NET POSITION	63,302	(931)
NET POSITION AT BEGINNING OF YEAR	<u>246,494</u>	<u>247,425</u>
NET POSITION AT END OF YEAR	<u><u>\$ 309,796</u></u>	<u><u>\$ 246,494</u></u>

See accompanying notes to financial statements.

University of New Hampshire Foundation, Inc.
Statements of Cash Flows
Years ended June 30,
(\$ in thousands)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 18,449	\$ 20,921
Support from UNH	5,358	6,380
Investment income	4	12
Payments to UNH	(28,279)	(28,048)
Payments to employees and for employee benefits	(7,317)	(6,861)
Payments to suppliers	<u>(1,095)</u>	<u>(1,658)</u>
Net Cash Provided By (Used In) Operating Activities	<u>(12,880)</u>	<u>(9,254)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of pooled endowment investments	81,674	77,923
Purchases of pooled endowment investments	(74,923)	(74,073)
Proceeds from sales and maturities of annuity, life income, and other investments	282	365
Purchases of annuity, life income and other investments	<u>(303)</u>	<u>(109)</u>
Net Cash Provided By (Used In) Investing Activities	<u>6,730</u>	<u>4,106</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from issuance of annuity and life income agreements	296	90
Payments to annuitants and life income beneficiaries	(275)	(334)
Endowment gifts and other additions	<u>5,739</u>	<u>3,713</u>
Net Cash Provided By (Used In) Noncapital Financing Activities	<u>5,760</u>	<u>3,469</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(390)	(1,679)
BEGINNING CASH AND CASH EQUIVALENTS	<u>3,812</u>	<u>5,491</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 3,422</u>	<u>\$ 3,812</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
OPERATING INCOME (LOSS)	\$ 57,563	\$ (4,644)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Endowment return, net of amount used for operations	(67,559)	(3,299)
Interest on annuities	15	18
Changes in assets and liabilities:		
Pledges receivable, net	(3,321)	1,833
Other investments	15	(326)
Other assets	550	(845)
Accounts payable and other liabilities	<u>(143)</u>	<u>(1,991)</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ (12,880)</u>	<u>\$ (9,254)</u>

See accompanying notes to financial statements.

University of New Hampshire Foundation, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(\$ in thousands)

1. Organization and Significant Accounting Policies

The University of New Hampshire Foundation, Inc. (Foundation) was incorporated in 1989 as a not-for-profit, tax-exempt organization. Its primary purpose is to solicit, collect, invest and disburse funds for the University of New Hampshire (UNH). The Foundation is governed by its own Board of Directors (Board), the membership of which includes, among others, the President of the University of New Hampshire and up to three members of the University System of New Hampshire (USNH) Board of Trustees. The University of New Hampshire funds a significant portion of the operating expenses of the Foundation.

Basis of Accounting and Presentation

In order to adhere to limitations and restrictions placed on the use of available resources, the accounts of the Foundation are maintained internally in accordance with the principles of “fund accounting.” This is the procedure by which resources for various purposes are maintained in separate funds in accordance with the activities or objectives specified.

The financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) using the economic resources measurement focus and the accrual basis of accounting in accordance with applicable Governmental Accounting Standards Board (GASB) pronouncements.

The Foundation’s resources are classified for accounting and reporting purposes into the following net position categories:

- **Restricted Nonexpendable** – These are subject to externally imposed stipulations that the funds be invested in perpetuity by the Foundation. These include the original gift value of donor restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) of New Hampshire, as described in note 4.
- **Restricted Expendable** – Use by the Foundation is subject to externally imposed stipulations that can be fulfilled by actions pursuant to those stipulations or expire by the passage of time and include the net unspent appreciation on investments of donor-restricted nonexpendable endowments and restricted current use pledges receivable. When both restricted and unrestricted resources are available for a particular purpose, generally it is the Foundation’s policy to use applicable restricted resources first.
- **Unrestricted** – These are not subject to externally imposed stipulations. Unrestricted net position may be designated internally to support specific purposes.

