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Financial Statements

University of New Hampshire Foundation, Inc.

June 30, 2017 and 2016

**University of New Hampshire Foundation, Inc.
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Independent Auditors' Report

The Board of Directors
University of New Hampshire Foundation, Inc.:

Report on the Financial Statements

We have audited the accompanying statements of net position of the University of New Hampshire Foundation (the Foundation), a component unit of the State of New Hampshire, as of June 30, 2017 and 2016, the related statements of revenues, expenses and other changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 net position of the University of New Hampshire Foundation as of June 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter - Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 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 September 22, 2017 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 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 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.

KPMG LLP

September 22, 2017

University of New Hampshire Foundation, Inc.
Management's Discussion & Analysis
June 30, 2017 and 2016
(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 following discussion and analysis of the financial condition and results of operations of the Foundation for the fiscal year ended June 30, 2017 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, 2016 and 2015. As this presentation includes highly 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.

Financial Highlights

- The value of endowment investments and similar funds increased \$20,059 (10.6%) in 2017, with \$5,930 attributable to new endowment gifts and a \$24,345 to investment gain, while \$10,413 was distributed from the endowment pool for payout to purpose and the administration fee (collectively "endowment income used for operations").
- The pooled portion (98%) of the Foundation's endowment assets had a 2017 gain, net of fees, of 13.5%. This compares to a loss of 3.2% in 2016 and a gain of 2.6% in 2015.
- Gifts and contributions decreased by \$5,575 due in part to the realization of several bequest gifts in the prior year (with one totaling over \$2,500), contributing to a \$2,375 decrease in gifts transferred to UNH. In 2017, endowment gifts and contributions increased \$1,513.
- The Foundation's Board of Directors (Board) approved a Capital Campaign goal of \$275 million. As of June 30, 2017, 98% of the goal has been achieved. The campaign ends on June 30, 2018.
- In September 2016, the Board approved a new endowment policy restriction curtailing the annual payout from any endowed fund whose market value has fallen to more than 10% below its historic gift value. No funds meet this criteria as of June 30, 2017 and virtually all Foundation funds are at or above their respective historic gift values.

University of New Hampshire Foundation, Inc.
Management's Discussion & Analysis
June 30, 2017 and 2016
(Unaudited)
(\$ in thousands)

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, 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, which 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, 2017 and 2016
(Unaudited)
(\$ in thousands)

Statements of Net Position

A condensed summary of net position as of June 30, 2017, 2016 and 2015 follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>17 - 16</u> <u>\$ Change</u>	<u>17 - 16</u> <u>% Change</u>
Assets:					
Current assets	\$ 10,217	\$ 7,693	\$ 6,815	\$ 2,524	33%
Noncurrent assets	<u>215,639</u>	<u>197,143</u>	<u>207,968</u>	<u>18,496</u>	<u>9%</u>
Total Assets	225,856	204,836	214,783	21,020	10%
Liabilities:					
Current liabilities	3,444	403	446	3,041	755%
Noncurrent liabilities	<u>2,052</u>	<u>2,118</u>	<u>2,008</u>	<u>(66)</u>	<u>-3%</u>
Total Liabilities	5,496	2,521	2,454	2,975	118%
Net Position:					
Restricted					
Nonexpendable	150,951	145,606	141,775	5,345	4%
Expendable	66,216	52,418	66,986	13,798	26%
Unrestricted	<u>3,193</u>	<u>4,291</u>	<u>3,568</u>	<u>(1,098)</u>	<u>-26%</u>
Total Net Position	<u>\$ 220,360</u>	<u>\$ 202,315</u>	<u>\$ 212,329</u>	<u>\$ 18,045</u>	<u>9%</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 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 or situations 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 certain other investments. Noncurrent liabilities are the net present value of that portion of annuities payable after the next fiscal year.

The value of endowment investments and similar funds increased \$20,059 (10.6%) in 2017 primarily due to strong fund performance in the financial markets. Increases in domestic equities, international equities, flexible capital investments, private equity and private real estate investments significantly outpaced losses in fixed income and commodities.

