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Financial Statements

University of New Hampshire Foundation, Inc.

June 30, 2019 and 2018

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, Inc. (the Foundation), a component unit of the University System of New Hampshire, as of June 30, 2019 and 2018, 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, Inc. as of June 30, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



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 October 8, 2019 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.

KPMG LLP

October 8, 2019

University of New Hampshire Foundation, Inc.
Management's Discussion & Analysis
June 30, 2019 and 2018
(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, 2019 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, 2018 and 2017. 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 US dollars.

Financial Highlights

- The value of endowment investments and similar funds increased \$12,558 (5.5%) in 2019, with \$11,778 attributable to new endowment gifts and \$11,139 to endowment investment gain, while \$11,228 was distributed from the endowment pool for payout to purpose and the administration fee (collectively "endowment income used for operations").
- The pooled portion (97.8%) of the Foundation's endowment assets had a 2019 market gain, net of fees, of 5.0%. This compares to a gain of 7.8% in 2018 and a gain of 13.5% in 2017. 99.4% of Foundation endowed funds are above their respective original gift values as of June 30, 2019.
- During 2019, \$36,084 attributable to four sustainability or governance-related endowed funds were transferred from the Foundation's main (unconstrained) investment pool into the ESG (environmental, social and governance) pool, as approved by the Foundation's Investment & Finance Committee. This transfer, in combination with other 2019 investment activity, increased the market value of the ESG pool from \$3,049 to \$40,433, and reduced the main pool accordingly. Additional detail on the ESG pool may be found in note 4.
- Current use gifts and contributions decreased by \$1,994 (-13.3%) over 2018 while gifts transferred to UNH decreased by \$2,394 (-14.4%). Endowment gifts increased \$1,211 (11.9%) in 2019.

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- During 2019, the Foundation's employee compensation expense increased due to the transfer of the Gift Planning and Annual Giving departments into the Foundation. This change was made to realize fund raising synergies. Offsetting this expense increase was a matching increase in support revenue received from UNH. As such, this change had no impact on the Foundation's or Advancement's net operating expenses.
-

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.

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Statements of Net Position

A condensed summary of net position as of June 30, 2019, 2018 and 2017 follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>19 - 18</u> <u>\$ Change</u>	<u>19 - 18</u> <u>% Change</u>
Assets:					
Current assets	\$ 8,779	\$ 8,304	\$ 10,217	\$ 475	6%
Noncurrent assets	<u>246,446</u>	<u>234,570</u>	<u>215,639</u>	<u>11,876</u>	<u>5%</u>
Total Assets	<u>255,225</u>	<u>242,874</u>	<u>225,856</u>	<u>12,351</u>	<u>5%</u>
Liabilities:					
Current liabilities	3,247	1,631	3,444	1,616	99%
Noncurrent liabilities	<u>2,414</u>	<u>1,929</u>	<u>2,052</u>	<u>485</u>	<u>25%</u>
Total Liabilities	<u>5,661</u>	<u>3,560</u>	<u>5,496</u>	<u>2,101</u>	<u>59%</u>
Deferred Inflows of Resources:					
Deferred inflows - annuities	<u>2,139</u>	<u>1,753</u>	<u>1,302</u>	<u>386</u>	<u>22%</u>
Total Deferred Inflows of Resources	<u>2,139</u>	<u>1,753</u>	<u>1,302</u>	<u>386</u>	<u>22%</u>
Net Position:					
Restricted					
Nonexpendable	152,526	141,110	150,951	11,416	8%
Expendable	91,948	93,258	64,914	(1,310)	-1%
Unrestricted	<u>2,951</u>	<u>3,193</u>	<u>3,193</u>	<u>(242)</u>	<u>-8%</u>
Total Net Position	<u>\$ 247,425</u>	<u>\$ 237,561</u>	<u>\$ 219,058</u>	<u>\$ 9,864</u>	<u>4%</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 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 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 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