University of New Hampshire Foundation, Inc.
Notes to Financial Statements
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(\$ in thousands)

UNH provides financial support to the Foundation through annual operating appropriations and other sources. Although UNH does not control the timing or amount of receipts from the Foundation, the majority of resources which the Foundation holds and invests, and income thereon, are restricted by donors to the activities of UNH. Because these restricted resources held by the Foundation can only be used by or for the benefit of UNH, the Foundation is included as a blended component unit in the USNH financial statements in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*.

Cash and Cash Equivalents

Cash and cash equivalents consist of savings and demand accounts and pooled depository funds with original maturities of 90 days or less. The primary purpose of these funds is to support expected operating expenses of the Foundation in the near future.

Gifts, Contributions and Pledges

Gifts and contributions are recorded at estimated fair value when all applicable eligibility requirements have been met and collection is deemed probable. Pledges are written unconditional promises by donors to make future payments. The Foundation recognizes a receivable and revenue at the time the pledge is made by the donor if the pledge is verifiable, measurable, and probable of collection and meets all applicable eligibility requirements. Because eligibility requirements for endowment gifts cannot be met until funds are invested, endowment pledges are not recorded as revenue until cash or other assets are received. Real estate is reported at estimated fair value as of the date of the gift. Transfers to UNH are recorded based on the carrying value of the related gifts at the date of transfer.

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University of New Hampshire Foundation, Inc.
Notes to Financial Statements
June 30, 2021 and 2020
(\$ in thousands)

Fair Value Measurements

Investments and investment activities are reported at fair value. Fair value represents the price that would be received upon sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. In accordance with GASB Statement No.72, *Fair Value Measurement & Application*, the Foundation uses a three-tiered hierarchy to categorize those assets and liabilities based on the valuation methodologies employed. The hierarchy is defined as follows:

- Level 1 – Valuation based on quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.
- Level 2 – Valuations based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 – Valuation based on unobservable inputs used in situations in which little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Transfers between categories occur when there is an event that changes the inputs used to measure the fair value of an asset or liability. Transfers between fair value categories are recognized as of the end of the reporting period.

As described in note 3, investments measured at net asset value as a practical expedient to estimate fair value are not categorized in the fair value hierarchy above.

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

Income Tax Status

The Internal Revenue Service has ruled that the Foundation is qualified under Section 501(c)(3) of the Internal Revenue Code and is, therefore, generally not subject to income tax under present federal income tax laws. In addition, the Foundation is not a private foundation within the meaning of Sections 509(a)(1) and 170(b)(1)(A)(iv) of the Code.

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2. Pledges Receivable

Pledges receivable are discounted at rates commensurate with the associated risks and timeframes involved. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restriction. As of June 30, 2021 and 2020, 59% and 50%, respectively, of pledges receivable, net of discount and bad debt allowance, are attributable to one donor.

Pledges receivable at June 30 are restricted by donors as follows:

	<u>2021</u>	<u>2020</u>
Instruction and academic support	\$ 6,491	\$ 3,521
Scholarships and fellowships	3,719	4,463
Plant construction and renovations	234	390
Other	380	67
Total Pledges Receivable	<u><u>\$ 10,824</u></u>	<u><u>\$ 8,441</u></u>

These amounts, as of June 30, are due as shown below:

	<u>2021</u>	<u>2020</u>
Amounts due in one year or less	\$ 2,863	\$ 3,195
Amounts due between one year and five years	5,981	4,727
Amounts due after five years	1,980	519
Total Due	10,824	8,441
Less: discounting of future cash flows	(334)	(482)
Less: allowance for uncollectible amounts	(904)	(1,694)
Total Pledges Receivable, Net	<u><u>\$ 9,586</u></u>	<u><u>\$ 6,265</u></u>

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3. Investments

Investments and investment activities are reported at estimated fair value. Purchases and sales of securities are recorded as of the settlement date. The fair value of publicly traded securities is based upon quoted market prices. The fair value of registered mutual funds is based on published net asset values (NAV). The estimated fair value of investments without traditional markets (i.e., hedge funds, private equity, inflation hedging assets and non-marketable real assets) is based on estimated NAV, as provided by fund managers and reviewed by management, as a practical expedient to estimate fair value. Because hedge funds, private equity, inflation hedging assets and real estate investments are not readily marketable, their estimated values are subject to uncertainty and, therefore, could differ materially from the value that would have been used had a ready market for such investments existed. At June 30, 2021 and 2020, the Foundation had no plans or intentions to sell investments at amounts different from NAV.