University of New Hampshire Foundation, Inc.
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(Unaudited)
(\$ in thousands)

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Beginning Endowment Balance	\$ 184,606	\$ 196,837	\$ 184,845
New gifts	5,930	4,232	15,945
Payout to purpose	(8,533)	(8,256)	(7,186)
Administration fee	(1,880)	(1,863)	(1,710)
Yield	857	841	1,338
Realized gains	1,907	2,456	2,348
Unrealized gains (losses)	21,581	(9,641)	1,257
Ending Endowment Balance	<u>204,468</u>	<u>184,606</u>	<u>196,837</u>
Annuities*	4,058	3,861	3,916
Ending Investment Balance	<u>\$ 208,526</u>	<u>\$ 188,467</u>	<u>\$ 200,753</u>

*Associated liabilities totaled \$2,339, \$2,399, and \$2,291 at June 30, 2017, 2016, and 2015, respectively.

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 fund balances: restricted nonexpendable, restricted expendable and unrestricted.

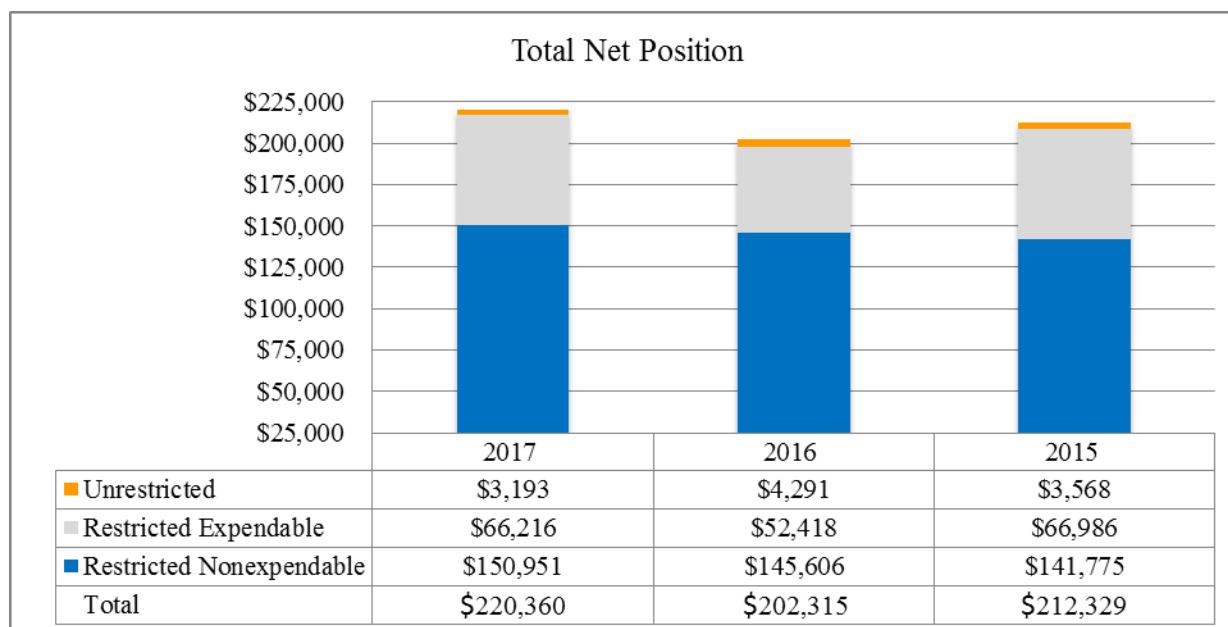
Restricted nonexpendable endowment funds are maintained in accordance with terms specified by donors, and are invested in perpetuity with the intent to produce income to be expended annually for the donor-specified purposes. The restricted nonexpendable net position related to these endowment funds increased 3.7%, 2.7%, and 11.6%, during the years ended June 30, 2017, 2016, and 2015, respectively. The increase in the endowment funds in recent years is attributable to the Foundation's strong fundraising efforts which have been successful at securing a number of larger endowment gifts. The Board's Investment and Finance 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.

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(Unaudited)
(\$ in thousands)

Restricted expendable funds include funds functioning as endowments, life income and annuity funds, and accumulated net gains on the nonexpendable endowment funds. 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.

