

UNIVERSITY SYSTEM OF NEW HAMPSHIRE

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDING JUNE 30, 2001



University of New Hampshire

Keene State College

Plymouth State College

College for Lifelong Learning

The mission of the University System of New Hampshire is to serve the higher educational needs of the people of New Hampshire. The University System strives to assure the availability of appropriate higher educational opportunities to all New Hampshire people; seeks to enroll a diverse student population to enhance educational experiences; and provides programs and activities based on a commitment to excellence. Through its institutions, the University System engages in research which contributes to the welfare of humanity and provides educational resources and professional expertise which benefit the State and its people, the region, and the Nation.



(photo by Jim Rivers)

KNOWLEDGE ECONOMY EDUCATION PLAN (KEEP) NH Signing – With Chancellor Stephen Reno, legislators and fellow supporters looking on, Governor Jeanne Shaheen signs the Capital Appropriations Bill in a State House ceremony. In signing the legislation, which included KEEP NH, Governor Shaheen called the State’s \$100 million commitment to USNH, “unprecedented in the history of New Hampshire.”

The 2001 Annual Financial Report is a publication of the University System of New Hampshire Controller’s Office, Durham, NH 03824-3561

Prior year USNH Annual Financial Reports are available on the web at www.finadmin.unh.edu

On the cover: Students in the courtyard between Thompson Hall and Murkland Hall at UNH.

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Smith Hall is the international students residence at the University of New Hampshire. (photo by George Barker)

12th September, 2001

Dear USNH Stakeholder:

The Annual Financial Report you hold in your hands is but a symbol of the responsibility we all share to ensure that the people of New Hampshire have access to higher educational opportunities of the highest quality. As you read the words of this report and study its tables and charts, you will appreciate the enormous return on investment your University System represents to you, its shareholder.

To students of all ages and circumstances, the University of New Hampshire, Keene State College, the College for Lifelong Learning, and Plymouth State College offer entry to the world of ideas and the challenge of rigorous study and discourse. Our dedicated and talented faculty and staff help traditional college-age students, adult learners, working professionals, active retired people, and thousands of others learn new ways of addressing perennial questions as well as contemporary problems. The University System also helps provide the well prepared and highly skilled "knowledge workers" of the new economy that place New Hampshire at the forefront nationally.

During the 2001 Legislative Session, a new partnership was formed between the University System of New Hampshire and the Governor and members of the General Court. In an unprecedented collaboration involving legislative sponsors, trustees, business, professional, and community leaders, and students, alumni, and advocates from across the state, a new resolve was achieved to invest \$100M in the renovation and upgrade of facilities to support our teaching and research. "KEEP New Hampshire" - as the initiative is known - not only resulted in that new investment, it also forged a new appreciation of a *shared responsibility* for the mission of our System and the fabric that supports it.

In a similar expression of resolve, the University System engaged this year in a sale of bonds totaling \$100M in order to provide much-needed construction and renovation of residential, dining, and other student-life facilities across our campuses.

Our University System has directly served more than 400,000 New Hampshire people. As we look back with pride at this statistic, we look ahead to new goals, including that of increasing participation in public higher education, of becoming more of a partner with K-12 education and our Community Technical College System, and of playing a greater role in workforce and economic development of *all of New Hampshire*. But there remains at the core of what we do and would hope to do a love of learning and an unshakable commitment to the life of the mind and the intrinsic value of education, for the individual, for our state, and for our global society.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen J. Reno". The signature is stylized and cursive.

Stephen J. Reno
Chancellor

CAMPUSES

The University System of New Hampshire (USNH) includes the University of New Hampshire at Durham (UNH), the University of New Hampshire at Manchester (UNHM), Keene State College (KSC), Plymouth State College (PSC), the College for Lifelong Learning (CLL), and the State’s public broadcasting system, New Hampshire Public Television (NHPTV). UNH, KSC, and PSC are the three residential campuses of the University System. The USNH financial statements beginning on page 22 also include the accounts of the UNH Foundation, Inc. (UNHF), a separately incorporated affiliated foundation.

UNH is the center of graduate education and research for USNH. It is a land-grant, space-grant and sea-grant institution. UNH’s seven academic divisions are as follows:

	Number of Degree Candidates Enrolled	
	Fall 2000	Fall 1991
College of Liberal Arts	4,021	4,335
College of Life Sciences and Agriculture	1,933	1,785
School of Health and Human Services	1,640	1,339
Graduate School	2,078	1,476
Whittemore School of Business and Economics	1,464	1,407
College of Engineering and Physical Sciences	1,081	1,343
Division of Continuing Education	100	189
Total	12,317	11,874

The New England Center (a Kellogg Center for Continuing Education), the NHPTV Broadcast Center, and UNHF are located on the Durham campus. UNH

was founded in 1866 as part of Dartmouth College, moved to its present campus from Hanover in 1893, and was granted a new charter as the University of New Hampshire in 1923.

UNHM is the urban branch of UNH. Its principal purpose is to extend the quality programs and resources of UNH to residents of the most densely populated region of the State. UNHM was founded in 1968, and became a full-standing college of UNH in 1985.

KSC and PSC are predominately undergraduate colleges which have distinguished traditions in the field of training teachers, being incorporated as Normal Schools in 1909 and 1871, respectively. In 1963, they were designated State Colleges by legislative action and were authorized to develop curricula in the liberal arts, sciences and business administration. Associate, baccalaureate and masters degrees are now offered by these institutions in many varied disciplines along with their noncredit continuing education programs.

CLL was created in 1972 to provide undergraduate degree and non-degree programs to New Hampshire adult learners seeking an alternative to traditional campus-based programs. CLL maintains a network of ten offices strategically located throughout the State and received its initial accreditation by the New England Association of Schools and Colleges in 1981. Their academic program offers a variety of options providing adult learners with flexibility to pursue their individual educational goals.

STUDENTS

As shown by the table below, 19,826 New Hampshire residents were served by USNH during the first semester of the 2000-2001 academic year. Of this number, 6,022 were New Hampshire adult learners in continuing education or noncredit courses.

USNH STUDENT ENROLLMENT (HEADCOUNT)

Campus	Undergraduate	Graduate	Continuing Ed & Noncredit	Total Students	NH Residents	% NH Residents
UNH	10,239	2,078	3,755	16,072	10,850	67.5%
UNHM	666		423	1,089	1,058	97.2%
KSC	3,901	103	796	4,800	2,891	60.2%
PSC	3,323	281	587	4,191	2,668	63.7%
CLL	1,558		967	2,525	2,359	93.4%
Total	19,687	2,462	6,528	28,677	19,826	69.1%

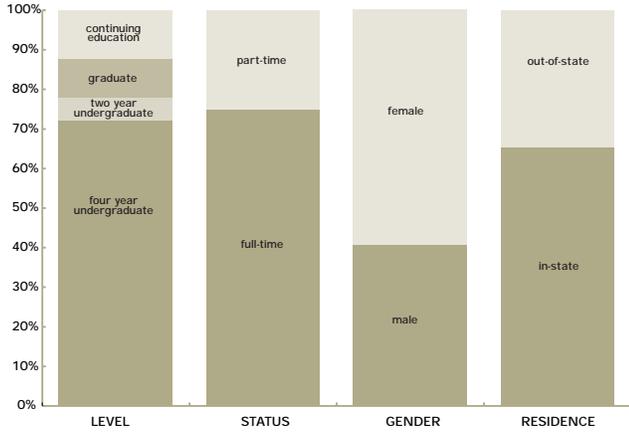
As shown below, tuition, room, board and mandatory fees have increased at a rate greater than general inflation over the past five years. Inflation, as measured by the consumer price index, increased an average of 2.5% over the same period. USNH, like many other colleges and universities across the country, continues to address the escalating costs of technology, library acquisitions, deferred capital maintenance, employee compensation and benefits, and the increased financial aid needs of students.

Financial aid was provided to 15,837 students during the academic year 2000-2001. This represents a 4.3% increase over the 15,179 students who received financial aid in 1996-97. Due to the increasing financial needs of students, USNH has steadily increased expenditures for student aid as shown in the graph below. In addition, USNH had \$21.3 million of loans outstanding to students as of June 30, 2001. The majority of these loans were awarded under the federal Perkins loan program.

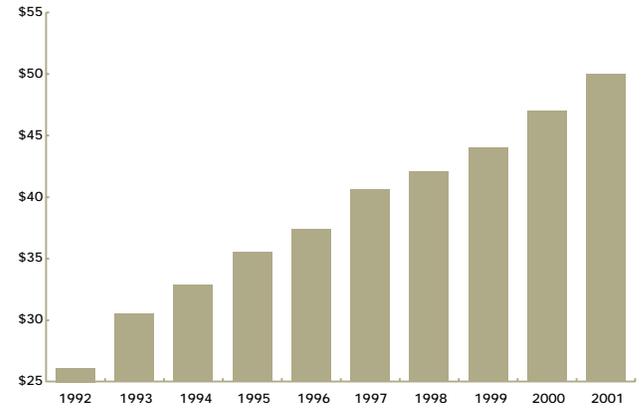
STUDENT COSTS AND FINANCIAL AID

	1997	1998	1999	2000	2001	Five Year Average Annual Compound Rate of Growth
Tuition, room, board and mandatory fees						
NH Resident - UNH	\$ 9,615	10,413	11,191	11,737	12,549	6.9%
KSC	8,312	8,990	9,585	9,974	10,400	5.8%
PSC	8,320	8,906	9,486	9,978	10,520	6.0%
Nonresident - UNH	18,585	19,273	19,911	20,627	21,619	3.9%
KSC	13,972	14,490	14,885	15,284	15,710	3.0%
PSC	13,980	14,406	14,786	15,288	15,830	3.2%
Scholarship grants per FTE student						
Unrestricted sources	\$ 1,209	1,292	1,287	1,396	1,516	5.8%
Restricted gifts & grants	742	770	888	920	935	6.0%
Total	\$ 1,951	2,062	2,175	2,316	2,451	5.9%

USNH STUDENT PROFILE - FALL 2000
(full-time equivalents)



USNH STUDENT FINANCIAL AID EXPENDITURES FROM ALL SOURCES
(\$ in millions)



PSC Geography students gain real world experience by studying atop Rattlesnake Mountain, Holderness, NH. (photo by Bob Krist)



UNH students study ecology in inter-tidal zones at Fort Stark, Newcastle, NH. (photo by George Barker)

SPONSORED RESEARCH & PROGRAMS

USNH externally-sponsored awards received in 2001 totaled \$86.2 million. Awards of \$81.9 million were received for UNH competitive research and other sponsored programs, an increase of about \$3.8 million over fiscal year 2000. In addition, UNH awards related to federal appropriations for agricultural research and extension totaled \$1.7 million for Agricultural Experiment Station projects and \$5.5 million for Cooperative Extension projects.