The following tables summarize the Foundation's endowment investments, annuity investments, and similar funds at June 30:

2021					
Investments Classified in the Fair Value Hierarchy					
	Investments Measured at NAV	Level 1	Level 2	Level 3	Total
Cash	\$ -	\$ 11,970	\$ -	\$ -	\$ 11,970
Fixed income	-	12,525	3,017	4,292	19,834
Inflation hedging	-	4,311	6,313	-	10,624
Domestic equity	59,346	9,026	-	-	68,372
Global equity	26,760	569	-	-	27,329
International equity	44,043	8,267	-	-	52,310
Hedge funds:					
Equity	30,549	-	-	-	30,549
Diversified	7,251	-	-	-	7,251
Distressed/Event Driven	39,918	-	-	-	39,918
Private equity	21,008	-	-	-	21,008
Private real assets	12,631	-	-	-	12,631
Total	<u>\$ 241,506</u>	<u>\$ 46,668</u>	<u>\$ 9,330</u>	<u>\$ 4,292</u>	<u>\$ 301,796</u>

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2020					
Investments Classified in the Fair Value Hierarchy					
	Investments Measured at NAV	Level 1	Level 2	Level 3	Total
Cash	\$ -	\$ 8,553	\$ -	\$ -	\$ 8,553
Fixed income	1,089	11,911	1,915	4,242	19,157
Inflation hedging	-	3,611	6,691	-	10,302
Domestic equity	44,044	11,748	-	-	55,792
Global equity	5,791	562	-	-	6,353
International equity	32,754	15,642	-	-	48,396
Hedge funds:					
Equity	21,612	-	-	-	21,612
Diversified	4,900	-	-	-	4,900
Distressed/Event Driven	39,546	-	-	-	39,546
Private equity	13,180	-	-	-	13,180
Private real assets	12,150	-	-	-	12,150
Total	<u>\$ 175,066</u>	<u>\$ 52,027</u>	<u>\$ 8,606</u>	<u>\$ 4,242</u>	<u>\$ 239,941</u>

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Investment liquidity and redemption terms as of June 30, 2021 and 2020 are presented below:

2021								
	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid	Total	Redemption Notice
Cash	\$ 11,970	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,970	Daily
Fixed income	15,543	-	-	-	4,228	63	19,834	Daily, Illiquid
Inflation hedging	10,624	-	-	-	-	-	10,624	Daily
Domestic equity	16,438	7,812	44,122	-	-	-	68,372	1 - 60 days
Global equity	7,042	-	20,287	-	-	-	27,329	1 - 30 Days
International equity	26,430	22,381	3,499	-	-	-	52,310	1 - 90 days
Hedge funds:								
Equity	-	-	30,549	-	-	-	30,549	30 - 90 days
Diversified	-	-	-	4,638	2,613	-	7,251	60 days
Distressed/Event Driven	-	-	9,331	12,464	18,123	-	39,918	60 - 90 days
Private equity	-	-	-	-	-	21,008	21,008	Illiquid
Private real assets	-	-	-	-	-	12,631	12,631	Illiquid
Total	\$ 88,047	\$ 30,193	\$ 107,788	\$ 17,102	\$ 24,964	\$ 33,702	\$ 301,796	
2020								
	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid	Total	Redemption Notice
Cash	\$ 8,553	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,553	Daily
Fixed income	13,826	1,089	-	-	1,540	2,702	19,157	Daily, Illiquid
Inflation hedging	10,302	-	-	-	-	-	10,302	Daily
Domestic equity	16,786	5,000	34,006	-	-	-	55,792	1 - 60 days
Global equity	562	-	5,791	-	-	-	6,353	1 - 30 days
International equity	29,122	16,859	2,415	-	-	-	48,396	1 - 90 days
Hedge funds:								
Equity	-	-	21,612	-	-	-	21,612	30 - 90 days
Diversified	-	-	-	4,804	96	-	4,900	60 days
Distressed/Event Driven	-	-	7,580	10,487	21,479	-	39,546	60 - 90 days
Private equity	-	-	-	-	-	13,180	13,180	Illiquid
Private real assets	-	-	-	-	-	12,150	12,150	Illiquid
Total	\$ 79,151	\$ 22,948	\$ 71,404	\$ 15,291	\$ 23,115	\$ 28,032	\$ 239,941	

As of June 30, 2021 and 2020, the Foundation had outstanding unfunded commitments, which includes callable capital, to private investments of \$17,901 and \$22,749, respectively.