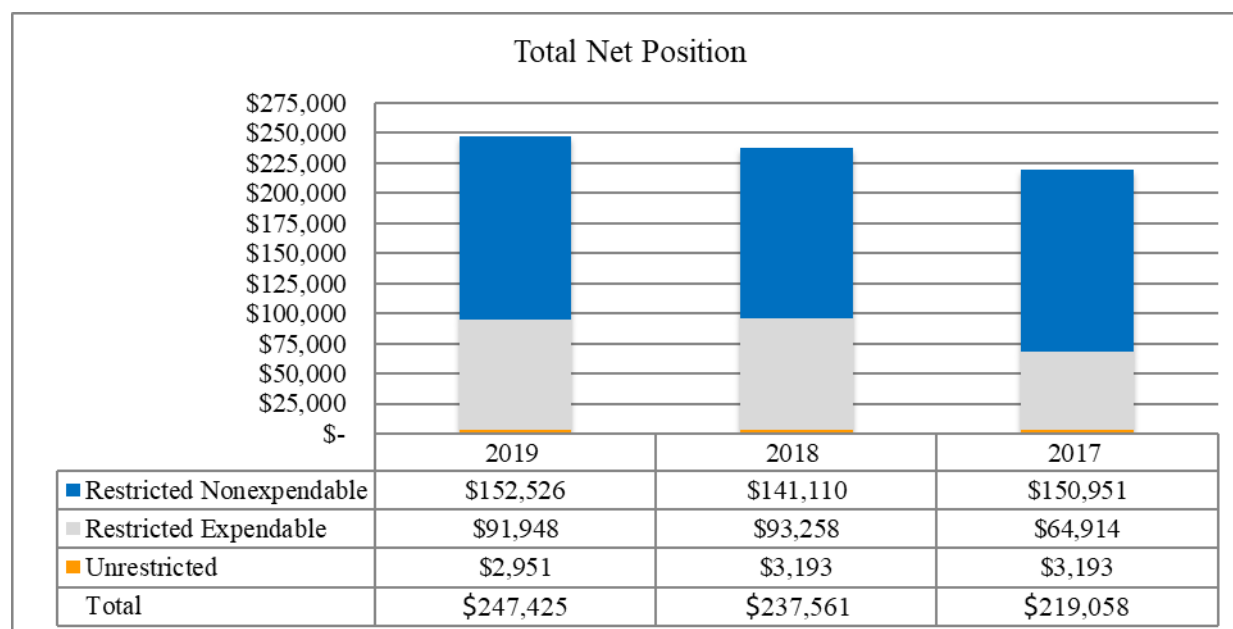
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for the donor-specified purposes. The restricted nonexpendable net position related to these endowment funds increased by 8.1% in 2019, following a decrease of 6.5% in 2018 and an increase of 3.7% in 2017. The decrease in 2018 was driven by a donor-directed change that resulted in \$17,043 being reclassified to a restricted expendable fund. Increases in the endowment funds over the last several years have been attributable to the Foundation's strong fundraising efforts which have been successful at securing a number of significant endowment gifts. The Board's Investment & 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.

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 decreased 1.4% during the year ended June 30, 2019, after increasing by 43.7% and 26.4% during the years ended June 30, 2018 and 2017, respectively. 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 accumulated operating reserves, 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, 2019, 2018 and 2017:



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The Foundation's total net position increased by \$9,864 (4.2%) in 2019, and by \$18,503 (8.4%) and \$17,798 (8.8%) in 2018 and 2017, respectively. New additions to the endowment along with returns in the financial markets are reflected in the change in restricted net position.