Unrestricted funds include unused support from UNH for fundraising services rendered, as well as unrestricted gifts to the Foundation that can be utilized to support the Foundation's operations.

The following chart shows the net position composition as of June 30, 2017, 2016 and 2015:



The Foundation's total net position increased by \$18,045 (8.9%) in 2017 and decreased by \$10,014 (-4.7%) in 2016 after an increase of \$13,636 (6.9%) in 2015. New additions to the endowment along with returns in the financial markets are reflected in the change in restricted net position.

University of New Hampshire Foundation, Inc.
Management's Discussion & Analysis
June 30, 2017 and 2016
(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, 2017, 2016 and 2015 follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues:			
Gifts and contributions	\$ 13,753	\$ 19,328	\$ 13,001
Support from UNH	4,103	3,785	3,565
Endowment return less income used for operations	24,625	(6,493)	5,455
Total Operating Revenues	<u>42,481</u>	<u>16,620</u>	<u>22,021</u>
Operating Expenses:			
Gifts transferred to UNH	13,834	16,209	11,897
Distributions to UNH for endowed programs	8,373	8,100	7,041
Salaries, wages and fringe benefits and other operating expenses	7,574	6,156	5,346
Total Operating Expenses	<u>29,781</u>	<u>30,465</u>	<u>24,284</u>
Operating Income (Loss)	<u>12,700</u>	<u>(13,845)</u>	<u>(2,263)</u>
Other Changes in Net Position:			
Endowment gifts	5,345	3,831	14,810
Addition of UNH Law endowment funds	-	-	1,089
Total Other Changes in Net Position	<u>5,345</u>	<u>3,831</u>	<u>15,899</u>
Increase (Decrease) in Net Position	<u>\$ 18,045</u>	<u>\$ (10,014)</u>	<u>\$ 13,636</u>

Revenue is 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 the University of New Hampshire is recognized as revenue by the Foundation. During 2017, not taking into account the new endowment gifts, the Foundation's endowment pool experienced a net increase of \$13,932 after distributions of \$10,413, as compared to a net reduction of \$16,463 after distributions of \$10,119 in 2016, and a net reduction of \$3,953 after distributions of \$8,896 in 2015.

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 \$4,943 or 16.6% of the Foundation's total expenses in 2017 as compared to \$4,536 or 14.9% of the Foundation's total expenses in 2016. Expenses were within the approved budget. UNH leadership and the Foundation continue to work together to determine how to best support the Foundation in the future.

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(Unaudited)
(\$ in thousands)

Outlook

The Foundation employs what it believes to be sound fiscal management, which contributes to stability in its financial health. The Foundation's current comprehensive capital campaign (Campaign) that started in 2010 entered the public phase in September 2016 and the overall Campaign fundraising goal of \$275 million was announced. The Campaign will conclude in June 2018. The critical components of a modern Advancement organization are in place at UNH to successfully complete the Campaign. Foundation leadership anticipates continued strong fundraising results as the Advancement team identifies and cultivates additional major donor prospects through the Campaign's completion and beyond.

In addition to identifying new donors and securing additional current use and endowment gifts, the national and global financial and investment markets are expected 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 uncertainty.

In 2017, University Advancement continued the implementation of a new advancement-focused information system to enhance fundraising effectiveness and operational efficiency. This implementation is projected to conclude in 2018. The funding plan for this multi-year project includes resources from the Foundation, UNH and USNH.

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

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,036	\$ 4,236
Pledges receivable, net	3,179	3,457
Other current assets	2	-
Total Current Assets	10,217	7,693
Noncurrent Assets		
Pledges receivable, net	7,091	8,646
Endowment investments and similiar funds	208,526	188,467
Other investments	22	30
Total Noncurrent Assets	215,639	197,143
Total Assets	225,856	204,836
 LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	24	3
Annuities payable	287	281
Other liabilities	3,133	119
Total Current Liabilities	3,444	403
Noncurrent Liabilities		
Annuities payable	2,052	2,118
Total Noncurrent Liabilities	2,052	2,118
Total Liabilities	5,496	2,521
 NET POSITION		
Restricted		
Nonexpendable	150,951	145,606
Expendable	66,216	52,418
Unrestricted		
	3,193	4,291
Total Net Position	\$ 220,360	\$ 202,315

See accompanying notes to financial statements.