Following is a summary of strategies for investments measured using NAV as a practical expedient, as of June 30, 2021.

Domestic equity - This type includes investments in three funds that invest in both long and short strategies, seeking to meet or exceed the performance of U.S. stock indexes. Management of each fund strategy has the ability to shift investments between value and growth strategies, and from a net long position to a net short position. One fund focuses its strategy on small cap funds, another on small and mid cap funds, and the third more broadly on mid and large cap funds. Derivatives may be used to hedge existing exposures to maximize returns and minimize risks.

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Global equity - This type includes investments in two funds, with exposures in both the United States and in developed and/or emerging markets. One fund has a long-only concentrated portfolio; while the other uses a passive strategy that excludes certain fossil fuel investments. There is an active one-year lockup period for one of these funds.

International equity - This type includes investments in six funds, with varying regional exposures outside of the United States, across the capitalization spectrum, and in developed and/or emerging markets. The funds use long/short strategies, and some may seek exposures, for instance, to currency markets and/or to derivatives for managing risk. One fund in this type employs the MSCI Emerging Markets Index to inform its stock selection. Another fund seeks to exceed returns on the MSCI EAFE (Europe, Asia, Far East) Index. There are no active lockup periods in any of these funds.

Equity hedge funds - This type includes investments in four hedge funds that invest with both long and short strategies in U.S. and international equities. Management of each hedge fund has the ability to shift investments between value and growth strategies, among small, medium, and large capitalization stocks, and from net long position to a net short position. There is an active one-year lockup period for one of these funds.

Diversified hedge funds - This type includes three investments, one of which is currently in the liquidation process. One fund seeks to achieve risk-adjusted returns through a process of fundamental, bottom-up analysis. They pursue multiple investment strategies on an opportunistic basis including five core investment strategies: credit investments, long/short equity, merger arbitrage, real estate related investments and direct investments. The other fund's objective is to generate attractive risk-adjusted returns by investing in a concentrated portfolio of businesses where material environmental, social, and governance considerations can contribute to performance. Investments are made, or sold short, across the capital structure in both debt and equity instruments. There is an active one-year lockup period for one of these funds.

Distressed and event driven hedge funds - This type includes investments in four hedge funds that invest primarily in the debt, equity, or trade claims of companies in financial distress or already in default typically causing the securities to trade at substantial discounts to par value due to difficulties in analyzing security value impacted by business, finance, or legal uncertainties. Management may utilize "side-pockets" to achieve investment objectives. One fund focuses on default and non-default events (e.g., merger, arbitrage, IPO, credit issuance, etc.). Currently one fund is in the process of being redeemed.

Private equity - This type includes ten private equity funds. Two funds operate as a "Fund of Funds" investment vehicle that invests in a diversified group of closed-end private funds focused on leveraged buyout, growth equity, mezzanine, and venture capital investment funds. One fund invests in global private market investment strategies, including investments selected by third party investment managers. One fund targets investments in less liquid and/or longer duration distressed situations and situations resulting from capital dislocation. Two funds invest in equity, equity-

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related and debt securities primarily acquired in privately negotiated transactions, leveraged acquisitions, reorganizations, and other equity transactions. Three funds seek income and gain through acquisition, holding, and distribution of interests in venture capital. The remaining fund invests in mezzanine securities, including fixed income securities such as debt and preferred stock. These investments can never be redeemed with the funds. Instead, the nature of the investments in this type is that distributions are received through liquidations of the underlying assets of the funds, which are expected over the next one to 10 years.

Private real assets - This type includes five funds utilizing investment strategies seeking current income and capital appreciation primarily through investments in domestic and international real estate assets. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, which are expected over the next one to five years.

Marketable investments are held by financial institutions whose credit is reviewed and deemed reputable by the Foundation's investment advisor, management, and members of the Board's Investment Committee. The investment policy of the Foundation is designed to mitigate the custodial credit risk associated with these investments collectively through diversification among investment managers.