Of UNH's \$81.9 million in competitively-won funds, \$58.0 million was awarded for federally-sponsored projects, \$8.5 million for state-sponsored projects, \$6.6 million for business and industry contracts, \$5.5 million for grants from non-profit sponsors, \$3.0 million for collaborative efforts with other universities, and \$.3 million from local government, other state government, and multi-national sponsors.

The most notable increase was in U.S. Department of Commerce funding, up by 40% to \$23.8 million. This increase primarily relates to projects supported by the National Oceanic and Atmospheric Administration (NOAA). The Northeast Consortium, a new program, accounted for \$9.5 million of NOAA funding. The Northeast Consortium provides funding for cooperative research projects involving commercial fishermen and commercial fishing vessels. Priorities for funding change each year but remain within the general area of coastal ocean and fisheries management in the Gulf of Maine and Georges Bank. Funding from UNH's second largest sponsor, the National Aeronautics and Space Administration (NASA), increased by 25% to \$9.0 million, due mainly to additions to three major existing projects: improved predictions of solar geomagnetic disturbances and effects on earth; global biogeochemical systems changes; and mission operation and data analysis support for the electron drift instrument on the Cluster spacecraft.

For the first time, the Department of Justice moved ahead of the National Science Foundation to become UNH's third largest sponsor at \$5.2 million, continuing its support of two major projects: research on crimes against children, conducted by UNH's world-rekowned Family Research Laboratory; and CATLAB, which uses cutting edge technologies to improve communications and data management systems for local, state, and national law enforcement. Funding from the U.S. Department of Agriculture also increased by \$.8 million largely due to a new award for genomic mapping of the tilapia fish. This award is a

cornerstone for the newly emerging UNH Genomics Center, located in the recently opened Environmental Technology Building.

Awards from non-profit and business and industry sponsors continue to grow as well, and included a \$1.2 million award from the Alfred P. Sloan Foundation for a history of marine animal populations. This project provides financial support and research experience for a number of UNH graduate students, and will improve our understanding of the human role in changing marine ecosystems.

KSC, PSC, and CLL received competitive awards of approximately \$1.3 million, \$1.0 million, and \$ 2.0 million, respectively. Significant awards at KSC included NSF funding for a floral adaptation study, inquiry-based science for K-8 preservice teachers, and geochemical analyses. PSC awards included continued funding from NOAA for the New England Weather Technology Center, and continued funding from the New Hampshire Department of Education for the Center for Professional Education Partnerships, focused on the training and development of educators throughout the State. Total awards to CLL included \$1.8 million from the NH Department of Health and Human Services for a multi-year commitment to training of adoptive and foster parents.

ADMINISTRATIVE STRUCTURE

USNH is directed by a 27 member Board of Trustees comprised of the Governor of the State, 11 Governor-appointedees, six members elected by alumni, two members elected by the students, the Commissioner of Education, the Commissioner of Agriculture, the presidents of the institutions, and the Chancellor. The Chancellor is the chief executive officer of USNH. The central administrative offices are located in Lee, New Hampshire.

The Chancellor and the presidents comprise the Administrative Board. The Administrative Board is responsible for overseeing policies and procedures that assist the presidents in discharging their responsibilities while allowing maximum institutional initiative and responsibility within an efficient and unified University System organization. The financial officers at USNH and the chief financial officer of each campus are members of the Financial Policies and Planning Council (FINPAC), which is charged with advising the Administrative Board on the development of USNH financial policies, procedures and programs.

MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)

June 30, 2001 marks the end of Chancellor Reno's first year as CEO of the University System of New Hampshire. This year saw significant success in partnering with State government leaders, NH business and industry, and the people of the State to further our mutual goal of a strong, responsive and efficient system of public higher education that serves as an engine of economic development and a source of great pride for New Hampshire.

The most visible sign of success in this area is the signing of the "Knowledge Economy Education Plan (KEEP) New Hampshire" legislation by Governor Shaheen on July 9, 2001, resulting in an initial \$100 million commitment from the State to fund the renovation and expansion of teaching and research facilities, primarily for science and engineering. The six individual projects on the three residential campuses that comprise the KEEP New Hampshire initiative will vastly improve opportunities for effective learning for USNH students, and will bolster the State's job market, including New Hampshire's number two ranking in the country for high-tech jobs per capita. Equally important is that the legislation, led by Chancellor Reno and then-USNH Chairman of the Board, Bruce Keough, enjoyed bipartisan support, including co-sponsorship of the bill by both the House majority and minority leaders, among many other State leaders. Major corporations voiced their strong support for USNH as well, including Fidelity Investments, Fleet Bank, and Tyco International.

The growing support for USNH is further corroborated by the results of a recent independent survey which found that 74% of the State's residents believe that USNH institutions are important to them personally. According to the survey, 46% of respondents said they would be willing to have their taxes raised to increase support for public higher education. Furthermore, government and corporate sponsors, and private donors have significantly increased their levels of financial support in recent years. This begins what we all hope will be a long-standing shared responsibility for public higher education in the State.

We believe that one of the reasons the State, businesses and others are willing to invest in New Hampshire's Uni-

versity System is that USNH has consistently shown over the years that it is a good investment, focused on performance and accountability, with excellent stewardship and extremely efficient operations. USNH tries to evaluate itself from the perspective of an investor. While USNH is 50th in the nation in terms of state operating appropriations per capita, the autonomy and independence of USNH has developed a market-driven operating philosophy. Unlike many of its competitors, USNH's management and governance structure enables it to quickly and successfully anticipate and adapt to change. Operations are lean and non-bureaucratic, resulting in USNH institutions spending on average 15% less per student than comparable colleges and universities nationally. USNH accomplishes this while maintaining excellent quality. For example, UNH is:

- consistently listed in the "Top 50 public universities" by US News and World Report;
- ranked in the top 10 nationally for graduation rates;
- now classified by the Carnegie Foundation as a "Doctoral/Research University - Extensive" reflecting its wide range of baccalaureate programs and its commitment to graduate education through the doctorate.

As further measures of quality, in the past five years all three of the residential campuses of USNH have improved their average SAT scores of incoming students and their student/faculty ratios. Since the fall of 1998, enrollments have increased while the acceptance rates and yields have improved slightly. Fully 95% of the full-time faculty now have an earned doctorate or other terminal professional degree.

FINANCIAL OPERATIONS

Student enrollments have been on a general upward trend for the past ten years except for a two-year lull in the fall of 1997 and 1998 (fiscal years 1998 and 1999) caused by state and national demographics. Freshman enrollments in the fall of 1999 and 2000 grew considerably, continuing USNH's long-term trend. According to the National Center for Education Statistics, the number of NH public high school graduates is expected to increase by 15% during this decade. USNH campuses are projecting additional overall enrollment increases of approximately 5% over the next three years.

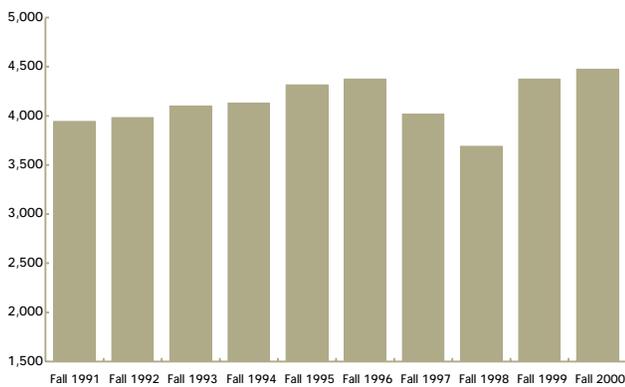


A new safety simulation center at KSC will provide Technology, Design, and Safety Studies students with first-hand experience dealing with safety issues. Melinda Treadwell, assistant professor of TDSS, demonstrates how to measure for toxic airborne substances. (photo by Pete Finger)



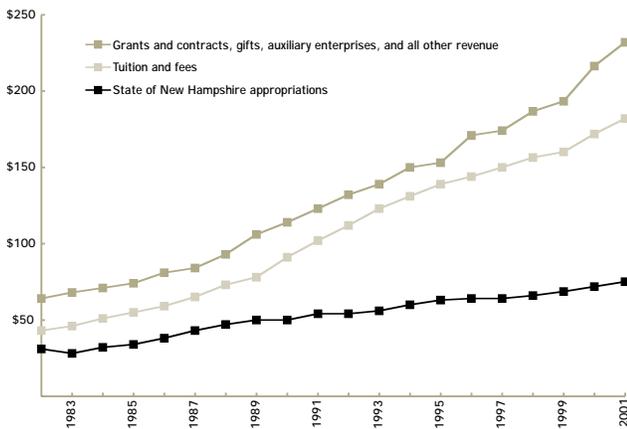
Candace Glickman and Beth Bressard pause in front of Rounds Hall and beneath one of the new banners adorning the lamp posts on Summer Street. The colorful banners were a gift of the PSC Annual Fund. (photo courtesy of Creative Communications of America)

FRESHMEN ENROLLMENT - DEGREE CANDIDATES
(headcount for the three residential campuses)



Over the past 20 years, NH general appropriations have decreased from 21.9% of total current fund revenues to 15.4% in fiscal year 2001. Accordingly, tuition, gifts, endowment income, grants and contracts are playing an increasingly important role in USNH operations. This reflects the strong performance of our research and public service programs and the fact that private supporters and students beyond the NH borders see USNH providing a solid return on their investments.