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, 2019, 2018 and 2017 follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues:			
Gifts and contributions	\$ 13,018	\$ 15,012	\$ 13,719
Support from UNH	5,024	4,351	4,103
Endowment return less income used for operations	11,139	15,878	24,374
Other income	36	34	-
Other support	2	-	-
Total Operating Revenues	<u>29,219</u>	<u>35,275</u>	<u>42,196</u>
Operating Expenses:			
Gifts transferred to UNH	14,239	16,633	13,834
Distributions to UNH for endowed programs	9,044	8,688	8,373
Salaries, wages, fringe benefits and other operating expenses	7,488	6,565	7,536
Total Operating Expenses	<u>30,771</u>	<u>31,886</u>	<u>29,743</u>
Operating (Loss) Income	<u>(1,552)</u>	<u>3,389</u>	<u>12,453</u>
Other Changes in Net Position:			
Endowment gifts	11,416	10,205	5,345
USNH Funds Transfer	-	4,909	-
Total Other Changes in Net Position	<u>11,416</u>	<u>15,114</u>	<u>5,345</u>
Increase in Net Position	<u>\$ 9,864</u>	<u>\$ 18,503</u>	<u>\$ 17,798</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 the University of New Hampshire is recognized as revenue by the Foundation. During 2019, excluding new endowment gifts, the Foundation's endowment pool experienced a net decrease of \$89 after distributions of \$11,228, as compared to a net increase of \$5,065 after distributions of \$10,813 in 2018, and a net increase of \$13,932 after distributions of \$10,413 in 2017.

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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 \$6,113 (19.9%) of the Foundation's total expenses in 2019 as compared to \$5,021 (15.8%) of the Foundation's total expenses in 2018. Expenses were within the approved budget. The increase in 2019 was primarily attributable to moving the Gift Planning and Annual Giving departments formally into the Foundation's budget.

USNH Funds Transfer in 2018 consisted of six endowment funds that were originally created in and held in the USNH endowment pool. Following the founding of the UNH Foundation in 1989, identically purposed funds had been created at various times by the same donors within the UNH Foundation endowment pool. In August 2017, the New Hampshire Probate Court approved a petition by USNH to transfer the USNH funds into the respective UNHF funds in order to simplify and improve fund administration. No further transfers of this nature are expected in the future.

The value of endowment investments and similar funds, as well as annuity investments and similar funds, increased \$12,558 (5.5%) in 2019 due both to positive fund performance in the financial markets and inflows from new gifts. Strong performance in domestic and private equities led the way, while international equities detracted somewhat.

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

	2019	2018	2017
Beginning Endowment Balance	\$ 224,648	\$ 204,468	\$ 184,606
New gifts*	11,778	15,114	5,930
Payout to purpose	(9,157)	(8,847)	(8,533)
Administration fee	(2,071)	(1,966)	(1,880)
Yield	2,343	1,728	857
Realized gains	725	2,133	1,907
Unrealized gains	8,060	12,018	21,581
Ending Endowment Balance	236,326	224,648	204,468
Annuities**	5,280	4,400	4,058
Ending Investment Balance	<u>\$ 241,606</u>	<u>\$ 229,048</u>	<u>\$ 208,526</u>

*New gifts include \$4,909 in USNH transfers in 2018.

**Associated liabilities (current and non-current) totaled \$2,723, \$2,236 and \$2,339, at June 30, 2019, 2018, and 2017, respectively.

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Outlook

The Foundation Board and leadership expect strong fundraising results in future years as it continues to build on the successes of the Celebrate 150 Campaign which ended June 30, 2018. Planning is currently underway for UNH's next comprehensive campaign.

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 market uncertainty.

In 2019, Advancement and the Foundation completed the three-year implementation of a new advancement-focused information system which is enhancing the Foundation's fundraising effectiveness and operational efficiency. This new system will support UNH's fundraising efforts for many years to come. The Foundation employs what it believes to be sound fiscal management, which contributes to strong results and stability in its financial health.

