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Financial Statements

University of New Hampshire Foundation, Inc.

June 30, 2016 and 2015

**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 University System of New Hampshire, as of June 30, 2016 and 2015, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the 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, 2016 and 2015, 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 5–11 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 29, 2016 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 29, 2016

University of New Hampshire Foundation, Inc.
Management's Discussion & Analysis
June 30, 2016 and 2015
(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, 2016 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, 2015 and 2014. As this presentation includes highly summarized information, it should be read in conjunction with the accompanying financial statements and related footnote 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 decreased \$12,231 (-6.2%) in 2016, with \$4,232 attributable to new endowment gifts and a \$6,344 to investment loss, while \$10,119 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 2016 loss, net of fees, of 3.2%. This compares to gains of 2.6% in 2015 and 16.5% in 2014.
- Gifts and contributions increased by \$6,327, including the realization of several bequest gifts (with one totaling over \$2,500). In 2016, we also received a \$5,000 gift to build out an advanced manufacturing center to facilitate research in this area, contributing to a \$4,312 increase in gifts transferred to UNH.
- In 2016, the Foundation adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The statement provides guidance for determining a fair value measurement for financial reporting purposes and related disclosures. The effect of the adoption is enhanced investment disclosures and, as a result, prior year disclosures have been restated to conform to the new standard.

University of New Hampshire Foundation, Inc.
Management's Discussion & Analysis
June 30, 2016 and 2015
(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, 2016 and 2015
(Unaudited)
(\$ in thousands)

Statements of Net Position

A condensed summary of net position as of June 30, 2016, 2015 and 2014 follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>16 - 15</u> <u>\$ Change</u>	<u>16 - 15</u> <u>% Change</u>
Assets:					
Current assets	\$ 7,693	\$ 6,815	\$ 8,719	\$ 878	13%
Noncurrent assets	<u>197,143</u>	<u>207,968</u>	<u>195,404</u>	<u>(10,825)</u>	<u>-5%</u>
Total Assets	204,836	214,783	204,123	(9,947)	-5%
Liabilities:					
Current liabilities	403	446	2,906	(43)	-10%
Noncurrent liabilities	<u>2,118</u>	<u>2,008</u>	<u>2,524</u>	<u>110</u>	<u>5%</u>
Total Liabilities	2,521	2,454	5,430	67	3%
Net Position:					
Restricted					
Nonexpendable	145,606	141,775	126,984	3,831	3%
Expendable	52,418	66,986	68,401	(14,568)	-22%
Unrestricted	<u>4,291</u>	<u>3,568</u>	<u>3,308</u>	<u>723</u>	<u>20%</u>
Total Net Position	<u>\$ 202,315</u>	<u>\$ 212,329</u>	<u>\$ 198,693</u>	<u>\$ (10,014)</u>	<u>-5%</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 was reduced \$12,231 (-6.2%) in 2016 primarily due to fund poor performance in the financial markets. Decreases in international equities, flexible capital investments and commodities outstripped gains in domestic and private equity, fixed income, and private real estate investments.

University of New Hampshire Foundation, Inc.
Management's Discussion & Analysis
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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>2016</u>	<u>2015</u>	<u>2014</u>
Beginning Endowment Balance	\$ 196,837	\$ 184,845	\$ 148,727
New gifts*	4,232	15,945	19,227
Payout to purpose	(8,256)	(7,186)	(6,147)
Administration fee	(1,863)	(1,710)	(1,394)
Yield	841	1,338	2,525
Realized gains	2,456	2,348	1,079
Unrealized gains	(9,641)	1,257	20,828
Ending Endowment Balance	<u>184,606</u>	<u>196,837</u>	<u>184,845</u>
Annuities**	<u>3,861</u>	<u>3,916</u>	<u>5,039</u>
Ending Investment Balance	<u>\$ 188,467</u>	<u>\$ 200,753</u>	<u>\$ 189,884</u>

* Fiscal Year 2014 includes \$14,946 in endowment additions due to UNH Law merger on January 1, 2014.

**Associated liabilities totaled \$2,399, \$2,291, and \$2,809 at June 30, 2016, 2015, and 2014, 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.