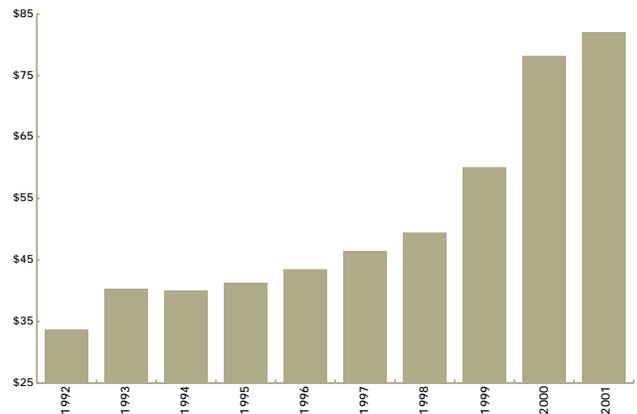
TWENTY-YEAR CURRENT FUNDS REVENUES COMPARISON
(\$ in millions)



The growing demand for USNH sponsored research has been significant. USNH has more than doubled its competitive research awards over the past ten years - more than a 75% increase in the past five years alone. Significantly, USNH faculty have been very productive, outpacing other land-grant institutions in the region on non-medical research funding per faculty member. Increased facilities and administrative cost recovery rates, combined with the significant growth in research volume, has made

the recovery of indirect costs of research another important source of revenue for USNH. Recovery of indirect costs of research has grown from \$7.4 million in 1997 to \$11.6 million in 2001.

UNH COMPETITIVE RESEARCH & OTHER AWARDS RECEIVED
(\$ in millions)



Private gifts and endowment funds provide crucial support for USNH's quality educational programs and accessibility to these programs for all students. The University of New Hampshire Foundation announced a \$100 million capital campaign in the fall of 1999 called the "Next Horizon" to ensure continuing revenue streams for such needs as scholarships and academic enhancements. Approximately 75% of the ambitious goal has been realized to date through the enthusiastic support of individuals and corporations.

Gifts to the endowment funds at the UNH Foundation and the USNH campuses totaled \$12.8 million in 2001 compared to \$4.0 million in 2000. The additional gifts helped to offset the reduction in market values experienced in the equity markets during the past year. The total return (loss) for the year was \$13.4 million. While the twelve months ended June 30, 2001 was a difficult period for everyone invested in the equity markets, USNH has a long track record of strong performance against the national average for university endowment funds. In fact, USNH equaled or exceeded the national average for eight out of the ten years through 2000. National statistics for 2001 are not yet available. To further diversify the USNH and UNH Foundation endowment pools, each Board separately voted to commit up to \$5.0 million from each endowment pool for investments in private equities. Endowments in total have increased \$54.4 million,

or 51.0%, since June 30, 1997. This has helped improve annual endowment income available for current operations from \$2.9 million in 1997 to \$7.2 million in 2001.

ENDOWMENT INVESTMENTS SUMMARY

For the Year ended June 30, 2001
(\$ in thousands)

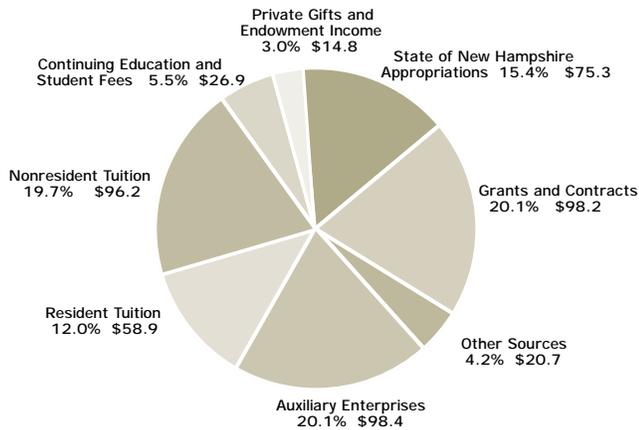
	USNH CAMPUSES		UNH FOUNDATION		Total
	Pooled	Other	Pooled	Other	
Beginning Market Value	\$ 96,679	20,342	58,733	3,863	179,617
Gifts	1,710		11,110		12,820
Other Additions (Deductions)	1,895		(1,063)		832
Total Return (Loss)	(7,808)	(2,009)	(3,092)	(443)	(13,352)
Total Distributions	(6,411)		(3,608)		(10,019)
Ending Market Value	\$ 86,065	18,333	62,080	3,420	169,898

As shown on the following page, current fund revenues increased an average of 5.9% per year since 1997, while current fund expenditures and mandatory transfers increased an average of 5.4% per year. USNH ended fiscal year 2001 with an increase in current fund balances of \$6.5 million compared with a \$6.9 million increase last year.

CURRENT FUNDS REVENUES BY SOURCE

(\$ in millions)

Total = \$489.4

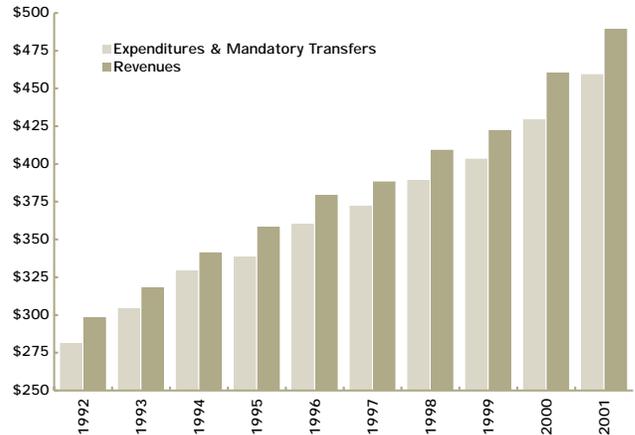


The University System embraces the obligation to ensure taxpayers, donors and other stakeholders that every penny of their funds entrusted to USNH is properly managed and spent for mission-critical needs. Stewardship of public resources is critically important to USNH. USNH has always operated within balanced budgets. Campus management engages in long-term planning and careful budgeting, but when demand fluctuations and

available revenues dictate, management responds swiftly to adjust spending. For example, well before it occurred, management anticipated the temporary enrollment decline in fiscal years 1998 and 1999 mentioned above and was able to balance its budget and plan for increased enrollments expected over the next several years.

TEN-YEAR HISTORY OF CURRENT FUNDS

(\$ in millions)



Long-term strategic planning, prudent budgeting, and careful cost controls have allowed USNH to make investments of current funds over the years where needed. Most of these investments are reflected in nonmandatory transfers, representing repairs and renovations, technology investments, and other capital items. USNH continues to assess opportunities for sound investments that promise improved services, enhanced revenues, or reduced ongoing costs of operations.

Like any successful corporation, USNH campuses are continuously reassessing how to improve customer satisfaction and programmatic objectives while reducing costs. USNH has had considerable success in these areas. A major initiative has resulted in the fiscal year 2001 introduction of Responsibility Center Management (RCM) at UNH. RCM is part of a broader effort by USNH providing campuses more autonomy to accomplish institutional goals while continuing to capitalize on the economies of scale that the combined USNH entity can offer. RCM has enhanced revenue streams and further controlled costs by assigning responsibility and accountability for all revenues and expenses to the seven colleges and thirteen major operating units of UNH. Each unit has greater flexibility regarding how and when to spend its limited re-

**UNIVERSITY SYSTEM OF NEW HAMPSHIRE
FIVE-YEAR REVIEW OF CURRENT FUNDS OPERATIONS**

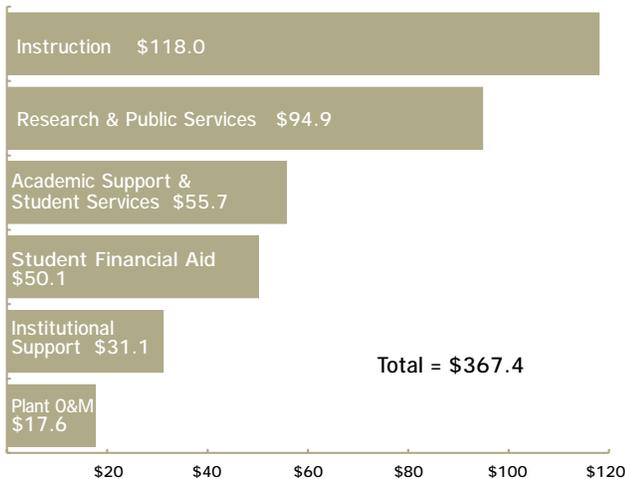
(\$ in thousands)

	1997	1998	1999	2000	2001	Five-Year Average Annual Compound Rate of Growth
REVENUES						
Educational and general						
Tuition and fees	\$ 149,756	156,372	160,086	171,839	181,999	5.0%
State of New Hampshire appropriations	63,750	65,880	68,540	71,766	75,365	4.3%
Government grants and contracts and federal appropriations	45,957	51,711	53,972	63,194	70,426	11.3%
Recovery of indirect costs of research	7,356	7,624	8,150	9,790	11,600	12.1%
Private grants and contracts	11,282	11,455	12,703	14,040	16,154	9.4%
Private gifts	6,388	7,579	6,573	8,109	7,617	4.5%
Endowment income	2,905	4,300	5,961	5,987	7,155	25.3%
Investment income	6,244	6,663	6,885	8,250	8,167	6.9%
Sales and services of educational activities	7,214	7,190	7,375	7,796	8,301	3.6%
Other sources	3,367	5,892	6,079	5,502	4,278	6.2%
Total educational and general	304,219	324,666	336,324	366,273	391,062	6.5%
Auxiliary enterprises	84,526	84,849	86,828	93,660	98,366	3.9%
Total revenues	388,745	409,515	423,152	459,933	489,428	5.9%
EXPENDITURES AND MANDATORY TRANSFERS						
Educational and general						
Instruction	101,633	105,821	109,120	111,000	118,033	3.8%
Research and sponsored programs	50,297	55,573	58,631	67,910	76,294	11.0%
Public services	15,298	15,915	16,008	17,160	18,550	4.9%
Academic support	26,615	28,774	30,431	31,976	35,106	7.2%
Student services	15,956	17,371	17,964	18,889	20,556	6.5%
Institutional support	25,733	27,742	29,259	30,605	31,127	4.9%
Operation and maintenance of plant	15,388	15,886	16,166	16,884	17,628	3.5%
Student financial aid	40,594	42,032	43,550	46,614	50,088	5.4%
Educational and general expenditures	291,514	309,114	321,129	341,038	367,382	6.0%
Mandatory transfers						
Principal and interest	447	307	147	132	127	(27.0%)
Loan fund matching grants	85	85	80	28	36	(19.3%)
Total educational and general	292,046	309,506	321,356	341,198	367,545	5.9%
Auxiliary enterprises						
Expenditures	69,628	70,635	72,566	77,654	83,015	4.5%
Mandatory transfers for principal and interest	10,627	10,158	9,868	9,823	8,872	(4.4%)
Total auxiliary enterprises	80,255	80,793	82,434	87,477	91,887	3.4%
Total expenditures and mandatory transfers	372,301	390,299	403,790	428,675	459,432	5.4%
NONMANDATORY TRANSFERS	(15,417)	(23,591)	(12,897)	(24,317)	(23,542)	
NET INCREASE (DECREASE) IN FUND BALANCES	\$ 1,027	(4,375)	6,465	6,941	6,454	

Balances prior to 2001 have been restated to reflect the application of GASB Statement No. 33.

sources, within broad University guidelines. The first-year results have been encouraging: even more careful use of resources, directed at only the most important activities related to their missions, and growth in current fund balances as demonstrated in the operating margins realized in 2000 and 2001.