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

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,491	\$ 5,007
Pledges receivable, net	3,288	3,297
Total Current Assets	<u>8,779</u>	<u>8,304</u>
Noncurrent Assets		
Pledges receivable, net	4,810	5,494
Endowment investments and similar funds	236,326	224,648
Annuity investments and similar funds	5,280	4,400
Other investments	30	28
Total Noncurrent Assets	<u>246,446</u>	<u>234,570</u>
Total Assets	<u>255,225</u>	<u>242,874</u>
LIABILITIES		
Current Liabilities		
Accounts payable and other liabilities	2,938	1,324
Annuities payable	309	307
Total Current Liabilities	<u>3,247</u>	<u>1,631</u>
Noncurrent Liabilities		
Annuities payable	2,414	1,929
Total Noncurrent Liabilities	<u>2,414</u>	<u>1,929</u>
Total Liabilities	<u>5,661</u>	<u>3,560</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - annuities	2,139	1,753
Total Deferred Inflows of Resources	<u>2,139</u>	<u>1,753</u>
NET POSITION		
Restricted		
Nonexpendable	152,526	141,110
Expendable	91,948	93,258
Unrestricted	<u>2,951</u>	<u>3,193</u>
Total Net Position	<u>\$247,425</u>	<u>\$ 237,561</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Other Changes in Net Position
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	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Gifts and contributions	\$ 13,018	\$ 15,012
Support from UNH for fundraising services rendered	5,024	4,351
Endowment income used for operations	11,228	10,813
Realized and unrealized gains on investments, net	8,796	14,151
Endowment return utilized in support of distributions	(8,885)	(9,086)
Other income	36	34
Other support	2	-
Total Operating Revenues	<u>29,219</u>	<u>35,275</u>
OPERATING EXPENSES		
Gifts transferred to UNH	14,239	16,633
Distributions to UNH for endowed programs	9,044	8,688
Salaries, wages, and fringe benefits	6,113	5,021
Supplies and other operating expenses	1,357	1,532
Interest on annuities	18	12
Total Operating Expenses	<u>30,771</u>	<u>31,886</u>
Operating (Loss) Income	<u>(1,552)</u>	<u>3,389</u>
OTHER CHANGES IN NET POSITION		
Endowment gifts	11,416	10,205
USNH funds transfer	-	4,909
Total Other Changes In Net Position	<u>11,416</u>	<u>15,114</u>
INCREASE IN NET POSITION	9,864	18,503
NET POSITION AT BEGINNING OF YEAR	<u>237,561</u>	<u>219,058</u>
NET POSITION AT END OF YEAR	<u><u>\$ 247,425</u></u>	<u><u>\$ 237,561</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>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 13,712	\$ 16,491
Support from UNH	5,024	4,351
Investment income	13	14
Payments to UNH	(21,734)	(27,183)
Payments to employees and for employee benefits	(6,068)	(4,995)
Payments to suppliers	(1,330)	(1,522)
Net Cash Used In Operating Activities	<u>(10,383)</u>	<u>(12,844)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of pooled endowment investments	118,328	77,325
Purchases of pooled endowment investments	(118,877)	(81,624)
Proceeds from sales and maturities of annuity, life income, and other investments	334	749
Purchases of annuity, life income and other investments	(1,090)	(938)
Net Cash Used In Investing Activities	<u>(1,305)</u>	<u>(4,488)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from issuance of annuity and life income agreements	1,085	508
Payments to annuitants and life income beneficiaries	(329)	(319)
Endowment gifts and other additions	11,416	15,114
Net Cash Provided By Noncapital Financing Activities	<u>12,172</u>	<u>15,303</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	484	(2,029)
BEGINNING CASH AND CASH EQUIVALENTS	<u>5,007</u>	<u>7,036</u>
ENDING CASH AND CASH EQUIVALENTS	<u><u>\$ 5,491</u></u>	<u><u>\$ 5,007</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
OPERATING (LOSS) INCOME	\$ (1,552)	\$ 3,389
Adjustments to reconcile operating (loss) income to net cash used in operating activities:		
Endowment return, net of amount used for operations	(11,153)	(15,887)
Interest on annuities	18	12
Changes in assets and liabilities:		
Pledges receivable, net	693	1,479
Other investments	(3)	(6)
Accounts payable and other liabilities	1,614	(1,831)
Net Cash Used In Operating Activities	<u><u>\$ (10,383)</u></u>	<u><u>\$ (12,844)</u></u>

See accompanying notes to financial statements.