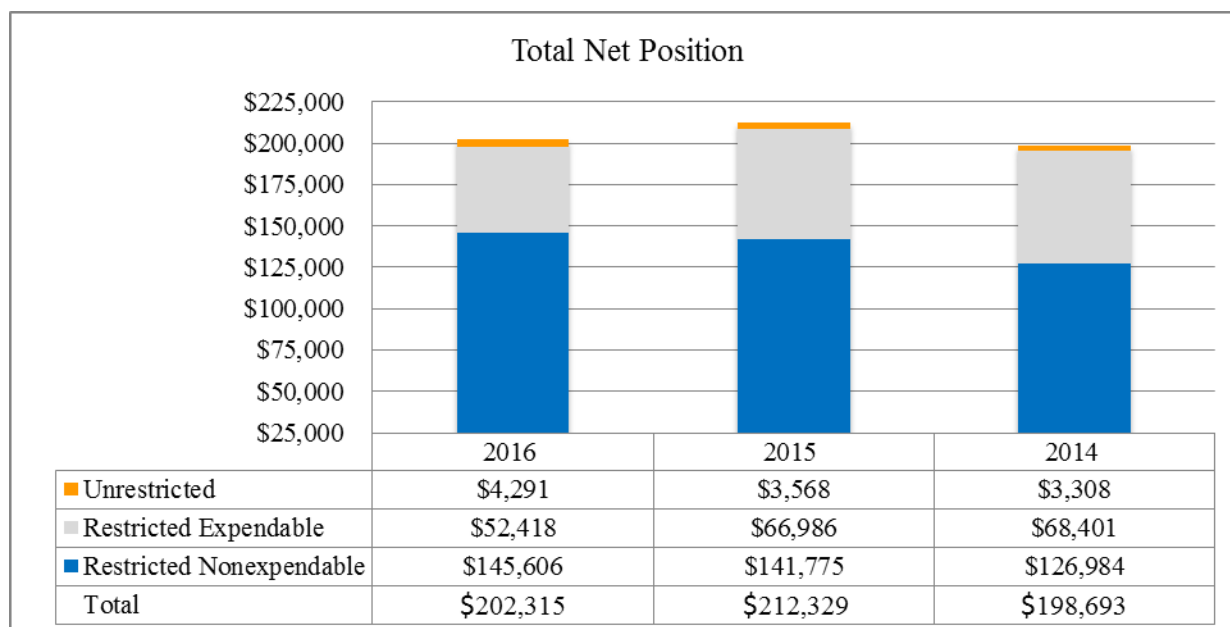
Restricted nonexpendable endowment funds are maintained in accordance with terms specified by donors, and are invested in perpetuity with the intent to produce income to be expended annually for the donor-specified purposes. The restricted nonexpendable net position related to these endowment funds increased 2.7%, 11.6%, and 7.2% during the years ended June 30, 2016, 2015, and 2014, 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 Asset Allocation Committee, a subcommittee of the 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.

University of New Hampshire Foundation, Inc.
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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, 2016, 2015 and 2014:



The Foundation's total net position decreased by \$10,014 (-4.7%) in 2016 and increased by \$13,636 (6.9%) in 2015 after an increase of \$39,865 (25.1%) in 2014. 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, 2016 and 2015
(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, 2016, 2015 and 2014 follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenues:			
Gifts and contributions	\$ 19,328	\$ 13,001	\$ 13,283
Support from UNH	3,785	3,565	4,085
Endowment return less income used for operations	<u>(6,493)</u>	<u>5,455</u>	<u>25,134</u>
Total Operating Revenues	16,620	22,021	42,502
Operating Expenses:			
Gifts transferred to UNH	16,209	11,897	10,644
Distributions to UNH for endowed programs	8,100	7,041	6,426
Salaries, wages and fringe benefits and other operating expenses	<u>6,156</u>	<u>5,346</u>	<u>5,825</u>
Total Operating Expenses	<u>30,465</u>	<u>24,284</u>	<u>22,895</u>
Operating (Loss) Income	<u>(13,845)</u>	<u>(2,263)</u>	<u>19,607</u>
Other Changes in Net Position:			
Endowment gifts	3,831	14,810	5,312
Addition of UNH Law endowment funds	<u>-</u>	<u>1,089</u>	<u>14,946</u>
Total Other Changes in Net Position	<u>3,831</u>	<u>15,899</u>	<u>20,258</u>
(Decrease) Increase in Net Position	<u>\$ (10,014)</u>	<u>\$ 13,636</u>	<u>\$ 39,865</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 2016, not taking into account the new endowment gifts, the Foundation's endowment pool experienced a net reduction of \$16,463 after distributions of \$10,119, as compared to net reduction of \$3,953 in 2015 after distributions of \$8,896 and net increases of \$16,891 in 2014 after distributions of \$7,541.