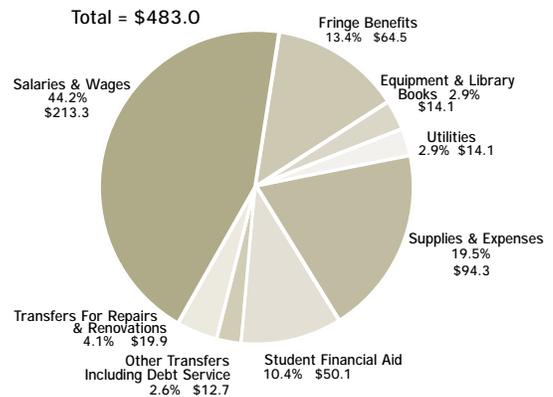
**2001 EDUCATIONAL & GENERAL
CURRENT FUNDS EXPENDITURES**
(\$ in millions)



Another example of continuous improvement within the administrative area is the current effort to install a new, enterprise-wide management information system. Project FRESH as it is known at USNH, is a multi-year project to implement state-of-the-art technology for integrated financial and human resources management. The new system is fully web-based and will be accessible to hundreds of faculty and staff users on all campuses, thereby further streamlining and simplifying administrative tasks and providing important access to information for management decision-making. Modern information systems have proven themselves to be worth the investment when implementation costs are kept in check and management is creative and persistent in leveraging the technology. To keep the costs of implementation and ongoing maintenance as low as possible, USNH has committed to a near-zero modification policy, electing to change internal business processes to meet the best practices enabled by the software, rather than customize the software to meet existing practices.

The new system will be implemented in stages, with finance applications operational January 1, 2002, human resources applications July 1, 2002, and other enhancements to come on line in the following months. Concurrent to the Project FRESH initiative, there are several other information technology projects in process of being implemented, including UNH research administration, UNH facilities management, and PSC student and financial aid systems. All of these will interface with the financial system to provide seamless management information and efficient operating processes.

CURRENT FUND EXPENDITURES BY OBJECT
(including transfers)
(\$ in millions)



In fiscal year 2001 salaries, wages and associated fringe benefits accounted for 57.6% of USNH current funds expenditures and transfers. Fringe benefits costs have been an area of management focus and will continue to be for the foreseeable future as medical premiums are skyrocketing. Management is currently developing a multi-faceted plan to address these cost increases. During fiscal year 2001, the UNH faculty contract was settled, resulting in a contract which expires at the end of fiscal year 2003. USNH is one of the largest employers in the State. In addition to the permanent employees shown below, USNH employed 550 non-permanently budgeted personnel at the beginning of fiscal year 2001.

USNH PERMANENTLY BUDGETED FTE EMPLOYEES

	UNH	UNHM	KSC	PSC	CLL	USNH Central Office	Total USNH
Faculty	713	26	177	160	1		1,077
Professional Staff	716	22	136	120	50	33	1,077
Operating Staff	876	14	122	164	22	11	1,209
Total	2,305	62	435	444	73	44	3,363



Rick Smith of Madison, NH, a typical CLL adult learner, appreciates the "great programs and great instructors." (photo by Ron Bergeron)

FINANCIAL CONDITION

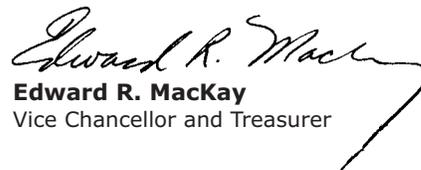
In March 2001, USNH contracted to issue \$193.9 million of bonds through the New Hampshire Health and Education Facilities Authority (NHHEFA), for three purposes: (1) \$100.5 million in 'new money' for financing the construction and renovation of seven housing, dining and recreational facilities on the three residential campuses of USNH; (2) \$50.7 million for refinancing 1992 USNH bonds; and (3) \$42.7 million for refinancing bonds originally issued in 1989 (see Note 8 on page 27 for further information).

The NHHEFA-funded construction projects are needed to increase capacity and improve student life and safety on the campuses, and to keep USNH campuses competitive in attracting and retaining students. In the past three years, each campus has wired all traditional residence hall rooms to enable the use of Internet, telephone and cable television. The NHHEFA bonds will enable additional upper-class apartments to be fully wired at PSC, bring modern indoor recreation facilities to KSC, and relieve overcrowding in dining and residence halls, among other improvements. The resulting debt service for the new construction will result in student fee increases of approximately 3% of the total in-state tuition, fees, room and board charges, and was overwhelmingly supported by student leadership on each campus. Even after the added debt service, USNH room and board charges will be among the lowest in the region.

USNH was able to borrow the new money funds at an average fixed yield of 5.19% for 30 years, very near the lowest rate in a generation. The refinancing of existing bonds resulted in an even lower average yield and had a net present value savings for USNH of \$4.4 million. In addition to purchasing bond insurance to effect a rating of AAA, one of the strategies used to secure the favorable cost of financing was to pursue an independent underlying credit rating from two rating agencies, Moody's and Standard & Poor's. Even though USNH nearly doubled the debt on its balance sheet, Moody's and Standard & Poor's expressed confidence in USNH by awarding ratings of A1 and A+, respectively.

When independent rating agencies assess the financial strength of USNH, they analyze many ratios, including capital and balance sheet ratios that measure the size of capital resources relative to the level of debt and annual operations. Compared to national averages of similarly rated public universities and university systems, USNH is undercapitalized and more highly leveraged. Over the past ten years, USNH has slowly but consistently improved these measures of financial health, but we believe we need to do more. USNH recognizes its fiduciary responsibility for ensuring the long-term financial health and stability of USNH and understands the strategic importance of building an appropriate level of reserves to fund future contingencies. In 2000, USNH established a \$2.9 million long-term capital contingency quasi-endowment fund using unrestricted current funds resulting from superior investment performance over the past few years. This fund has been invested long-term to provide a growing reserve that can be used for large and unusual emergencies or opportunities. The establishment of this fund marked an important first step in ensuring the long-term viability of USNH programs and services. Trustees and management plan to undertake further steps during the coming years to assess the need to build additional reserves.

While USNH is weaker than most other A1/A+ public institutions in terms of its capital resources, USNH has a stronger operating record in comparison to other A1/A+ public universities, and prospects for continued financial health are good. In summary, USNH ended fiscal year 2001 in an improved, stable financial condition. A five-year review of the combined balance sheets is presented on the following page.


Edward R. MacKay
Vice Chancellor and Treasurer

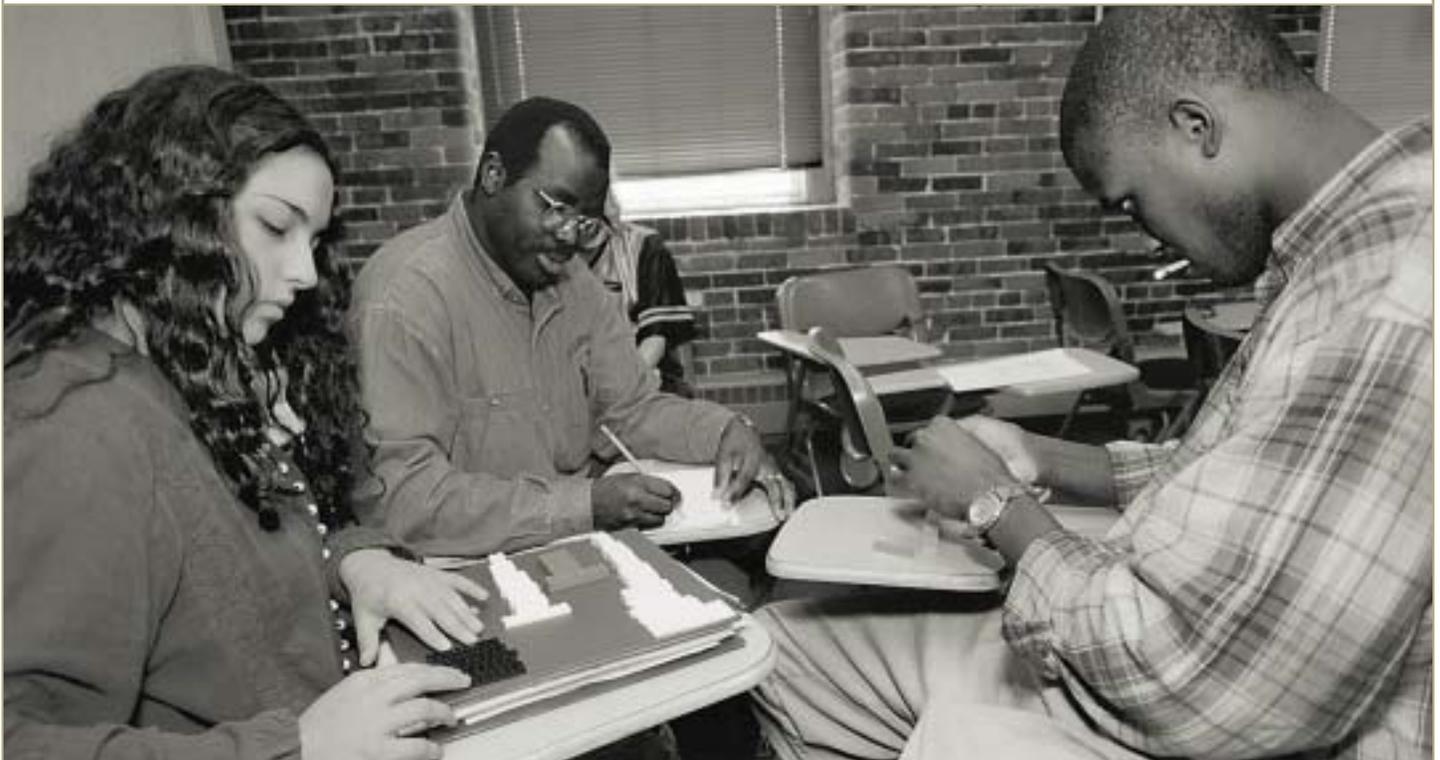

Kenneth B. Cody
Associate Vice Chancellor for Finance
and Corporate Controller

**UNIVERSITY SYSTEM OF NEW HAMPSHIRE
FIVE-YEAR REVIEW OF COMBINED BALANCE SHEETS**

(\$ in thousands)