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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.

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

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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.

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; and

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- 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.

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.

Reclassifications

Certain 2018 amounts have been reclassified to conform to the 2019 presentation.

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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, 2019 and 2018, 58% and 62%, respectively, of pledges receivable, net of discount and bad debt allowance, are attributable to two donors.

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

	2019	2018
Instruction and academic support	\$ 5,550	\$ 4,966
Scholarships and fellowships	4,638	5,242
Plant construction and renovations	958	1,825
Other	73	76
Total Pledges Receivable	<u>\$ 11,219</u>	<u>\$ 12,109</u>

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

	2019	2018
Amounts due in one year or less	\$ 3,794	\$ 3,908
Amounts due between one year and five years	6,412	5,868
Amounts due after five years	1,013	2,333
Total Due	11,219	12,109
Less: discounting of future cash flows	(936)	(1,032)
Less: allowance for uncollectible amounts	(2,185)	(2,286)
Total Pledges Receivable, Net	<u>\$ 8,098</u>	<u>\$ 8,791</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, 2019 and 2018, 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:

2019					
Investments Classified in the Fair Value Hierarchy					
	Investments Measured at NAV	Level 1	Level 2	Level 3	Total
Cash	\$ -	\$ 8,009	\$ -	\$ -	\$ 8,009
Fixed income	1,883	17,332	2,134	4,176	25,525
Inflation hedging	197	2,664	9,575	-	12,436
Domestic equity	31,491	32,323	-	-	63,814
International/global equity	41,231	16,077	-	-	57,308
Hedge funds:					
Equity	20,931	-	-	-	20,931
Diversified	241	-	-	-	241
Distressed	32,064	-	-	-	32,064
Private equity	10,583	-	-	-	10,583
Private real assets	10,695	-	-	-	10,695
Total	<u>\$ 149,316</u>	<u>\$ 76,405</u>	<u>\$ 11,709</u>	<u>\$ 4,176</u>	<u>\$ 241,606</u>

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2018					
Investments Classified in the Fair Value Hierarchy					
	Investments Measured at NAV	Level 1	Level 2	Level 3	Total
Cash	\$ -	\$ 9,095	\$ -	\$ -	\$ 9,095
Fixed income	1,611	19,586	-	3,107	24,304
Inflation hedging	453	4,006	9,300	-	13,759
Domestic equity	33,573	18,663	-	-	52,236
International/global equity	39,699	11,612	-	-	51,311
Hedge funds:					
Equity	15,029	-	-	-	15,029
Diversified	16,437	-	-	-	16,437
Distressed	31,089	-	-	-	31,089
Private equity	7,131	-	-	-	7,131
Private real assets	8,657	-	-	-	8,657
Total	<u>\$ 153,679</u>	<u>\$ 62,962</u>	<u>\$ 9,300</u>	<u>\$ 3,107</u>	<u>\$ 229,048</u>

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Investment liquidity and redemption terms as of June 30, 2019 and 2018 are presented below:

2019							
	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid	Redemption Notice
Cash	\$ 8,009	\$ -	\$ -	\$ -	\$ -	\$ -	Same day
Fixed income	20,296	1,053	-	-	1,585	2,591	Same day, Illiquid
Inflation hedging	12,436	-	-	-	-	-	Same day
Domestic equity	33,422	-	30,392	-	-	-	1 - 60 days
International/global equity	31,068	18,192	8,048	-	-	-	1 - 90 days
Hedge funds:							
Equity	-	-	15,465	5,466	-	-	60 - 90 days
Diversified	-	-	-	-	241	-	45 - 60 days
Distressed	-	-	20,011	-	12,053	-	45 - 90 days
Private equity	-	-	-	-	-	10,583	N/A
Private real assets	-	-	-	-	-	10,695	N/A
Total	\$ 105,231	\$ 19,245	\$ 73,916	\$ 5,466	\$ 13,879	\$ 23,869	\$ 241,606

2018							
	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid	Redemption Notice
Cash	\$ 9,095	\$ -	\$ -	\$ -	\$ -	\$ -	Same day
Fixed income	21,198	-	-	-	1,069	2,037	Same day, Illiquid
Inflation hedging	13,759	-	-	-	-	-	1 - 35 days
Domestic equity	19,877	-	32,359	-	-	-	1 - 60 days
International/global equity	12,529	31,282	7,500	-	-	-	1 - 90 days
Hedge funds:							
Equity	-	-	9,374	5,655	-	-	60 - 90 days
Diversified	-	-	7,786	3,537	5,114	-	45 - 60 days
Distressed	-	-	19,589	-	11,500	-	45 - 90 days
Private equity	-	-	-	-	-	7,131	N/A
Private real assets	-	-	-	-	-	8,657	N/A
Total	\$ 76,458	\$ 31,282	\$ 76,608	\$ 9,192	\$ 17,683	\$ 17,825	\$ 229,048

As of June 30, 2019 and 2018, the Foundation had outstanding unfunded commitments, which includes callable capital, to private investments of \$16,878 and \$23,878, respectively.

Following is a summary of strategies for investments measured using NAV as a practical expedient, as of June 30, 2019.

Fixed income - This type includes four investments that seek to obtain current income while preserving capital by investing in fixed income securities.

Inflation hedging – This type includes one fund that helps provide protection against the decreased purchasing power of a currency resulting from a loss of value due to inflation. The fund in this category is a TIPS, Treasury Inflation Protected Security.

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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 seven hedge funds and three common trust funds that invest in non-US and non-Canada equities. Collectively, the funds invest in small, mid and large capitalization 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 five 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. Two funds have lock-up periods set to expire in nine months.

Diversified hedge funds - This type includes an investment in one hedge fund that invests in multiple strategies to diversify risks and reduce volatility. The fund seeks above-average capital growth through investments in equities, equity-related securities, bonds, and other fixed income securities, futures contracts and forward currency contracts.

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 impacted by 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 only allow redemptions annually.

Private equity - This type includes seven private equity funds. One fund operates 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. Two funds invest in equity, equity-related and debt securities primarily acquired in privately-negotiated transactions, leveraged acquisitions, reorganizations and other equity transactions. Two funds, representing three quarters 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.

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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 12 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 10 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 & 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 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, 2019 and 2018, the Foundation's fixed income mutual funds were not rated. In 2019, a second fixed income securities fund was added. As of June 30, 2019 and 2018, the Foundation's fixed income securities were as follows:

<u>Moody's rating</u>	<u>2019</u>	<u>2018</u>
Aaa	90%	100%
Aa1-3	4%	-
A1-3	4%	-
Baa1-2	1%	-
NR	1%	-
	<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 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, 2019 and 2018, pooled endowment funds totaled \$236,326 and \$224,648, 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, and initially consisted of two endowed funds. 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, 2019 and 2018 were \$195,893 and \$221,599, respectively. The market values of the ESG pool at June 30, 2019 and 2018 were \$40,433 and \$3,049, respectively. The increase in the ESG pool in 2019 (and the corresponding decrease in the main pool) is primarily attributable to a transfer of \$36,084 in four endowed funds from the main pool to the ESG pool, as approved by the Foundation's Investment & Finance Committee.