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

	2017	2016
OPERATING REVENUES		
Gifts and contributions	\$ 13,753	\$ 19,328
Support from UNH for fundraising services rendered	4,103	3,785
Endowment income used for operations	10,413	10,119
Realized and unrealized gains (losses) on investments, net	23,715	(7,420)
Endowment return utilized in support of distributions	(9,556)	(9,278)
Other/Investment income	53	86
Total Operating Revenues	42,481	16,620
OPERATING EXPENSES		
Gifts transferred to UNH	13,834	16,209
Distributions to UNH for endowed programs	8,373	8,100
Salaries, wages, and fringe benefits	4,943	4,536
Supplies and other operating expenses	2,620	1,608
Interest on annuities	11	12
Total Operating Expenses	29,781	30,465
Operating Income (Loss)	12,700	(13,845)
OTHER CHANGES IN NET POSITION		
Endowment gifts	5,345	3,831
Total Other Changes In Net Position	5,345	3,831
INCREASE (DECREASE) IN NET POSITION	18,045	(10,014)
NET POSITION AT BEGINNING OF YEAR	202,315	212,329
NET POSITION AT END OF YEAR	\$ 220,360	\$ 202,315

See accompanying notes to financial statements.

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

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 15,585	\$ 17,336
Support from UNH	4,103	3,785
Investment income	10	9
Other support	-	-
Payments to UNH	(19,203)	(24,353)
Payments to employees and for employee benefits	(4,932)	(4,528)
Payments to suppliers	(2,557)	(1,570)
Net Cash Used In Operating Activities	<u>(6,994)</u>	<u>(9,321)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of pooled endowment investments	70,506	43,245
Purchases of pooled endowment investments	(66,023)	(37,358)
Proceeds from sales and maturities of annuity, life income, and other investments	626	1,152
Purchases of annuity, life income and other investments	(419)	(1,073)
Net Cash Provided By Investing Activities	<u>4,690</u>	<u>5,966</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from issuance of annuity and life income obligations	67	150
Payments to annuitants and life income beneficiaries	(308)	(302)
Endowment gifts and other additions	5,345	3,831
Net Cash Provided By Noncapital Financing Activities	<u>5,104</u>	<u>3,679</u>
INCREASE IN CASH AND CASH EQUIVALENTS	2,800	324
BEGINNING CASH AND CASH EQUIVALENTS	<u>4,236</u>	<u>3,912</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 7,036</u>	<u>\$ 4,236</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
OPERATING INCOME (LOSS)	\$ 12,700	\$ (13,845)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Endowment return, net of amount used for operations	(24,579)	6,568
Interest on annuities	11	12
Changes in current assets and liabilities:		
Pledges receivable, net	1,833	(1,992)
Other investments	8	(23)
Accounts payable and accrued expenses	19	(6)
Other liabilities	3,014	(35)
Net Cash Used In Operating Activities	<u>\$ (6,994)</u>	<u>\$ (9,321)</u>

See accompanying notes to financial statements.

University of New Hampshire Foundation, Inc.
Notes to Financial Statements
June 30, 2017 and 2016
(\$ 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 other 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 Standard Board (GASB) pronouncements.

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University of New Hampshire Foundation, Inc.
Notes to Financial Statements
June 30, 2017 and 2016
(\$ in thousands)

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 and then unrestricted resources.
- Unrestricted – These are not subject to externally imposed stipulations. Unrestricted net position may be designated internally to support specific purposes.

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.

University of New Hampshire Foundation, Inc.
Notes to Financial Statements
June 30, 2017 and 2016
(\$ in thousands)

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.

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. 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; and
- 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.

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

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.

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, 2017 and 2016, 65% and 63% respectively of pledges receivable, net of discount, are attributable to two donors.