	At June 30,				
	1997	1998	1999	2000	2001
ASSETS					
Cash and short-term investments	\$ 73,611	92,379	96,650	104,607	101,298
Accounts receivable	15,029	13,146	13,397	20,798	21,942
Prepaid expenses	5,325	3,865	3,940	4,263	4,728
Notes receivable	20,148	20,562	20,877	20,962	21,320
Investments	143,397	160,413	187,027	207,527	208,406
Investments held by bond trustee	4,776	4,813	4,866	4,911	96,728
Property and equipment, net	333,943	353,790	359,479	369,235	385,390
Other assets	2,528	2,171	2,509	1,589	2,586
Total assets	\$ 598,757	651,139	688,745	733,892	842,398
LIABILITIES					
Accounts payable and accrued expenses	\$ 23,947	27,727	29,267	36,803	31,839
Deposits and deferred revenues	16,274	15,409	19,152	20,595	19,632
Long-term debt	113,212	109,540	106,691	104,282	203,458
Accrued employee benefits	65,481	65,297	65,911	67,372	70,282
Total liabilities	218,914	217,973	221,021	229,052	325,211
FUND BALANCES					
Current funds					
Unrestricted	9,031	4,512	8,517	11,784	15,766
Restricted	8,748	8,892	11,352	15,026	17,498
Loan funds	21,025	21,512	22,001	22,579	23,192
Endowment and similar funds - campuses	77,000	89,609	97,378	106,679	94,963
Endowment and similar funds - UNHF	30,377	45,265	58,698	63,503	66,772
Plant funds	233,662	263,376	269,778	285,269	298,996
Total fund balances	379,843	433,166	467,724	504,840	517,187
Total liabilities and fund balances	\$ 598,757	651,139	688,745	733,892	842,398

Balances prior to 2001 have been restated to reflect the application of GASB Statement No. 33.



Students from the English as a Second Language program study together at the UNH at Manchester campus. (photo by Gary Samson)

FUTURE FINANCIAL STATEMENT PRESENTATIONS

Next year's audited financial statements will look completely different. As discussed in the notes to the financial statements on page 25, effective for fiscal year 2002, USNH will adopt the provisions of Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities* (GASB 35). GASB 35 will be required to replace the three basic audited financial statements presented herein with three new statements: (1) Statement of Net Assets; (2) Statement of Revenues, Expenses and Changes in Net Assets; and (3) Statement of Cash Flows. One of the most notable changes between the current statements and those required by GASB 35 is the elimination of columns representing fund group classifications. In addition to these three financial statements, GASB 35 will also require significant changes to footnote presentations and some minor modifications to management's discussion and analysis.

For the most part, USNH management welcomes the GASB 35 changes because they should serve to simplify financial reporting and promote the reader's understanding of financial results of operations and condition. However, there are major challenges in adopting these standards since they are so extensive, particularly in the same year that USNH is implementing a new financial information system as described above. In addition, there are a few prescribed formatting issues that may serve to confuse rather than inform our financial statement readers (see examples below). The new statements are described below, along with highly summarized pro forma presentations for fiscal year 2001 (unaudited), based on the current understanding of the GASB 35 requirements as they exist today.

The Statement of Net Assets is similar to a summarized Balance Sheet, but relabels fund balances as net assets and classifies them in four major categories. Invested in plant is identical to today's classification, but all the others change. Restricted funds are classified as either expendable or nonexpendable. Nonexpendable restricted net assets refer to true endowments and life income funds. Expendable net assets refer to all other funds having third-party restrictions including funds not generally considered "expendable", such as restricted funds functioning as endowments (quasi-endowments) which are invested long-term, and funds already ex-

pendent for student loans. Unrestricted net assets include general operating, auxiliary and internally designated balances, as well as unexpended plant balances and unrestricted funds functioning as endowments. There will be an educational and communication challenge here because GASB 35 does not allow a breakdown of unrestricted net assets on the Statement of Net Assets, whereas financial readers have a need to know what portion of these funds are owned by the UNH Foundation and what portion are earmarked by USNH for specific purposes.

CONDENSED STATEMENT OF NET ASSETS

As of June 30, 2001 - proforma, unaudited
(\$ in millions)

Current Assets	\$ 128
Non-Current Assets	714
TOTAL ASSETS	\$ 842
Current Liabilities	\$ 59
Non-Current Liabilities	266
TOTAL LIABILITIES	325
Invested in Plant	273
Restricted	
Nonexpendable	138
Expendable	49
Unrestricted	57
TOTAL NET ASSETS	517
TOTAL LIABILITIES AND NET ASSETS	\$ 842

The Statement of Revenues, Expenses and Changes in Net Assets

classifies revenues and expenses of all net asset categories into operating and non-operating components. Because GASB 35 requires that state operating appropriations and other recurring revenues such as gifts, endowments and investment earnings be reported as non-operating revenues, USNH will always be expected to show a substantial operating loss. This will prove to be another area requiring education and communication with USNH financial statement readers, particularly since USNH always operates within a balanced budget.

2001 CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - proforma, unaudited

(\$ in millions)

Operating Revenues	\$ 353
Operating Expenses	436
OPERATING LOSS	(83)
Non-Operating Revenues, net	95
NET INCREASE IN NET ASSETS	12
Net Assets at July 1, 2000	505
Net Assets at June 30, 2001	\$ 517



Students cross the bridge over College Brook, a popular UNH campus landmark. (photo by George Barker)

The Statement of Cash Flows summarizes transactions affecting cash and cash equivalents during the fiscal period. Amounts are categorized into four sections: cash provided by operations; non-capital financing activities; financing activities; and investing activities. Net cash provided by operations will be different from the operating loss on the Statement of Revenues, Expenses and Changes in Net Assets because of non-cash items, such as amortization and depreciation expense.

2001 CONDENSED STATEMENT OF CASH FLOWS
 proforma, unaudited
 (\$ in millions)

Net Cash Used In Operations	\$ (62)*
Non-Capital Financing Activities	101
Financing Activities	54
Investing Activities	(96)
CHANGE IN CASH & EQUIVALENTS	(3)
Cash and Cash Equivalents at July 1, 2000	104
Cash and Cash Equivalents at June 30, 2001	<u>\$ 101</u>

**net operating loss of (\$83 million) adjusted for non-cash items of \$27 million and change in net current assets of (\$6 million)*

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements and all information in this Annual Financial Report are the responsibility of management. Management has prepared the financial statements and notes thereto in accordance with generally accepted accounting principles, and in the process, has made judgments and estimates which affect the amounts as reported. Management is responsible for the integrity and objectivity of all representations in this report.

The financial reporting process utilizes an on-line budgeting and accounting system with spending controls on current operating funds and with electronic access and approvals. Managers of all USNH funds have continual on-line access to the status of their accounts to permit measurement of operating results against the annual budget and to assure effective custodianship of funds. Transactions as recorded in the accounting system are aggregated and reflected in regular monthly reports to management, interim reports to the Board of Trustees Financial Affairs Committee, and the annual audited financial statements.

It is management’s opinion that the internal control systems employed by USNH are effective in providing reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management’s authorization, and that transactions are recorded properly to permit the preparation of financial statements which are free from material misstatement. The internal control systems include an organization structure which provides for careful recruitment and training of qualified personnel, proper segregation of financial duties, and a program of regular internal audits.

The internal auditors, while employees of USNH, are nevertheless objective in the planning, conduct and reporting of their audits. The Executive Committee of the Board of Trustees, the voting members of which are solely outside trustees, meets at least semiannually and at the request of the Director of Internal Audit. Both internal and external auditors have unencumbered access to the Executive Committee at all times. The Executive Committee is responsible for oversight of USNH’s financial reporting process and internal control systems, as well as for recommending and engaging independent public accountants for the annual audit.

PricewaterhouseCoopers LLP, certified public accountants, have issued their unqualified opinion as to the fair presentation of the financial statements that follow. Thus, for all 38 years of its existence, USNH has received only unqualified opinions from its independent auditors. As part of their audit, PricewaterhouseCoopers LLP assessed the accounting principles used, and significant estimates made, by management. Although it is not practical to examine all transactions and account balances, the auditors have conducted a study and evaluation of USNH internal control systems and performed tests of transactions and account balances to provide reasonable assurance that the financial statements are free from material misstatement.

The Report of Independent Accountants, which expresses the auditor’s opinion on the 2001 financial statements, is reproduced on the following page.



PricewaterhouseCoopers LLP
Two Wall Street
P.O. Box 5080
Manchester, NH 03108
Telephone (603) 669-2200
Facsimile (603) 624-8351

To: Governor, State of New Hampshire;
Legislative Fiscal Committee,
State of New Hampshire;
The Board of Trustees,
University System of New Hampshire:

In our opinion, the accompanying combined balance sheets and the related combined statements of changes in fund balances and current funds revenues, expenditures and other changes present fairly, in all material respects, the combined financial position of the University System of New Hampshire (USNH) at June 30, 2001, and the combined changes in its fund balances and its current funds revenues, expenditures and other changes for the year ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of USNH's management; our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from USNH's 2000 financial statements; and in our report dated August 21, 2000, we expressed an unqualified opinion on those statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, USNH adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as of July 1, 1999.