As provided for under UPMIFA, the Foundation applies the "total return" concept to distributions, so that endowment yield (dividends and interest) and accumulated net gains may be utilized to fund distributions. For fiscal years 2019 and 2018, 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 2019 and 2018 was \$11,228 and \$10,813, 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 \$9,044 and \$8,688 for the years ended June 30, 2019 and 2018, respectively. To support the annual distributions in 2019 and 2018, accumulated returns of \$8,885 and \$9,086 were utilized,

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respectively. As a result of investment activities and annual distributions, the endowment pool experienced a net decrease of \$89 in 2019 and a net increase of \$5,066 in 2018.

All distributions were made from pooled endowment funds in 2019 and 2018. 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 \$111 and \$8 as of June 30, 2019 and 2018, respectively. For 2019, the percentage of dollars underwater is 0.06% of the total market value of true endowment funds.

Similar funds are comprised of life income and annuity funds totaling \$5,280 and \$4,400 as of June 30, 2019 and 2018, 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, 2019 and 2018 are shown below:

	2019	2018
Balance, Beginning of Year	\$ 2,236	\$ 2,339
Revaluations	178	(155)
New annuities	638	364
Withdrawals	(17)	(6)
Principal payments	(312)	(306)
Balance, End of Year	2,723	2,236
Less: current portion	(309)	(307)
Noncurrent portion	<u>\$ 2,414</u>	<u>\$ 1,929</u>

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6. Net Position

The components of total net position at June 30, 2019 and 2018 are summarized below:

	<u>2019</u>	<u>2018</u>
Restricted		
Nonexpendable		
Historical gift value of endowment	\$ 152,526	\$ 141,110
Total Restricted Nonexpendable	152,526	141,110
Expendable		
Accumulated net gains on historical gift value of endowment	38,438	38,116
Fair value of funds functioning as endowment	44,054	44,108
Pledges receivable, net, and other gifts	9,038	10,622
Life income and annuity funds	418	412
Total Restricted Expendable	91,948	93,258
Unrestricted		
Foundation operating funds	1,215	1,386
Fair value of unrestricted funds functioning as endowment	1,308	1,314
Gifts	428	493
Total Unrestricted	2,951	3,193
Total Net Position	<u><u>\$ 247,425</u></u>	<u><u>\$ 237,561</u></u>

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 2019 and 2018 included the following:

	<u>2019</u>	<u>2018</u>
Endowment gifts*	\$ 11,517	\$ 10,316
Current unrestricted gifts	591	1,453
Current restricted gifts	10,776	10,245
Plant gifts	1,503	3,203
New annuities	47	-
Total Gifts and Contributions	<u><u>\$ 24,434</u></u>	<u><u>\$ 25,217</u></u>

*Includes additions to UNH-held endowments totaling \$101 and \$111 in 2019 and 2018, respectively.

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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, 2019 and 2018, UNH paid \$5,024 and \$4,351, respectively, to the Foundation for operating support. In 2018, the Foundation transferred \$500 to UNH to support the implementation of a new advancement-focused information system. No transfer occurred in 2019.

Gifts transferred to UNH in 2019 and 2018 were \$14,239 and \$16,633, respectively. At June 30, 2019, \$2,732 due to UNH (relating to gifts to be transferred to UNH) was included in accounts payable and other liabilities. At June 30, 2018, this amount was \$1,192. Certain gift balances to be transferred to UNH in future years are held by the Foundation in cash and cash equivalents. These totaled \$940 and \$1,831, at June 30, 2019 and 2018, respectively. The majority of these balances are associated with scholarships, research and other initiatives that will be transferred to the project funds when needed.

In August 2017, the New Hampshire Probate Court approved a petition by USNH to transfer six endowment funds valued at \$4,909 into the respective UNHF funds in order to simplify and improve fund administration.

9. Subsequent Events

Management has evaluated the impact of subsequent events through October 8, 2019, 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.