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

	<u>2017</u>	<u>2016</u>
Instruction and academic support	\$ 6,479	\$ 8,452
Scholarship and fellowships	5,670	5,176
Plant construction and renovations	1,635	2,479
Other	76	136
Total Pledges Receivable	<u>\$ 13,860</u>	<u>\$ 16,243</u>

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

	<u>2017</u>	<u>2016</u>
Amounts due in one year or less	\$ 3,706	\$ 4,008
Amounts due between one year and five years	7,499	9,247
Amounts due after five years	2,655	2,988
Total Due	13,860	16,243
Less: discounting of future cash flows	(1,104)	(1,236)
Less: allowance for uncollectible amounts	(2,486)	(2,904)
Total Pledges Receivable, Net	<u>\$ 10,270</u>	<u>\$ 12,103</u>

University of New Hampshire Foundation, Inc.
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(\$ in thousands)

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 the 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, 2017 and 2016, the Foundation had no plans or intentions to sell investments at amounts different from NAV. The Foundation has no Level 3 investments in 2017 and 2016.

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

	2017			
	Investments Classified in the Fair Value Hierarchy			
Investments Measured at NAV	Level 1	Level 2	Total	
Cash	\$ -	\$ 3,051	\$ -	\$ 3,051
Fixed income	1,342	11,345	-	12,687
Inflation hedging	3,352	2,785	3,799	9,936
Domestic equity	34,635	32,534	-	67,169
International/global equity	29,918	15,096	-	45,014
Hedge funds:				
Equity	21,216	-	-	21,216
Diversified	9,797	-	-	9,797
Distressed	26,075	-	-	26,075
Private equity	5,554	-	-	5,554
Private real assets	8,027	-	-	8,027
Total	\$ 139,916	\$ 64,811	\$ 3,799	\$ 208,526

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2016				
Investments Classified in the Fair Value Hierarchy				
Investments Measured at NAV	Level 1	Level 2	Total	
Cash	\$ -	\$ 9,011	\$ -	\$ 9,011
Fixed income	1,261	8,701	-	9,962
Inflation hedging	3,681	2,813	3,873	10,367
Domestic equity	29,080	30,439	-	59,519
International/global equity	24,019	12,674	-	36,693
Hedge funds:				
Equity	16,698	-	-	16,698
Diversified	12,991	-	-	12,991
Distressed	21,232	-	-	21,232
Private equity	5,382	-	-	5,382
Private real assets	6,612	-	-	6,612
Total	\$ 120,956	\$ 63,638	\$ 3,873	\$ 188,467

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Investment liquidity and redemption terms as of June 30, 2017 and 2016 are presented below:

2017								
	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid *	Total	Redemption Notice
Cash	\$ 3,051	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,051	Same day
Fixed income	11,345	1,342	-	-	-	-	12,687	Same day
Inflation hedging	6,584	3,352	-	-	-	-	9,936	1 - 35 days
Domestic equity	34,187	-	32,982	-	-	-	67,169	1 - 60 days
International/global equity	15,586	29,428	-	-	-	-	45,014	1 - 10 days
Hedge funds:								
Equity	-	-	3,189	-	10,801	7,226	21,216	45 - 60 days
Diversified	-	-	-	4,747	-	5,050	9,797	65 - 95 days
Distressed	-	-	15,318	-	9,696	1,061	26,075	45 - 90 days
Private equity	-	-	-	-	-	5,554	5,554	Illiquid
Private real assets	-	-	-	-	-	8,027	8,027	Illiquid
Total	<u>\$ 70,753</u>	<u>\$ 34,122</u>	<u>\$ 51,489</u>	<u>\$ 4,747</u>	<u>\$ 20,497</u>	<u>\$ 26,918</u>	<u>\$ 208,526</u>	

* Includes lock-up periods ranging from two to 17 months

2016								
	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid *	Total	Redemption Notice
Cash	\$ 9,011	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,011	Same day
Fixed income	8,701	1,261	-	-	-	-	9,962	Same day
Inflation hedging	6,686	3,681	-	-	-	-	10,367	1 - 35 days
Domestic equity	31,986	-	27,533	-	-	-	59,519	1 - 60 days
International/global equity	13,127	23,566	-	-	-	-	36,693	1 - 10 days
Hedge funds:								
Equity	-	-	-	-	9,859	6,839	16,698	45 - 60 days
Diversified	-	-	230	4,800	7,961	-	12,991	65 - 95 days
Distressed	-	-	6,955	-	7,280	6,997	21,232	45 - 90 days
Private equity	-	-	-	-	-	5,382	5,382	Illiquid
Private real assets	-	-	-	-	-	6,612	6,612	Illiquid
Total	<u>\$ 69,511</u>	<u>\$ 28,508</u>	<u>\$ 34,718</u>	<u>\$ 4,800</u>	<u>\$ 25,100</u>	<u>\$ 25,830</u>	<u>\$ 188,467</u>	