August 23, 2001

**UNIVERSITY SYSTEM OF NEW HAMPSHIRE
COMBINED BALANCE SHEETS**

At June 30, 2001, with summarized financial information as of June 30, 2000
(\$ in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds		Plant Funds	2001 Total	2000* Total
			Campuses	UNHF			
ASSETS							
Cash and short-term investments	\$ 71,064	1,872		2,374	25,988	101,298	104,607
Accounts receivable	20,283			367	1,292	21,942	20,798
Prepaid expenses	4,728					4,728	4,263
Notes receivable		21,320				21,320	20,962
Investments	38,339		104,398	65,500	169	208,406	207,527
Investments held by bond trustee					96,728	96,728	4,911
Property and equipment, net					385,390	385,390	369,235
Other assets					2,586	2,586	1,589
Interfund balances, net	2,582				(2,582)		
Total assets	\$ 136,996	23,192	104,398	68,241	509,571	842,398	733,892
LIABILITIES							
Accounts payable and accrued expenses	\$ 23,008		245	1,469	7,117	31,839	36,803
Deposits and deferred revenues	19,632					19,632	20,595
Long-term debt					203,458	203,458	104,282
Accrued employee benefits	61,092		9,190			70,282	67,372
Total liabilities	103,732		9,435	1,469	210,575	325,211	229,052
FUND BALANCES	33,264	23,192	94,963	66,772	298,996	517,187	504,840
Total liabilities and fund balances	\$ 136,996	23,192	104,398	68,241	509,571	842,398	733,892
The nature of specific fund balances is as follows:							
Current funds							
Unrestricted	\$ 15,766					15,766	11,784
Restricted	17,498					17,498	15,026
Loan funds							
Unrestricted		1,218				1,218	1,459
Restricted		4,805				4,805	4,112
Government grants		17,169				17,169	17,008
Endowment and similar funds							
Funds functioning as endowment - unrestricted			9,669			9,669	10,633
Funds functioning as endowment - restricted			7,658			7,658	8,603
Endowment, primarily restricted			60,153			60,153	67,383
Held in trust by others			16,636			16,636	19,179
Life income and annuity funds			847			847	881
Plant funds							
Investment in plant					272,833	272,833	262,787
Unexpended					26,163	26,163	22,482
Subtotal	33,264	23,192	94,963		298,996	450,415	441,337
UNH Foundation, Inc.							
Unrestricted				1,983		1,983	1,335
Restricted				916		916	1,173
Funds functioning as endowment - restricted				1,677		1,677	3,129
Endowment, primarily restricted				60,247		60,247	55,621
Life income and annuity funds				1,949		1,949	2,245
Subtotal UNH Foundation, Inc.				66,772		66,772	63,503
FUND BALANCES	\$ 33,264	23,192	94,963	66,772	298,996	517,187	504,840

* restated for the cumulative effect of adoption of GASB Statement No. 33. See Note 1.
The accompanying notes are an integral part of these financial statements.

**UNIVERSITY SYSTEM OF NEW HAMPSHIRE
COMBINED STATEMENTS OF CHANGES IN FUND BALANCES**

For the Year Ended June 30, 2001, with summarized financial information for the year ended June 30, 2000
(\$ in thousands)

	Current Funds		Loan Funds	Endowment and Similar Funds		Plant Funds	2001 Total	2000* Total
	Unrestricted	Restricted		Campuses	UNHF			
REVENUES AND OTHER ADDITIONS								
Current funds revenue	\$ 398,206	91,222					489,428	459,933
State of NH appropriations - other than current						5,197	5,197	6,527
Government grants and contracts - other than current			308			4,156	4,464	4,824
Private gifts - other than current			1	1,710	14,489	416	16,616	10,933
Investment income - other than current			10		331	1,333	1,674	333
Endowment income - other than current			3	610	3,676		4,289	3,423
Amounts used in support of endowment distributions				(3,443)	(1,277)		(4,720)	(4,276)
Gain (loss) on investments				(12,747)	(5,893)		(18,640)	10,396
Interest on loans receivable			464				464	462
Current funds equipment expenditures						7,852	7,852	11,295
Other additions, net			21			2,359	2,380	580
Total revenues and other additions	398,206	91,222	807	(13,870)	11,326	21,313	509,004	504,430
EXPENDITURES AND OTHER DEDUCTIONS								
Current funds expenditures	360,131	90,266					450,397	418,692
Administrative and collection costs			364	111	2,292	181	2,948	2,929
Noncapitalized plant expenditures						5,428	5,428	3,844
Interest on debt						7,352	7,352	6,409
Depreciation expense						26,451	26,451	35,022
Other deductions, net			(186)	42	107	4,118	4,081	418
Total expenditures and other deductions	360,131	90,266	178	153	2,399	43,530	496,657	467,314
TRANSFERS AMONG FUNDS, NET								
Mandatory transfers								
Principal and interest	(8,999)					8,999		
Loan fund matching grants	(36)		36					
Nonmandatory transfers								
Among current funds	1,818	(1,818)						
To (from) loan funds		52	(52)					
To (from) endowment and similar funds	235	(465)		2,118		(1,888)		
To (from) plant funds	(26,076)	(386)				26,462		
Gifts transferred from UNHF to UNH	394	4,133		189	(7,087)	2,371		
UNH transfers for UNHF funding	(1,429)				1,429			
Total transfers among funds, net	(34,093)	1,516	(16)	2,307	(5,658)	35,944		
NET INCREASE (DECREASE) FOR THE YEAR	3,982	2,472	613	(11,716)	3,269	13,727	12,347	37,116
FUND BALANCES AT BEGINNING OF YEAR	11,784	15,026	22,579	106,679	63,503	285,269	504,840	467,724
FUND BALANCES AT END OF YEAR	\$ 15,766	17,498	23,192	94,963	66,772	298,996	517,187	504,840

* restated for the cumulative effect of adoption of GASB Statement No. 33. See Note 1.
The accompanying notes are an integral part of these financial statements.

**UNIVERSITY SYSTEM OF NEW HAMPSHIRE
COMBINED STATEMENTS OF CURRENT FUNDS REVENUES,
EXPENDITURES AND OTHER CHANGES**

For the Year Ended June 30, 2001, with summarized financial information for the year ended June 30, 2000
(\$ in thousands)

	Unrestricted	Restricted	2001 Total	2000* Total
REVENUES				
Educational and general				
Tuition and fees	\$ 181,999		181,999	171,839
State of New Hampshire appropriations	75,365		75,365	71,766
Federal appropriations		3,296	3,296	3,457
Government grants and contracts	12,849	65,881	78,730	69,527
Private grants and contracts	4	16,150	16,154	14,040
Private gifts	4,663	2,954	7,617	8,109
Endowment income	4,300	2,855	7,155	5,987
Investment income	8,081	86	8,167	8,250
Sales and services of educational activities	8,301		8,301	7,796
Other sources	4,278		4,278	5,502
Total educational and general	299,840	91,222	391,062	366,273
Auxiliary enterprises	98,366		98,366	93,660
Total revenues	398,206	91,222	489,428	459,933
EXPENDITURES AND MANDATORY TRANSFERS				
Educational and general				
Instruction	117,296	737	118,033	111,000
Research and sponsored programs	12,790	63,504	76,294	67,910
Public services	14,576	3,974	18,550	17,160
Academic support	33,349	1,757	35,106	31,976
Student services	19,547	1,009	20,556	18,889
Institutional support	30,976	151	31,127	30,605
Operation and maintenance of plant	17,603	25	17,628	16,884
Student financial aid	30,979	19,109	50,088	46,614
Educational and general expenditures	277,116	90,266	367,382	341,038
Mandatory transfers				
Principal and interest	127		127	132
Loan funds matching grants	36		36	28
Total educational and general	277,279	90,266	367,545	341,198
Auxiliary enterprises				
Expenditures	83,015		83,015	77,654
Mandatory transfers for principal and interest	8,872		8,872	9,823
Total auxiliary enterprises	91,887		91,887	87,477
Total expenditures and mandatory transfers	369,166	90,266	459,432	428,675
Nonmandatory Transfers	(25,058)	1,516	(23,542)	(24,317)
NET INCREASE IN FUND BALANCE	\$ 3,982	2,472	6,454	6,941

* restated for the cumulative effect of adoption of GASB Statement No. 33. See Note 1.
The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2001

1. Summary of significant accounting policies

Organization and presentation

The University System of New Hampshire (USNH) is a not-for-profit educational institution created in 1963 as a body politic and corporate under the laws of the State of New Hampshire (the State) and tax exempt under Section 501(c)(3) of the Internal Revenue Code. The accompanying financial statements include the accounts of the University of New Hampshire at Durham (UNH), the University of New Hampshire at Manchester (UNHM), New Hampshire Public Television (NHPTV), Keene State College (KSC), Plymouth State College (PSC), the College for Life-long Learning (CLL), and all wholly owned and operated activities. These financial statements also include the accounts of the University of New Hampshire Foundation, Inc. (UNHF) as described in Note 2.

In order to ensure observance of limitations and restrictions placed on the use of resources available, the accounts of USNH are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group as follows:

Current funds - Current funds support educational and general programs as well as auxiliary enterprises, which include student residences, dining halls and other revenue producing operations. Current funds are further divided into unrestricted funds (funds available for any USNH purpose) and restricted funds (funds that have been restricted by the donor or grantor to support specific USNH activities). The USNH Board of Trustees or management may elect to set aside unrestricted current funds for specific operating purposes or for future year carryforwards and commitments. Expenditures incurred for the stated purposes are charged to the expenditure accounts reported within the statement of current funds revenues, expenditures and other changes.

Loan funds - Loan funds report the status of student loans outstanding and cash available for student loans. Future loans to students are made available from repayments of outstanding principal amounts plus accumulated interest received thereon. The government grant fund balances related to the Perkins and Nursing Loans on the balance sheet represent advances which are ultimately refundable to the federal government.

Endowment and similar funds - Endowment funds are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and that only income be utilized. Certain restricted and unrestricted amounts have been established as funds functioning as endowment (quasi-endowment funds) by the Trustees for the same purpose as endowment funds. Any portion of funds functioning as endowment may be expended at the discretion of the Trustees, subject to donor-imposed restrictions on use. Included in the endowment and similar funds are funds available for distribution to UNH by UNHF, and endowment funds held by UNHF. Endowment and similar funds also include life income and annuity funds which are resources received on the condition that periodic income be paid during the lifetime of the beneficiary.