Fixed income investments are subject to credit risk, which is the risk that an issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. The Foundation manages credit risks, which include investment grade credit ratings issued by nationally recognized statistical rating organizations, including Moody's Investors Service, for all investments. As of June 30, 2021 and 2020, the Foundation's fixed income mutual funds were not rated.

Fixed income securities as of June 30 were rated as follows:

<u>Moody's Rating</u>	<u>2021</u>	<u>2020</u>
Aaa	78%	85%
Aa1-3	6%	5%
A1-3	10%	7%
Baa1-3	4%	3%
NR	2%	0%
	<u>100%</u>	<u>100%</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. One of the ways the Foundation manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by "laddering" or timing cash flows from maturities so that a portion of the portfolio is maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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4. Endowment and Similar Funds

The Foundation follows the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as promulgated in Chapter 292-B of the State of New Hampshire's Revised Statutes Annotated (RSA). RSA 292-B permits the Board of Directors to appropriate a portion of an endowment fund as is prudent considering the Foundation's long-term and short-term needs, present and anticipated financial requirements, and expected total return on its investments, price level trends, and general economic conditions.

The majority of endowment funds are invested and maintained on a pooled basis using the unit share method of allocating earnings. At June 30, 2021 and 2020, pooled endowment funds totaled \$296,533 and \$235,797, respectively. The Foundation maintains two separate endowment pools: the main pool and the ESG (environmental, social, and governance) pool. The ESG pool was established in 2015 for donors who wish to have their endowment gifts invested using ESG principals. While each pool is comprised of a distinct set of investments in response to differing asset allocation targets, the pools are otherwise managed in the same fashion, including but not limited to Board oversight, unitization methodology and payout rates, in accordance with the Foundation's investment policy statement. Investment results of the two pools are not commingled but each endowed fund receives on a pro rata basis the market activity and distributions attributable to its pool. The market values of the main pool at June 30, 2021 and 2020 were \$244,003 and \$195,159, respectively. The market values of the ESG pool at June 30, 2021 and 2020 were \$52,530 and \$40,638, respectively.

As provided for under UPMIFA, the Foundation applies the "total return" concept to distributions, so that endowment yield (dividends and interest, net of fees) and accumulated net gains may be utilized to fund distributions. For fiscal years 2021 and 2020, the payout to purpose rate was 4.25% and the administration fee component was 1%, both based on the twelve quarter-rolling average market value per unit, for a total distribution rate of 5.25%. The administrative fee component of the annual distribution for spending covers general and administrative costs associated with the management of investments and fiduciary requirements of the Foundation. The distribution rate is reviewed and approved by the Board annually.

When combined with new gifts, the payout to purpose rate in the spending formula for the pooled endowment provides stability for support of ongoing programs. Total endowment income distributed and used for operations for 2021 and 2020 was \$12,610 and \$11,765, respectively. Of the total annual distributions, the Foundation distributed to UNH for endowed programs (i.e., payout to purpose) for restricted current use from pooled endowment funds \$10,191 and \$9,493 for the years ended June 30, 2021 and 2020, respectively. To support the annual distributions in 2021 and 2020, accumulated returns of \$13,730 and \$10,086 were utilized, respectively. As a result of investment activities and annual distributions, the endowment pool experienced a net increase of \$54,879 in 2021 and a net decrease of \$8,444 in 2020.

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All distributions were made from pooled endowment funds in 2021 and 2020. There were no cases where endowment funds had a market value less than 90% of the historical book value as of the beginning of the calendar year, which is the Foundation's payout curtailment policy threshold. The aggregate amount by which the Foundation's true endowment funds had market value below their original gift value was \$0 and \$276 as of June 30, 2021 and 2020, respectively. For 2021, the percentage of dollars underwater is 0.0% of the total market value of true endowment funds.

Similar funds are comprised of life income and annuity funds totaling \$5,263 and \$4,144 as of June 30, 2021 and 2020, respectively.