* Includes lock-up periods ranging from one to 20 months

As of June 30, 2017 and 2016, the Foundation had outstanding unfunded commitments to private investments of \$17,421 and \$21,550, respectively.

Following is a summary of strategies for investments measured using NAV as a practical expedient.

Fixed income - This type includes investments in one common trust fund that seeks to obtain current income while preserving capital by investing in fixed income securities.

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Inflation hedging - This type includes investments in one hedge fund that utilizes a long-biased commodities fund-of-funds strategy designed to outperform the traditional commodity indices through investing in a small number of top managers trading across the energy, metals, and agriculture industries.

Domestic equity - This type includes investments in four 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, among small, medium, and large capitalization stocks, and from a net long position to a net short position. Derivatives may be used to hedge existing exposures to maximize returns and minimize risks.

International/global equity - This type includes investments in three hedge funds and one common trust fund that invest in non-US and non-Canada equities. Collectively, the funds invest in small, mid and large cap companies. 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.

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. One fund representing approximately one third of the value of investments in this type has a three year lock-up period. As of June 30, 2017, the remaining lock-up periods for multiple share classes in this fund ranged from two to 17 months. Compared to June 30, 2016, when the remaining lock-up periods for multiple share classes in this fund ranged from 15 to 20 months.

Diversified hedge funds - This type includes investments in four hedge funds that invest in multiple strategies to diversify risks and reduce volatility. The funds, to varying degrees, seek above-average capital growth through investments in equities, equity-related securities, bonds, and other fixed income securities, futures contracts and forward currency contracts. During 2017, two funds were fully redeemed and one new fund was established. As of June 30, 2017, there is one new investment with a remaining lock-up period of 18 months.

Distressed hedge funds - This type includes investments in three 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 due to business, finance or legal uncertainties. Management may utilize "side-pockets" to achieve investment objectives. Certain investments in this type cannot be readily redeemed because the investments include restrictions that do not allow for redemption in the first two years after acquisition. There is currently only one fund with a remaining lock-up period, which is set to expire in 13 months as of June 30, 2017. The

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remaining lock-up periods for multiple investments ranged from one to seven months at June 30, 2016.

Private equity - This type includes eight private equity funds. Two funds representing nearly one fifth of this investment type invests in global private market investment strategies, including investments selected by third party investment managers. Three funds, representing nearly one sixth of this type invest in equity, equity-related and debt securities primarily acquired in privately-negotiated transactions, leveraged acquisitions, reorganizations and other equity transactions. Two funds, representing nearly two thirds of this type 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 the liquidation of the underlying assets of the fund, which is expected over the next one to 14 years.

Private real estate - This type includes four funds utilizing investment strategies seeking current income and capital appreciation primarily through investments in real estate assets. One fund was added in May 2016, but no capital had been called as of June 30, 2017. 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 is expected between 18 months and 10 years.

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 & Finance 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 payment will cause security prices to decline. The Foundation manages credit risks, which include requiring minimum credit ratings issued by nationally recognized statistical rating organizations, including Moody's Investors Service, for all investments. As of June 30, 2017 and 2016, the Foundation's fixed income securities had AAA ratings and durations ranging from one month to 12 years. As of June 30, 2017 and 2016, the Foundation's fixed income mutual funds were not rated.

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 shorter-term and longer-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, 2017 and 2016, pooled endowment funds totaled \$204,468 and \$184,606, respectively.