Plant funds - Plant funds report the real property and equipment owned. These funds include two categories: unexpended plant funds (designated funds which are being held until utilized for specific repair, renovation and construction projects which have been initiated but not yet completed), and net invested in plant (the original cost of plant and subsequent plant additions less retirements, dispositions, accumulated depreciation, outstanding plant debt, and other adjustments thereto).

Description of financial statements

These financial statements include certain prior-year summarized information in total but not by fund balance class. Such information does not include sufficient detail to constitute a presentation in conformity

with generally accepted accounting principles. Accordingly, such information should be read in conjunction with USNH's financial statements for the year ended June 30, 2000, from which the summarized information was derived.

The Combined Balance Sheets present the financial position at June 30 and report separately the assets, liabilities and fund balances of the current, loan, endowment and similar funds, and plant fund groups. Within each fund group, fund balances restricted by donors, grantors and others are distinguished from unrestricted funds and funds designated for specific purposes.

The Combined Statements of Changes in Fund Balances report all revenues, other additions, expenditures, other deductions and transfers for each fund group for the fiscal year ended June 30. Unrestricted and restricted funds within the current funds group are separately disclosed.

The Combined Statements of Current Funds Revenues, Expenditures and Other Changes report current funds revenues by source and current funds expenditures by function, and all current funds transfers. These statements do not purport to present the results of operations or the net income or loss for the period as would an income statement of a for-profit corporation.

GASB Statement No. 33 (GASB 33) - During 2001, USNH adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and applied those standards on a retroactive basis. GASB 33 requires that unspent cash advances received for restricted purposes be recorded as deferred revenue rather than as a component of restricted current fund balance, and that unconditional promises to give be recorded as receivables and revenues when all applicable eligibility requirements have been met and collection is deemed probable.

The provisions of GASB 33 have been applied to the years presented. Following is a reconciliation of the June 30, 2000 and 1999 fund balances previously reported, to the restated fund balances for the same periods:

	2000	1999
Restricted Current Fund balances, at June 30, as previously reported	\$ 17,979	\$ 14,225
Deferred revenue adjustments	(2,953)	(2,873)
Restricted Current Fund balances at June 30, as restated	<u>\$ 15,026</u>	<u>\$ 11,352</u>

Basis of accounting

These financial statements have been prepared on the accrual basis of accounting in accordance with the Governmental Accounting Standards Board (GASB) "Governmental College and University Accounting and Financial Reporting Model", amended by GASB 33 as described above. In 1999, the GASB issued Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, which will significantly change the accounting and financial reporting of USNH beginning in fiscal year 2002. GASB 35 was recently amended by GASB 37 and GASB 38. These amendments relate to management discussion and analysis, and footnote disclosures, respectively. Management is currently planning the implementation of these statements for financial reporting.

Prepaid expenses and deferred revenues - Revenues and expenditures related to summer semesters are deferred to the subsequent accounting period in which the academic programs are predominantly conducted.

Interfund balances - These amounts represent advances of current funds to individual campuses for property and equipment additions. Interest is charged at rates approximating the current market rate earned on short-term investments.

Revenues and other additions - All gains and losses arising from the sale, collection, or other disposition of investments, investment appreciation, and other noncash assets are accounted for in the fund which owns the associated assets. Ordinary income derived from investments,

receivables, and the like is recognized when earned, and accounted for in the fund owning the assets, with the exception of income derived from investments in endowment and similar funds. Income derived from endowment and similar funds is accounted for in the fund to which it is restricted, or if unrestricted, as revenue in unrestricted current funds. All other unrestricted revenue is accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

Government grants and contracts - In addition to the amounts reported as accounts receivable in the current funds group, USNH had unearned grants and awards for services not yet performed of \$59,430,000 and \$60,329,000 at June 30, 2001 and 2000, respectively. This revenue will be reported in subsequent financial statements when earned. Government grants and contracts also normally provide for reimbursement of indirect facilities and administrative costs. Recovery of facilities and administrative costs for the years ended June 30, 2001 and 2000 was \$11,600,000 and \$9,790,000 respectively.

Pledges - Pledges for non-endowment purposes are presented net of amounts deemed uncollectible, and after discounting to the present value of the expected future cash flows. Accordingly, endowment pledges totaling \$7,117,000 and \$1,434,000 at June 30, 2001 and 2000, respectively, which are expected to be received over the next four years, are not recognized as assets in the accompanying financial statements. Because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met.

Reclassifications - Certain accounts in the June 30, 2000 financial statements have been reclassified to conform with the June 30, 2001 presentation.

2. University of New Hampshire Foundation, Inc.

The University of New Hampshire Foundation, Inc. (UNHF) was incorporated in 1989 as a not-for-profit, tax-exempt organization. Its purpose is to solicit, collect, invest and disburse funds for the sole benefit of the University of New Hampshire. UNHF is governed by its own Board of Directors, the membership of which includes the President of the University of New Hampshire and at least three other members of the USNH Board of Trustees. The University of New Hampshire funds a portion of the operating expenses of UNHF. GASB Statement No. 14, *The Financial Reporting Entity*, requires inclusion of UNHF as a component unit of the USNH reporting entity.

3. Cash and short-term investments

Cash and short-term investments with maturities of 90 days or less from purchase date are recorded at cost which approximates market value. USNH's short-term investment policy requires that bank-related investments meet certain deposit, capital and rating limits. In addition, commercial paper must meet certain rating requirements and all repurchase agreements must be fully collateralized at 100% of the face value by U.S. Government and federal agency obligations.

At June 30, cash and short-term investments consisted of (in thousands):

	2001	2000
Cash & repurchase agreements	\$ 25,285	\$ 11,134
Money market funds	1,631	2,110
Commercial paper	74,382	91,363
Total	\$101,298	\$104,607

Included in the cash and repurchase agreements balances at June 30, 2001 was \$6,052,000 in repurchase agreements, \$22,873,000 in cash and a net cash overdraft of \$3,640,000. The \$74,382,000 of commercial paper at June 30, 2001 was not insured or collateralized against custodial credit risk, but did meet the rating requirements of USNH's short-term investment policy.

4. Accounts and notes receivable

Accounts receivable at June 30 related to the following (in thousands):

	2001	2000
Grants and contracts	\$ 13,752	\$ 11,908
Student and general	8,206	8,489
State of NH capital projects	1,292	2,114
Pledges (UNHF non-endowment only)	367	
Allowance for doubtful accounts	(1,675)	(1,713)
Total	\$ 21,942	\$ 20,798

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

	2001	2000
Perkins loans	\$ 22,383	\$ 22,169
College, university and other loans	776	820
Allowance for doubtful loans	(1,839)	(2,027)
Total	\$ 21,320	\$ 20,962

5. Investments

Investments are held by established financial institutions whose credit is reviewed by management and the Board of Trustees, and are carried at market values established by major securities markets. Mutual funds, common stocks, private equity funds, and corporate bonds and notes are uninsured and uncollateralized against custodial credit risk. Investments held by bond trustee represent amounts not yet expended for construction and associated expenses for projects included in recent bond issuances. See Note 8 for information on the related debt.

Investments at June 30, other than amounts held by bond trustees, consisted of the following (in thousands):

	2001	2000
	Market Value	Market Value
Money market funds	\$ 5,005	\$ 8,601
Mutual funds - bonds	22,409	22,320
Mutual funds - stocks	42,413	46,133
Mutual funds - real estate	1,239	970
Common stocks	17,306	19,723
Corporate bonds and notes	10,400	5,162
U.S. government bonds	26,405	21,668
Investments held by others	17,729	20,342
Sub-total before UNHF	142,906	144,919
UNH Foundation, Inc.		
Money market funds	3,030	8,579
Mutual funds - bonds	21,325	14,872
Mutual funds - stocks	35,000	35,345
Private equity funds	2,733	
Common stocks		78
Investments held by others	3,412	3,729
Other		5
Sub-total UNHF	65,500	62,608
Total	\$208,406	\$207,527

6. Property and equipment

Property and equipment are recorded at original cost or market value at date of donation in the case of gifts. Depreciation is recorded on property and equipment using the straight-line method. Buildings and improvements are depreciated over useful lives ranging from 10 to 30 years. Depreciable lives for equipment range from 2 to 30 years. USNH modified the estimated useful lives of certain equipment during fiscal year 2000. This change in accounting estimate resulted in an increase in depreciation expense of \$8,802,000 in fiscal year 2000 and a corresponding reduction in the net book value of equipment. Effective July 1,

2000, USNH increased the threshold for capitalization of equipment to include items with an original cost of at least \$3,000 having a useful life greater than one year.

During 2001, USNH sold land and buildings known as the Hackett Hill Campus to the City of Manchester, resulting in a gain of \$1,751,000. This completed a series of transactions with the City which began in fiscal year 1999. Funds received from the sale were transferred to a quasi-endowment to support academic initiatives at UNHM.

Property and equipment, net of depreciation, at June 30 consisted of (in thousands):

	2001	2000
Land	\$ 8,989	\$ 8,726
Residence and dining halls	150,104	145,486
Other buildings	343,365	325,043
Improvements	77,599	76,174
Equipment	94,960	93,085
Construction in progress	34,547	29,701
Total property and equipment	709,564	678,215
Less: Accumulated depreciation	(324,174)	(308,980)
Property and equipment, net	\$ 385,390	\$ 369,235

To the extent that current funds are used to finance property and equipment, the amounts so provided are accounted for in one of three ways: (1) in the case of normal, recurring purchases of moveable equipment, amounts are recorded as expenditures in the current funds and additions to property and equipment in the plant funds, (2) in the case of required provisions for servicing external debt, the amounts are recorded as mandatory transfers, (3) and in all other cases the amounts are recorded as transfers of a nonmandatory nature. Net nonmandatory transfers to plant funds for 2001 and 2000 were \$26,462,000 and \$24,632,000, respectively.

USNH currently has eight construction projects underway utilizing funds received from proceeds of a fiscal year 2001 bond issuance. At June 30, 2001, outstanding contractual obligations for construction related to these projects totaled \$12,192,000. See Note 8 for information on the related debt.