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 \$4,536 or 14.9% of the Foundation's total expenses in 2016 compared to \$4,205 or 17.3% of the Foundation's total expenses in 2015. 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.

University of New Hampshire Foundation, Inc.
Management's Discussion & Analysis
June 30, 2016 and 2015
(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) will enter the public phase in September 2016 when the overall Campaign fundraising goal will be 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 2016, University Advancement commenced 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)

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,236	\$ 3,912
Pledges receivable, net	3,457	2,903
Total Current Assets	7,693	6,815
Noncurrent Assets		
Pledges receivable, net	8,646	7,208
Endowment investments and similiar funds	188,467	200,753
Other investments	30	7
Total Noncurrent Assets	197,143	207,968
Total Assets	204,836	214,783
 LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	3	9
Annuities payable	281	283
Other liabilities	119	154
Total Current Liabilities	403	446
Noncurrent Liabilities		
Annuities payable	2,118	2,008
Total Noncurrent Liabilities	2,118	2,008
Total Liabilities	2,521	2,454
 NET POSITION		
Restricted		
Nonexpendable	145,606	141,775
Expendable	52,418	66,986
Unrestricted		
Total Net Position	\$ 202,315	\$ 212,329

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)

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Gifts and contributions	\$ 19,328	\$ 13,001
Support from UNH for fundraising services rendered	3,785	3,565
Endowment income used for operations	10,119	8,896
Realized and unrealized (losses) gains on investments, net	(7,420)	4,025
Endowment return utilized in support of distributions	(9,278)	(7,558)
Other/Investment income	86	92
Total Operating Revenues	<u>16,620</u>	<u>22,021</u>
OPERATING EXPENSES		
Gifts transferred to UNH	16,209	11,897
Distributions to UNH for endowed programs	8,100	7,041
Salaries, wages, and fringe benefits	4,536	4,205
Supplies and other operating expenses	1,608	1,128
Interest on annuities	12	13
Total Operating Expenses	<u>30,465</u>	<u>24,284</u>
Operating Loss	<u>(13,845)</u>	<u>(2,263)</u>
OTHER CHANGES IN NET POSITION		
Endowment gifts	3,831	14,810
Addition of UNH Law endowment funds	-	1,089
Total Other Changes In Net Position	<u>3,831</u>	<u>15,899</u>
(DECREASE) INCREASE IN NET POSITION	(10,014)	13,636
NET POSITION AT BEGINNING OF YEAR	<u>212,329</u>	<u>198,693</u>
NET POSITION AT END OF YEAR	<u>\$ 202,315</u>	<u>\$ 212,329</u>

See accompanying notes to financial statements.

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts and contributions	\$ 17,336	\$ 9,990
Investment income	9	13
Payments to UNH	(20,568)	(17,842)
Payments to employees and for employee benefits	(4,528)	(4,145)
Payments to suppliers	(1,570)	(1,121)
Net Cash Used In Operating Activities	(9,321)	(13,105)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of pooled endowment investments	43,245	75,750
Purchases of pooled endowment investments	(37,358)	(82,799)
Proceeds from sales and maturities of annuity, life income, and other investments	1,152	2,547
Purchases of annuity, life income and other investments	(1,073)	(1,316)
Net Cash Provided By (Used) In Investing Activities	5,966	(5,818)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from issuance of annuity and life income obligations	150	125
Payments to annuitants and life income beneficiaries	(302)	(328)
Endowment gifts and other additions	3,831	15,899
Net Cash Provided By Noncapital Financing Activities	3,679	15,696
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	324	(3,227)
BEGINNING CASH AND CASH EQUIVALENTS	3,912	7,139
ENDING CASH AND CASH EQUIVALENTS	\$ 4,236	\$ 3,912
 RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
OPERATING LOSS	\$ (13,845)	\$ (2,263)
Adjustments to reconcile operating (loss) to net cash used in operating activities:		
Endowment return, net of amount used for operations	6,568	(5,380)
Interest on annuities	12	13
Changes in current assets and liabilities:		
Pledges receivable, net	(1,992)	(3,012)
Other investments	(23)	(5)
Accounts payable and accrued expenses	(6)	(49)
Other liabilities	(35)	(2,409)
Net Cash Used In Operating Activities	\$ (9,321)	\$ (13,105)

See accompanying notes to financial statements.