5. Annuities Payable

Annuities payable are recorded at the present value of anticipated future payments based on the life expectancies of the recipients. Life income and annuity liability activity for the years ended June 30, 2021 and 2020 are shown below:

	<u>2021</u>	<u>2020</u>
Balance, Beginning of Year	\$ 2,431	\$ 2,723
Revaluations	273	365
New annuities	240	86
Withdrawals	(5)	(427)
Principal payments	(259)	(316)
Balance, End of Year	<u>2,680</u>	<u>2,431</u>
Less: current portion	<u>(268)</u>	<u>(279)</u>
Noncurrent portion	<u><u>\$ 2,412</u></u>	<u><u>\$ 2,152</u></u>

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6. Net Position

The components of total net position at June 30, 2021 and 2020 are summarized below:

	<u>2021</u>	<u>2020</u>
Restricted		
Nonexpendable		
Historical gift value of endowment	\$ 161,978	\$ 156,239
Total Restricted Nonexpendable	161,978	156,239
Expendable		
Accumulated net gains on historical gift value of endowment	76,867	32,325
Fair value of funds functioning as endowment	56,073	45,913
Pledges receivable, net, and other gifts	10,801	7,450
Life income and annuity funds	421	365
Real estate gifts to be sold	295	845
Total Restricted Expendable	144,457	86,898
Unrestricted		
Foundation operating funds	1,690	1,920
Fair value of unrestricted funds functioning as endowment	1,616	1,321
Gifts	55	116
Total Unrestricted	3,361	3,357
Total Net Position	<u>\$ 309,796</u>	<u>\$ 246,494</u>

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7. Gifts and Contributions

Gifts and contributions include annual adjustments in pledges receivable balances based on estimated future cash flow net of discounts and allowances. Gifts and contributions accepted during 2021 and 2020 included the following:

	<u>2021</u>	<u>2020</u>
Endowment gifts*	\$ 6,007	\$ 3,947
Current unrestricted gifts	392	376
Current restricted gifts	20,420	18,279
Plant gifts	122	925
Annuities	18	118
Total Gifts and Contributions	<u>\$ 26,959</u>	<u>\$ 23,645</u>

*Includes additions to UNH-held endowments totaling \$269 and \$234 in 2021 and 2020, respectively.

8. Related Party Transactions

The Foundation's operations are dependent upon the continued support of UNH. The Foundation's personnel are USNH employees who are serving the Foundation and, accordingly, are entitled to all the benefits of USNH employees. All liabilities associated with employment are assumed by USNH and charged to the Foundation.

Support to the Foundation for items such as financial and payroll transactions are provided from the UNH and USNH central finance offices. The accompanying financial statements do not reflect the dollar value of such services. These amounts are reported in the operating budgets and financial statements of USNH.

To the extent UNH specifically supports management and general expenses of the Foundation, such amounts are reflected in the financial statements as operating revenue and expenses. For the years ended June 30, 2021 and 2020, UNH paid \$5,358 and \$6,379, respectively, to the Foundation for operating support.

Gifts transferred to UNH in 2021 and 2020 were \$18,009 and \$16,424, respectively. At June 30, 2021, \$509 due to UNH (relating to gifts to be transferred to UNH) was included in accounts payable and other liabilities. At June 30, 2020, this amount was \$593. Certain gift balances to be transferred to UNH in future years are held by the Foundation in cash and cash equivalents. These totaled \$1,215 and \$1,187, at June 30, 2021 and 2020, respectively. The majority of these balances are associated with scholarships, research and other initiatives that will be transferred to the project funds when needed.

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9. Subsequent Events

During the continuing COVID-19 pandemic in 2021, Foundation fundraising and support staff worked successfully in an almost exclusively remote office framework. As vaccine rates have continued to increase in New Hampshire and across the country, UNH and UNHF operations are moving carefully back towards a more normal work environment for 2022. Specific to the Foundation, a hybrid work environment is projected to be available for most employees in 2022, which is expected to support the fundraising and financial goals set out for the year.

While the ultimate impacts of COVID-19 are not known and cannot be reasonably estimated, management is encouraged by the current status of COVID-19 and the efforts taken at UNH to test, monitor and mitigate negative impacts. Management believes that UNH and the Foundation are taking appropriate actions to mitigate any such negative impacts.

Management has evaluated the impact of other subsequent events through October 1, 2021, which is the date that the financial statements were available for issuance and concluded that no material events have occurred that would require recognition or disclosure.