7. Accrued employee benefits

USNH sponsors a defined-benefit postretirement medical plan that was optional for all full time status employees hired before July 1, 1994 and their dependents. At June 30, 2001, there were approximately 625 participants currently eligible to receive benefits. The eligibility requirements state that retired employees must have completed at least 10 years of service after age 52, participated in the active retirement plans during their last 10 years of service, and participated in USNH's active medical plan at the time of retirement. Retired employees are not required to contribute to the plan. The actuarially determined postretirement benefit expense was \$4,321,000 and \$3,872,000 for fiscal years 2001 and 2000, respectively. The plan is funded on a pay-as-you-go basis, with benefits paid when due.

USNH's Additional Retirement Contribution (ARC) Plan is mandatory for all newly hired employees but was optional for employees hired before July 1, 1994. Employees covered under this plan have an additional 1% of their salary contributed to their defined contribution retirement plan (see below) by USNH in lieu of postretirement medical benefits. In addition, employees meeting certain service guidelines are eligible for a guaranteed minimum retirement contribution for which USNH has accrued \$1,973,000 and \$1,848,000 at June 30, 2001 and 2000, respectively.

USNH sponsors various other benefits programs for its employees, including long-term disability, workers' compensation and early retirement plans. Long-term disability payments are provided through an independent insurer; the associated medical benefits are accrued and paid by USNH until age 65, at which point the postretirement medical plan will take over if applicable. Workers' compensation accruals in-

clude amounts for medical costs and annual stipends. A small number of chronic workers' compensation cases will require stipends and regular employee medical benefits for life. Coverage for such large claims is provided through an independent insurer. Early retirement options have been provided in certain instances to a limited number of employees. Costs associated with these additional retirement contributions are accrued as of the date of acceptance into the program. USNH also accrues amounts for compensated absences as earned. These accrued balances at June 30 represent vacation and earned time amounts payable to employees upon termination of employment.

In addition, eligible employees may elect to participate in defined contribution retirement plans administered by others. Contributions by USNH under these plans in 2001 and 2000 amounted to \$15,623,000 and \$13,996,000, respectively. USNH also maintains a defined benefit Operating Staff Retirement Plan (OSRP) which is closed to new participants. USNH has separately identified endowment and similar fund assets of \$7,855,000 and \$9,448,000 at June 30, 2001 and 2000, respectively, which are designated to fund its obligations under the plan.

Accrued employee benefits at June 30 were as follows (in thousands):

	2001	2000
Accrued postretirement medical benefits	\$ 40,133	\$ 38,233
Additional retirement contribution	1,973	1,848
Medical benefits for the long-term disabled	1,951	1,376
Workers' compensation	2,464	1,694
Early retirement and separation incentives	2,227	3,323
Compensated absences	12,344	11,450
Operating Staff Retirement Plan	9,190	9,448
Total	\$ 70,282	\$ 67,372

8. Long-term debt

The State, through acts of its legislature, provides funding for certain major plant facilities on USNH campuses. The State obtains its funds for these construction projects from general obligation bonds which it issues from time to time. Debt service is funded by the general fund of the State, which is in the custody of the State Treasurer. The State is responsible for all repayments of these bonds in accordance with bond indentures. USNH facilities are not pledged as collateral for these bonds and creditors have no recourse to USNH.

Bonds issued by the State to finance educational and general facilities do not require repayment by USNH and, accordingly, the State's debt obligation attributable to USNH's educational and general facilities is not reported as debt of USNH. As construction expenditures are incurred on State-funded educational and general facilities, amounts are billed to the State and recorded as restricted plant fund additions - State of NH capital appropriations.

Bonds issued by the State to finance auxiliary enterprise buildings and improvements require that semi-annual principal and interest payments be remitted by USNH to the State from revenues associated with the specific auxiliary activities. State statute requires that these bonds be repaid entirely by USNH and accordingly, these bonds are recorded as USNH debt.

In March 2001 the New Hampshire Health and Education Facilities Authority (NHHEFA) issued \$151,210,000 of Revenue Bonds, University System of New Hampshire Issue, Series 2001 (2001 Bonds). Proceeds from the 2001 Bonds in the amount of \$100,505,000 are being used to finance construction and renovation of student fee-supported facilities on USNH campuses at Durham, Keene and Plymouth. USNH is obligated under the terms of the 2001 Bonds to make payments from revenues received from certain student housing, dining, union, and recreational facilities. The 2001 Bonds do not provide for any lien or mortgage on any USNH property. USNH has agreed to certain covenants with respect to student housing, dining, student union, and recreation operations, all of which have been complied with as of June 30, 2001. The most restrictive requirement under current bond offerings is maintenance of a debt coverage ratio of at least 1.1 to 1.

The remaining proceeds from the 2001 Bonds (\$50,705,000) were used to complete an advance refunding in the form of an "insubstance defeasance" of a portion of the 1992 NHHEFA Bonds. These proceeds were placed in an irrevocable trust and invested in government obligations with scheduled maturities which, when combined with interest thereon, will be used to make required interest and principal payments on the redemption date of July 1, 2002. Accordingly, the irrevocable trust assets and the liability for the defeased bonds are not included in USNH's financial statements and are the only bonds considered defeased as of June 30, 2001.

Simultaneously with the issuance of the 2001 Bonds, USNH entered into a delayed delivery agreement for the issuance of revenue bonds in the amount of \$42,715,000 (the "2002 Bonds"). These proceeds, which are not to be delivered until on or about April 2, 2002, are to be used to complete a current refunding of the remaining portion of the 1992 NHHEFA Bonds outstanding. These proceeds are to be placed in an irrevocable trust and invested in government obligations with scheduled maturities which, when combined with interest thereon, will be used to make required interest and principal payments on the redemption date of July 1, 2002.

The advance and current refunding of the 1992 NHHEFA Bonds described above resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$4,118,000. This difference resulted primarily from the acceleration of amortization of issuance costs and discounts related to the 1992 NHHEFA Bonds, and is a component of other deductions in the accompanying financial statements. In addition, as a result of the advance and current refunding of the 1992 NHHEFA Bonds, USNH will reduce its aggregate debt service payments and achieve an economic gain (the difference between the present value of the old and new debt service payments) of approximately \$4,400,000.

The State is not liable for the payment of principal or interest on the 2001 or remaining 1992 Bonds, nor is the State directly, indirectly or contingently obligated to levy or pledge any form of taxation whatsoever or to make any appropriation for their payment.

Long-term debt outstanding, net of unamortized discounts, at June 30 was as follows (in thousands):

	2001	2000
NHHEFA Revenue Bonds Series 2001, due July 2033; interest due semi-annually at fixed effective rates of 3.6% to 5.1%; face value \$151,210,000 reported net of unamortized original issue discount.	\$150,509	
NHHEFA Revenue Bonds Series 1992, due July 2024; interest due semi-annually at fixed effective rates of 3.0% to 6.1%; face value \$51,250,000 for 2001 and \$106,140,000 for 2000, reported net of unamortized original issue discount.	42,994	\$ 92,638
Bonds issued by the State of New Hampshire to finance auxiliary enterprise buildings and improvements; principal and interest due semi-annually at rates of 4.5% to 6.5%.	7,426	8,750
Total bonds payable	200,929	101,388
Capital leases: collateralized by certain property and equipment; interest payable at rates of 4.0% to 6.3%.	2,529	2,894
Total long-term debt	\$203,458	\$104,282

The long-term debt is scheduled to mature as follows (in thousands):

	NHHEFA Bonds	State of NH Bond	Capital Leases	Total
2002	\$ 1,180	\$1,016	\$ 493	\$ 2,689
2003	1,245	1,057	497	2,799
2004	2,325	1,078	438	3,841
2005	4,430	897	438	5,765
2006 and after	185,600	3,378	663	189,641
	194,780	7,426	2,529	204,735
Less: unamortized discount	(1,277)			(1,277)
Total	<u>\$193,503</u>	<u>\$7,426</u>	<u>\$2,529</u>	<u>\$203,458</u>

9. Endowment and similar funds

The majority of endowment funds are invested and maintained on a pooled basis using the unit share method. At June 30, 2001 and 2000, pooled endowment funds totaled \$148,145,000 and \$155,412,000, respectively. For 2001 the pooled endowment distributed for annual spending up to 6.5% of the twelve quarter moving average of the investments' market value. The spending formula provides for long-term internal growth of the investment portfolio and ensures reasonable stability of continued support for ongoing programs assuming moderate inflation. The income distribution for current use from the pooled endowment was \$6,907,000 and \$6,135,000 for the years ended June 30, 2001 and 2000, respectively. To the extent that endowment yield (dividends and interest) is insufficient to meet the spending policy, realized gains are utilized to fully fund the distribution.

At June 30, 2001 and 2000, \$21,753,000 and \$24,205,000 of endowment and similar assets were invested outside of the pooled endowment, including \$16,636,000 and \$19,179,000 of non-annuity funds held in trust by others, respectively. The distribution for current use from these funds was \$1,553,000 and \$747,000 for 2001 and 2000, respectively.

10. Related Party

The Keene Endowment Association (KEA) was organized in 1957 as a separate charitable entity to provide financial assistance to deserving students at Keene State College (KSC). Income is distributed at the discretion of the Trustees of KEA. The assets of KEA are not included in USNH's financial statements. At April 30, 2001, the market value of KEA's endowment funds was approximately \$3,780,000 (unaudited). During 2001 KSC received \$127,000 from KEA to support student scholarships and other programs.

11. Commitments and contingencies

In accordance with State legislation, USNH does not purchase casualty insurance coverage on property owned, except for certain properties which have been donated, leased or financed by NHHEFA bonds (see Note 8).

USNH is self-insured for a portion of these and other risks, including workers' compensation, long-term disability and medical insurance claims. The related reserves recorded in the financial statements are developed by management based upon historical performance data, and in the opinion of management are expected to be sufficient to cover the actual claims incurred.

General liability and other insurance coverages provide for large claims incurred. Settlements below the relevant deductible amounts, and repair and replacement of damaged property, are funded from current unrestricted funds.

USNH makes expenditures in connection with restricted government grants and contracts which are subject to final audit by government agencies. USNH is of the opinion that the amount of disallowances, if any, sustained through such audits would not materially affect the financial position of USNH.

USNH is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot presently be determined, management is of the opinion that eventual liability, if any, will not have a material effect on USNH's financial position.

**UNIVERSITY SYSTEM OF NEW HAMPSHIRE
BOARD OF TRUSTEES**

As of September 1, 2001

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