For fiscal year 2017 and 2016, the payout to purpose rate was 4.25% of a twelve quarter-rolling average market value per unit. The administrative fee component, which equals 1% of the prior December 31 year market value per unit, of the annual distribution for spending covers general and administrative costs associated with the management of investments and fiduciary requirements of the Foundation. In 2017 and 2016, the Foundation's total distribution rate as a percentage of the average market value per unit over twelve quarters was 5.21% and 5.30%, respectively. 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. To the extent that endowment yield (dividends and interest) is insufficient to meet requirements of the spending policy, accumulated net gains are utilized to fund distributions. Total annual distributions for 2017 and 2016 were \$10,413 and \$10,119, 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 \$8,373 and \$8,100 for the years ended June 30, 2017 and 2016, respectively. To support the annual distributions in fiscal years 2017 and 2016, accumulated returns of \$9,556 and \$9,278 were utilized, respectively, after applying interest and dividends less applicable fees. For the years ended June 30, as a result investment activities and annual distributions, the endowment pool experienced a net increase of \$13,932 in 2017 and a net reduction of \$16,463 in 2016.

Distributions are made from all pooled endowment funds, including cases where endowment funds have a market value less than the historical book value as of the beginning of the calendar year. The aggregate amount by which the Foundation's true endowment funds had market value below their original gift value was \$6 and \$1,422, as of June 30, 2017 and 2016, respectively.

Similar funds are comprised of life income and annuity funds totaling \$4,058 and \$3,861 as of June 30, 2017 and 2016, respectively.

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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, 2017 and 2016 are shown below:

	<u>2017</u>	<u>2016</u>
Balance, Beginning of Year	\$ 2,399	\$ 2,291
Revaluations	170	248
New annuities	66	150
Withdrawals	-	(5)
Principal payments	<u>(296)</u>	<u>(285)</u>
Balance, End of Year	2,339	2,399
Less: current portion	<u>(287)</u>	<u>(281)</u>
Noncurrent portion	<u><u>\$ 2,052</u></u>	<u><u>\$ 2,118</u></u>

6. Net Position

The components of total net position at June 30, 2017 and 2016 are summarized below:

	<u>2017</u>	<u>2016</u>
Restricted		
Nonexpendable		
Historical gift value of endowment	\$ 150,951	\$ 145,606
Total Restricted Nonexpendable	150,951	145,606
Expendable		
Accumulated net gains on endowment	31,949	19,271
Fair value of funds functioning as endowment	20,288	19,228
Pledges receivable and other gifts	12,260	12,457
Life income and annuity funds	<u>1,719</u>	<u>1,462</u>
Total Restricted Expendable	66,216	52,418
Unrestricted		
Foundation operating funds	1,476	2,862
Fair value of unrestricted funds functioning as endowment	1,280	501
Gifts	<u>437</u>	<u>928</u>
Total Unrestricted	<u>3,193</u>	<u>4,291</u>
Total Net Position	<u><u>\$ 220,360</u></u>	<u><u>\$ 202,315</u></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 2017 and 2016 included the following:

	<u>2017</u>	<u>2016</u>
Endowment gifts*	\$ 5,455	\$ 4,532
Current unrestricted gifts	61	4,114
Current restricted gifts	8,014	11,601
Plant gifts	5,534	2,795
New annuities	34	117
Total Gifts and Contributions	<u>\$ 19,098</u>	<u>\$ 23,159</u>

*Includes additions to UNH held endowments totaling \$110 and \$701 in 2017 and 2016, 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.

UNH provides support to the Foundation for items such as financial and payroll transactional support from the UNH Central Administrative Business Service Center. 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 these accompanying financial statements as operating revenue and expenses. For the years ended June 30, 2017 and 2016, UNH paid \$4,103 and \$3,785, respectively, to the Foundation for operating support. In 2017, the Foundation transferred \$1,500 to UNH to support the implementation of a new advancement-focused information system.

Gifts transferred to UNH in 2017 and 2016 were \$13,834 and \$16,209, respectively. At June 30, 2017, \$3,054 due to UNH related to gifts transferred to UNH was included in other liabilities. Certain gift balances to be transferred to UNH in future years are held by the Foundation in cash and cash equivalents. These totaled \$1,990 and \$354, at June 30, 2017 and 2016, 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

Management has evaluated the impact of subsequent events through September 22, 2017, 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.