University of New Hampshire Foundation, Inc.
Notes to Financial Statements
June 30, 2016 and 2015
(\$ 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.

During 2013, the USNH Board of Trustees and the UNH School of Law (Law) Board of Directors approved a full integration agreement between UNH and Law with an effective date of January 1, 2014. At that time, the activities and balances of the UNH School of Law were combined with those of USNH. As a result of the integration, the Foundation took control of all Law endowments. An amount of \$14,946 was transferred to the Foundation in 2014. In 2015, an unspent withdrawal from Law's endowment prior to January 1, 2014 totaling \$1,089 was transferred to the Foundation from Law's restricted fund balance at UNH.

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.

University of New Hampshire Foundation, Inc.
Notes to Financial Statements
June 30, 2016 and 2015
(\$ 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*.

In 2016, the Foundation adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The statement provides guidance for determining a fair value measurement for financial reporting purposes and related disclosures. The effect of the adoption is enhanced investment disclosures and, as a result, prior year disclosures have been restated to conform to the new standard.

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, 2016 and 2015
(\$ 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
June 30, 2016 and 2015
(\$ 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.

Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

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, 2016 and 2015, 63% and 43% of pledges receivable, net of discount, are from two donors and one donor, respectively.

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

	<u>2016</u>	<u>2015</u>
Instruction and academic support	\$ 8,452	\$ 9,623
Scholarship and fellowships	5,176	290
Plant construction and renovations	2,479	3,910
Other	136	220
Total Pledges Receivable	<u>\$ 16,243</u>	<u>\$ 14,043</u>

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

	<u>2016</u>	<u>2015</u>
Amounts due in one year or less	\$ 4,008	\$ 3,387
Amounts due between one year and five years	9,247	6,445
Amounts due after five years	2,988	4,211
Total Due	16,243	14,043
Less: discounting of future cashflows	(1,236)	(1,127)
Less: allowance for uncollectible amounts	(2,904)	(2,805)
Total Pledges Receivable, Net	<u>\$ 12,103</u>	<u>\$ 10,111</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 trade 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, 2016 and 2015, the Foundation had no plans or intentions to sell investments at amounts different from NAV. The Foundation has no Level 3 investments.

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

	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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2015				
Investments Classified in the Fair Value Hierarchy				
	Investments Measured at NAV	Level 1	Level 2	Total
Cash	\$ -	\$ 4,892	\$ -	\$ 4,892
Fixed income	1,306	8,473	-	9,779
Inflation hedging assets	4,362	2,879	3,768	11,009
Domestic equity	28,766	32,344	-	61,110
International/global equity	26,778	13,741	-	40,519
Hedge funds:				
Equity	22,182	-	-	22,182
Diversified	19,162	-	-	19,162
Distressed	21,409	-	-	21,409
Private equity	5,446	-	-	5,446
Private real assets	5,245	-	-	5,245
Total	\$ 134,656	\$ 62,329	\$ 3,768	\$ 200,753

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Investment liquidity and redemption terms as of June 30, 2016 and 2015 are presented below:

	2016							Redemption Notice
	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid *	Total	
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	\$ 69,511	\$ 28,508	\$ 34,718	\$ 4,800	\$ 25,100	\$ 25,830	\$ 188,467	

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

	2015							Redemption Notice
	Daily	Monthly	Quarterly	Semi-Annual	Annual	Illiquid *	Total	
Cash	\$ 4,892	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,892	Same day
Fixed income	8,473	1,306	-	-	-	-	9,779	Same day
Inflation hedging	6,647	4,362	-	-	-	-	11,009	1 - 35 days
Domestic equity	33,880	-	27,230	-	-	-	61,110	1 - 60 days
International/global equity	14,196	26,323	-	-	-	-	40,519	1 - 10 days
Hedge funds:								
Equity	-	-	5,872	-	10,588	5,722	22,182	45 - 60 days
Diversified	-	-	4,501	4,687	9,974	-	19,162	65 - 95 days
Distressed	-	-	7,046	-	7,097	7,266	21,409	45 - 90 days
Private equity	-	-	-	-	-	5,446	5,446	Illiquid
Private real assets	-	-	-	-	-	5,245	5,245	Illiquid
Total	\$ 68,088	\$ 31,991	\$ 44,649	\$ 4,687	\$ 27,659	\$ 23,679	\$ 200,753	

* Includes lock-up periods ranging from 13 to 32 months

As of June 30, 2016 and 2015, the Foundation had outstanding unfunded commitments to private investments of \$21,550 and \$10,905, 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 quarter of the value of investments in this type has a three year lock-up period. As of June 30, 2016, the remaining lock-up periods for multiple share classes in this fund ranged from 15 to 20 months. During 2016, about \$5,872 of the value of investments in this type were fully redeemed.

Diversified hedge funds - This type includes investments in three 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 2016, one fund was fully redeemed.

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

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Private equity - This type includes eight private equity funds. Two funds representing one third of this investment type invests in global private market investment strategies, including investments selected by third party investment managers. Three funds, representing nearly one third 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 one third 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 two to six 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, 2016. 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 30 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 Asset Allocation 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, 2016 and 2015, the Foundation's fixed income securities had AAA ratings and durations ranging from one to 13 years. As of June 30, 2016 and 2015, 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, 2016 and 2015, pooled endowment funds totaled \$184,606 and \$196,837, respectively.

For fiscal year 2016 and 2015, 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 2016 and 2015, the Foundation's total distribution rate as a percentage of the average market value per unit over twelve quarters was 5.30% and 5.36%, 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 2016 and 2015 were \$10,119 and \$8,896, 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 \$8,100 and \$7,041 for the years ended June 30, 2016 and 2015, respectively. To support the annual distributions in fiscal years 2016 and 2015, accumulated gains of \$9,278 and \$7,558 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 reduction of \$16,463 in 2016 and \$3,953 in 2015.

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 \$1,422 and \$10, as of June 30, 2016 and 2015, respectively.

Similar funds are comprised of life income and annuity funds totaling \$3,861 and \$3,916 as of June 30, 2016 and 2015, 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, 2016 and 2015 are shown below:

	<u>2016</u>	<u>2015</u>
Balance, Beginning of Year	\$ 2,291	\$ 2,809
Revaluations	248	14
New annuities	150	125
Withdrawals	(5)	(342)
Principal payments	<u>(285)</u>	<u>(315)</u>
Balance, End of Year	2,399	2,291
Less: current portion	<u>(281)</u>	<u>(283)</u>
Noncurrent portion	<u>\$ 2,118</u>	<u>\$ 2,008</u>

6. Net Position

The components of total net position at June 30, 2016 and 2015 are summarized below:

	<u>2016</u>	<u>2015</u>
Restricted		
Nonexpendable		
Historical gift value of endowment	\$ 145,606	\$ 141,775
Total Restricted Nonexpendable	145,606	141,775
Expendable		
Accumulated net gains on endowment	19,271	33,590
Fair value of funds functioning as endowment	19,228	20,926
Pledges receivable and other gifts	12,457	10,845
Life income and annuity funds	1,462	1,625
Total Restricted Expendable	<u>52,418</u>	<u>66,986</u>
Unrestricted		
Foundation operating funds	2,862	2,777
Fair value of unrestricted funds functioning as endowment	501	545
Gifts	928	246
Total Unrestricted	<u>4,291</u>	<u>3,568</u>
Total Net Position	<u>\$ 202,315</u>	<u>\$ 212,329</u>

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7. Gifts and Contributions

Gifts and contributions accepted during 2016 and 2015, net of discounts and allowances on contributions receivable, included the following:

	<u>2016</u>	<u>2015</u>
Endowment gifts*	\$ 4,532	\$ 15,401
Current unrestricted gifts	4,114	1,714
Current restricted gifts	11,601	8,766
Plant gifts	2,795	1,903
New annuities	117	27
Total Gifts and Contributions	<u>\$ 23,159</u>	<u>\$ 27,811</u>

*Includes additions to UNH held endowments totaling \$701 and \$591 in 2016 and 2015, 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, 2016 and 2015, UNH paid \$3,785 and \$3,565, respectively, to the Foundation for operating support. In 2016, the Foundation transferred \$500 to UNH to support the implementation of the new advancement-focused information system.

Gifts transferred to UNH in 2016 and 2015 were \$16,209 and \$11,897, respectively. Certain gift balances to be transferred to UNH in future years are held by the Foundation in cash and cash equivalents. These totaled \$354 and \$730, at June 30, 2016 and 2015, 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 29, 2016, 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.